THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Beijing Enterprises Water Group Limited, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

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BEIJING ENTERPRISES WATER GROUP LIMITED

北控水務集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 371)

VERY SUBSTANTIAL ACQUISITION

Financial Adviser to Beijing Enterprises Water Group Limited

MACQUARIE

Macquarie Capital (Hong Kong) Limited

A letter from the board of directors of Beijing Enterprises Water Group Limited is set out on pages 9 to 33 of this circular.

A notice convening special general meeting of Beijing Enterprises Water Group Limited to be held at Room 4301, 43/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 15 July 2008 at 3 p.m. is set out on pages 233 to 234 of this circular. A form of proxy for use at the special general meeting is also enclosed.

Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.

30 June 2008

* *For identification purposes only*

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Agreed Exchange Rate"	the exchange rate between HK$ and RMB being the average of the highest exchange rate and the lowest exchange rate quoted by Bank of China on the date of this Acquisition Agreement (i.e. 3 June 2008)
"Acquired Group"	the BVI Holdco Group which, upon the Second Completion, shall include the HK Holdco
"Acquisition"	the acquisition by the Company of the BVI Holdco Shares and HK Holdco Shares pursuant to the Acquisition Agreement
"Acquisition Agreement"	the sale and purchase agreement dated 3 June 2008 entered into between the Purchaser, the Vendors, the Company and the Warrantors (as amended by the Supplemental Agreement)
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"BEHL"	Beijing Enterprises Holdings Limited, a company that held approximately 71.5% of the existing issued share capital of the Company on the Latest Practicable Date, whose shares are listed on the main board of the Stock Exchange
"Board"	the board of Directors
"BOT"	Build-Operate-Transfer
"BVI"	the British Virgin Islands
"BVI Holdco"	Gainstar Limited, a company incorporated in the BVI with limited liability
"BVI Holdco Consideration"	the BVI Holdco Consideration Shares and the BVI Holdco Convertible Bonds
"BVI Holdco Consideration Shares"	559,787,908 new Shares to be issued by the Company to the Vendors or their respective nominees at the Issue Price to satisfy part of the BVI Holdco Consideration
"BVI Holdco Convertible Bonds"	the First Convertible Bonds, the Second Convertible Bonds and the Third Convertible Bonds
"BVI Holdco Group"	the BVI Holdco, China Field, the PRC Holdco and PRC Companies

"BVI Holdco Sale Shares"	the First BVI Holdco Sale Shares, the Second BVI Holdco Sale Shares and the Third BVI Holdco Sale Shares
"Call Options"	has the meaning given to it in the announcement of the Company dated 28 January 2008
"China Field"	China Field Development Limited, a company incorporated in Hong Kong with limited liabilities
"Company"	Beijing Enterprises Water Group Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the main board of the Stock Exchange
"Completion"	completion of the First Completion and Second Completion
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration Shares"	the BVI Holdco Consideration Shares and the HK Holdco Consideration Shares
"Conversion Restriction"	the right to convert the Tranche 1 Bond and the Tranche 2 Bond is exercisable after six months following their respective issue date
"Conversion Shares"	New Shares to be issued by the Company upon any conversion of the Convertible Bonds
"Convertible Bonds"	the BVI Holdco Convertible Bonds and the HK Holdco Convertible Bonds
"Directors"	directors of the Company
"Enlarged Group"	the Group immediately after Completion
"Former Shareholders of the PRC Holdco"	成都太然投資有限公司(Chengdu Nature Investment Co., Ltd.*), 成都德文投資有限公司 (Chengdu Dewen Investment Co., Ltd.*), 成都六木投資有限公司(Chengdu Liumu Investment Co., Ltd.*), 成都博滙投資有限公司 (Chengdu Bohui Investment Co., Ltd.*), 四川省科學城海天實業總公司 (Sichuan Province Science and Technology City Industrial Co., Ltd.*), 四川久遠投資控股集團有限公司 (Sichuan Jiuyuan Investment Holdings Co., Ltd.*), 中國工程物理研究院環保中心 (China Construction Environmental Research Center*) and 16 individuals
"Firm Bonds"	the zero coupon bond in the aggregate principal amount of HK$200 million issued by the Company to BEHL on 7 March 2008

"First BVI Holdco Sale Shares"	the 67,293,158 ordinary shares of US$1 each in the share capital of the BVI Holdco, representing approximately 27.52% of the issued share capital of the BVI Holdco
"First Call Option"	has the meaning given to it in the announcement of the Company dated 28 January 2008
"First Completion"	completion of the sale and purchase of the BVI Holdco Sale Shares
"First Completion Date"	the date on which First Completion will take place, being the third business day after all conditions precedent pertaining to the acquisition of the BVI Holdco Sale Shares pursuant to the Acquisition Agreement have been fulfilled or waived or such other date as the Company and the Vendors may agree in writing
"First Convertible Bonds"	the convertible bonds in the principal amount of HK$137,150,381 to be issued by the Company to the First Vendor or its nominee on the First Completion to satisfy part of the BVI Holdco Consideration
"First Option Bond"	the zero coupon bond in the aggregate principal amount of HK$300 million to be issued by the Company to BEHL upon exercise of the First Call Option
"First Tax Indemnity"	a deed of tax indemnity to be entered into on Completion between the Warrantors, the Purchaser and the BVI Holdco, pursuant to which the Warrantors undertake to indemnify the Purchaser (for itself and as trustee for the Acquired Group) in respect of, inter alia, (i) any assessment, notice, demand or action taken by the Inland Revenue Department of Hong Kong or any other statutory or governmental authority in Hong Kong or in any other part of the world (other than the PRC) from which it appears that any member of the Acquired Group is liable or is sought to be made liable to make any payment or deprived of any relief of taxation; or (ii) any loss, liability, claim, damage that any member of the Acquired Group is liable to or is sought to be made liable to make any payment
"First Vendor"	Besto Holdings Limited, a company incorporated in the BVI with limited liability
"First Warranties"	the warranties, representations and/or undertakings given or made by the Warrantors under the Acquisition Agreement
"First Warrantors"	the First Vendor and Terisa Yutinnie Liang

"Group"	the Company and its subsidiaries, and following completion of the Acquisition Agreement means the Group and its then subsidiaries which will include the BVI Holdco and the HK Holdco
"Guarantor"	the Company
"HK GAAP"	generally accepted accounting principles in Hong Kong
"HK Holdco"	Monico Investments Limited, a company incorporated in Hong Kong with limited liability
"HK Holdco Consideration"	the HK Holdco Consideration Shares and the HK Holdco Convertible Bonds
"HK Holdco Consideration Shares"	226,683,106 new Shares to be issued by the Company to the Second Vendor or its nominees at the Issue Price to satisfy part of the HK Holdco Consideration
"HK Holdco Convertible Bonds"	the convertible bonds in the principal amount of HK$238,695,875 to be issued by the Company to the Second Vendor or its nominees on the Second Completion to satisfy part of the HK Holdco Consideration
"HK Holdco Sales Shares"	the 731,580 ordinary shares of HK1.00 each in the share capital of the HK Holdco, representing the entire issued share capital of the HK Holdco
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party"	a third party independent of the Company and its connected persons (as defined under the Listing Rules)
"Initial Conversion Price"	HK$0.69 per Conversion Share (subject to adjustment)
"Issue Price"	HK$0.69 per BVI Holdco Consideration Share or HK Holdco Consideration Share
"Latest Practicable Date"	25 June 2008, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein
"Listing Committee"	the listing sub-committee of the Stock Exchange

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Material Adverse Change"	any event, change in or effect on any member of the BVI Holdco Group (for the purpose of the First Completion only) or the HK Holdco (for the purpose of the Second Completion only) (as the case may be) that, individually or in the aggregate, has had or is reasonably expected to have a material adverse effect on the business, condition (financial or otherwise), results of operations, and assets and prospects of any member of the BVI Holdco Group or the HK Holdco (as the case may be)
"MOU"	the memorandum of cooperation dated 9 January 2008 between the Company and BEHL
"Net Profits"	the consolidated profit attributable to equity holders of the PRC Holdco after tax, minority interests and extraordinary items for the year ending 31 December 2008 as shown in the Relevant Accounts less any finance costs derived from additional equity contribution of the Purchaser and calculated based on the People's Bank of China lending rate of the corresponding period
"Other Shareholders"	四川省科學城海天實業總公司 (Sichuan Province Science and Technology City Industrial Co., Ltd.*); 四川久遠投資控股集團有限公司 (Sichuan Jiuyuan Investment Holdings Co., Ltd.*) and 中國工程物理研究院環保中心 (Chinese Academy of Engineering Physics Environmental Research Center*)
"PRC"	the People's Republic of China
"PRC Companies"	the PRC Holdco and its subsidiaries
"PRC GAAP"	generally accepted accounting principles in the PRC
"PRC Holdco" or "ZKC"	中科成環保集團有限公司 (Z.K.C Environmental Group Co., Ltd.), a sino-foreign joint venture established in the PRC
"Profit Shortfall"	means (a) the shortfall between RMB100 million and the Net Profits; or (b) RMB$100 million if the Net Profits are zero or less than zero
"Purchaser"	Good Strategy Group Limited, an indirect wholly-owned subsidiary of the Company

* *For identification purposes only*

"PWL"	Pioneer Wealth Limited, a company incorporated in the BVI that held approximately 5.2% of the issued share capital of the Company at the Latest Practicable Date
"Relevant Accounts"	the audited consolidated financial statements of the PRC Holdco for the financial year ending 31 December 2008 prepared in accordance with Hong Kong Financial Reporting Standards (which, except for HK(IFRIC)-Int 12 Service *Concession Arrangements*, include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations that have become effective for annual accounting period beginning on or before 1 January 2008) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong
"Relevant Loan"	the sum of HK$67 million extended by the First Vendor to the BVI Holdco for the purposes of acquiring equity interests in the PRC Holdco
"Relevant Warranties"	(a) the Acquired Group had no contingent liabilities on or before the First Completion Date; (b) the Acquired Group was not involved in any civil, criminal, governmental or any proceedings or investigations of whatever nature before any tribunal or panel and no such proceedings are threatened or pending on or before the First Completion Date; and (c) no member of the Acquired Group had committed or was liable for any criminal, illegal, unlawful act on or before the First Completion Date
"Second BVI Holdco Sale Shares"	the 109,900,506 ordinary shares of US$1 each in the share capital of the BVI Holdco, representing approximately 44.96% of the issued share capital of the BVI Holdco
"Second Call Option"	has the meaning given to it in the announcement of the Company dated 28 January 2008
"Second Completion"	completion of the sale and purchase of the HK Holdco Sale Shares
"Second Completion Date"	the date on which Second Completion will take place, being the third business day after all conditions precedent pertaining to the acquisition of the HK Holdco Sale Shares pursuant to the Acquisition Agreement have been fulfilled or waived or such other date as the Company and the Vendors may agree in writing

"Second Convertible Bonds"	the convertible bonds in the principal amount of HK$315,003,363 to be issued by the Company to the Second Vendor or its nominee on the First Completion to satisfy part of the BVI Holdco Consideration
"Second Option Bond"	the zero coupon bond in the aggregate principal amount of HK$200 million to be issued by the Company to BEHL upon exercise of the Second Call Option
"Second Vendor"	Tenson Investment Limited, a company incorporated in the BVI with limited liability
"Second Warranties"	the warranties, representations and/or undertakings given or made by the Warrantors under the Acquisition Agreement
"Second Warrantors"	the Second Vendor, Hu Xiaoyong, Zhou Min and Hou Feng
"SGM"	the special general meeting of the Company to be convened to approve the Acquisition Agreement and transactions contemplated therein
"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Lucky Crown Management Limited, a company incorporated in the BVI with limited liability and is wholly-owned by BEHL
"Subscription Agreement"	the conditional subscription agreement dated 21 January 2008 as amended and supplemented by an addendum dated 28 January 2008 among the Company, the Subscriber and BEHL in relation to the issue of and subscription for 247,000,000 Shares and the Firm Bonds and the grant of the Call Options
"Supplemental Agreement"	the supplemental agreement dated 11 June 2008 entered into between the Purchaser, the Vendors, the Warrantors and the Company in relation to the Acquisition Agreement
"Third BVI Holdco Sale Shares"	the 67,293,158 ordinary shares of US$1 each in the share capital of the BVI Holdco, representing approximately 27.52% of the issued share capital of the BVI Holdco

"Third Convertible Bonds"	the convertible bonds in the principal amount of HK$137,150,381 to be issued by the Company to the Third Vendor or its nominee on the First Completion to satisfy part of the BVI Holdco Consideration
"Third Vendor"	Newton Finance Holdings Limited, a company incorporated in the BVI with limited liability
"Third Warrantors"	the Third Vendor and Ngai Hiu Tung
"Total Consideration"	the BVI Holdco Consideration and the HK Holdco Consideration
"TOT"	Transfer-Operate-Transfer
"Tranche 1 Bond"	the bond in the principal amount of HK$100 million issued by the Company to PWL on 27 July 2007, of which an aggregate principal amount of HK$94 million remained outstanding as at the Latest Practicable Date
"Tranche 2 Bond"	the bond in the principal amount of HK$100 million issued by the Company to PWL on 31 March 2008
"Vendors"	the First Vendor, the Second Vendor and the Third Vendor
"Warrantors"	the First Warrantors, the Second Warrantors and the Third Warrantors
"ZKC Group"	ZKC and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

BEIJING ENTERPRISES WATER GROUP LIMITED

北控水務集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 371)

Executive Directors:
Mr. Zhang Honghai *(Chairman)*
Mr. Liu Kai
Mr. E Meng
Mr. Jiang Xinhao
Ms. Qi Xiaohong
Mr. Ju Yadong

Independent Non-executive Directors:
Mr. Shea Chun Lok Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal place of business:
Room 1601, 16/F
Cosco Tower
No. 183 Queen's Road Central
Sheung Wan
Hong Kong

30 June 2008

To the Shareholders

Dear Sir or Madam

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

On 12 June 2008, the Board announced that on 3 June 2008, the Company, the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendors and the Warrantors entered into the Acquisition Agreement. Pursuant to the Acquisition Agreement: (a) the Vendors agreed to sell and the Purchaser agreed to purchase the BVI Holdco Sale Shares (representing the entire issued share capital of the BVI Holdco) at a consideration of HK$975,557,782; and (b) the Second Vendor agreed to use its best endeavours to procure the sale to the Purchaser, and the Purchaser agreed to procure the BVI Holdco to purchase the HK Holdco Sale Shares (representing the entire issued share capital of the HK Holdco) at a consideration of HK$395,107,218.

The purpose of this circular is to give you, among other things, (i) further details of the Acquisition; and (ii) the notice of the SGM and the proxy form.

* *For identification purposes only*

ACQUISITION AGREEMENT

Date:

3 June 2008

Parties:

Vendors:	the First Vendor the Second Vendor the Third Vendor
Purchaser:	the Purchaser
Guarantor:	the Company
Warrantors:	the First Warrantors the Second Warrantors the Third Warrantors

The principal activity of the First Vendor is investment holding. Based on the information provided by the First Vendor to the Company, the principal assets held by the First Vendor are the holding of approximately 27.52% of the enlarged issued share capital of the BVI Holdco. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the First Vendor and its ultimate beneficial owner, (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past; and (iv) is independent of and not connected with the Second Vendor or the Third Vendor and their respective associates.

The principal activity of the Second Vendor is investment holding. Based on the information provided by the Second Vendor to the Company, the principal assets held by the Second Vendor are the holding of approximately 44.96% of the enlarged issued share capital of the BVI Holdco. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Second Vendor and its ultimate beneficial owner, (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past; and (iv) is independent of and not connected with the First Vendor or the Third Vendor and their respective associates.

The principal activity of the Third Vendor is investment holding. Based on the information provided by the Third Vendor to the Company, the principal assets held by the Third Vendor are the holding of approximately 27.52% of the enlarged issued share capital of the BVI Holdco. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Third Vendor and its ultimate beneficial owner, (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past; and (iv) is independent of and not connected with the First Vendor or the Second Vendor and their respective associates.

relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past; and (iv) is independent of and not connected with the First Vendor or the Second Vendor and their respective associates.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Warrantors (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; and (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past. Furthermore, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, (i) Terisa Yutinnie Liang is the shareholder and ultimate beneficial owner of the First Vendor; (ii) Hu Xiaoyong, Zhou Min and Hou Feng are the shareholders and ultimate beneficial owners of the Second Vendor; and (iii) Ngai Hiu Tung is the shareholder and ultimate beneficial owner of the Third Vendor.

Each of the First Warrantors guarantees to the Purchaser the due observance and performance by the First Vendor of all the agreements, obligations, commitments and undertakings stipulated in the Acquisition Agreement in respect of the sale and purchase of the First BVI Holdco Sale Shares. The First Warrantors further warrant that as at the date of the Acquisition Agreement and up to the First Completion Date, there was not and will not be any contingent liabilities or potential proceedings or arbitrations.

Each of the Second Warrantors guarantees to the Purchaser the due observance and performance by the Second Vendor of all the agreements, obligations, commitments and undertakings stipulated in the Acquisition Agreement in respect of the sale and purchase of the Second BVI Holdco Sale Shares and the HK Holdco Sales Shares. The Second Warrantors further warrant that as at the date of the Acquisition Agreement and up to the Second Completion Date, there was not and will not be any contingent liabilities or potential proceedings or arbitrations.

Each of the Third Warrantors guarantees to the Purchaser the due observance and performance by the Third Vendor of all the agreements, obligations, commitments and undertakings stipulated in the Acquisition Agreement in respect of the sale and purchase of the Third BVI Holdco Sale Shares. The Third Warrantors further warrant that as at the date of the Acquisition Agreement and up to the First Completion Date, there was not and will not be any contingent liabilities or potential proceedings or arbitrations.

The Guarantor guarantees to the Vendors the due observance and performance by the Purchaser of all the agreements, obligations, commitments and undertakings stipulated in the Acquisition Agreement. The Guarantor further warrants that as at the date of the Acquisition Agreement and up to the First Completion Date, there was not and will not be any contingent liabilities or potential proceedings or arbitration which has not been disclosed in the Company's annual report for the financial year ended 30 June 2007.

Assets to be Acquired

Subject to the terms and conditions of the Acquisition Agreement: (a) the Vendors agreed to sell to the Purchaser, and the Purchaser agreed to purchase the BVI Holdco Sale Shares at the BVI Holdco Consideration; and (b) the Second Vendor agreed to use its best endeavours to procure the sale of the HK Holdco Sale Shares, and the Purchaser agreed to procure the BVI Holdco to purchase the HK Holdco Sale Shares at the HK Holdco Consideration. The BVI Holdco Sales Shares and the HK Holdco Sales Shares represent the entire issued share capital of the BVI Holdco and the HK Holdco, respectively.

As at the Latest Practicable Date, the BVI Holdco held all the issued share capital of China Field, which in turn held 62.94% of equity interest in the PRC Holdco.

The HK Holdco entered into a number of equity transfer agreements dated 8 May 2008 with the Former Shareholders of the PRC Holdco, pursuant to which the HK Holdco agreed to acquire an aggregate of approximately 25.49% equity interest from the Former Shareholders of the PRC Holdco to be settled in cash. Following the issuance of the approval by the relevant PRC governmental authority on 17 June 2008, the HK Holdco legally holds approximately 25.49% equity interest in the PRC Holdco. Therefore, as at the Latest Practicable Date, the PRC Holdco was held as to approximately 62.94% by China Field, as to approximately 25.49% by the HK Holdco and as to 11.57% by the Other Shareholders. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Other Shareholders and its ultimate beneficial owner, (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling Shareholder(s), and its beneficial owners; and (iii) has no relationship, business or otherwise, with the Group at present or in the past.

The BVI Holdco and the HK Holdco are investment holding companies. As at the Latest Practicable Date, the BVI Holdco held all the issued share capital of the HK Holdco, which in turn directly held an approximately 25.49% equity interest in the PRC Holdco. The BVI Holdco therefore, indirectly holds approximately 88.43% equity interests in the PRC Holdco. The PRC Holdco, through its subsidiaries, is principally engaged in waste water treatment in China. Further information on the Acquired Group is set out in the section headed "Information on the Acquired Group" below.

Consideration

The Total Consideration payable by the Company to the Vendors being HK$1,370,665,000 has been arrived at after arm's length negotiations between the Company and the Vendors after taking into account, among others, the business prospects and the possible future earnings of the BVI Holdco Group, and the net asset value of the BVI Holdco and the HK Holdco, respectively. The Directors consider that the Consideration is fair and reasonable.

The BVI Holdco Consideration will be satisfied at the First Completion as follows:

(i) as to HK$131,364,555 by the allotment and issue of 190,383,413 Shares at the Issue Price, credited as fully paid, by the Company to the First Vendor or its nominee;

(ii) as to HK$123,524,547 by the allotment and issue of 179,021,082 Shares at the Issue Price, credited as fully paid, by the Company to the Second Vendor or its nominee;

(iii) as to HK$131,364,555 by the allotment and issue of 190,383,413 Shares at the Issue Price, credited as fully paid, by the Company to the Third Vendor or its nominee;

(iv) as to HK$137,150,381 by the issue of the First Convertible Bonds by the Company to the First Vendor or its nominee;

(v) as to HK$315,003,363 by the issue of the Second Convertible Bonds by the Company to the Second Vendor or its nominee; and

(vi) as to HK$137,150,381 by the issue of the Third Convertible Bonds by the Company to the Third Vendor or its nominee.

The HK Holdco Consideration will be satisfied at the Second Completion as follows:

(i) as to HK$156,411,343 by the allotment and issue of 226,683,106 Shares at the Issue Price, credited as fully paid, by the Company to the Second Vendor or its nominees; and

(ii) as to HK$238,695,875 by the issue of the HK Holdco Convertible Bonds by the Company to the Second Vendor or its nominees.

In the event that the Net Profits shall be less than RMB100 million, each of the Vendors shall compensate the Purchaser, at its option, in cash on a dollar-to-dollar basis in Hong Kong dollar based on the Agreed Exchange Rate within 10 business days from the date of release of the Relevant

Accounts or by adjusting the BVI Holdco Consideration by deducting an amount equal to the Profit Shortfall and the principal amount of the First Convertible Bonds, the Second Convertible Bonds or the Third Convertible Bonds (as the case may be) shall be deemed to be repaid by the aforesaid compensation payable by the relevant holder(s) of the Convertible Bonds. The Vendors severally undertake to compensate the Purchaser the full amount of the shortfall within 10 business days from the date of release of the Relevant Accounts if the outstanding principal amount of the relevant Convertible Bonds is less than the Profit Shortfall.

Each of the Warrantors covenants with the Purchaser that subject to the applicable statutory limitation period under the laws of the PRC and Hong Kong, in the event of a breach of any of the Relevant Warranties, the Vendors shall compensate the Purchaser, at its option, in cash within 10 business days from the date of such claim (which shall have been adjudicated by competent court or arbitration tribunal or otherwise agreed), or by adjusting the BVI Holdco Consideration downward by the amount of the Purchaser's claim against the Warrantors for any loss or liability suffered by the Purchaser as a result of or in connection with any breach of the Relevant Warranties which the Purchaser may incur and the First Convertible Bonds, the Second Convertible Bonds and the Third Convertible Bonds shall be deemed to be repaid by the aforesaid compensation payable by the relevant Vendors (as the case may be). The Vendors severally undertake to compensate the Purchaser the full amount of the shortfall within 10 business days from the date of such claim if the outstanding principal amount of the relevant BVI Holdco Convertible Bonds is less than the amount of the claim for breach of the Relevant Warranties.

Each of the Warrantors covenants that it would indemnify and at all times keep indemnified the Purchaser (for itself and as trustee on behalf of the PRC Companies) on demand from and against any damages, losses, claims, costs of removal, loss of business, costs of reinstatement and any other liability of whatever nature arising as a result of or incidental to the earthquake in Sichuan Province, the PRC on 12 May 2008 and related aftershocks affecting the Acquired Group, in the amount representing the excess of RMB3 million payable, at its option, in cash by the Warrantors, or by adjusting the BVI Holdco Consideration downward by the amount of liability against the Warrantor, the First Convertible Bonds, the Second Convertible Bonds and the Third Convertible Bonds shall be deemed to be repaid by the amount payable by the relevant Warrantor. The Vendors severally undertake to compensate the Purchaser the full amount of the shortfall within 10 business days from the date of release of the Relevant Accounts if the outstanding principal amount of the relevant Convertible Bonds is less than the amount claimed.

Each of the Warrantors covenants with the Purchaser that if as at the second anniversary of the date of the Acquisition Agreement, all the receivable shown in the audited consolidated balance sheet of the PRC Holdco as at the First Completion Date could not be collected in full or realised of its full book value, the Vendors shall compensate the BVI Holdco, at its option, in cash on a dollar-to-dollar basis within 10 business days after the second anniversary of the date of the Acquisition Agreement, or by adjusting the BVI Holdco Consideration downward by the amount of outstanding receivable against the Warrantor for any loss or liability suffered by the Purchaser as a result of or in connection therewith, including without limitation, all costs and expenses which the Purchaser may incur, and the First Convertible Bonds, the Second Convertible Bonds or the Third Convertible Bonds shall be deemed to be repaid by the amount payable by the relevant holder(s) of the Convertible

Bonds. The Vendors severally undertake to compensate the Purchaser the full amount of the shortfall within 10 business days after the second anniversary of the date of the Acquisition Agreement if the outstanding principal amount of the relevant Convertible Bonds is less than the amount claimed by the Purchaser.

In the event that any of the Company or the Acquired Group suffer or incur any loss or liability (which shall have been adjudicated by competent court or arbitration tribunal or otherwise as agreed) as stipulated in the First Tax Indemnity during the period between the First Completion Date and the second anniversary of the First Completion Date, the BVI Holdco Consideration shall be payable, at the options of the Vendors, in cash by the holders of the BVI Holdco Convertible Bonds, or by adjusting downwards by the amount equal to the Company's claim against the holders of the BVI Convertible Bonds for any loss or liability suffered or incurred by the Company or the Acquired Group as a result of or in connection with any claim which the Company or the Acquired Group may incur, the BVI Holdco Convertible Bonds shall be deemed to be repaid by such amount.

Conditions Precedent

The First Completion of the Acquisition Agreement is conditional upon fulfillment of the following conditions:–

(i) the approval by the Shareholders in general meeting of (a) increase in the authorised share capital of the Company (if applicable); (b) the Acquisition by the Purchaser of the BVI Holdco Shares, the HK Holdco Shares and the transactions contemplated under the Acquisition Agreement, including but not limited to the allotment and issue of the BVI Holdco Consideration Shares and the HK Holdco Consideration Shares, the issue of the BVI Holdco Convertible Bonds and the HK Holdco Convertible Bonds by the Company;

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the BVI Holdco Consideration Shares, the HK Holdco Consideration Shares and the Conversion Shares;

(iii) the continuous listing of and permission to deal in the issued Shares of the Company from the date hereof up to and including the First Completion Date save for any temporary suspension of dealing in compliance with the requirements of the Listing Rules;

(iv) the Bermuda Monetary Authority granting its permission in respect of the increase in the authorised share capital of the Company; the allotment and issue and the subsequent free transferability of the BVI Holdco Consideration Shares, the Convertible Bonds and the Conversion Shares, if required;

(v) the BVI Holdco having become the sole shareholder of China Field on terms satisfactory to the Purchaser;

(vi) the BVI Holdco having settled the Relevant Loan in full by the allotment and issue of an aggregate of such number of Shares to the First Vendor, so that the First Vendor becomes interested in approximately 27.52% of the enlarged issued share capital of the Company, before the First Completion Date and the First Vendor having released and discharged the BVI Holdco from its obligations and liabilities in respect of the Relevant Loan;

(vii) the receipt to the satisfaction of the Purchaser of legal opinion relating to the BVI Holdco, covering the due establishment and valid existence of the relevant entity under the laws of its establishment;

(viii) the First Warranties remain true and accurate in all respects and not misleading in any respect as at the First Completion Date;

(ix) all the requisite consents, authorisations, and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the Acquisition Agreement having been obtained by the Vendors;

(x) the Purchaser being satisfied that there has been no Material Adverse Change as at the First Completion Date;

(xi) no breach by the Warrantors of any obligations and undertakings under the Acquisition Agreement on the First Completion Date having occurred;

(xii) each of the persons nominated by China Field having been appointed the directors of the PRC Holdco and the articles of association of the PRC Holdco having been duly amended so that the composition of the board of directors of the PRC Holdco is controlled by China Field on terms satisfactory to the Purchaser;

(xiii) the Purchaser having received from the Vendors a legal opinion in a form satisfactory to the Purchaser to be issued by a reputable firm of PRC lawyers acceptable to the Purchaser confirming the change of directorship of the PRC Holdco and the amendment to the articles of association of the PRC Holdco as referred to in condition (xii) above have been effected in accordance with the PRC laws and regulations; and

(xiv) the Company being able to maintain the public float requirement under Rule 8.08 of the Listing Rules upon the issue of the BVI Holdco Consideration Shares.

The Purchaser may waive the above conditions other than (i)(b), (ii), (iv) and (xiv) above. If the conditions above are not fulfilled or waived (as the case may be) on or before 30 September 2008 (or such other date as the Company and the Vendors may agree in writing), the Acquisition Agreement will be terminated, and all obligations of the Company and the Vendors under the Acquisition Agreement shall cease, provided that rights and liabilities of the parties thereto which have accrued prior to termination shall subsist.

The Second Completion of the Acquisition Agreement is conditional upon fulfillment of the following conditions:–

(i) the First Completion having taken place;

(ii) each of the Former Shareholders of the PRC Holdco having transferred their respective equity interests in the PRC Holdco, representing approximately 25.49% in the PRC Holdco to the HK Holdco on terms satisfactory to the Purchaser;

(iii) the Purchaser having notified the Second Vendor that it is satisfied with the results of its due diligence review on the HK Holdco;

(iv) the Purchaser having received from the Second Vendor a legal opinion in a form satisfactory to the Purchaser to be issued by a reputable firm of PRC lawyers acceptable to the Purchaser confirming the transaction in (ii) above has been completed in accordance with the PRC laws and regulation;

(v) the Second Warranties remain true and accurate in all respects and not misleading in any respect as at the Second Completion;

(vi) the Purchaser being satisfied that there has been no Material Adverse Change as at the Second Completion Date;

(vii) all other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of this Acquisition Agreement in connection with the sale and purchase of the HK Holdco Sale Shares having been obtained by the Vendors;

(viii) there having been no breach by the Warrantors of any obligations and undertakings under the Acquisition Agreement on the Second Completion Date; and

(ix) the Company being able to maintain the public float requirement under Rule 8.08 of the Listing Rules upon the issue of the HK Holdco Consideration Shares.

The Purchaser may waive the above conditions other than (i), (ii) and (ix) above. If the conditions above are not fulfilled or waived (as the case may be) on or before 3 June 2009 (or such other date as the Company and the Second Vendor may agree in writing), the Acquisition Agreement will be terminated, and none of the parties under the Acquisition Agreement shall be bound to proceed with the sale and purchase of the HK Holdco Sale Shares.

Completion

The First Completion shall take place on the date falling three business days after the fulfillment or waiver of the conditions precedent for the acquisition of the BVI Holdco Shares referred to above, or such later date as the Purchaser and the BVI Holdco may agree in writing.

The Second Completion shall take place on the date falling three business days after the fulfillment or waiver of the conditions precedent for the acquisition of the HK Holdco Shares referred to above, or such later date as the Purchaser and the Vendors may agree in writing.

BVI Holdco Consideration Shares

HK$386,253,657 of the BVI Holdco Consideration is to be satisfied by the issue of 559,787,908 BVI Holdco Consideration Shares at the price of HK$0.69 per BVI Holdco Consideration Share by the Company to the Vendors or their respective nominees at the First Completion.

The BVI Holdco Consideration Shares represent (i) 162.1% of the entire issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 61.9% of the entire issued share capital of the Company as enlarged by the issue of the BVI Holdco Consideration Shares; (iii) approximately 49.5% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares; (iv) approximately 16.6% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares, the shares to be issued upon full conversion of the Firm Bonds, Tranche 1 Bond and Tranche 2 Bond at their respective conversion price; and (v) approximately 12.3% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares, the shares to be issued upon full conversion of the Firm Bonds, Tranche 1 Bond and Tranche 2 Bond at their respective conversion price and the Conversion Shares upon full conversion of the Convertible Bonds at the Initial Conversion Price. Application will be made to the Listing Committee for the listing of, and permission to deal in, the BVI Holdco Consideration Shares.

HK Holdco Consideration Shares

HK$156,411,343 of the HK Holdco Consideration is to be satisfied by the issue of 226,683,106 HK Holdco Consideration Shares at the price of HK$0.69 per HK Holdco Consideration Share by the Company to the Second Vendor or its nominees at the Second Completion.

The HK Holdco Consideration Shares represent (i) 65.7% of the entire issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 39.6% of the entire issued share capital of the Company as enlarged by the issue of the HK Holdco Consideration Shares; (iii) approximately 20.0% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares; (iv) approximately 6.7% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares and the shares to be issued upon full conversion of the Firm Bonds, Tranche 1 Bond and Tranche 2 Bond at their respective conversion price; and (v) approximately 5.0% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares, the shares to be issued upon full conversion of the Firm Bonds, Tranche 1 Bond and Tranche

2 Bond at their respective conversion price and the Conversion Shares upon full conversion of the Convertible Bonds at the Initial Conversion Price. Application will be made to the Listing Committee for the listing of, and permission to deal in, the HK Holdco Consideration Shares.

Issue Price

The Issue Price represents:–

(i) a discount of approximately 81.1% to the closing price of HK$3.65 per Share as quoted on the Stock Exchange on 3 June 2008, being the last trading day prior to suspension of trading in the Share on the Stock Exchange on 4 June 2008 at 9:30 a.m.;

(ii) a discount of approximately 80.9% to the average closing price of approximately HK$3.62 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 3 June 2008;

(iii) a discount of approximately 79.5% to the average closing price of approximately HK$3.36 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 3 June 2008;

(iv) a premium of approximately 81.6% over the audited consolidated net asset value of the Company of approximately HK$0.38 per Share as at 30 June 2007, being the date to which the latest audited financial statements of the Company were made up; and

(v) a discount of approximately 50.7% to the closing price of HK$1.40 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price of the Consideration Shares has been arrived at after arm's length negotiations between the Company and the Vendors after taking in account, among others, the latest audited net asset value per Share of HK$0.38 as at 30 June 2007, the historical and persistent losses of the Group and the low historical trading volume of the Shares in general. The Directors consider that the Issue Price is fair and reasonable.

Prior to deciding on issuing the Consideration Shares as part of the consideration for the BVI Holdco Sale Shares and HK Holdco Sale Shares, the Company had explored other forms of fund raising methods, including bank borrowings, debt financing and proceeds from a rights issue of Shares. The Board is of the view that the Company would not be able to borrow at favourable terms given the present financial position of the Company. Moreover, the high interest rate will further affect the financial position of the Group. A rights issue of Shares entails negotiations with underwriters and there is uncertainty as to whether the Company will be able to find a suitable underwriter given the current market conditions. It also has relatively high transaction costs in comparison with the amount of funds being raised and takes longer time to complete.

Having considered various financing mechanisms to fund the Acquisition, the Board is of the view that issue of the Consideration Shares as part the consideration for the BVI Holdco Sale Shares and HK Holdco Sale Shares is appropriate for the following reasons: (i) the issue of the Consideration Shares and the Convertible Bonds for the Acquisition enables the Group to make an acquisition of a very significant business which it could not have afforded if cash consideration had been required; (ii) the Acquisition will significantly improve the revenue base and profitability of the Enlarged Group which is likely to lead to improved liquidity of the Shares; and (iii) the existing cash of the Group can be used for funding other possible acquisitions, the Directors consider that the current form of payment for the Acquisition is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Convertible Bonds

Set out below are the principal terms of the Convertible Bonds, which form part of the Total Consideration under the Agreement:–

Issuer:	The Company		
Principal amount:	First Convertible Bonds	–	HK$137,150,381
	Second Convertible Bonds	–	HK$315,003,363
	Third Convertible Bonds	–	HK$137,150,381
	HK Holdco Convertible Bonds	–	HK$238,695,875
Maturity date:	The date falling on the fifth anniversary of the date of issue by the Company of the First Convertible Bonds, the Second Convertible Bonds, the Third Convertible Bonds and the HK Holdco Convertible Bonds.		
Initial conversion price and conversion:	HK$0.69 per Conversion Share. The Initial Conversion Price was determined with reference to the prevailing market price of the Shares and the Issue Price and was negotiated on an arm's length basis between the Company and the Vendors. The Initial Conversion Price is subject to adjustments in the event of consolidation or subdivision of the Shares, the issue of Shares by way of capitalization of profits or reserves, the making of capital distribution by the Company, rights issue or the issue of Shares or convertible securities at a price which is less than 90% of the market price, the issue of Shares for acquisition of assets, and the purchase of the Shares by the Company, which may or may not occur. The Company considers that foregoing events of adjustment are normal and customary of their kind.		

The Initial Conversion Price represents:–

(a) a discount of approximately 81.1% to the closing price of HK$3.65 per Share as quoted on the Stock Exchange on 3 June 2008, being the last trading date prior to suspension of trading in the Shares on the Stock Exchange on 4 June 2008 at 9:30 a.m.;

(b) a discount of approximately 80.9% to the average closing price of HK$3.62 per Share as quoted on the Stock Exchange on the last five trading days up to and including 3 June 2008;

(c) a discount of approximately 79.5% to the average closing price of HK$3.36 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 3 June 2008;

(d) a premium of approximately 81.6% over the net asset value of the Company of approximately HK$0.38 per Share as at 30 June 2008, being the date to which the latest audited financial statements of the Company were made up; and

(e) a discount of approximately 50.7% to the closing price of HK$1.40 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The holders of the Convertible Bonds shall have the right:

(a) at any time during the period commencing from the business day after the second anniversary of the issue date and ending on and excluding the respective maturity date, both days inclusive, to convert the Convertible Bonds held by such holder of the Convertible Bonds in whole, or in any part representing at least HK$10,000,000 and up to 75% of the outstanding principal amount of the Convertible Bonds (the "**Lock-up Bonds**") into fully-paid Shares PROVIDED THAT, if at any time commencing from the business day after the respective issue date, BEHL is interested in less than 50% of the issued share capital of the Company, one-third of the principal amount of the Lock-up Bonds shall immediately become convertible into Shares and not subject to this restriction; and

(b) at any time commencing from the business day after the respective issue date of the Convertible Bonds and ending on and excluding the respective maturity date (both days inclusive), to convert the Convertible Bonds held by such holders of the Convertible Bonds in whole, or in any part representing at least HK$10,000,000 and up to 25% of the outstanding principal amount of the Convertible Bonds into fully paid Shares.

Holders of the Convertible Bonds shall not exercise any of the conversion rights attaching to the Convertible Bonds, if following such exercise, the Company's minimum public float of the Shares as required under the Listing Rules cannot be maintained.

Notwithstanding the rights to convert under (a) and (b) above, during the applicable conversion period, the Company shall not accept any conversion notice and shall not issue any Conversion Shares thereof if, immediately following such issue, the holder of the Convertible Bonds, its associates and the parties acting in concert with it (including the First Vendor, the Second Vendor and the Third Vendor and their respective parties acting in concert with them) shall be interested in 25% or more of the enlarged issued share capital of the Company upon such issue.

Ranking: The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the other Shares in issue as at the date of issue of the Conversion Shares.

Interest: The Convertible Bonds shall not bear any interest.

Transferability: The Lock-up Bonds shall not be transferred by the holders of the Convertible Bonds during the period between the respective issue date of the Convertible Bonds and the second anniversary of the respective issue date (both days inclusive) of the Convertible Bonds without prior written consent of the Company PROVIDED THAT, if at any time commencing from the business day after the issue date of the respective Convertible Bonds and ending on the respective maturity date, BEHL is interested in less than 50% of the issued share capital of the Company, one-third of the principal amount of the Lock-up Bonds shall immediately become transferable in accordance with this condition.

Save for the aforesaid restrictions, the Convertible Bonds may be transferable in whole or in part in multiples of HK$10,000,000, provided that if necessary, the prior approval of the Stock Exchange shall be required for any transfer to any transferee which is a connected person (as defined in the Listing Rules) of the Company.

Voting rights: The Convertible Bonds do not confer on the holder(s) of the Convertible Bonds the right to vote at a general meeting of the Company.

Repayment and Redemption: Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bonds at its principal amount on the respective maturity date.

In the event that the Net Profits shall be less than RMB100 million, the holders of the Convertible Bonds shall compensate the Purchaser equal to the Profit Shortfall, at its options, in cash on a dollar-to-dollar basis in Hong Kong dollar based on the Agreed Exchange Rate within 10 business days from the date of release of the Relevant Accounts or by adjusting the BVI Holdco Consideration by deducting an amount equal to the Profit Shortfall and the relevant principal amount of the BVI Holdco Convertible Bonds shall be deemed to be repaid by the aforesaid compensation payable by the relevant holders of the BVI Holdco Convertible Bonds in accordance with the terms thereof.

Subject to the applicable statutory limitation period under the laws of the PRC and Hong Kong, in the event of a breach of the Relevant Warranties, the holder of the Convertible Bonds shall compensate the Company equal to the Company's claim (which shall be adjudicated by competent court or arbitration tribunal or otherwise as agreed), at its option, in cash within 10 business days from the date of such claim or by adjusting the BVI Holdco Consideration downward by the amount equal to the Company's claim against the holders of the BVI Holdco Convertible Bonds for any loss or liability suffered by the Company as a result of or in connection with any such breach which the Company may incur and the BVI Holdco Convertible Bonds shall be deemed to be repaid by the amount in accordance with the terms thereof.

Each of the Warrantors covenants that it would indemnify and at all times keep indemnified the PRC Holdco (for itself and as trustee on behalf of its subsidiaries) on demand from and against any damages, losses, claims, costs of removal, loss of business, costs of reinstatement and any other liability of whatever nature arising as a result of or incidental to the earthquake in Sichuan Province, the PRC on 12 May 2008 and related aftershocks affecting the Acquired Group, in the amount representing the excess of RMB3 million payable, at its options, in cash by the holders of the BVI Convertible Bonds or, by adjusting the BVI Holdco Consideration downward by the amount of liability against the holders of the BVI Holdco Convertible Bonds, the BVI Holdco Convertible Bonds shall be deemed to be repaid by the amount payable by the relevant holders of the BVI Holdco Convertible Bonds in accordance with the terms thereof.

In the event that any of the Company or the Acquired Group suffer or incur any loss or liability (which shall have been adjudicated by competent court or arbitration tribunal or otherwise as agreed) as stipulated in the First Tax Indemnity during the period between the First Completion Date and the second anniversary of the First Completion Date, the BVI Holdco Consideration shall be payable, at the options of the Vendors, in cash by the holders of the BVI Holdco Convertible Bonds or, by adjusting downwards by the amount equal to the Company's claim against the holders of the BVI Convertible Bonds for any loss or liability suffered or incurred by the Company or the Acquired Group as a result of or in connection with any claim which the Company or the Acquired Group may incur, the BVI Holdco Convertible Bonds shall be deemed to be repaid by such amount in accordance with the terms thereof.

	Each of the Warrantors covenants with the Purchaser that if as at the second anniversary of the date of the Acquisition Agreement, all the receivable shown in the audited consolidated balance sheet of the PRC Holdco as at the First Completion Date could not be collected in full or realised of its full book value, the Vendors shall compensate the BVI Holdco, at its option, in cash on a dollar-to-dollar basis within 10 business days after the second anniversary of the date of the Acquisition Agreement, or by adjusting the BVI Holdco Consideration downward by the amount of outstanding receivable against the Warrantor for any loss or liability suffered by the Purchaser, and the BVI Holdco Convertible Bonds shall be deemed to be repaid by the amount payable by the relevant holders of the BVI Holdco Convertible Bonds.
Events of default:	On the occurrence of certain events of default specified in the Convertible Bonds (e.g. liquidation), the holder(s) of the Convertible Bonds shall be entitled to demand repayment of the relevant Convertible Bonds.
Listing:	No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.
Public float:	The Company at all times shall use its reasonable endeavours to ensure that the relevant provisions as to the minimum public float requirement of the Listing Rules are complied with. Holders of the Convertible Bonds shall not exercise any of the conversion rights attaching to the Bonds, if following such exercise, the Company's minimum public float cannot be maintained. Accordingly, the Company will not issue the Conversion Shares, if following such issue, its minimum public float cannot be maintained.

Upon exercise in full of the conversion rights attaching to the Convertible Bonds, an aggregate of 1,200,000,000 Conversion Shares would fall to be allotted and issued by the Company at the Initial Conversion Price, which represents (i) approximately 347.5% of the existing issued share capital; (ii) approximately 106.0% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; (iii) approximately 35.6% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the shares to be issued upon full conversion of the Firm Bonds, the Tranche 1 Bond and the Tranche 2 Bond at their respective conversion price; and (iv) approximately 26.3% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the shares to be issued upon full conversion of the Firm Bonds, the Tranche 1 Bond and the Tranche 2 Bond at their respective conversion price and the Conversion Shares upon full exercise of the Convertible Bonds at the Initial Conversion Price.

The Company will disclose by way of an announcement all relevant details of the conversion of the Convertible Bonds in the following manner:

(a) the Company will make the monthly announcement on the website of the Stock Exchange and the Company. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in the table form:

    (i) whether there is any conversion of the Convertible Bonds during the relevant month. If there is a conversion, details thereof including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;

    (ii) the amount of outstanding of the Convertible Bonds after the conversion, if any;

    (iii) the total number of Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and

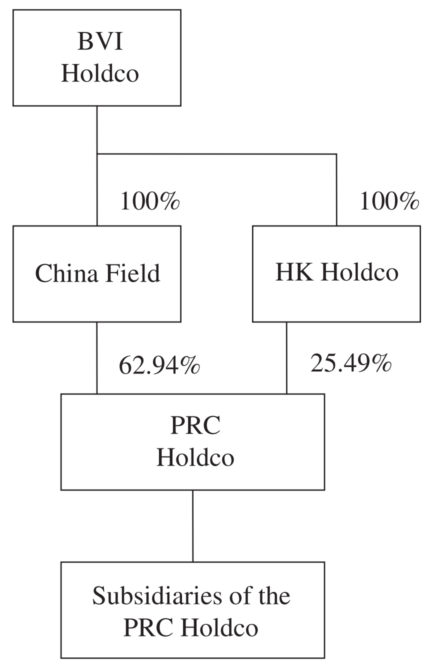
    (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant months;

(b) in addition to the monthly announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the Convertible Bonds reaches 5% of the issued share capital of the Company as disclosed in the last monthly announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange and the Company including details as stated in (a) above for the period commencing from the date of the last monthly announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last monthly announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be); and

(c) if the Company forms the view that any issue of Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Convertible Bonds as mentioned in (a) and (b) above.

INFORMATION ON THE ACQUIRED GROUP

Set out below is a simplified group structure of the Acquired Group upon Completion:



BVI Holdco

The BVI Holdco is a company incorporated in the BVI on 5 July 2005 with limited liability. Prior to the settlement of the Relevant Loan which was extended for the purposes of acquiring equity interests in the PRC Holdco, the BVI Holdco was wholly-owned by the First Vendor. As at the Latest Practicable Date, the BVI Holdco was owned approximately as to 27.52% by the First Vendor, as to 44.96% by the Second Vendor and as to 27.52% by the Third Vendor. Except for the indirect investment in the PRC Holdco, the BVI Holdco has not engaged in any other business since its incorporation.

The net assets of the BVI Holdco as at 31 December 2006 and 2007 per its unaudited management accounts prepared under HK GAAP are HK$841,416 and HK$78, respectively. During the year 2007, the BVI Holdco distributed all its retained earning by way of dividend to its shareholders, hence the net asset of the BVI Holdco as at 31 December 2007 was HK$78. According to its unaudited management accounts prepared under the HK GAAP, the profits before and after tax of the BVI Holdco for the year ended 31 December 2006 were both approximately HK$841,000 while profits before and after tax of the BVI Holdco for the year ended 31 December 2007 were both approximately HK$5.2 million. The profits attributable to the equity holders of the BVI Holdco for the years ended 31 December 2006 and 2007 per its unaudited management accounts prepared under HK GAAP were approximately HK$841,000 and HK$5,237,000, respectively. The BVI Holdco has not prepared any audited financial statements in the past. The only investment held by the BVI Holdco during the relevant period was its investment in China Field, which was not treated as a subsidiary of BVI Holdco at the relevant time.

China Field

China Field Development Limited is a company incorporated in Hong Kong with limited liabilities. As at the Latest Practicable Date, the BVI Holdco held all the issued share capital of China Field. The net assets of China Field on company level as at 31 December 2006 and 2007 were approximately HK$244 million and approximately HK$247 million, respectively. The loss before and after tax on company level for the year ended 31 December 2006 were both approximately HK$29,000 and profit before and after tax on company level for the year ended 31 December 2007 was approximately HK$20 million. As at the Latest Practicable Date, China Field did not own any assets save and except for its interest in the PRC Holdco.

As China Field did not have control over the board of directors of the PRC Holdco, the PRC Holdco was treated as a jointly-controlled entity rather than a subsidiary of China Field during the relevant period. However, as part of the condition precedents to the First Completion, China Field will appoint the majority of the board members of the PRC Holdco to ensure the consolidation of the PRC Holdco's financial results into the Company's. Accordingly, following the Completion, the PRC Companies will become subsidiaries of the Company.

HK Holdco

The HK Holdco is a company incorporated in Hong Kong on 14 January 2008 and principally engages in investment holding. As at the Latest Practicable Date, the BVI Holdco held all the issued share capital of the HK Holdco. Since its incorporation, the HK Holdco has not carried on any business activities. As confirmed by the Company's PRC legal advisers, following the issuance of the approval by the relevant PRC governmental authority on 17 June 2008 approving the transfer of an approximately 25.49% equity interest in the PRC Holdco from the Former Shareholders of the PRC Holdco to the HK Holdco, the HK Holdco legally holds approximately 25.49% equity interest in the PRC Holdco despite the HK Holdco has not paid the consideration for such transfer. As at the Latest Practicable Date, the HK Holdco had not settled the cash consideration and had not recognise the PRC Holdco as an associate. Upon settlement of the cash consideration, the HK Holdco will treat the PRC Holdco as an associate and will use equity method of accounting in accordance with HKAS 28 Investments in Associates to account for the PRC Holdco. According to the unaudited management accounts for the period from 14 January 2008 to 30 April 2008, the only asset of the HK Holdco as of 30 April 2008 was the account receivable from its shareholders in the sum of HK$731,580 representing its entire issued share capital. Apart from the costs of incorporation in the sum of HK$24,613, there is no material income and/or expenses incurred up to 30 April 2008 and the loss for the period from the date of its incorporation to 30 April 2008 was HK$24,613. Save for the completion of the transfer of 25.49% equity interest in the PRC Holdco to the HK Holdco and settlement of the cash consideration to be made, there are no commitment, contingent liabilities and/or post balance sheet event. As at the Latest Practicable Date, there were no material changes in the results and the financial position of the HK Holdco since 30 April 2008.

In view of the fact that the HK Holdco was recently incorporated to serve as an investment holding company with limited assets and no material income and/or expenses incurred upto April 2008, the Directors are of the view that the relevant financial information relating to the HK Holdco have already been disclosed above to allow the Shareholders to understand the financial conditions of the HK Holdco, as such, it is not necessary to include a separate accountants' report on the HK Holdco in this circular.

PRC Holdco

The PRC Holdco, through its subsidiaries, engages in waste water treatment in the PRC. Since September 2006, the PRC Holdco was beneficially owned as to 62.94% by China Field, as to 11.57% by 成都太然投資有限公司 (Chengdu Nature Investment Co., Ltd.*), as to 9.45% by 成都德文投資有限公司 (Chengdu Dewen Investment Co., Ltd.*), as to 11.56% by the Other Shareholders, as to 1.57% by 成都六木投資有限公司 (Chengdu Liumu Investment Co., Ltd.*), as to 0.79% by 成都博滙投資有限公司 (Chengdu Bohui Investment Co., Ltd.*), and as to 2.12% by 16 individuals. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the then shareholders of the PRC Holdco and their respective ultimate beneficial owners is an Independent Third Party save for China Field and the Other Shareholders who continue to hold interests in the PRC Holdco upon completion of the Acquisition.

As at the Latest Practicable Date, the PRC Holdco was owned as to 62.94% by China Field, as to 25.49% by the HK Holdco and as to 11.57% by the Other Shareholders. As both China Field and the HK Holdco are wholly-owned by the BVI Holdco, the BVI Holdco therefore, indirectly holds approximately 88.43% equity interests in the PRC Holdco.

The audited consolidated profit attributable to equity holders of the PRC Holdco for the years ended 31 December 2006 and 2007 per its audited financial statements prepared under the PRC GAAP were approximately RMB37,247,000 and RMB71,531,000, respectively. The audited consolidated net assets of the PRC Holdco as at 31 December 2006 and 2007 per its audited financial statements prepared under the PRC GAAP were approximately RMB411,461,000 and RMB451,426,000, respectively.

As at the Latest Practicable Date, the Purchaser had not yet decided upon the board composition of members of the Acquired Group. The Purchaser intends to appoint the majority of the board members in China Field and the PRC Holdco to ensure the consolidation of their accounts into the Company's. In addition, the Purchaser also considers appointing the experts in the water business to serve as board members of the Acquired Group. As at the Latest Practicable Date, none of the substantial shareholders of the BVI Holdco and the HK Holdco was, or was proposed to be, a controller or was an associate of a controller. In addition, upon Completion, the Purchaser will hold 100% interest in the BVI Holdco which in turn holds 100% interest in China Field and the HK Holdco, while China Field and the HK Holdco collectively hold 88.43% equity interest in the PRC Holdco. Accordingly, the BVI Holdco, the HK Holdco and the PRC Companies will become subsidiaries of the Company and their results will be consolidated into the Group's financial statements.

REASONS FOR THE ACQUISITION

The Company has been reviewing various opportunities with an aim to diversify its business into water treatment and environmental business. The Directors consider that the Acquisition is in line with the Company's business objective. The Directors also believe that the Group will benefit from the Acquired Group's extensive management background, experience and track record in the waste water treatment sector in the PRC. The Acquired Group is engaged in environmental business, particularly, in the investment in and management of residential and industrial waste water treatment, management of treatment plants, as well as the provision of related consulting services. As at the Latest Practicable Date, the Acquired Group had 13 water treatment plants located in various provinces in the PRC, such as Sichuan, Hunan, Shandong, Guangdong and Zhejiang with an aggregate water treatment capacity of approximately 900,000 tonnes per day. Set out below is a table detailing the project names and designed capacity of the water treatment plants currently operated by the Acquired Group:

Project Name	**Designed Capacity** *(tonnes/day)*
Changsha	180,000
Qingdao Jiaonan	60,000
Mianyang	150,000
Guangzhou Zhongye	100,000
Taizhou	40,000
Heze	80,000
Jiangyou	50,000
Qingdao Jiaozhou	50,000
Guangzhou Nansha	50,000
Qingdao Shangma	40,000
Longquan	20,000
Shuangliu	25,000
Huayang	20,000

Based on the Directors' knowledge, the Acquired Group is one of the leading waste water treatment companies in the PRC. In addition to the Acquired Group's existing waste water treatment facilities, the Acquired Group is currently in the process of evaluating the acquisitions of certain waste water treatment projects in other provinces in the PRC, namely Guangdong province, Shandong province, Guizhou province and Sichuan province. Coupled with the Company's financial resources, the Acquisition will enable the Group to expand further into waste water treatment and environmental business.

In light of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Apart from the Acquisition, the Group is currently actively evaluating other opportunities which will facilitate the Group's expansion plan in the waste water treatment and environmental business. The Group has also signed memorandum of understanding with each of (i) 南鄭縣人民政府 (the People's Government of Nanzheng Municipal*) on 5 April 2008; (ii) 漢中市城鄉建設管理局 (Hanzhong City Chengxiang Construction Bureau*) on 5 April 2008; (iii) 保定市人民政府 (the People's Government of Baoding Municipal*) on 28 March 2008; (iv) 安徽國禎環保節能科技股份有限公司 (Anhui Guozhen Huanbao Jieneng Science and Technology Company Limited*) on 16 April 2008; these waste water treatment projects have a total treatment capacity of approximately 1 million tonnes per day. The memoranda of understanding are not legally binding and subject to further due diligence and negotiations.

The Group is also evaluating certain waste water treatment and water supply projects in provinces and cities such as Beijing, Fujian, Yunnan, Shandong and Heilonjiang with a total capacity of approximately 1.85 million tonnes per day for waste water treatment and 2.94 million tonnes per day for water supply.

* *For identification purposes only*

EFFECT ON THE SHAREHOLDING STRUCTURE

The following chart depicts the effects of the issues of the Consideration Shares and the Convertible Bonds on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the Latest Practicable Date and assuming Completion having taken place, conversion in full of the Convertible Bonds into Conversion Shares at the Initial Conversion Price and conversion in full of the Firm Bonds, the First Option Bond, the Second Option Bond, the Tranche 1 Bond and the Tranche 2 Bond, without taking into account issue of new Shares, if any, after the Latest Practicable Date and prior to Completion:

	As at the Latest Practicable Date		Immediately after the issue of the Consideration Shares upon First Completion, full conversion of the Firm Bonds, the First Option Bond, the Second Option Bond, the Tranche 1 Bond and the Tranche 2 Bond but before the issue of any Conversion Shares**		Immediately after the issue of the Consideration Shares upon Second Completion, full conversion of the Firm Bonds, the First Option Bond, the Second Option Bond, the Tranche 1 Bond and the Tranche 2 Bond but before issue of any Conversion Shares**		Immediately after the issue of the Consideration Shares, full conversion of the Firm Bonds, the First Option Bond, the Second Option Bond, the Tranche 1 Bond and the Tranche 2 Bond and the Conversion Shares upon conversion of the Convertible Bonds at the Initial Conversion Price	
	Number of Shares	*Approximate percentage of shareholding* %	*Number of Shares*	*Approximate percentage of shareholding* %	*Number of Shares*	*Approximate percentage of shareholding* %	*Number of Shares*	*Approximate percentage of shareholding* %
BEHL	247,000,000	71.5%#	1,997,000,000	63.6%#	1,997,000,000	59.3%#	1,997,000,000	43.7%#
PWL	17,897,875	5.2%^	492,897,875	15.7%#	492,897,875	14.6%#	492,897,875	10.8%#
Aster Well Limited	13,957,000	4.0%^	13,957,000	0.4%^	13,957,000	0.4%^	13,957,000	0.3%^
First Vendor	–	–	190,383,413	6.1%^	190,383,413	5.7%^	389,152,081	8.5%^*
Second Vendor	–	–	179,021,082	5.7%#	179,021,082	5.3%#	635,547,695	13.9%#*
Third Vendor	–	–	190,383,413	6.1%^	190,383,413	5.7%^	389,152,081	8.5%^*
Allyking Holdings Limited	–	–	–	–	86,434,268	2.5%^	218,339,685	4.8%^
Faith Access Holdings Limited	–	–	–	–	10,744,779	0.3%^	27,142,148	0.6%^
Huge Jolly Holdings Limited	–	–	–	–	19,109,386	0.6%^	48,271,795	1.0%^
Right Benefit Holdings Limited	–	–	–	–	110,394,673	3.3%^	278,865,529	6.1%^
Other public Shareholders	66,430,574	19.3%^	76,430,574	2.4%^	76,430,574	2.3%^	76,430,574	1.8%^
Total	345,285,449	100.0%	3,140,073,357	100.0%	3,366,756,463	100.0%	4,566,756,463	100.0%
Non-public Shareholders (sum of #)	247,000,000	71.5%	2,668,918,957	85.0%	2,668,918,957	79.3%	3,125,445,570	68.4%
Public Shareholders (sum of ^)	98,285,449	28.5%	471,154,400	15.0%	697,837,506	20.7%	1,441,310,893	31.6%

Note: The major differences between the shareholding structure of the Company as at the date of announcement in respect of the Acquisition dated 12 June 2008 (the "Announcement") and the Latest Practicable Date are the decrease in number of Shares held by PWL and the increase in the number of Shares held by public Shareholders. The increase in number of Shares held by public Shareholders is largely attributable to the transfer of part of the Tranche 1 Bond in the amount of HK$10,000,000 by PWL to an Independent Third Party and the conversion of HK$6,000,000 by such Independent Third Party into 15,000,000 Shares.

\# Being non-public Shareholders in the context of the above shareholding structure table.

^ Being public Shareholders in the context of the above shareholding structure table.

* Pursuant to the terms of the Convertible Bonds, conversion of the First Convertible Bonds, the Second Convertible Bonds and the Third Convertible Bonds will not be allowed if following such exercise, the First Vendor, the Second Vendor, the Third Vendor and their respective associates, taken together, directly or indirectly, will control or be interested in 25% or more of the entire issued Shares, and therefore no general offer obligation will be resulted.

** For illustration purposes only

As shown in the illustrative table above, the Company will not have sufficient public float of 25% as required under the Listing Rules after the issue of the BVI Holdco Consideration Shares upon the First Completion and after the issue of the Consideration Shares upon the Second Completion. Pursuant to the terms of the Acquisition Agreement, the First Completion and the Second Completion are conditional upon the Company being able to maintain the public float requirement under Rule 8.08 of the Listing Rules upon the issue of the BVI Holdco Consideration Shares and the HK Holdco Consideration Shares, respectively. In addition, pursuant to the terms of the Convertible Bonds, holders of the Convertible Bonds shall not exercise any of the conversion rights attaching to the Convertible Bonds, if following such exercise, the Company' minimum public float of the Shares as required under the Listing Rules cannot be maintained. The Company will take the necessary steps, including but not limited to, issue of new Shares by the Company and/or placement of Shares by existing Shareholders, to ensure that sufficient public float for the Shares will be maintained.

THE SGM

A notice of the SGM to be held at Room 4301, 43/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, Hong Kong on Tuesday, 15 July 2008, at 3 p.m. to consider and, if thought fit, to approve, the Acquisition, the Acquisition Agreement and the transactions contemplated thereunder.

Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

To the best of knowledge of the Directors, none of the Vendors held any Shares as at the Latest Practicable Date. On such basis, no Shareholder is required to abstain from voting at the SGM.

PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

According to Bye-Law 69, all resolution put to the vote of the Shareholders at general meetings of the Company shall be decided on a show of hands, unless a poll is (before or on the declaration of the results of the show of hands) demanded by:–

(i) the chairman;

(ii) at least three Shareholders present in person or by proxy or representative for the time being entitled to vote at the meeting;

(iii) any Shareholder(s) present in person or by proxy or representative and holding not less than one-tenth of the total voting rights of all the Shareholders having the right to attend and vote at the meeting; or

(iv) any Shareholder(s) present in person or by proxy or representative and holding Shares conferring a right to attend and vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less then one-tenth of the total sum paid up on all Shares conferring that right.

In addition, under the Listing Rules, if the chairman of the meeting and/or Directors individually or collectively hold(s) proxies in respect of Shares holding five per cent or more of the total voting rights of the Company at the general meeting and if the votes cast at the general meeting on a show of hands are in the opposite manner to that instructed in those proxies, then the chairman shall demand a poll. However, if it is apparent from the proxies held that a vote taken on a poll will not reverse the vote taken on a show of hands, then the chairman shall not be required to demand a poll.

RECOMMENDATION

The Directors consider that the terms of the Acquisition Agreement are fair and reasonable to the Company and in the interest of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in the favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition, the Acquisition Agreement and the transaction contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular and notice of the SGM.

Yours faithfully
For and on behalf of the Board
Beijing Enterprises Water Group Limited
Zhang Honghai
Chairman

A. FINANCIAL SUMMARY

The auditors of the Company for the year ended 30 June 2005 and 2006 are Deloitte Touche Tohmatsu and for the year ended 30 June 2007 are HLM & Co. The respective audit opinions of Deloitte Touche Tohmatsu and HLM & Co. are not qualified. The following is a summary of the audited consolidated income statement of the Group for the three years ended 30 June 2007:

	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	(restated)		
Turnover	66,036	35,786	19,899
Cost of sales	(64,096)	(34,911)	(19,695)
Gross profit	1,940	875	204
Interest income	236	815	1,067
Other income	678	48	295
Distribution costs	(155)	(73)	–
Amortisation of goodwill	(12,400)	–	–
Administrative expenses	(6,214)	(4,867)	(4,186)
Loss before taxation	(15,915)	(3,202)	(2,620)
Income tax (charge) credit	(48)	14	53
Loss for the year attribute to equity holders of the Company	(15,963)	(3,188)	(2,567)
Loss per share-basic *(Note 1)*	(23.44 HK cents)	(3.93 HK cents)	(3.08 HK cents)

Notes:

1. The calculation of the loss per share for the year ended 30 June 2007 is based on the loss for the year of approximately HK$2,567,000 (2006: HK$3,188,000) and on weighted average of 83,285,449 (2006: 81,108,618) shares in issue throughout the year. The calculation of the loss per share for the year ended 30 June 2005 is based on the loss for the year of approximately HK$15,963,000 and on weighted average of 68,087,373 which was adjusted for an open offer shares in issue in 2005.

2. On 22 August 2005, the Company raised net proceeds of approximately HK$2.6 million by an open offer of 27,761,816 offer shares at HK$0.10 per share on the basis of one offer share for every two shares held (the "Open Offer") to provide additional working capital for the Company. Upon the completion of the Open Offer, the number of ordinary shares issued and fully paid of the Company was increased from 55,523,633 to 83,285,449. Except for the aforesaid, no extraordinary items, exceptional items or minority interests were noted.

B. AUDITED ANNUAL FINANCIAL STATEMENTS

The following is an extract of the audited financial statements of the Group for the year ended 30 June 2007 together with the notes thereto from the annual report of the Company for the year ended 30 June 2007:

"CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	5	19,899	35,786
Cost of sales		(19,695)	(34,911)
Gross profit		204	875
Interest income		1,067	815
Other income		295	48
Distribution costs		–	(73)
Administrative expenses		(4,186)	(4,867)
Loss before taxation	6	(2,620)	(3,202)
Income tax credit	9	53	14
Loss for the year attributable to equity holders of the Company		(2,567)	(3,188)
Loss per share-basic	10	(3.08 HK cents)	(3.93 HK cents)

CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	71	97
Goodwill	12	–	–
		71	97
CURRENT ASSETS			
Trade receivables, deposits and prepayment	13	2,251	154
Investments held-for-trading	14	431	1,682
Pledged bank deposits	15	75	75
Bank balances and cash	16	29,287	32,088
		32,044	33,999
CURRENT LIABILITY			
Trade and other payables	17	679	744
NET CURRENT ASSETS		31,365	33,255
		31,436	33,352
CAPITAL AND RESERVES			
Share capital	18	8,328	8,328
Reserves		23,108	25,024
		31,436	33,352

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Share capital	Capital reserve	Translation reserve	Accumulated (losses)/ retained profits	Total
	HK$'000	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2005	5,552	(400)	–	28,289	33,441
Exchange differences arising on translation of foreign operations directly recognized in equity	–	–	323	–	323
Loss for the year	–	–	–	(3,188)	(3,188)
Total recognized income (expenses) for the year	–	–	323	(3,188)	(2,865)
Issue of shares	2,776	–	–	–	2,776
At 30 June 2006 and 1 July 2006	8,328	(400)	323	25,101	33,352
Exchange differences arising on translation of foreign operations directly recognized in equity	–	–	651	–	651
Loss for the year	–	–	–	(2,567)	(2,567)
Total recognized income (expenses) for the year	–	–	651	(2,567)	(1,916)
At 30 June 2007	8,328	(400)	974	22,534	31,436

Note: The capital reserve represents the difference between the nominal value of the share capital issued by the Company in exchange for the nominal value of the share capital of the subsidiaries pursuant to the group reorganization in March 1993.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 June 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before taxation	(2,620)	(3,202)
Adjustments for:		
Loss/(gain) on disposal of property, plant and equipment	13	(26)
Depreciation of property, plant and equipment	40	61
(Gain)/loss on change in fair value of investments held-for-trading	(25)	25
Write-back of bad debts	–	(6)
Interest income	(1,067)	(815)
Operating cash flows before movements in working capital	(3,659)	(3,963)
(Increase) decrease in trade receivables, deposits and prepayments	(2,044)	6,922
Increase in investments held-for-trading	–	454
Decrease in trade and other payables	(65)	(2,466)
Cash (used in) generated from operations	(5,768)	947
PRC enterprise income tax refunded	–	14
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	(5,768)	961
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(27)	(2)
Proceeds on disposal of investment securities	1,276	–
Proceeds from disposal of property, plant and equipment	–	26
Interest received	1,067	815
NET CASH GENERATED FROM INVESTING ACTIVITIES	2,316	839

	2007	2006
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Issue of shares	–	2,776
CASH GENERATED FROM FINANCING ACTIVITIES	–	2,776
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,452)	4,576
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	651	224
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	32,088	27,288
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	29,287	32,088
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	29,287	32,088

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activities of the Group are the trading of computers and related products.

The Company is an investment holding company. The principal activities and other particulars of its subsidiaries are set out in note 22 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2006, 1 May 2006 or 1 June 2006. The adoption of the new HKFRSs has no material effect on the results and the financial position for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments in and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the result and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosure[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC) – INT 12	Service Concession Arrangements[5]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 November 2006
[4] Effective for annual periods beginning on or after 1 March 2007
[5] Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries.

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less amortization and any accumulated impairment losses.

For previously capitalized goodwill arising on acquisitions, the Group has discontinued amortisation from 1 July 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

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

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Sales of goods are recognized when goods are delivered and title has been passed.

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.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, on a straight line basis, at the following rates per annum:

Leasehold land and building	2%-5%
Leasehold improvements	Over the term of the lease
Furniture and fixtures	20%
Office equipment and computers	20%
Motor vehicles	30%

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

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.

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

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 Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Taxation

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

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

Deferred tax is recognized on 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 and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Impairment losses

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

Where an impairment loss subsequently reverses, the varying 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated balance sheet when an entity of the Group 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 and 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 recognized immediately in consolidated income statement.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognized 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables and deposits, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in 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 the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to a restriction 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 recognized.

Financial liabilities and equity instruments

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities of trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

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 the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. 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 or payable is recognized in profit or loss.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-sponsored pension plan are charged as expenses as they fall due.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables and deposits, investments held-for-trading, pledged bank deposits, bank balances and cash and other payables 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.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Certain trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Price risk

The Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

5. SEGMENTAL INFORMATION

Revenue

Revenue represents the net amounts received and receivable for goods sold, less returns and allowance, to outside customers during the year.

Business segments

Revenue and contribution to operating results and assets and liabilities by business segments have not been prepared as the Group's revenue was solely derived from the trading of computers and related products.

Geographical segments

For management purposes, the Group is currently organized into two major geographical segments based on the destination of shipment of products. These segments are the basis on which the Group reports its primary segment information.

The following is an analysis of the Group's sales by geographical market irrespective of the origin of the goods:

CONSOLIDATED INCOME STATEMENT
Year ended 30 June 2007

	Hong Kong	The People's Republic of China (the "PRC") other than Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
REVENUE			
External sales	17,775	2,124	19,899
RESULT			
Segment result	(2,265)	(385)	(2,650)
Interest income			1,067
Unallocated corporate incomes			295
Unallocated corporate expenses			(1,332)
Loss before taxation			(2,620)
Income tax credit	–	53	53
Loss for the year			(2,567)

CONSOLIDATED BALANCE SHEET
At 30 June 2007

	Hong Kong	PRC other than Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	2,931	12,099	15,030
Unallocated corporate assets			17,085
Consolidated total assets			32,115
LIABILITIES			
Segment liabilities	325	340	655
Unallocated corporate liabilities			14
Consolidated total liabilities			679

OTHER INFORMATION
Year ended 30 June 2007

	Hong Kong	PRC other than Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Capital additions	27	–	27
Depreciation and amortisation of property, plant and equipment	36	4	40

CONSOLIDATED INCOME STATEMENT
Year ended 30 June 2006

	Hong Kong	PRC other than Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
REVENUE			
External sales	35,405	381	35,786
RESULT			
Segment result	(1,924)	(583)	(2,507)
Interest income			815
Unallocated corporate expenses			(1,510)
Loss before taxation			(3,202)
Income tax credit	–	14	14
Loss for the year			(3,188)

CONSOLIDATED INCOME STATEMENT
Year ended 30 June 2006

	Hong Kong	PRC other than Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	194	57	251
Unallocated corporate assets			33,845
Consolidated total assets			34,096
LIABILITIES			
Segment liabilities	162	262	424
Unallocated corporate liabilities			320
Consolidated total liabilities			744

OTHER INFORMATION
Year ended 30 June 2006

	Hong Kong	PRC other than Hong Kong	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Capital additions	2	–	2
Depreciation and amortisation of property, plant and equipment	58	3	61
Write-back of bad debts	(6)	–	(6)

6. LOSS BEFORE TAXATION

	2007	2006
	HK$'000	*HK$'000*
Loss before taxation has been arrived at after charging:		
Directors' remuneration *(note 7)*		
Fees	718	410
Other emoluments	46	74
Other staff costs		
Salaries	1,695	1,882
Retirement benefit scheme contributions	44	59
Total staff costs	2,503	2,425
Auditors' remuneration	166	371
Depreciation of property, plant and equipment	41	61
Loss on change in fair value of investments held-for-trading	–	25
Net foreign exchange losses	–	40
and after crediting:		
Gain on change in fair value of investments held-for-trading	(25)	–
Net foreign exchange gain	(25)	–
Write-back of bad debts	–	(6)
Gain on disposal of property, plant and equipment	–	(26)

7. DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows.

Name of directors	Fees	Other benefits	2007 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*
Executive directors			
Ms. Zhou Liping	478	31	509
Ms. Guan Mei	–	–	–
Mr. Chase J Wong	52	15	67
Mr. Flynn Xuxian Huang	–	–	–
	530	46	576
Independent non-executive directors			
Mr. Shea Chun Lok, Quadrant	68	–	68
Mr. Ngai Chi Yung	60	–	60
Mr.Chan Wai Kwong, Peter	57	–	57
Mr.Chan Yiu Kwong	3	–	3
	188	–	188
Total emoluments	718	46	764

Name of directors	Fees	Other benefits	2006 Total emoluments
	HK$'000	*HK$'000*	*HK$'000*
Executive directors			
Ms. Zhou Liping	214	74	288
Ms. Guan Mei	–	–	–
Mr. Flynn Xuxian Huang	–	–	–
	214	74	288
Independent non-executive directors			
Mr. Shea Chun Lok, Quadrant	68	–	68
Mr. Ngai Chi Yung	60	–	60
Mr. Chan Yiu Kwong	68	–	68
	196	–	196
Total emoluments	410	74	484

During the years ended 30 June 2007 and 2006, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments in both years.

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2006: one) was a director of the Company. Aggregate emoluments of the four (2006: four) other highest paid individuals were as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	1,082	1,172
Contributions to retirement benefits scheme	29	34
	1,111	1,206

Their emoluments were within the following band:

	Number of employees 2007	Number of employees 2006
Nil to HK$1,000,000	4	4

9. INCOME TAX CREDIT

	2007 *HK$'000*	2006 *HK$'000*
The (credit) comprises:		
PRC Enterprise Income Tax		
Current year	–	–
Overprovision in prior years	(53)	(14)
	(53)	(14)

No provision was made for the PRC Enterprise Income Tax for the year ended 30 June 2006 and 2007 as the subsidiary incurred a loss for both years.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's operations in Hong Kong incurred tax losses for both years.

The tax credit for the year can be reconciled to the loss before taxation as follows:

	2007 *HK$'000*	2006 *HK$'000*
Loss before taxation	(2,620)	(3,203)
Tax at Hong Kong Profits Tax rate of 17.5% (2006:17.5%)	(458)	(560)
Tax effect of expenses not deductible for tax purposes	84	166
Tax effect of income not taxable for tax purposes	(187)	(167)
Tax effect of deferred tax assets utilised	(44)	(16)
Tax effect of tax losses not recognized	627	520
Effect of different tax rates of a subsidiary operating in the PRC	(22)	57
Overprovision of taxation in prior years	(53)	(14)
Tax credit for the year	(53)	(14)

At 30 June 2007, the Group has deductible temporary differences and estimated unused tax losses of approximately HK$53,993 (2006: HK$272,000) and HK$78,963,892 (2006: HK$75,918,029) respectively available for offset against future profits. No deferred tax assets have been recognized in the consolidated financial statements due to the unpredictability of the future profits streams. The tax losses may be carried forward indefinitely.

10. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of approximately HK$2,567,000 (2006: HK$3,188,000) and on weighted average number of 83,285,449 (2006: 81,108,618) shares in issue throughout the year.

On 27 July 2007, the Company issued convertible bonds in the aggregated principal amount of HK$100,000,000. The convertible bonds are zero coupon-based and have maturity terms of three years until 27 July 2010. No diluted loss per share for the year ended 30 June 2007 is presented as the potential ordinary shares in respect of the convertible bonds are anti-dilutive.

No diluted loss per share ended 30 June 2006 is presented as no dilutive potential ordinary shares is in issue for the year.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Office equipment and computers	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 July 2005	134	41	166	809	1,150
Additions	–	–	2	–	2
Disposals	–	–	(10)	(809)	(819)
At 30 June 2006	134	41	158	–	333
Additions	–	–	27	–	27
Disposals	–	–	(26)	–	(26)
At 30 June 2007	134	41	159	–	334
DEPRECIATION AND IMPAIRMENT					
At 1 July 2005	30	21	134	809	994
Provided for the year	44	8	9	–	61
Eliminated on disposals	–	–	(10)	(809)	(819)
At 30 June 2006	74	29	133	–	236
Provided for the year	27	4	9	–	40
Eliminated on disposals	–	–	(13)	–	(13)
At 30 June 2007	101	33	129	–	263
CARRYING VALUES					
At 30 June 2007	33	8	30	–	71
At 30 June 2006	60	12	25	–	97

12. GOODWILL

	HK$'000
COST	
At 1 July 2005 and 30 June 2006 and 2007	18,600
AMORTISATION	
At 1 July 2005 and 30 June 2006 and 2007	18,600
NET BOOK VALUE	
At 30 June 2007	–
At 30 June 2006	–

In previous year, goodwill arising from acquisition of a subsidiary was amortised on a straight-line basis over a period of 3 years. With effect from 1 July 2004, goodwill was amortised on a straight-line basis over a period of 1 year. This change in accounting estimates reflected the Group's best estimates of the remaining economic life of the goodwill.

13. TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. An aged analysis of trade receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Trade receivables		
0 – 30 days	2,104	–
31 – 60 days	–	–
Over 60 days	–	14
	2,104	14
Deposits and prepayments	147	140
	2,251	154

The fair value of the Group's trade receivables and deposits approximates the corresponding carrying amount.

14. INVESTMENTS HELD-FOR-TRADING

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong	431	1,682

The fair value of the above investments held-for-trading are determined based on the quoted market bid prices available on the relevant exchanges.

15. PLEDGE OF ASSETS

At 30 June 2007, the Group pledged bank deposits of approximately HK$75,000 (2006: HK$75,000), which carry fixed interest rate of 3.75% to secure general banking facilities granted to a subsidiary.

16. OTHER FINANCIAL ASSETS

Bank balances and cash

The Group's deposits carrying interest rate at prevailing bank saving deposits rate at average interest rate of 3.5% and mature within 3 months. The directors of the Company consider that the fair value of the Group's bank balances and cash approximates to the corresponding carrying amount.

17. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Trade payables		
0 – 30 days	–	–
31 – 60 days	–	–
Over 60 days	313	1
	313	1
Other payables and accrued charges	366	743
	679	744

The fair value of the Group's trade and other payables approximates the corresponding carrying amount.

18. SHARE CAPITAL

	Number of shares		Amount	
	2007	2006	2007	2006
			HK$'000	*HK$'000*
Authorised:				
At beginning and at end of year	1,500,000,000	1,500,000,000	150,000	150,000
Issued and fully paid:				
At beginning of the year	83,285,449	55,523,633	8,328	5,552
Issue of shares *(note i)*	–	27,761,816	–	2,776
At end of year	83,285,449	83,285,449	8,328	8,328

Notes:

(i) On 22 August, 2005, the Company raised net proceeds of approximately HK$2.6 million by an open offer of 27,761,816 offer shares at HK$0.10 per share on the basis of one offer share for every two shares held ("Open offer") to provide additional working capital for the Group. Upon the completion of the Open Offer, the number of ordinary shares issued and fully paid of the Company was increased from 55,523,633 to 83,285,449.

19. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases in respect of land and buildings	321	369

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Within one year	237	231
In the second to fifth year inclusive	165	39
	402	270

Operating lease payments represent rentals payable by the Group for staff quarters and office premises. Leases are negotiated for terms of one to three years.

20. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

Employees of the Group in the PRC are members of the state-sponsored pension operated by the PRC Government. The Group are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

The total cost charged to the consolidated in come statement of HK$44,000 (2006: HK$59,000) represents contributions payable to the retirement benefits schemes by the Group in respect of the current year.

21. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 20 March 2002 for the primary purpose of providing incentives to directors and eligible employees. 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.

All of the share options were lapsed at 30 June 2003 and no share option has been granted to the directors or employees of the Group during both years ended 30 June 2007 and 2006.

22. PARTICULARS OF PRINCIPAL SUBSIDIARIES

At 30 June 2007, the Company had interests in the following principal subsidiaries:

Name of subsidiary	Place of incorporation or registration/ operations	Paid-up issued/ registered ordinary share capital	Proportion of nominal value of issued share capital/Registered capital held by		Principal activities
			Company	Subsidiaries	
			%	%	
Carion Technology Limited 永裕科技（香港）有限公司	Hong Kong	HK$10,000	100	–	Trading of computer related products
Shanghai Classic Limited	British Virgin Islands	US$1	100	–	Investment holding
Wanon Industries Limited 運亮實業有限公司	Hong Kong	HK$500,000	100	–	Trading of computers and related products
Wanon Trading Limited 運亮貿易有限公司	Hong Kong	HK$2	–	100	Trading of computer and related products
Shanghai Jian Kai International Trading Company Limited* 上海建開國際貿易有限公司	PRC	HK$11,000,000	–	100	Trading of computer and related products
Shang Hua Capital Limited 上華融資有限公司	Hong Kong	HK$200,000	100	–	Provision of financial services
Shang Hua Properties Limited 上華資產有限公司	Hong Kong	HK$2	100	–	Dormant

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

** A wholly foreign owned enterprise.*

23. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2007 HK$'000	2006 HK$'000
Short-term benefits	1,191	1,401
Post-employment benefits	–	22
	1,191	1,423

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

24. SUBSEQUENT EVENTS

On 27 July 2007, Shang Hua Holding Limited issued convertible bonds in the aggregate principal amount HK$100,000,000. These convertible bonds are zero coupon-based, have maturity term of three year until 27 July 2010 and are convertible into the Company's ordinary shares at a conversion price of HK$0.4 per share.

25. BALANCE SHEET OF THE COMPANY

	2007 HK$'000	2006 HK$'000
Non-current asset		
Interests in subsidiaries	202	202
Current assets		
Bank balances and cash	2,307	2,610
Amounts due from subsidiaries	30,697	29,870
	33,004	32,480
Current liability		
Trade and other payables	8	8
Amounts due to a subsidiary	1,700	–
	1,708	8
Net current assets	31,296	32,472
	31,498	32,674
Capital and reserves		
Share capital	8,328	8,328
Reserves	23,170	24,346
	31,498	32,674"

C. UNAUDITED INTERIM FINANCIAL STATEMENTS

The following is an extract of the unaudited interim financial statements of the Group together with the notes thereto from the interim report of the Company for the six months ended 31 December 2007:

"CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2007

		Six months ended	
		31 December 2007	**31 December 2006**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Turnover	*3*	10,956	8,343
Cost of sales		(10,722)	(8,235)
Gross profit		234	108
Other operating income		1,663	723
Other revenue		1,049	–
Distribution costs		–	–
Administrative expenses		(2,857)	(1,917)
Fair value changes on financial assets at fair value through profit or loss		(1,989)	7
Loss from operations		(1,900)	(1,079)
Finance costs		(2,343)	(10)
Loss before taxation		(4,243)	(1,089)
Taxation/Income tax credit		(76)	51
Loss for the period to equity holders of the Company		(4,319)	(1,038)
Loss per ordinary share – basic	*7*	(5.19 cents)	(1.25 cents)

CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 December 2007

	Notes	31 December 2007 (Unaudited) HK$'000	30 June 2007 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		68	71
Current assets			
Trade and other receivables	8	18,763	2,251
Financial assets at fair value through profit or loss		18,978	431
Pledged bank deposits	9	150	75
Bank balances and cash		92,210	29,287
		130,101	32,044
Total assets		130,169	32,115
LIABILITIES			
Current liabilities			
Trade and other payables	10	274	679
Net current assets		129,827	31,356
Total assets less current liabilities		129,895	31,436
Non-current liabilities			
Convertible bond	11	85,044	–
Total Liabilities		85,318	679
Net assets		44,851	31,436
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	8,328	8,328
Reserves		36,523	23,108
Total equity		44,851	31,436

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2007 (Unaudited)

	Share capital	Convertible bond reserve	Capital reserve	Translation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2007 (Audited)	8,328	–	(400)	974	22,534	31,436
Exchange difference on translation of financial statements of overseas subsidiary	–	–	–	458	–	458
Convertible bond – equity component	–	17,276	–	–	–	17,276
Net loss for the period	–	–	–	–	(4,319)	(4,319)
At 31 December 2007 (Unaudited)	8,328	17,276	(400)	1,432	18,215	44,851

For the six months ended 31 December 2006 (Unaudited)

	Share capital	Convertible bond reserve	Capital reserve	Translation reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2006 (Audited)	8,328	–	(400)	323	25,101	33,352
Exchange difference on translation of financial statements of overseas subsidiary	–	–	–	275	–	275
Convertible bond – equity component	–	–	–	–	–	–
Net loss for the period	–	–	–	–	(1,038)	(1,038)
At 31 December 2006 (Unaudited)	8,328	–	(400)	598	24,063	32,589

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 31 December 2007

	Six months ended	
	31 December 2007	**31 December 2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash used in operating activities	(18,999)	(3,788)
Net cash generated from investing activities	(18,536)	1,004
Net cash generated from financing activities	100,000	–
Net decrease in cash and cash equivalents	62,465	(2,784)
Cash and cash equivalents at beginning of the period	29,287	32,088
Effect of foreign exchange rate changes	458	275
Cash and cash equivalents at end of the period	92,210	29,579
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	92,210	29,579
	92,210	29,579

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2007 (unaudited)

1. BASIS OF PREPARATION

This unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements, except for the accounting policy changes are expected to be reflected in the 2007 annual financial statements. Details of these changes in accounting policies are set out in note 2.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of this report are consistent with those used in the annual financial statements for the year ended 30 June 2007.

The following new standards, amendments to standards and interpretations issued by HKICPA are applicable for the year ending 31 December 2008.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 12	Service Concession Arrangements[2]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[3]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 January 2008
[3] Effective for annual periods beginning on or after 1 July 2008

The adoption of HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is geographical segments.

Six months ended 31 December 2007 (unaudited)

	Hong Kong	The People's Republic of China (the "PRC")	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	10,956	–	10,956
SEGMENT RESULT	234	–	234
Other operating income			1,663
Other revenue			1,049
General and administrative expenses			(2,857)
Fair value changes on financial assets at fair value through profit and loss			(1,989)
Loss from operations			(1,900)
Finance costs			(2,343)
Loss before taxation			(4,243)
Taxation		(76)	(76)
Loss for the period			(4,319)

Six months ended 31 December 2007 (unaudited)

	Hong Kong	The PRC	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
TURNOVER			
External sales	6,387	1,956	8,343
SEGMENT RESULT	51	57	108
Other operating income			723
Other revenue			–
General and administrative expenses			(1,917)
Fair value changes on financial assets at fair value through profit and loss			7
Loss from operations			(1,079)
Finance costs			(10)
Loss before taxation			(1,089)
Income tax credit		51	51
Loss for the period			(1,038)

4. LOSS BEFORE TAXATION

Loss before taxation for the period has been arrived at after charging/(crediting):

	Six months ended	
	31 December 2007	**31 December 2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	20	21
Interest income	(1,164)	(538)
Fair value changes on financial assets at fair value through profit or loss	1,989	(7)

5. TAXATION

No provision for Hong Kong Profits Tax and PRC enterprise income tax have been made in the financial statements as the Group's operations in both Hong Kong and PRC incurred tax loss for the period.

6. INTERIM DIVIDEND

No dividends were paid during the period. The Board does not recommend the payment of an interim dividend (for the six months ended 31 December, 2006: Nil).

7. LOSS PER ORDINARY SHARE

The calculation of the basic loss per share is based on the loss for the period of approximately HK$4,319,000 (six months ended 31 December 2006: HK$1,038,000) and on the weighted average number of ordinary shares of 83,285,449 (six months ended 31 December 2006: 83,285,449).

Diluted loss per share has not presented, as there are no dilutive potential ordinary shares in issue for both periods.

8. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30-60 days to its trade customers.

An aged analysis of trade and other receivables is as follows:

	31 December 2007	**30 June 2007**
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables		
0 – 30 days	7,568	2,104
31 – 60 days	–	–
Over 60 days	–	–
	7,568	2,104
Deposits and prepayments	11,195	147
	18,763	2,251

9. PLEDGE OF ASSETS

As at 31 December 2007, the Group pledged bank deposit of approximately HK$150,000 (2006: HK$75,000), which carry fixed interest rate of 1.4% to secure general banking facilities granted to a subsidiary.

10. TRADE AND OTHER PAYABLES

An aged analysis of trade and other payables is as follows:

	31 December 2007 (Unaudited) *HK$'000*	**30 June 2007** (Audited) *HK$'000*
Trade payables		
0 – 30 days	–	–
31 – 60 days	–	–
Over 60 days	–	313
	–	313
Other payables and accrued charges	274	366
	274	679

11. CONVERTIBLE BOND

	31 December 2007 (Unaudited) *HK$'000*	**30 June 2007** (Audited) *HK$'000*
Fair value of convertible bond issued	100,000	–
Equity component	(17,276)	–
Liability component	82,724	–
Interest expenses charged	2,320	–
Amortised cost at 31 December 2007	85,044	–

Pursuant to the convertible bond subscription agreement dated 12 April 2007 entered into between the Company and Pioneer Wealth Limited, the Company agreed to conditionally issue to Pioneer Wealth Limited the aggregate principal amount of HK$200,000,000 (the "Bond) comprising Tranche 1 Bond of principal amount of HK$100,000,000 and Tranche 2 Bond of principal amount of HK$100,000,000 which will be settled by cash on their respective issue dates. The Bond does not bear any interest. The relevant details have been disclosed in the circular of the Company dated 3 May 2007.

On 27 July 2007, the Company issued the Tranche 1 Bond with aggregate principal amount of HK$100,000,000 to Pioneer Wealth Limited. The Tranche 1 Bond does not bear any interest and its maturity date is the third anniversary of the date of issue of the Tranche 1 Bond and its initial conversion price is set initially as HK$0.40 per share in the Company and subject to adjustments.

The fair value of the liability component, included in current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The remaining balance represented the equity conversion component, is included in shareholders' equity named as convertible bond reserve.

12. SHARE CAPITAL

	31 December 2007 (Unaudited) *HK$'000*	**30 June 2007** (Audited) *HK$'000*
Authorised:		
1,500,000,000 ordinary shares of HK$0.10 each	150,000	150,000

	31 December 2007 (Unaudited) *HK$'000*	**30 June 2007** (Audited) *HK$'000*
Issued and fully paid:		
83,285,449 ordinary shares of HK$0.10 each	8,328	8,328

13. SUBSEQUENT EVENTS

On 28 January 2008, the Company and Beijing Enterprises Holdings Limited ("BEHL") jointly announced that they had entered into the Subscription Agreement, pursuant to which (i) the Company conditionally agreed to issued and the Subscriber conditionally agreed to subscribe for 247,000,000 new Shares at a price of HK$0.40 per new Shares; (ii) the Company conditionally agreed to issue and Subscriber conditionally agreed to purchase the Firm Bonds at the selling price of HK$200,000,000 and (iii) the Company conditionally agreed to grant the Call Options to the Subscriber. For further details and definition of terms, please refer to the Company's circular dated 18 February 2008.

The Subscription Agreement was passed in the special general meeting of the Company on 4 March 2008. The financial year end date of the Company will be changed from 30 June to 31 December with effect on 4 March 2008.

14. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved by the Board on 28 March 2008."

The following is the text of a report in respect of the BVI Holdco, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VIII, a copy of the accountants' report for the BVI Holdco is available for inspection.

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

30 June 2008

The Directors
Beijing Enterprises Water Group Limited

Dear Sirs,

We set out below our report on the financial information of Gainstar Limited (the "Target Company") for the period from 5 July 2005 (date of incorporation) to 31 December 2005 and for each of the two years ended 31 December 2007 (collectively the "Relevant Periods"), for inclusion in the shareholders' circular of Beijing Enterprises Water Group Limited (the "Company", previously known as Shang Hua Holdings Limited) dated 30 June 2008 in relation to the proposed acquisition of the entire issued share capital of the Target Company by the Company.

The Target Company was incorporated on 5 July 2005 with limited liability in the British Virgin Islands for the purpose of holding a 27.52% equity interest in China Field Development Limited ("China Field"), a company incorporated in Hong Kong. The Target Company has not carried out any business since the date of its incorporation save for the holding of the investment in China Field.

The Target Company and its associate have adopted 31 December as its financial year end date for statutory reporting and/or management reporting purposes. Statutory financial statements or management accounts, where appropriate, of the Target Company and its associate were prepared in accordance with accounting principles generally accepted in Hong Kong. As at the date of this report, no audited financial statements have been prepared for the Target Company since its incorporation as it is not subject to any statutory audit requirement in its jurisdiction of incorporation.

The income statements, the cash flow statements and the statements of changes in equity of the Target Company for each of the Relevant Periods, and the balance sheets of the Target Company as at 31 December 2005, 2006 and 2007, together with the notes thereto, set out in this report (collectively the "Financial Information") were prepared by the directors of the Target Company based on the management accounts of the Target Company, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

For the purpose of this report, we have undertaken an independent audit of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

The directors of the Target Company are responsible for the preparation of the Financial Information in order to give a true and fair view. In preparing the Financial Information and management accounts that give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the results and cash flows of the Target Company for each of the Relevant Periods, and of the balance sheets of the Target Company as at 31 December 2005, 2006 and 2007.

Without qualifying our opinion, we draw attention to note 2 of Section I which indicates that the Target Company had net current liabilities of approximately HK$67,293,000 as at 31 December 2007. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Target Company's ability to continue as a going concern.

I. FINANCIAL INFORMATION

Income statements of the Target Company

		Period from 5 July 2005 (date of incorporation) to 31 December	Year ended 31 December	
		2005	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE		–	–	–
Bank interest income		–	841	365
Share of profit of an associate	*7*	–	23,915	14,245
PROFIT BEFORE TAX	*4*	–	24,756	14,610
Tax	*5*	–	–	–
PROFIT FOR THE PERIOD/YEAR		–	24,756	14,610
DIVIDEND	*6*	–	–	6,078

I. FINANCIAL INFORMATION (continued)

Balance sheets of the Target Company

		31 December		
		2005	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current asset:				
Interest in an associate	*7*	–	92,935	109,340
Current asset:				
Cash at bank		–	8	14
TOTAL ASSETS		–	92,943	109,354
EQUITY				
Issued capital	*8*	–	–	–
Reserves		–	26,483	42,047
TOTAL EQUITY		–	26,483	42,047
LIABILITY				
Current Liability				
Due to the ultimate holding company	9	–	66,460	67,307
TOTAL EQUITY AND LIABILITY		–	92,943	109,354

I. FINANCIAL INFORMATION (continued)

Statements of changes in equity of the Target Company

	Issued capital	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 5 July 2005 (date of incorporation)	–	–	–	–	–
Issue of shares *(note 8)*	–	–	–	–	–
At 31 December 2005 and 1 January 2006	–	–*	–*	–*	–
Share of exchange fluctuation reserve of an associate and total income and expense recognised directly in equity	–	1,727	–	–	1,727
Profit for the year	–	–	–	24,756	24,756
Total income and expense for the year	–	1,727	–	24,756	26,483
Issue of shares *(note 8)*	–	–	–	–	–
Share of reserve movement of an associate	–	–	1,112	(1,112)	–
At 31 December 2006 and 1 January 2007	–	1,727*	1,112*	23,644*	26,483
Share of exchange fluctuation reserve of an associate and total income and expense recognised directly in equity	–	7,032	–	–	7,032
Profit for the year	–	–	–	14,610	14,610
Total income and expense for the year	–	7,032	–	14,610	21,642
Interim 2007 dividend declared *(note 6)*	–	–	–	(6,078)	(6,078)
Share of reserve movement of an associate	–	–	1,269	(1,269)	–
At 31 December 2007	–	8,759*	2,381*	30,907*	42,047

* *These reserve accounts comprise the reserves of nil, HK$26,483,000 and HK$42,047,000 in the balance sheets as at 31 December 2005, 2006 and 2007, respectively.*

I. FINANCIAL INFORMATION (continued)

Cash flow statements of the Target Company

	Notes	Period from 5 July 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		–	24,756	14,610
Adjustments for:				
Bank interest income		–	(841)	(365)
Share of profit of an associate	*7*	–	(23,915)	(14,245)
Cash generated from operations and net cash inflow from operating activities		–	–	–
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in an associate		–	(67,293)	–
Dividend received from an associate		–	–	4,872
Interest received		–	841	365
Net cash inflow/(outflow) from investing activities		–	(66,452)	5,237
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of shares	*8*	–	–	–
Increase in amount due to the ultimate holding company		–	66,460	847
Dividend paid		–	–	(6,078)
Net cash inflow/(outflow) from financing activities		–	66,460	(5,231)
NET INCREASE IN CASH AND CASH EQUIVALENTS		–	8	6
Cash and cash equivalents at beginning of period/year		–	–	8
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR		–	8	14

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

1. CORPORATE INFORMATION

The Target Company is a limited liability company incorporated in the British Virgin Islands on 5 July 2005. The registered office of the Target Company is located at Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, British Virgin Islands.

During the Relevant Periods, the principal activity of the Target Company is investment holding.

As at 31 December 2007, in the opinion of the directors of the Target Company, the parent and the ultimate holding company of the Target Company is Besto Holdings Limited ("Besto"), which is incorporated in the British Virgin Islands with limited liability.

Particulars of the Target Company and its associate are as follows:

Company name	Place and date of incorporation and operations	Paid-up capital as at the date of this report	Percentage of equity interest attributable to the Target Company as at 31 December 2005	31 December 2006	31 December 2007	Date of this report	Principal activities
Gainstar Limited	British Virgin Islands 5 July 2005	HK$244,486,822	N/A	N/A	N/A	N/A	Investment holding
Associate:							
China Field Development Limited ("China Field") # *(note)*	Hong Kong 19 July 2006	HK$244,486,822	N/A	27.52	27.52	100	Investment holding

\# *Acquired during the year ended 31 December 2006.*

Note: The statutory financial statements of China Field for the period from 19 July 2006 (date of incorporation of China Field) ended 31 December 2006 and for the year ended 31 December 2007 were audited by S.Y. Yang & Company, Certified Public Accountants registered in Hong Kong. Consolidated financial statements were not prepared by China Field for its statutory financial statements for the year ended 31 December 2007, which was not in compliance with Section 124(1) of the Hong Kong Companies Ordinance, Hong Kong Accounting Standard ("HKAS") 7 *Cash Flow Statements* and HKAS 27 *Consolidated and Separate Financial Statements* issued by the HKICPA. Accordingly, its statutory financial statements for the year ended 31 December 2007 were qualified in respect thereof.

In respect of this qualification, it is the opinion of the directors of the Target Company that Section 124(1) of the Hong Kong Companies Ordinance, HKASs 7 and 27 are not relevant to China Field in the preparation of its financial statements as it does not have any subsidiary since the date of its incorporation. China Field's sole investment since its incorporation is its investment in a 62.94% equity interest in Z.K.C Environmental Group Co., Ltd. ("ZKC Company"). As China Field is not able to exercise unilateral control but a joint control over the board of directors of ZKC Company, ZKC Company is treated as a jointly-controlled entity of China Field. Accordingly, the investment in ZKC Company is to be accounted for by China Field in accordance with HKAS 31 *Interests in Joint Ventures*, which has been complied with for the preparation of the Financial Information.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. FUNDAMENTAL UNCERTAINTY CONCEPT

Despite the fact that the Target Company had net current liabilities of approximately HK$67,293,000 as at 31 December 2007, the Financial Information has been prepared on the going concern basis, as Besto, the ultimate holding company of the Target Company, has agreed to provide financial support and adequate funds to the Target Company to enable it to meet its liabilities as and when they fall due; and it has undertaken not to demand for the repayment of the amount due by the Target Company until it is in a position to repay without impairing its liquidity and financial position.

Should the Target Company be unable to continue in business as a going concern, adjustments would have to be made to reduce the values of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify the non-current asset as a current asset. The Financial Information does not include any adjustments that would result from the failure of the Target Company to continue in business as a going concern.

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

3.1 Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs (which include all HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* has been applied in preparing the Financial Information. The Financial Information is the first set of the Target Company's financial statements prepared in accordance with HKFRSs.

The Financial Information has been prepared under the historical cost convention and is presented in Hong Kong dollars ("HK$"), which is also the Target Company's functional currency, and all values are rounded to the nearest thousand except when otherwise indicated.

The following standards, which are relevant to the Target Company and generally effective for accounting periods beginning after 1 January 2005, have been early adopted by the Target Company as at the beginning of the Relevant Periods for the purpose of preparing the Financial Information:

HKAS 1 Amendment	*Presentation of Financial Statements – Capital Disclosures*
HKAS 39 & HKFRS 4 Amendments	*Financial Guarantee Contracts*
HKFRS 7	*Financial Instruments: Disclosures*

3.2 Impact of an issued but not yet effective Hong Kong Financial Reporting Standard

The Target Company has not applied HKAS 1 (Revised) *Presentation of Financial Statements*, which is relevant to the Target Company and has been issued and is effective for annual periods beginning on or after 1 January 2009, in the Financial Information.

HKAS 1 (Revised) affects certain disclosures of the financial information. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Target Company anticipates that the revised standard is unlikely to have any financial impact on the Target Company and is still evaluating whether it will have one or two statements.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

3.3 Summary of principal accounting policies

Associate

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

The Target Company's interest in the associate is stated in the balance sheet at its share of net assets under the equity method of accounting, less any accumulated impairment losses. The Target Company's share of the post-acquisition results and reserves of the associate is included in the income statement and reserves, respectively. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Related parties

A party is considered to be related to the Target Company if:

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

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Target Company or its parent;

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

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

Loans and receivables

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

Impairment of loans and receivables

The Target Company assesses at each balance sheet date whether there is any objective evidence that a loan and receivable or a group of loans and receivable is impaired.

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

3.3 Summary of principal accounting policies (continued)

Derecognition of loans and receivables

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

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

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

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

Financial liability at amortised cost

Financial liability, which represents an amount due to the ultimate holding company, is initially stated at fair value less directly attributable transaction costs and is subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case it is stated at cost.

Gain or loss is recognised in the income statement when the liability is derecognised as well as through the amortisation process.

Derecognition of financial liability

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

3.3 Summary of principal accounting policies (continued)

Cash and cash equivalents

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

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are measured in full on all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

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

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

Revenue recognition

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

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

3.3 Summary of principal accounting policies (continued)

Dividends

Final dividends proposed by the directors of the Target Company are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholder in a general meeting. When these dividends have been approved by the shareholder and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Target Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

4. PROFIT BEFORE TAX

The Target Company's profit before tax is arrived at after charging:

	Period from 5 July 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006	Year ended 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*
Directors' remuneration	–	–	–
Auditors' remuneration	–	–	–

Certain operating expenses of the Target Company during the Relevant Periods, including incorporation expenses and annual company registration fees, have been taken up by the ultimate holding company.

5. TAX

No provision for Hong Kong profits tax has been made during each of the Relevant Periods as the Target Company did not generate any assessable profits arising in Hong Kong.

At each of the balance sheet dates during the Relevant Periods, there were no material unprovided deferred tax assets or liabilities.

6. DIVIDEND

An interim dividend of HK$6,078,288 or approximately HK$607,829 per ordinary share was declared by the director of the Target Company on 1 May 2007 in respect of the year ended 31 December 2007.

7. INTEREST IN AN ASSOCIATE

The associate of the Target Company is China Field, which is directly held by the Target Company and particulars of which are disclosed in note 1 of this section. The principal activity of China Field is investment holding and its main asset as at 31 December 2006 and 2007 was a 62.94% equity interest in ZKC Company, which is a Sino-foreign joint venture registered in the People's Republic of China and is a jointly-controlled entity of China Field. ZKC Company, together with its subsidiaries, are engaged in the construction of sewage treatment plants, sewage treatment, the provision of technical services and licensing of technical know-how that are related to sewage treatment.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

7. INTEREST IN AN ASSOCIATE (continued)

The following tables illustrate the summarised financial information of China Field for the period from 19 July 2006 (date of incorporation of China Field) to 31 December 2006 and for the year ended 31 December 2007:

Financial positions

	31 December 2006	31 December 2007
	HK$'000	*HK$'000*
Interest in a jointly-controlled entity	339,910	397,197
Current asset	13	83
Current liabilities	(2,262)	(3)
Net assets	337,661	397,277
Net assets attributable to the Target Company	92,935	109,340

Results of operations

	Period from 19 July 2006 (date of incorporation of China Field) to 31 December 2006	Year ended 31 December 2007
	HK$'000	*HK$'000*
Interest income	12	5
Share of profit of a jointly-controlled entity	86,929	51,773
Total expenses	(41)	(15)
Profit before tax	86,900	51,763
Tax	–	–
Profit for the period/year	86,900	51,763
Profit for the period/year attributable to the Target Company	23,915	14,245

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

8. SHARE CAPITAL

	31 December		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
50,000 ordinary shares of US$1 each	390	390	390
Issued and fully paid:			
2, 10 and 10 ordinary shares of US$1 each as at 31 December 2005, 2006 and 2007, respectively	–	–	–

A summary of the movements in the issued ordinary share capital of the Target Company during the Relevant Periods is as follows:

	Number of ordinary shares in issue	**Issued capital** *HK$'000*
At 5 July 2005 (date of incorporation)	–	–
Shares issued upon incorporation *(note (a))*	2	–
At 31 December 2005 and 1 January 2006	2	–
Issue of shares *(note (b))*	8	–
At 31 December 2006, 1 January 2007 and 31 December 2007	10	–

Notes:

(a) The Target Company was incorporated on 5 July 2005 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1 each, 2 of which were allotted and issued at par on the same date for cash to provide the initial capital of the Target Company.

(b) Pursuant to an ordinary resolution passed on 30 September 2006, 8 ordinary shares of US$1 each were allotted and issued at par on the same date to Besto, the ultimate holding company, for the purpose of providing additional working capital to the Target Company.

9. DUE TO THE ULTIMATE HOLDING COMPANY

The balance with the ultimate holding company is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the balance approximates to its fair value.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments comprise cash at bank and an amount due to the ultimate holding company. The main purpose of these financial instruments are to raise finance for the Target Company's operations and investment.

The main risk arising from the Target Company's financial instruments is liquidity risk, which is described below:

Liquidity risk

The Target Company's exposure to liquidity risk is minimal as Besto, the ultimate holding company, has agreed to provide adequate funds to the Target Company to meet its liabilities as and when they fall due; and it has undertaken not to demand for the repayment of the amount due to it by the Target Company until it is in a position to repay without impairing its liquidity and financial position. Further details of which are set out in note 2 of this section.

Capital management

The primary objective of the Target Company's capital management is to safeguard the Target Company's ability to continue as a going concern. The Target Company does not have specific policies for managing capital but it will continue to utilise funding from its shareholders to maintain a healthy capital ratio.

11. RELATED PARTY DISCLOSURES

Other than the financial support given by the ultimate holding company, the transaction and the balance with the ultimate holding company as disclosed in notes 2, 4 and 9 of this section, respectively, the Target Company had no outstanding balance and other transaction with related parties during the Relevant Periods.

In the opinion of the directors of the Target Company, the directors of the Target Company represented the key management personnel of the Target Company. During the Relevant Periods, no compensation was paid to the key management personnel.

12. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the Relevant Periods, the following significant events occurred:

(i) On 9 February 2008, the Target Company declared an interim dividend of approximately RMB5,196,000 (equivalent to approximately HK$5,554,000) or HK$555,400 per ordinary share in respect of the year ending 31 December 2008 pursuant to a resolution of its sole shareholder passed on the same date.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

12. EVENTS AFTER THE BALANCE SHEET DATE (continued)

(ii) Pursuant to a resolution of the sole shareholder of the Target Company passed on 26 April 2008, the authorised share capital of the Target Company was increased to HK$250,000,000 divided into 250,000,000 ordinary shares of HK$1 each, and a total of 244,486,812 ordinary shares of HK$1 each were allotted and issued to Besto, Newton Finance Holdings Limited ("Newton") and Tenson Investment Limited ("Tenson") for a total consideration of HK$244,486,812 on the same date, which were satisfied as to HK$67,293,148, HK$67,293,158 and HK$109,900,506 by way of the capitalisation of an amount due to Besto by the Target Company of HK$67,293,148 and transfer of 27.52% and 44.96% equity interests in China Field on 13 June 2008 in respect of the shares allotted to Besto, Newton and Tenson, respectively. Immediately following the transfer of the 27.52% and 44.96% equity interests in China Field to the Target Company by Newton and Tenson, China Field became a wholly-owned subsidiary of the Target Company.

Since the share transfers were effected shortly before the date of this report, the audit of the estimated financial impact of which cannot be completed and accordingly, no disclosure of the financial impact on the Target Company has been made.

(iii) On 16 June 2008, the Target Company acquired from four third parties the entire issued share capital of Monico Investments Limited. a company incorporated in Hong Kong on 14 January 2008 with limited liability, at a total cash consideration of HK$731,580. To the best knowledge of the directors of the Target Company, Monico Investments Limited has been dormant since the date of its incorporation.

Since the acquisition was effected shortly before the date of this report, the audit of the estimated financial impact of which cannot be completed and accordingly, no disclosure of the financial impact on the Target Company has been made.

II. DISTRIBUTABLE RESERVES

At 31 December 2007, the Target Company did not have any reserves available for distribution to shareholders.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2007. Save as disclosed in this report, no dividend has been declared, made or paid by the Target Company in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a report in respect of China Field, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VIII, a copy of the accountants' report for China Field is available for inspection.

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

30 June 2008

The Directors
Beijing Enterprises Water Group Limited

Dear Sirs,

We set out below our report on the financial information of China Field Development Limited ("China Field") for the period from 19 July 2006 (date of incorporation) to 31 December 2006 and for the year ended 31 December 2007 (collectively the "Relevant Periods"), for inclusion in the shareholders' circular of Beijing Enterprises Water Group Limited (the "Company", previously known as Shang Hua Holdings Limited) dated 30 June 2008 in relation to the proposed acquisition of the entire issued share capital of Gainstar Limited by the Company.

China Field was incorporated on 19 July 2006 with limited liability in Hong Kong for the purpose of holding a 62.94% equity interest in Z.K.C Environmental Group Co., Ltd. ("ZKC Company"), a jointly-controlled entity of China Field established in the People's Republic of China (the "PRC"). China Field has not carried out any business since the date of its incorporation save for the holding of equity interest in ZKC Company.

China Field and its jointly-controlled entity have adopted 31 December as their financial year end date for statutory reporting and/or management reporting purposes. Statutory financial statements of China Field and its jointly-controlled entity were prepared in accordance with accounting principles generally accepted in Hong Kong and the PRC, respectively, and were not audited by us.

The income statements, the cash flow statements and the statements of changes in equity of China Field for each of the Relevant Periods, and the balance sheets of China Field as at 31 December 2006 and 2007, together with the notes thereto, set out in this report (collectively the "Financial Information") were prepared by the directors of China Field based on the statutory financial statements of China Field, after making such adjustments as appropriate.

For the purpose of this report, we have undertaken an independent audit of the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

The directors of China Field are responsible for the preparation of the Financial Information in order to give a true and fair view. In preparing the Financial Information, financial statements and management accounts that give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the results and cash flows of China Field for each of the Relevant Periods, and of the balance sheets of China Field as at 31 December 2006 and 2007.

I. FINANCIAL INFORMATION

Income statements of China Field

	Notes	Period from 19 July 2006 (date of incorporation) to 31 December 2006 HK$'000	Year ended 31 December 2007 HK$'000
REVENUE		–	–
Bank interest income		12	5
Administrative expenses		(41)	(15)
Share of profit of a jointly-controlled entity	6	86,929	51,773
PROFIT BEFORE TAX	3	86,900	51,763
Tax	4	–	–
PROFIT FOR THE PERIOD/YEAR		86,900	51,763
DIVIDEND	5	–	17,701

I. FINANCIAL INFORMATION (continued)

Balance sheets of China Field

		31 December	
		2006	**2007**
	Notes	*HK$'000*	*HK$'000*
ASSETS			
Non-current asset:			
Interest in a jointly-controlled entity	6	339,910	397,197
Current asset:			
Cash at bank		13	83
TOTAL ASSETS		339,923	397,280
EQUITY:			
Issued capital	7	244,487	244,487
Reserves		93,174	152,790
TOTAL EQUITY		337,661	397,277
LIABILITIES:			
CURRENT LIABILITIES:			
Accruals		8	–
Due to directors	8	2,254	3
TOTAL LIABILITIES		2,262	3
TOTAL EQUITY AND LIABILITIES		339,923	397,280

I. FINANCIAL INFORMATION (continued)

Statements of changes in equity of China Field

	Issued capital	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 19 July 2006 (date of incorporation)	–	–	–	–	–
Share of exchange fluctuation reserve of a jointly-controlled entity and total income and expense recognised directly in equity	–	6,274	–	–	6,274
Profit for the period	–	–	–	86,900	86,900
Total income and expense for the period	–	6,274	–	86,900	93,174
Issue of shares *(note 7)*	244,487	–	–	–	244,487
Share of reserve movement of a jointly-controlled entity	–	–	4,042	(4,042)	–
At 31 December 2006 and 1 January 2007	244,487	6,274*	4,042*	82,858*	337,661
Share of exchange fluctuation reserve of a jointly-controlled entity and total income and expense recognised directly in equity	–	25,554	–	–	25,554
Profit for the year	–	–	–	51,763	51,763
Total income and expense for the year	–	25,554	–	51,763	77,317
Interim 2007 dividend *(note 5)*	–	–	–	(17,701)	(17,701)
Share of reserve movement of a jointly-controlled entity	–	–	4,613	(4,613)	–
	244,487	31,828*	8,655*	112,307*	397,277

* *These reserve accounts comprise the reserves of HK$93,174,000 and HK$152,790,000 in the balance sheets as at 31 December 2006 and 2007, respectively.*

I. FINANCIAL INFORMATION (continued)

Cash flow statements of China Field

	Notes	Period from 19 July 2006 (date of incorporation) to 31 December 2006 HK$'000	Year ended 31 December 2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		86,900	51,763
Adjustments for:			
Bank interest income		(12)	(5)
Share of profit of a jointly-controlled entity	6	(86,929)	(51,773)
		(41)	(15)
Increase/(decrease) in accruals		8	(8)
Net cash outflow from operating activities		(33)	(23)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in a jointly-controlled entity		(246,707)	–
Dividend received from a jointly-controlled entity		–	20,040
Interest received		12	5
Net cash inflow/(outflow) from investing activities		(246,695)	20,045
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of shares	7	244,487	–
Increase/(decrease) in amounts due to directors		2,254	(2,251)
Dividend paid		–	(17,701)
Net cash inflow/(outflow) from financing activities		246,741	(19,952)
NET INCREASE IN CASH AND CASH EQUIVALENTS		13	70
Cash and cash equivalents at beginning of period/year		–	13
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR		13	83

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

1. CORPORATE INFORMATION

China Field is a limited liability company incorporated in Hong Kong on 19 July 2006. The registered office of China Field is located at Room 1905, 19/F, 135 Bonham Strand Trade Centre, 135 Bonham Strand Trade East, Sheung Wan, Hong Kong.

During the Relevant Periods, the principal activity of China Field is investment holding.

Particulars of China Field and its jointly-controlled entity, which has substantially similar characteristics to a private company incorporated in Hong Kong, are as follows:

Company name	Place and date of incorporation and operations	Paid-up capital as at the date of this report	Percentage of equity interest attributable to China Field as at 31 December 2006	31 December 2007	Date of this report	Principal activities
China Field Development Limited *(note (i))*	Hong Kong 19 July 2006	HK$244,486,822	N/A	N/A	N/A	Investment holding
Jointly-controlled entity:						
ZKC Company # *(note (ii))*	PRC/ Mainland China 17 May 2001	RMB286,969,071	62.94†	62.94†	62.94†	Consultancy service and investment holding

\# *Acquired during the period ended 31 December 2006.*

† *Despite the fact that China Field has a 62.94% equity interest in ZKC Company, China Field is not able to exercise unilateral control but a joint control over the board of directors of ZKC Company. Accordingly, ZKC Company is treated as a jointly-controlled entity of China Field.*

Notes:

(i) The statutory financial statements of China Field for each of the Relevant Periods were audited by S.Y. Yang & Company, Certified Public Accountants registered in Hong Kong. Consolidated financial statements were not prepared by China Field for its statutory financial statements for the year ended 31 December 2007, which was not in compliance with Section 124(1) of the Hong Kong Companies Ordinance, Hong Kong Accounting Standard ("HKAS") 7 *Cash Flow Statements* and HKAS 27 *Consolidated and Separate Financial Statements* issued by the HKICPA. Accordingly, its statutory financial statements for the year ended 31 December 2007 were qualified in respect thereof.

In respect of this qualification, it is the opinion of the directors of China Field that Section 124(1) of the Hong Kong Companies Ordinance, HKASs 7 and 27 are not relevant to China Field in the preparation of the Financial Information as it does not have any subsidiary during the Relevant Periods. China Field's sole investment during the Relevant Periods is its investment in a 62.94% equity interest in ZKC Company. As ZKC Company is a jointly-controlled entity as explained above, the investment in ZKC Company is to be accounted for in accordance with HKAS 31 *Interests in Joint Ventures*, which has been complied with for the preparation of the Financial Information.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

1. CORPORATE INFORMATION (continued)

Notes: (continued)

(ii) The statutory financial statements of ZKC Company for the years ended 31 December 2006 and 2007 were audited by Yuehua Certified Public Accountants Co., Ltd., Sichuan Branch (岳華會計師事務所有限責任公司四川分所), Certified Public Accountants registered in the PRC.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which include all HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Financial Information has been prepared under the historical cost convention and is presented in Hong Kong dollars ("HK$"), which is also the functional currency of China Field, and all values are rounded to the nearest thousand except when otherwise indicated.

The following standards, which are relevant to China Field and generally effective for accounting periods beginning after 19 July 2006 (date of incorporation), have been early adopted by China Field as at the beginning of the Relevant Periods for the purpose of preparing the Financial Information:

HKAS 1 Amendment	*Presentation of Financial Statements – Capital Disclosures*
HKFRS 7	*Financial Instruments: Disclosures*

2.2 Impact of an issued but not yet effective Hong Kong Financial Reporting Standard

China Field has not applied HKAS 1 (Revised) *Presentation of Financial Statements*, which is relevant to China Field and has been issued and is effective for annual periods beginning on or after 1 January 2009, in the Financial Information.

HKAS 1 (Revised) affects certain disclosures of the financial information. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. China Field anticipates that the revised standard is unlikely to have any financial impact on China Field and is still evaluating whether it will have one or two statements.

2.3 Summary of principal accounting policies

Joint venture

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Joint venture (continued)

A joint venture is treated as:

(a) a subsidiary, if China Field, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the China Field has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

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

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

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

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

China Field's interest in the jointly-controlled entity is stated in the balance sheet at its share of net assets under the equity method of accounting, less any accumulated impairment losses. China Field's share of the post-acquisition results and reserves of the jointly-controlled entity is included in the income statement and reserves, respectively. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Related parties

A party is considered to be related to China Field if:

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

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of China Field;

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Excess over the cost of business combinations

Any excess of China Field's interest in the net fair value of the acquiree' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of its jointly-controlled entity, after reassessment, is recognised immediately in the income statement and included in China Field's share of the jointly-controlled entity's profit or loss in the period in which the investment is acquired.

Loans and receivables

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

Impairment of loans and receivables

China Field assesses at each balance sheet date whether there is any objective evidence that a loan and receivable or a group of loans and receivables is impaired.

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

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

Derecognition of loans and receivables

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Derecognition of loans and receivables (continued)

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

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

Financial liabilities at amortised cost

Financial liabilities, including amounts due to directors and accruals, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

Derecognition of financial liabilities

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

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

Cash and cash equivalents

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

Income tax

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Income tax (continued)

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are measured in full on all taxable temporary differences while deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

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

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

Revenue recognition

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

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

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

Foreign currencies

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the jointly-controlled entity of China Field is Renminbi ("RMB"). As at the balance sheet date, the assets and liabilities of the jointly-controlled entity are translated into the presentation currency of China Field at the exchange rates ruling at the balance sheet date, and its income statements are translated into Hong Kong dollars at the weighted average exchange rates for each of the Relevant Periods. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of the jointly-controlled entity, the deferred cumulative amount recognised in the exchange fluctuation reserve relating to the jointly-controlled entity is recognised in the income statement.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Dividends

Final dividends proposed by the directors of China Field are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because China Field's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. PROFIT BEFORE TAX

China Field's profit before tax is arrived at after charging:

	Period from 19 July 2006 (date of incorporation) to 31 December 2006	Year ended 31 December 2007
	HK$'000	*HK$'000*
Directors' remuneration	–	–
Auditors' remuneration	8	15

4. TAX

No provision for Hong Kong profits tax has been made during each of the Relevant Periods as China Field did not generate any assessable profits arising in Hong Kong.

At each of the balance sheet dates during the Relevant Periods, there were no material unprovided deferred tax assets or liabilities.

5. DIVIDEND

An interim dividend of HK$17,700,846 or approximately HK7.240 cents per ordinary share was declared by the directors of China Field on 1 May 2007 in respect of the year ended 31 December 2007. The directors of China Field do not recommend the payment of a final dividend in respect of the year ended 31 December 2007.

6. INTEREST IN A JOINTLY-CONTROLLED ENTITY

The jointly-controlled entity of China Field is ZKC Company, which is directly held by China Field and particulars of which are disclosed in note 1 of this section. ZKC Company and its subsidiaries (collectively the "ZKC Group") are principally engaged in the construction of sewage treatment plants, sewage treatment, the provision of technical services and the licensing of technical know-how that are related to sewage treatment.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

6. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

The following tables illustrate the summarised financial information of the ZKC Group for the two years ended 31 December 2007:

Financial positions

	31 December	
	2006	**2007**
	HK$'000	*HK$'000*
Non-current assets	925,361	1,284,637
Current assets	351,987	276,424
Non-current liabilities	(505,819)	(654,248)
Current liabilities	(216,969)	(259,411)
Minority interests	(14,506)	(16,330)
Net assets	540,054	631,072
Net assets attributable to China Field	339,910	397,197

Results of operations

	Year ended 31 December	
	2006	**2007**
	HK$'000	*HK$'000*
Revenue	165,828	345,883
Interest income	77,888	88,203
Other income and gains, net	2,948	21,226
Total revenue	246,664	455,312
Total expenses	(162,649)	(335,181)
Profit before tax	84,015	120,131
Tax	(13,777)	(36,336)
Profit for the year	70,238	83,795
Attributable to:		
Equity holders of ZKC Company	66,259	82,257
Minority interests	3,979	1,538
	70,238	83,795
Profit for the year attributable to China Field since ZKC Company became a jointly-controlled entity of China Field	14,087	51,773
Excess over the cost of acquisition of a jointly-controlled entity	72,842	–
Share of profit of a jointly-controlled entity reported in the income statement	86,929	51,773

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

7. SHARE CAPITAL

	31 December 2006 HK$'000	31 December 2007 HK$'000
Authorised:		
250,000,000 ordinary shares of HK$1 each	250,000	250,000
Issued and fully paid:		
244,486,822 ordinary shares of HK$1 each	244,487	244,487

A summary of the movements in the issued ordinary share capital of China Field during the Relevant Periods is as follows:

	Number of ordinary shares in issue	Issued capital HK$'000
At 19 July 2006 (date of incorporation)	–	–
Shares issued upon incorporation *(note (a))*	1	–
Issue of shares *(notes (b) and (c))*	244,486,821	244,487
At 31 December 2006, 1 January 2007 and 31 December 2007	244,486,822	244,487

Notes:

(a) China Field was incorporated on 19 July 2006 with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1 each, 1 of which was allotted and issued at par on the same date for cash to provide the initial capital of China Field.

(b) Pursuant to an ordinary resolution of the sole shareholder passed on 25 August 2006, 9,999 ordinary shares of HK$1 each were allotted and issued at par on the same date to the sole shareholder of China Field and two new investors for a total cash consideration of HK$9,999. The purpose of the issue was to provide additional working capital to China Field.

(c) On 1 November 2006, pursuant to the resolutions in writing of the members of China Field passed on the same date, the authorised share capital of China Field was increased from HK$10,000 to HK$250,000,000 by the creation of a further 249,990,000 ordinary shares of HK$1 each; and 244,476,822 ordinary shares of HK$1 each were allotted and issued at par on the same date to the then three shareholders of China Field for a total cash consideration of HK$244,476,822. The purpose of the issue was to obtain funding for China Field's investment in a 62.94% equity interest in ZKC Company, the jointly-controlled entity of China Field.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

8. DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the balances approximate to their respective fair values.

9. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

China Field's principal financial instruments comprise cash at bank and amounts due to directors. Since China Field does not actively engage in any business other than investment holding, in the opinion of the directors of China Field, China Field's exposure to financial risks is minimal.

Capital management

The primary objective of China Field's capital management is to safeguard China Field's ability to continue as a going concern. China Field does not have specific policies for managing capital but it will continue to utilise funding from its shareholders to maintain a healthy capital ratio.

10. RELATED PARTY DISCLOSURES

Other than the balances with directors as disclosed in note 8 of this section, China Field had no outstanding balance and other transaction with related parties during the Relevant Periods.

In the opinion of the directors of China Field, the directors of China Field represented the key management personnel of China Field. During the Relevant Periods, no compensation was paid to the key management personnel.

11. EVENT AFTER THE BALANCE SHEET DATE

On 9 February 2008, China Field declared an interim dividend of RMB18,882,000 (equivalent to approximately HK$20,181,000) or HK8.254 cents per ordinary share in respect of the year ending 31 December 2008 pursuant to a resolution of its shareholders passed on the same date.

II. DISTRIBUTABLE RESERVES

At 31 December 2007, China Field's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to approximately HK$2,300,000.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by China Field in respect of any period subsequent to 31 December 2007. Save as disclosed in this report, no dividend has been declared, made or paid by China Field in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a report in respect of the ZKC Group, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents available for inspection" in Appendix VIII, a copy of the accountants' report for the ZKC Group is available for inspection.

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

30 June 2008

The Directors
Beijing Enterprises Water Group Limited

Dear Sirs,

We set out below our report on the financial information of Z.K.C Environmental Group Co., Ltd. (中科成環保集團有限公司) ("ZKC Company") and its subsidiaries (hereinafter collectively referred to as the "ZKC Group") for each of the three years ended 31 December 2005, 2006 and 2007 (the "Relevant Periods"), for inclusion in the shareholders' circular of Beijing Enterprises Water Group Limited (the "Company", previously known as Shang Hua Holdings Limited) dated 30 June 2008 in relation to the proposed acquisition of the entire issued share capital of Gainstar Limited (the "Target Company") by the Company.

ZKC Company was established on 17 May 2001 under the name of 四川中科成環保股份有限公司 in the People's Republic of China (the "PRC") as a joint stock limited company. On 5 September 2006, ZKC Company was transformed into a Sino-foreign joint venture under the Company Law of the PRC and was renamed as its current name following a capital injection in 2006 by certain of its then equity holders and China Field Development Limited ("China Field"), a company incorporated in Hong Kong and owned as to 27.52% by the Target Company as at 31 December 2007.

The ZKC Group is principally engaged in the construction of sewage treatment plants, sewage treatment, the provision of technical services and licensing of technical know-how that are related to sewage treatment. Details of the principal activities of the companies comprising the ZKC Group are set out in note 1 of Section I below.

All companies now comprising the ZKC Group have adopted 31 December as their financial year end date for statutory reporting and/or management reporting purposes. The statutory financial statements (the "PRC GAAP Financial Statements") of ZKC Company and its subsidiaries for each of the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC (the "PRC GAAP") and were not audited by us.

The consolidated income statements, the consolidated cash flow statements and the consolidated statements of changes in equity of the ZKC Group for each of the Relevant Periods, the consolidated balance sheets of the ZKC Group and the balance sheets of ZKC Company as at 31 December 2005, 2006 and 2007, together with the notes thereto, set out in this report (collectively the "Financial Information") were prepared by the directors of ZKC Company based on the audited PRC GAAP Financial Statements of ZKC Company, after making such adjustments as appropriate to comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong.

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

The directors of ZKC Company are responsible for the preparation of the Financial Information in order to give a true and fair view. The directors of the companies comprising the ZKC Group are also responsible for the preparation of the companies' respective financial statements in order to give a true and fair view. In preparing the Financial Information and financial statements that give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion thereon.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the results and cash flows of the ZKC Group for each of the Relevant Periods, and of the state of affairs of the ZKC Group and ZKC Company as at 31 December 2005, 2006 and 2007.

I. FINANCIAL INFORMATION

Consolidated income statements

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	*6*	209,167	170,167	337,118
Cost of sales		(178,062)	(121,244)	(274,026)
Gross profit		31,105	48,923	63,092
Interest income	*6*	69,276	79,926	85,968
Other income and gains, net	*6*	1,185	3,025	20,688
Administrative expenses		(16,568)	(21,044)	(24,861)
Other operating expenses, net		(2,444)	(1,940)	(405)
PROFIT FROM OPERATING ACTIVITIES	*7*	82,554	108,890	144,482
Finance costs	*8*	(18,085)	(22,677)	(27,395)
PROFIT BEFORE TAX		64,469	86,213	117,087
Tax	*10*	(8,837)	(14,137)	(35,415)
PROFIT FOR THE YEAR		55,632	72,076	81,672
Attributable to:				
Equity holders of ZKC Company	*11*	49,983	67,993	80,173
Minority interests		5,649	4,083	1,499
		55,632	72,076	81,672
Dividends	*13*	5,395	–	61,566

I. FINANCIAL INFORMATION (continued)

Consolidated balance sheets

		31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets:				
Equipment	*14*	5,539	6,079	5,467
Goodwill	*15*	41	41	41
Operating concessions	*16*	103,166	159,266	159,819
Other intangible assets	*17*	262	206	150
Available-for-sale investment	*19*	400	400	400
Long term deposit	*20*	–	8,000	8,000
Trade receivables	*23*	587,106	754,433	1,028,066
Total non-current assets		696,514	928,425	1,201,943
Current assets:				
Inventories	*21*	1,137	1,175	1,282
Amounts due from customers for contract work	*22*	75,747	10,002	10,875
Trade receivables	*23*	45,738	35,270	83,700
Prepayments, deposits and other receivables	*24*	18,047	64,867	84,153
Pledged deposits	*26*	874	–	–
Cash and cash equivalents	*26*	39,009	241,839	78,620
Total current assets		180,552	353,153	258,630
TOTAL ASSETS		877,066	1,281,578	1,460,573

I. FINANCIAL INFORMATION (continued)

Consolidated balance sheets (continued)

		31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY AND LIABILITIES				
Equity attributable to equity holders of ZKC Company:				
Paid-up capital	*27*	67,430	286,969	286,969
Reserves	*28(a)*	149,211	254,873	273,480
Proposed final dividend	*13*	3,372	–	30,000
		220,013	541,842	590,449
Minority interests		31,833	14,554	15,279
TOTAL EQUITY		251,846	556,396	605,728
Non-current liabilities:				
Other payables and accruals	*35*	66,039	85,022	32,359
Bank and other borrowings	*29*	361,506	358,286	475,770
Finance lease payable	*30*	–	18,176	13,948
Provision for major overhauls	*31*	17,569	28,833	42,075
Deferred income	*32*	862	908	1,037
Deferred tax liabilities	*33*	11,465	16,269	46,944
Total non-current liabilities		457,441	507,494	612,133
Current liabilities:				
Trade payables	*34*	43,161	30,184	33,719
Other payables and accruals	*35*	91,017	109,855	131,821
Taxes payable	*36*	3,447	7,542	4,273
Bank and other borrowings	*29*	30,154	65,985	68,508
Finance lease payable	*30*	–	4,122	4,391
Total current liabilities		167,779	217,688	242,712
TOTAL LIABILITIES		625,220	725,182	854,845
TOTAL EQUITY AND LIABILITIES		877,066	1,281,578	1,460,573

I. FINANCIAL INFORMATION (continued)

Consolidated statements of changes in equity

		Attributable to equity holders of ZKC Company							
	Notes	Paid-up capital RMB'000	Capital reserve RMB'000 (Note 28(b))	PRC reserve funds RMB'000 (Note 28 (a)(ii))	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2005		67,430	4,681	6,826	93,116	–	172,053	26,184	198,237
Profit for the year and total income and expense for the year		–	–	–	49,983	–	49,983	5,649	55,632
Final 2004 dividend declared	*13(i)*	–	–	–	(2,023)	–	(2,023)	–	(2,023)
Proposed final 2005 dividend	*13(ii)*	–	–	–	(3,372)	3,372	–	–	–
Transfer to reserves		–	–	7,427	(7,427)	–	–	–	–
At 31 December 2005 and 1 January 2006		67,430	4,681*	14,253*	130,277*	3,372	220,013	31,833	251,846
Profit for the year and total income and expense for the year		–	–	–	67,993	–	67,993	4,083	72,076
Capitalisation of reserves	*27(a)*	33,715	(4,680)	–	(29,035)	–	–	–	–
Capital contributions from equity holders	*27(b)*	185,824	71,384	–	–	–	257,208	–	257,208
Final 2005 dividend declared	*13(ii)*	–	–	–	–	(3,372)	(3,372)	–	(3,372)
Dividends paid to minority shareholders		–	–	–	–	–	–	(1,580)	(1,580)
Acquisition of minority interests		–	–	–	–	–	–	(19,782)	(19,782)
Transfer to reserves		–	–	6,503	(6,503)	–	–	–	–
At 31 December 2006 and 1 January 2007		286,969	71,385*	20,756*	162,732*	–	541,842	14,554	556,396
Profit for the year and total income and expense for the year		–	–	–	80,173	–	80,173	1,499	81,672
Final 2006 dividend declared	*13(iii)*	–	–	–	(31,566)	–	(31,566)	–	(31,566)
Proposed final 2007 dividend	*13(iv)*	–	–	–	(30,000)	30,000	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	(774)	(774)
Transfer to reserves		–	–	7,143	(7,143)	–	–	–	–
At 31 December 2007		286,969	71,385*	27,899*	174,196*	30,000	590,449	15,279	605,728

* *These reserve accounts comprise the reserves of RMB149,211,000, RMB254,873,000 and RMB273,480,000 in the consolidated balance sheets as at 31 December 2005, 2006 and 2007, respectively.*

I. FINANCIAL INFORMATION (continued)

Consolidated cash flow statements

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		64,469	86,213	117,087
Adjustments for:				
Interest income	6	(69,276)	(79,926)	(85,968)
Gain on disposal of financial assets at fair value through profit or loss	6	–	–	(19,715)
Gain on disposal of items of equipment, net	6	(11)	(42)	–
Excess over the costs of acquisition of minority interests	6	–	(2,414)	–
Depreciation	7	1,088	1,239	1,514
Amortisation of operating concessions	7	2,655	3,303	5,259
Amortisation of other intangible assets	7	56	56	56
Impairment/(reversal of impairment) of trade receivables, net	7	310	98	(315)
Impairment of other receivables	7	462	178	631
Provision for major overhauls	31	7,971	10,737	12,377
Finance costs	8	21,782	26,589	37,151
Cost of construction contracts financed by a finance lease arrangement	37	–	24,000	–
		29,506	70,031	68,077
Increase in long term deposit		–	(8,000)	–
Increase in inventories		(769)	(38)	(107)
Decrease/(increase) in amounts due from customers for contract work		(72,234)	65,745	(873)
Increase in trade receivables		(134,170)	(77,404)	(237,257)
Decrease/(increase) in prepayments, deposits and other receivables		35,208	(46,998)	(19,917)
Increase/(decrease) in trade payables		17,987	(12,977)	3,535
Increase/(decrease) in other payables and accruals		(26,161)	37,821	(30,697)
Increase in other taxes payable		96	43	496
Increase in deferred income		(388)	46	129
Purchases of financial assets at fair value through profit or loss		–	–	(19,773)
Proceeds from disposal of financial assets at fair value through profit or loss		–	–	39,488
Cash generated from/(used in) operations		(150,925)	28,269	(196,899)
Mainland China income tax paid		(2,306)	(5,281)	(8,505)
Net cash inflow/(outflow) from operating activities		(153,231)	22,988	(205,404)

I. FINANCIAL INFORMATION (continued)

Consolidated cash flow statements (continued)

	Notes	Year ended 31 December 2005 RMB'000	2006 RMB'000	2007 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of equipment		(1,222)	(2,100)	(917)
Proceeds from disposal of items of equipment		36	363	15
Purchases of operating concessions		(40,469)	(59,403)	(5,812)
Purchases of other intangible assets		(6)	–	–
Acquisition of minority interests		–	(17,368)	–
Decrease/(increase) in pledged deposits		(874)	874	–
Interest received	6	317	373	1,477
Net cash outflow from investing activities		(42,218)	(77,261)	(5,237)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital contributions from equity holders	27(b)	–	257,208	–
New bank and other borrowings		208,311	54,900	179,540
Repayment of bank and other borrowings		–	(22,289)	(59,533)
Capital element of finance lease rental payments		–	(1,702)	(3,959)
Interest paid		(21,503)	(25,016)	(34,480)
Interest element of finance lease rental payments		–	(1,046)	(1,806)
Dividends paid		(2,023)	(3,372)	(31,566)
Dividend paid to minority shareholders		–	(1,580)	(774)
Net cash inflow from financing activities		184,785	257,103	47,422
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(10,664)	202,830	(163,219)
Cash and cash equivalents at beginning of year		49,673	39,009	241,839
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	39,009	241,839	78,620

I. FINANCIAL INFORMATION (continued)

Balance sheets

		31 December		
		2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets:				
Equipment	*14*	2,356	2,152	1,712
Other intangible assets	*17*	258	203	148
Interests in subsidiaries	*18*	248,109	359,840	436,789
Available-for-sale investment	*19*	400	400	400
Total non-current assets		251,123	362,595	439,049
Current assets:				
Inventories	*21*	98	81	–
Trade receivables	*23*	8,751	9,777	1,821
Prepayments, deposits and other receivables	*24*	21,197	27,208	103,978
Cash and cash equivalents	*26*	7,319	160,042	45,720
Total current assets		37,365	197,108	151,519
TOTAL ASSETS		288,488	559,703	590,568
EQUITY AND LIABILITIES				
Equity:				
Paid-up capital	*27*	67,430	286,969	286,969
Reserves	*28(b)*	42,433	99,499	129,305
Proposed final dividend	*13*	3,372	–	30,000
TOTAL EQUITY		113,235	386,468	446,274
Non-current liabilities:				
Other payables and accruals	*35*	23,680	–	–
Bank and other borrowings	*29*	20,000	–	–
Deferred income	*32*	200	200	200
Deferred tax liabilities	*33*	6,630	6,401	19,136
Total non-current liabilities		50,510	6,601	19,336
Current liabilities:				
Trade payables	*34*	978	311	357
Other payables and accruals	*35*	121,992	144,986	124,391
Taxes payable	*36*	1,773	1,337	210
Bank and other borrowings	*29*	–	20,000	–
Total current liabilities		124,743	166,634	124,958
TOTAL LIABILITIES		175,253	173,235	144,294
TOTAL EQUITY AND LIABILITIES		288,488	559,703	590,568

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

1. CORPORATE INFORMATION

ZKC Company is a Sino-foreign joint venture established in the PRC with limited liability. The registered office of ZKC Company is located at No. 64, Mian Shan Road, Mian Yang, Sichuan Province, the PRC.

During the Relevant Periods, the ZKC Group was principally engaged in the construction of sewage treatment plants, sewage treatment, the provision of technical services and licensing of technical know-how that are related to sewage treatment.

Particulars of the companies comprising the ZKC Group, which are all established and operated in Mainland China, the PRC, and have characteristics substantially similar to those of a private company incorporated in Hong Kong, are as follows:

Company name	Date of incorporation	Paid-up capital as at the date of this report	Percentage of equity interest attributable to the ZKC Group as at 31 December 2005	2006	2007	Date of this report	Principal activities
Parent:							
ZKC Company	17 May 2001	RMB286,969,071	N/A	N/A	N/A	N/A	Consultancy service and investment holding
Subsidiaries:							
綿陽中科成污水淨化有限公司 ("Mianyang ZKC")	9 November 2004	RMB40 million	100	100	100	100	Sewage treatment
長沙中科成污水淨化有限公司 ("Changsha ZKC")	4 November 2004	RMB50 million	80	90	90	90	Sewage treatment
江油中科成污水淨化有限公司 ("Jiangyou ZKC")	20 March 2003	RMB8 million	100	100	100	100	Sewage treatment
成都郫縣中科成污水淨化有限公司	15 November 2004	RMB10 million	52	52	52	52	Dormant
成都雙流中科成污水淨化有限公司 ("Shuangliu ZKC")	20 February 2004	RMB10 million	80	80	80	80	Sewage treatment
青島膠南中科成污水淨化有限公司 ("Jiaonan ZKC")	4 December 2003	RMB30 million	100	100	100	100	Sewage treatment
青島中科成污水淨化有限公司 ("Qingdao ZKC")	24 June 2002	RMB20 million	100	100	100	100	Sewage treatment
廣州中科成污水淨化有限公司 ("Guangzhou ZKC")	22 July 2004	RMB30 million	70	100	100	100	Sewage treatment
青島上馬中科成污水淨化有限公司 ("Shangma ZKC")	21 July 2005	RMB15 million	100	100	100	100	Sewage treatment

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

1. CORPORATE INFORMATION (continued)

Company name	Date of incorporation	Paid-up capital as at the date of this report	Percentage of equity interest attributable to the ZKC Group as at 31 December 2005	31 December 2006	31 December 2007	Date of this report	Principal activities
Subsidiaries: (continued)							
成都華陽中科成污水淨化有限公司 ("Huayang ZKC")#	5 July 2006	RMB9 million	N/A	100	100	100	Sewage treatment
廣州中業污水處理有限公司 ("Zhongye ZKC")#	19 October 2006	RMB40 million	N/A	100	100	100	Sewage treatment
台州市路橋中科成污水淨化有限公司 ("Taizhou ZKC")#	16 November 2006	RMB55.5 million	N/A	100	100	100	Sewage treatment
成都龍泉中科成污水淨化有限公司 ("Longquan ZKC") δ	20 November 2007	RMB18 million	N/A	N/A	100	100	Sewage treatment
菏澤中科成污水淨化有限公司 ("Heze ZKC") δ	3 December 2007	RMB30 million	N/A	N/A	100	100	Sewage treatment

\# *Established during the year ended 31 December 2006.*

δ *Established during the year ended 31 December 2007.*

Note: The statutory financial statements of the above companies for each of the Relevant Periods were audited by Yuehua Certified Public Accountants Co., Ltd., Sichuan Branch (岳華會計師事務所有限責任公司四川分所), Certified Public Accountants registered in the PRC.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

2.1 Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* has been applied in preparing the Financial Information. The Financial Information is the first set of ZKC Company's financial statements prepared in accordance with HKFRSs.

The Financial Information has been prepared under the historical cost convention and is presented in Renminbi ("RMB"), which is also the functional currency of ZKC Company, and all values are rounded to the nearest thousand except when otherwise indicated.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The following standards, which are relevant to the ZKC Group and generally effective for accounting periods beginning after 1 January 2005, have been early adopted by the ZKC Group as at the beginning of the Relevant Periods for the purpose of preparing the Financial Information:

HKAS 1 Amendment	*Presentation of Financial Statements - Capital Disclosures*
HKAS 39 & HKFRS 4 Amendments	*Financial Guarantee Contracts*
HKFRS 7	*Financial Instruments: Disclosures*
HK(IFRIC)-Int 4	*Determining whether an Arrangement contains a Lease*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 12	*Service Concession Arrangements*

Basis of consolidation

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

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the ZKC Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the ZKC Group are eliminated on consolidation. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2.2 Impact of issued but not yet effective Hong Kong Financial Reporting Standards

The ZKC Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the preparation of the Financial Information:

HKFRS 2 Amendments	*Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	*Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions* [3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [4]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [5]

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impact of issued but not yet effective Hong Kong Financial Reporting Standards (continued)

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 January 2008

HKFRS 2 has been revised to restrict the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The ZKC Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) has been revised to introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by HKFRS 3 (Revised) and HKAS 27 (Revised) are to be applied prospectively and will affect future acquisitions and transactions with minority interests.

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

HKAS 1 (Revised) affects certain disclosures of the financial statements. The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, which presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The ZKC Group is still evaluating whether it will have one or two statements.

HKAS 23 (Revised) has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the ZKC Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the ZKC Group.

HKAS 32 and HKAS 1 Amendments have been revised to require puttable financial instruments and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata rate of the share of the net assets of the entity only on liquidation to be classified as equity.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the ZKC Group's equity instrument to be accounted for as an equity-settled scheme, even if the ZKC Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the ZKC Group. As the ZKC Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the ZKC Group.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impact of issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the ZKC Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the ZKC Group and therefore are unlikely to have any financial impact on the ZKC Group.

2.3 Summary of principal accounting policies

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Related parties

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

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

(b) the party is a member of the key management personnel of the ZKC Group;

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

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

Goodwill

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

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

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

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

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

Excess over the cost of business combinations

Any excess of the ZKC Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, after reassessment, is recognised immediately in the consolidated income statement.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Impairment of non-financial assets other than goodwill

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

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

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

Equipment and depreciation

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

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

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

Office equipment	5 to 10 years
Motor vehicles	5 to 10 years
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Equipment and depreciation (continued)

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

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

Operating leases

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

Intangible assets (other than goodwill)

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

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

Operating concessions

Operating concessions represent the rights to operate sewage treatment plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the ZKC Group of 20 to 30 years.

Patents

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Intangible assets (other than goodwill) (continued)

Computer software

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

Research and development costs

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

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

Investments and other financial assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Investments and other financial assets (continued)

Available-for-sale investment

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Available-for-sale investment carried at cost

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Derecognition of financial assets

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

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

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

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

Financial liabilities at amortised cost

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

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

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the ZKC Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Derecognition of financial liabilities

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

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

Service concession arrangements

Consideration given by the grantor

A financial asset is recognised to the extent that (a) the ZKC Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The ZKC Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the ZKC Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the ZKC Group ensuring that the infrastructure meets specified quality or efficiency requirements.

An intangible asset (operating concession) is recognised to the extent that the ZKC Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

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

Construction or upgrade services

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

Operation services

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

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

The ZKC Group have contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the sewage treatment plants to a specified level of serviceability and/or (b) to restore the sewage treatment plants it operates to a specified condition before they are handed over to the grantor at the end of the service arrangement. These contractual obligations to maintain or restore the sewage treatment plants, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Inventories

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

Construction contracts

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

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

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

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

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

Cash and cash equivalents

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

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

Provisions

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Government grants

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

Revenue recognition

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

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

(b) from the rendering of services, when the services have been rendered;

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

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

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

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

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

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

Employee benefits – Pension schemes

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Summary of principal accounting policies (continued)

Borrowing costs

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

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

Foreign currency transactions

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the equity holders in a general meeting. When these dividends have been approved by the equity holders and declared, they are recognised as a liability.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Classification between operating concessions and financial assets

As explained in note 2.3 of this section above, if the ZKC Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the ZKC Group to make an estimate of a number of factors, which include, inter alia, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions carried as assets in the consolidated balance sheets as at 31 December 2005, 2006 and 2007 were RMB103,166,000, RMB159,266,000, RMB159,819,000, respectively, and those of trade receivables as at these dates were RMB632,844,000, RMB789,703,000 and RMB1,111,766,000, respectively. Further details of which are set out in notes 16 and 23 of this section, respectively.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

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

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

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

(2) Information of the peer firm must be available and from a reliable source.

Provision for restoration costs of sewage treatment plants to a specified level of serviceability

The ZKC Group have contractual obligations which it must fulfil as a condition of its licence and that is (a) to maintain the sewage treatment plants it operates to a specified level of serviceability and/or (b) to restore the sewage treatment plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date. The estimation of the expenditure requires the ZKC Group to estimate the expected future cash outlays on major overhauls of the sewage treatment plants over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the provision for major overhauls carried as a liability in the consolidated balance sheets as at 31 December 2005, 2006 and 2007 were RMB17,569,000, RMB28,833,000 and RMB42,075,000, respectively. Further details of which are set out in note 31 of this section.

Provision for impairment of trade receivables and other receivables

The policy for provision for impairment of trade receivables and other receivables of the ZKC Group is based on the evaluation of collectibility and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisations of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of trade receivables carried as assets in the consolidated balance sheets as at 31 December 2005, 2006 and 2007 were RMB632,844,000, RMB789,703,000 and RMB1,111,766,000, respectively, and those of other receivables as at these dates were RMB18,047,000, RMB64,867,000 and RMB84,153,000, respectively. Further details of which are set out in notes 23 and 24 of this section.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

The ZKC Group's management determines the residual values, useful lives and related depreciation/amortisation charges for the ZKC Group's equipment and intangible assets. This estimate is based on the historical experience of the actual residual values and useful lives of equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where residual values or useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of equipment carried as assets in the consolidated balance sheet as at 31 December 2005, 2006 and 2007 were RMB5,539,000, RMB6,079,000 and RMB5,467,000, respectively, and those of intangible assets (other than goodwill) as at these dates were RMB103,428,000, RMB159,472,000 and RMB159,969,000, respectively, further details of which are set out in notes 14, 16 and 17 of this section.

Impairment of equipment and intangible assets (other than goodwill)

The carrying amounts of items of equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.3 of this section. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the ZKC Group's results of operations or financial position.

Current tax

The ZKC Group is subject to income taxes in Mainland China. The ZKC Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the ZKC Group's provision for income taxes as there could be many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

4. SERVICE CONCESSION ARRANGEMENTS

The ZKC Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China on a Build-Operate-Transfer ("BOT") or a Transfer-Operate-Transfer ("TOT") basis in respect of its sewage treatment businesses. These service concession arrangements generally involve the ZKC Group as an operator (i) constructing sewage treatment plants for those arrangements on a BOT basis; (ii) the payment of a specific amount for those arrangements on a TOT basis; (iii) operating and maintaining the sewage treatment plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 30 years (the "Service Concession Periods"), and the ZKC Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The ZKC Group is entitled to use all the property, plant and equipment of the sewage treatment plants, however, the relevant governmental authorities as grantors will control and regulate the scope of services the ZKC Group must provide with the sewage treatment plants, and retain the beneficial entitlement to any residual interest in the sewage treatment plants at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the ZKC Group and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the ZKC Group, specific obligations levied on the ZKC Group to restore the sewage treatment plants to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes. The accounting policies in respect of the classification of the service concession arrangements between financial assets and intangible assets (operating concessions) are set out under the heading of "Service concession arrangements" in note 2.3 of this section.

As at 31 December 2007, the ZKC Group had 13 service concession arrangements on sewage treatments with various governmental authorities in Mainland China and a summary of the major terms of each service concession arrangement is set out as follows:

No.	Name of sewage treatment plant	Location	Name of operator	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
1.	江油市污水處理廠一期	Jiangyou, Sichuan Province, the PRC	Jiangyou ZKC	江油市人民政府	BOT	25,000	30 years from 2002 to 2032
	江油市污水處理廠二期	Jiangyou, Sichuan Province, the PRC	Jiangyou ZKC	江油市人民政府	BOT	25,000	30 years from 2006 to 2036
2.	雙流縣污水處理廠	Shuangliu, Sichuan Province, the PRC	Shuangliu ZKC	雙流縣人民政府	BOT	25,000	20 years from 2004 to 2024
3.	山東省膠州市污水處理廠	Jiaozhou, Shandong Province, the PRC	Qingdao ZKC	山東省膠州市城鄉建設局	BOT	50,000	20 years from 2004 to 2024
4.	菏澤市污水處理廠	Heze, Shandong Province, the PRC	Heze ZKC	菏澤市建設局	TOT	60,000	25 years from 2007 to 2032
5.	綿陽市塔子壩污水建設局處理廠一期	Mianyang, Sichuan Province, the PRC	Mianyang ZKC	綿陽市人民政府	TOT	100,000	30 years from 2002 to 2032
	綿陽市塔子壩污水建設局處理廠二期	Mianyang, Sichuan Province, the PRC	Mianyang ZKC	綿陽市人民政府	BOT	50,000	30 years from 2003 to 2033
6.	長沙市金霞污水處理廠	Changsha, Hunan Province, the PRC	Changsha ZKC	長沙市公用事業管理局	TOT	180,000	20 years from 2004 to 2024

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

4. SERVICE CONCESSION ARRANGEMENTS (continued)

No.	Name of sewage treatment plant	Location	Name of operator	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
7.	青島市城陽區上馬污水處理廠	Qingdao, Shandong Province, the PRC	Shangma ZKC	青島市城陽區城市規劃建設管理局	BOT	40,000	20 years from 2007 to 2027
8.	膠南市污水處理廠	Jiaonan, Shandong Province, the PRC	Jiaonan ZKC	膠南市城鄉建設局	BOT	60,000	20 years from 2005 to 2025
9.	雙流縣華陽污水處理廠	Huayang, Sichuan Province, the PRC	Huayang ZKC	雙流縣人民政府	BOT	40,000	20 years from 2006 to 2026
10.	廣州市花都區新華污水處理廠	Guangzhou, Guongdong Province, the PRC	Zhongye ZKC	廣州市花都區市政園林管理局	BOT	100,000	25 years from 2007 to 2032
11.	廣州南沙開發區黃閣污水處理廠	Guangzhou, Guongdong Province, the PRC	Guangzhou ZKC	廣州南沙開發區建設局	BOT	50,000	22 years from 2004 to 2026
12.	路橋污水處理廠	Taizhou, Zhejiang Province, the PRC	Taizhou ZKC	臺州市建設規劃局路橋分局	BOT/ TOT	40,000	27 years from 2006 to 2033
13.	龍泉驛區蘆溪河污水處理廠	Longquan, Sichuan Province, the PRC	Longquan ZKC	成都市龍泉驛區國有資產投資經營有限公司	BOT	20,000	25 years from 2007 to 2032

Pursuant to the service concession agreements signed, the ZKC Group are granted the rights to use the property, plant and equipment of the sewage treatment plants and related land, which are generally registered under the names of the relevant companies in the ZKC Group during the Service Concession Periods, but the ZKC Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. As at 31 December 2007, the ZKC Group was in the process of applying for the changing of registration of the title certificates of certain land use rights and buildings of certain sewage treatment plants to which the ZKC Group's service concession arrangements relate. The directors of the ZKC Group are of the opinion that the ZKC Group is entitled to the lawful and valid occupation or use of these buildings and land that the above-mentioned land use rights relate, and that the ZKC Group would not have any legal barriers in obtaining the proper title certificates.

As at 31 December 2007, certain of the property, plant and equipment of the sewage treatment plants and the sewage treatment concession rights were pledged to secure certain bank loans granted to the ZKC Group *(notes 16 and 29)*.

5. SEGMENT INFORMATION

Segment information is presented by way of the ZKC Group's primary segment reporting basis, by business segment. In determining the ZKC Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the ZKC Group's customers and operations are all located in Mainland China.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

5. SEGMENT INFORMATION (continued)

The ZKC Group's operating businesses are structured and managed separately according to the nature of their operations and the products or services they provide. Each of the ZKC Group's business segments represents a strategic business unit that offers products or services which are subject to risks and returns that are different from those of the other business segments. Particulars of the business segments are summarised as follows:

(a) the sewage treatment segment engages in the construction of sewage treatment plants and sewage treatment; and

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

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

Year ended 31 December 2005

	Sewage treatment *RMB'000*	Sewage technical services *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	204,222	4,945	–	209,167
Intersegment sales	–	19,867	(19,867)	–
Other revenue	1,117	68	–	1,185
Total	205,339	24,880	(19,867)	210,352
Segment results	73,825	26,850	(18,438)	82,237
Unallocated income and gains				317
Profit from operating activities				82,554
Finance costs				(18,085)
Profit before tax				64,469
Tax				(8,837)
Profit for the year				55,632
Assets and liabilities				
Segment assets	887,508	124,010	(174,735)	836,783
Unallocated assets				40,283
				877,066
Segment liabilities	228,387	146,950	(156,297)	219,040
Unallocated liabilities				406,180
				625,220
Other segment information:				
Depreciation	624	464	–	1,088
Amortisation of operating concessions	2,655	–	–	2,655
Amortisation of other intangible assets	316	54	(314)	56
Impairment of trade receivables and other receivables, net	120	652	–	772
Capital expenditure	41,139	558	–	41,697

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

5. SEGMENT INFORMATION (continued)

Year ended 31 December 2006

	Sewage treatment *RMB'000*	Sewage technical services *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	147,927	22,240	–	170,167
Other revenue	2,805	220	–	3,025
Total	150,732	22,460	–	173,192
Segment results	85,656	20,874	1,987	108,517
Unallocated income and gains				373
Profit from operating activities				108,890
Finance costs				(22,677)
Profit before tax				86,213
Tax				(14,137)
Profit for the year				72,076
Assets and liabilities				
Segment assets	1,109,148	120,635	(190,444)	1,039,339
Unallocated assets				242,239
				1,281,578
Segment liabilities	283,666	145,564	(173,993)	255,237
Unallocated liabilities				469,945
				725,182
Other segment information:				
Depreciation	715	524	–	1,239
Amortisation of operating concessions	3,303	–	–	3,303
Amortisation of other intangible assets	432	55	(431)	56
Impairment of trade receivables and other receivables, net	249	27	–	276
Capital expenditure	61,163	340	–	61,503

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

5. SEGMENT INFORMATION (continued)

Year ended 31 December 2007

	Sewage treatment RMB'000	Sewage technical services RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	327,378	9,740	–	337,118
Intersegment sales	–	32,067	(32,067)	–
Other revenue	973	–	–	973
Total	328,351	41,807	(32,067)	338,091
Segment results	99,821	50,343	(26,874)	123,290
Unallocated income and gains				21,192
Profit from operating activities				144,482
Finance costs				(27,395)
Profit before tax				117,087
Tax				(35,415)
Profit for the year				81,672
Assets and liabilities				
Segment assets	1,441,087	218,158	(277,692)	1,381,553
Unallocated assets				79,020
				1,460,573
Segment liabilities	350,861	125,448	(234,367)	241,942
Unallocated liabilities				612,903
				854,845
Other segment information:				
Depreciation	949	565	–	1,514
Amortisation of operating concessions	5,259	–	–	5,259
Amortisation of other intangible assets	432	55	(431)	56
Impairment of trade receivables and other receivables, net	481	(165)	–	316
Capital expenditure	6,603	126	–	6,729

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

6. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET

Revenue, which is also the ZKC Group's turnover, represents (1) an appropriate proportion of contract revenue of construction contracts; (2) the value of sewage treatment services and consultancy services on sewage treatment rendered; (3) the value of licence fees, net of government surcharges; and (4) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts.

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

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Construction contracts	156,136	80,476	238,885
Sewage treatment services	48,086	67,451	88,493
Consultancy services	1,971	13,760	6,940
Licence fees	2,800	8,480	2,800
Sale of goods	174	–	–
	209,167	170,167	337,118
Interest income			
Bank interest income	317	373	1,477
Imputed interest on interest-free trade receivables	68,959	79,553	84,491
	69,276	79,926	85,968
Other income			
Gross rental income#	77	226	313
Government grants*	900	220	600
Others	129	102	60
	1,106	548	973
Gains, net			
Gain on disposal of financial assets at fair value through profit or loss	–	–	19,715
Gain on disposal of items of equipment, net	11	42	–
Excess over the costs of acquisition of minority interests$^{\Omega}$	–	2,414	–
Others	68	21	–
	79	2,477	19,715
Other income and gains, net	1,185	3,025	20,688

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

6. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET (continued)

\# *The ZKC Group leased certain buildings, which form part of the operating assets transferred to the ZKC Group by the grantors in respect of the ZKC Group's sewage treatment operations, to third parties under operating lease arrangements and accordingly, earned rental income therefrom for each of the Relevant Periods. Further details of the operating lease arrangements are set out in note 41(a) of this section.*

* *Various government grants have been received by the ZKC Group for setting up research and development activities. Government grants received which related to expenditure that has not yet been undertaken are included in deferred income in the balance sheet and will be released to the income statement when the related expenses have been incurred. There are no unfulfilled conditions or contingencies relating to these grants, except that they must be utiliised for research and development activities of the ZKC Group.*

Ω *The excess over the cost of acquisition of minority interests of RMB2,414,000 recognised in the income statement during the year ended 31 December 2006 arose from the acquisition of 10% and 30% equity interests in Changsha and Guangzhou ZKC, respectively, by the ZKC Group at respective cash considerations of approximately RMB5,968,000 and RMB11,400,000. Upon completion of the transactions, the ZKC Group held a 90% equity interest in Changsha ZKC while Guangzhou ZKC became a wholly-owned subsidiary of the ZKC Group.*

7. PROFIT FROM OPERATING ACTIVITIES

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

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Cost of construction contracts		136,575	70,724	208,648
Cost of sewage treatment services rendered		39,589	49,405	63,445
Cost of consultancy services rendered		1,785	1,060	1,878
Cost of licencing		55	55	55
Cost of goods sold		58	–	–
Depreciation	*14*	1,088	1,239	1,514
Amortisation of operating concessions*	*16*	2,655	3,303	5,259
Amortisation of other intangible assets*	*17*	56	56	56
Research costs		–	533	548
Minimum lease payments under operating leases for land and buildings		392	619	622
Auditors' remuneration		150	241	40
Employee benefits expense (including directors' and supervisors' remuneration – *note 9*):				
Salaries, allowances and benefits in kind		10,187	9,165	11,881
Pension scheme contributions		287	437	460
Welfare and other expenses		1,739	972	1,718
		12,213	10,574	14,059
Impairment/(reversal of impairment) of trade receivables, net	*23(a)*	310	98	(315)
Impairment of other receivables	*24(a)*	462	178	631
Foreign exchange differences, net		–	1,347	5

* *The amortisation of operating concessions and other intangible assets for each of the Relevant Periods is included in "Cost of sales" on the face of the consolidated income statements.*

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

8. FINANCE COSTS

	ZKC Group		
	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Interest on bank loans and other loans wholly repayable within five years	21,367	24,888	34,325
Interest on other loans	136	128	155
Interest on a finance lease	–	1,046	1,806
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 31)*	279	527	865
Total finance costs	21,782	26,589	37,151
Less: Interest included in cost of construction contracts	(3,697)	(3,912)	(9,756)
	18,085	22,677	27,395

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for each of the Relevant Periods, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, is as follows:

	ZKC Group		
	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Directors:			
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	962	962	1,632
Pension scheme contributions	10	10	44
Welfare and other expenses	36	53	61
	1,008	1,025	1,737
Supervisors:			
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	50	70	114
Pension scheme contributions	3	3	9
Welfare and other expenses	9	11	12
	62	84	135
Total	1,070	1,109	1,872

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

10. TAX

	ZKC Group		
	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current – Mainland China, the PRC	2,867	9,333	4,740
Deferred *(note 33)*	5,970	4,804	30,675
Total tax charge for the year	8,837	14,137	35,415

The income tax provision of the ZKC Group in respect of operations in Mainland China has been calculated at the applicable tax rates on the estimated assessable profits for each of the Relevant Periods, based on the existing legislation, interpretations and practices in respect thereof. During the Relevant Periods, in accordance with the relevant tax rules and regulations of the PRC, ZKC Company and certain of its subsidiaries enjoyed income tax exemptions and reductions, by reason that these companies are engaged in the operations of sewage treatments.

A reconciliation of the tax expense applicable to profit before tax using the income tax rate generally applicable for enterprises established in Mainland China to the tax expense at the ZKC Group's effective income tax rate for each of the Relevant Periods is as follows:

	ZKC Group		
	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	64,469	86,213	117,087
At applicable income tax rate of 33%	21,275	28,450	38,639
Tax concession enjoyed	(7,615)	(5,014)	(20,058)
Lower tax rate for specific provinces	(6,756)	(9,591)	(4,859)
Effect on opening deferred tax of changes in tax rate	–	–	19,191
Income not subject to tax	(1,238)	(2,085)	(469)
Expenses not deductible for tax	2,542	1,893	1,613
Tax losses not recognised as deferred tax assets	629	484	1,358
Tax charge at the ZKC Group's effective rate	8,837	14,137	35,415

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. In the opinion of the directors of ZKC Company, based on the available tax laws and implementation rules promulgated as at the date of this report and the understanding with relevant tax bureau, it is still uncertain whether the ZKC Group is able to continue to enjoy the tax concessions previously entitled during the Relevant Periods. Accordingly, the effect of this change has been reflected in the calculation of deferred tax as at 31 December 2007 based on the unified tax rate of 25%.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

11. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF ZKC COMPANY

The consolidated profit attributable to equity holders of ZKC Company for the years ended 31 December 2005, 2006 and 2007 included profits of RMB18,395,000, RMB19,397,000 and RMB91,373,000, respectively, which have been dealt with in the financial statements of ZKC Company, respectively *(note 28(b))*.

12. DISTRIBUTION OF PROFIT

In accordance with the Company Law of the PRC and the articles of association of ZKC Company and its subsidiaries registered in the PRC, ZKC Company and its subsidiaries are required to appropriate 10% of their profit after tax calculated under the accounting principles generally applicable to the PRC enterprises to their respective statutory surplus reserves until the funds aggregate 50% of their respective registered capital. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usage.

The statutory surplus reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

13. DIVIDENDS

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Dividend declared in respect of previous year	2,023	–	31,566
Proposed final dividend	3,372	–	30,000
	5,395	–	61,566

Notes:

(i) On 18 June 2005, after the issuance of the statutory financial statements of ZKC Company for the year ended 31 December 2004, the equity holders of ZKC Company approved a final dividend of RMB2,022,900 in cash in respect of the year ended 31 December 2004.

(ii) On 31 March 2006, before the issuance of the statutory financial statements of ZKC Company for the year ended 31 December 2005, the equity holders of ZKC Company approved a final dividend of RMB3,371,500 in cash in respect of the year ended 31 December 2005.

(iii) On 6 February 2007, after the issuance of the statutory financial statements of ZKC Company for the year ended 31 December 2006, the equity holders of ZKC Company approved a final dividend of RMB31,566,598 in cash in respect of the year ended 31 December 2006.

(iv) Subsequent to the Relevant Periods and before the issuance of the statutory financial statements of ZKC Company for the year ended 31 December 2007, the equity holders of ZKC Company approved a final dividend of RMB30,000,000 in cash on 6 February 2008 in respect of the year ended 31 December 2007.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

14. EQUIPMENT

ZKC Group

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
Net carrying amount:				
At 1 January 2005	1,659	3,373	398	5,430
Additions	392	780	50	1,222
Depreciation provided for the year	(345)	(650)	(93)	(1,088)
Disposals	–	(25)	–	(25)
At 31 December 2005 and 1 January 2006	1,706	3,478	355	5,539
Additions	450	1,266	384	2,100
Depreciation provided for the year	(382)	(746)	(111)	(1,239)
Disposals	(20)	(301)	–	(321)
At 31 December 2006 and 1 January 2007	1,754	3,697	628	6,079
Additions	533	384	–	917
Depreciation provided for the year	(453)	(897)	(164)	(1,514)
Disposals	(15)	–	–	(15)
At 31 December 2007	1,819	3,184	464	5,467
At 1 January 2005:				
Cost	2,050	4,162	427	6,639
Accumulated depreciation	(391)	(789)	(29)	(1,209)
Net carrying amount	1,659	3,373	398	5,430
At 31 December 2005:				
Cost	2,442	4,897	477	7,816
Accumulated depreciation	(736)	(1,419)	(122)	(2,277)
Net carrying amount	1,706	3,478	355	5,539
At 31 December 2006:				
Cost	2,731	5,737	861	9,329
Accumulated depreciation	(977)	(2,040)	(233)	(3,250)
Net carrying amount	1,754	3,697	628	6,079
At 31 December 2007:				
Cost	3,216	6,121	861	10,198
Accumulated depreciation	(1,397)	(2,937)	(397)	(4,731)
Net carrying amount	1,819	3,184	464	5,467

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

14. EQUIPMENT (continued)

ZKC Company

	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
Net carrying amount:				
At 1 January 2005	1,254	610	398	2,262
Additions	270	238	50	558
Depreciation provided for the year	(241)	(130)	(93)	(464)
At 31 December 2005 and 1 January 2006	1,283	718	355	2,356
Additions	121	220	–	341
Depreciation provided for the year	(259)	(172)	(93)	(524)
Disposals	(21)	–	–	(21)
At 31 December 2006 and 1 January 2007	1,124	766	262	2,152
Additions	125	–	–	125
Depreciation provided for the year	(265)	(206)	(94)	(565)
At 31 December 2007	984	560	168	1,712
At 1 January 2005:				
Cost	1,593	770	427	2,790
Accumulated depreciation	(339)	(160)	(29)	(528)
Net carrying amount	1,254	610	398	2,262
At 31 December 2005:				
Cost	1,863	1,008	477	3,348
Accumulated depreciation	(580)	(290)	(122)	(992)
Net carrying amount	1,283	718	355	2,356
At 31 December 2006:				
Cost	1,823	1,228	477	3,528
Accumulated depreciation	(699)	(462)	(215)	(1,376)
Net carrying amount	1,124	766	262	2,152
At 31 December 2007:				
Cost	1,948	1,228	477	3,653
Accumulated depreciation	(964)	(668)	(309)	(1,941)
Net carrying amount	984	560	168	1,712

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

15. GOODWILL

ZKC Group

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Cost and net carrying amount at 1 January and 31 December	41	41	41

16. OPERATING CONCESSIONS

ZKC Group

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Net carrying amount:			
At 1 January	65,352	103,166	159,266
Additions	40,469	59,403	5,812
Amortisation provided for the year	(2,655)	(3,303)	(5,259)
At 31 December	103,166	159,266	159,819

	1 January	31 December		
	2005	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost	66,409	106,878	166,281	172,093
Accumulated amortisation	(1,057)	(3,712)	(7,015)	(12,274)
Net carrying amount	65,352	103,166	159,266	159,819

The operating concessions of the ZKC Group are the service concession rights to operate sewage treatment plants in Mainland China in respect of a number of service concession arrangements with certain governmental authorities in Mainland China, further details of these service concession arrangements are set out in note 4 of this section.

At at 31 December 2007, all sewage treatment concession rights of the ZKC Group were pledged to secure certain bank loans granted *(notes 4 and 29).*

The accounting policies in respect of the classification of the service concession arrangements between financial assets and intangible assets (operating concessions) are set out under the heading of "Service concession arrangements" in note 2.3 of this section.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

17. OTHER INTANGIBLE ASSETS

ZKC Group

	Patents	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
Net carrying amount:			
At 1 January 2005	312	–	312
Additions	–	6	6
Amortisation provided for the year	(54)	(2)	(56)
At 31 December 2005 and 1 January 2006	258	4	262
Amortisation provided for the year	(55)	(1)	(56)
At 31 December 2006 and 1 January 2007	203	3	206
Amortisation provided for the year	(55)	(1)	(56)
At 31 December 2007	148	2	150
At 1 January 2005:			
Cost	488	–	488
Accumulated amortisation	(176)	–	(176)
Net carrying amount	312	–	312
At 31 December 2005:			
Cost	488	6	494
Accumulated amortisation	(230)	(2)	(232)
Net carrying amount	258	4	262
At 31 December 2006:			
Cost	488	6	494
Accumulated amortisation	(285)	(3)	(288)
Net carrying amount	203	3	206
At 31 December 2007:			
Cost	488	6	494
Accumulated amortisation	(340)	(4)	(344)
Net carrying amount	148	2	150

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

17. OTHER INTANGIBLE ASSETS (continued)

ZKC Company

	Patents
	RMB'000
Net carrying amount:	
At 1 January 2005	312
Amortisation provided for the year	(54)
At 31 December 2005 and 1 January 2006	258
Amortisation provided for the year	(55)
At 31 December 2006 and 1 January 2007	203
Amortisation provided for the year	(55)
At 31 December 2007	148
At 1 January 2005:	
Cost	488
Accumulated amortisation	(176)
Net carrying amount	312
At 31 December 2005:	
Cost	488
Accumulated amortisation	(230)
Net carrying amount	258
At 31 December 2006:	
Cost	488
Accumulated amortisation	(285)
Net carrying amount	203
At 31 December 2007:	
Cost	488
Accumulated amortisation	(340)
Net carrying amount	148

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

18. INTERESTS IN SUBSIDIARIES

ZKC Company

	Notes	31 December 2005 RMB'000	2006 RMB'000	2007 RMB'000
Unlisted equity investments in Mainland China, at cost		156,400	278,268	326,268
Dividends receivable from subsidiaries		–	6,320	42,965
Due from subsidiaries		108,530	97,130	153,239
Due to subsidiaries		(38,456)	(63,331)	(49,242)
		226,474	318,387	473,230
Portion classified as current assets	*24*	(16,821)	(21,878)	(85,683)
Portion classified as current liabilities	*35*	38,456	63,331	49,242
Non-current portion		248,109	359,840	436,789

Except for amounts of RMB10,293,000 and RMB17,731,000 as at 31 December 2005 and 2006 which bore interest at a rate of 5.76% per annum, the amounts due from subsidiaries as at each of the balance sheet dates during the Relevant Periods are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of to the balances with subsidiaries approximate to their fair values.

Particulars of the subsidiaries are included in note 1 of this section.

19. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment of the ZKC Group and ZKC Company as at 31 December 2005 and 2006 was a 9.5% equity interest in 四川省科學城天人環境技術有限公司, which was an unlisted equity investment in Mainland China. The investment was disposed of on 26 February 2007 for a consideration of RMB400,000.

The available-for-sale investment of the ZKC Group and ZKC Company as at 31 December 2007 is a 4.08% equity interest in 四川省水處理及資源化工程技術研究中心, which is an unlisted equity investment in Mainland China.

The above-mentioned investments were not stated at fair value but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market and hence, in the opinion of the directors of ZKC Company, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

20. LONG TERM DEPOSIT

The long term deposit of the ZKC Group as at 31 December 2006 and 2007 is a deposit paid to guarantee the performance of all obligations under a lease arrangement entered into by the ZKC Group during the year ended 31 December 2006 for the purchase of certain equipment. Further details of the lease arrangement are set out in note 30 of this section.

21. INVENTORIES

	ZKC Group 31 December			ZKC Company 31 December		
	2005 RMB'000	2006 RMB'000	2007 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000
Raw materials	789	941	870	–	–	–
Low value consumables	348	234	412	98	81	–
	1,137	1,175	1,282	98	81	–

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

22. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

ZKC Group

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Contract costs incurred plus recognised profits less recognised losses to date	75,747	10,002	10,875

23. TRADE RECEIVABLES

The ZKC Group's trade receivables mainly arise from the sewage treatment service and consultancy service. The ZKC Group's trading terms with its customers are mainly on credit. The credit period is generally one month, and can be extended up to three months for major customers. Each customer has a maximum credit limit. The ZKC Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at each of the balance sheet dates during the Relevant Periods, based on the invoice date, is as follows:

	ZKC Group 31 December			ZKC Company 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Unbilled	587,106	754,433	1,028,066	–	–	–
Within 3 months	11,382	15,213	12,303	4,146	4,000	–
4 to 6 months	10,285	14,179	13,651	481	4,805	–
7 to 12 months	22,635	5,053	56,745	2,480	608	1,335
1 to 2 years	1,784	600	269	1,784	–	269
2 to 3 years	551	670	600	551	670	–
Over 3 years	–	552	814	–	551	814
Total	633,743	790,700	1,112,448	9,442	10,634	2,418
Impairment *(note (a))*	(899)	(997)	(682)	(691)	(857)	(597)
	632,844	789,703	1,111,766	8,751	9,777	1,821
Portion classified as current assets	(45,738)	(35,270)	(83,700)	(8,751)	(9,777)	(1,821)
Non-current portion	587,106	754,433	1,028,066	–	–	–

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

23. TRADE RECEIVABLES (continued)

Notes:

(a) Movements in the provision for impairment of trade receivables during each of the Relevant Periods are as follows:

	ZKC Group Year ended 31 December			ZKC Company Year ended 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	589	899	997	399	691	857
Impairment losses recognised	374	226	–	292	166	–
Amount written back during the year	(64)	(128)	(315)	–	–	(260)
At 31 December	899	997	682	691	857	597

The above provision for impairment of trade receivables as at 31 December 2005, 2006 and 2007 was made against the whole balance of the trade receivables collectively as at these dates. The ZKC Group does not hold any collateral or other credit enhancements over these balances.

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

	ZKC Group 31 December			ZKC Company 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Neither past due nor impaired	16,877	24,476	47,994	–	1,422	–
Less than 1 month past due	2,849	3,339	6,176	–	1,995	–
1 to 3 months past due	12,405	3,525	12,880	3,570	3,050	–
3 to 6 months past due	8,885	620	11,875	459	–	–
6 months to 1 year past due	4,722	3,310	4,775	4,722	3,310	1,821
	45,738	35,270	83,700	8,751	9,777	1,821

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		ZKC Group 31 December			ZKC Company 31 December		
		2005	2006	2007	2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Advances to suppliers		521	640	16,686	267	409	546
Prepayments		946	632	694	776	1,021	694
Deposits and other debtors		10,867	58,450	61,037	3,898	4,326	17,646
Due from subsidiaries	*18*	–	–	–	16,821	21,878	85,683
Due from related companies	*25*	6,373	5,983	7,205	400	400	330
		18,707	65,705	85,622	22,162	28,034	104,899
Impairment	*(a)*	(660)	(838)	(1,469)	(965)	(826)	(921)
		18,047	64,867	84,153	21,197	27,208	103,978

Notes:

(a) Movements in the provision for impairment of other receivables during each of the Relevant Periods are as follows:

	ZKC Group Year ended 31 December			ZKC Company Year ended 31 December		
	2005	2006	2007	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	198	660	838	105	965	826
Impairment losses recognised	551	415	670	899	60	95
Amount written back during the year	(89)	(237)	(39)	(39)	(199)	–
At 31 December	660	838	1,469	965	826	921

The above provision for impairment of other receivables as at 31 December 2005, 2006 and 2007 was made against the whole balances of the other receivables collectively as at these dates. The ZKC Group does not hold any collateral or other credit enhancements over these balances.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

25. DUE FROM/TO RELATED COMPANIES

An analysis of the balances with related companies is as follows:

		ZKC Group			ZKC Company		
		31 December			31 December		
		2005	2006	2007	2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Due from related companies							
四川省科學城天人環境技術有限公司	*(a)*	400	400	330	400	400	330
湖南景盛投資有限公司 ("Hunan Jinsheng")	*(b)*	1,473	1,083	2,375	–	–	–
四川科遠集團	*(a)*	4,500	4,500	4,500	–	–	–
Total		6,373	5,983	7,205	400	400	330
Impairment		(400)	(200)	(264)	(400)	(200)	(264)
		5,973	5,783	6,941	–	200	66
Due to a related company							
廣州南方科學城環保科技產業有限公司	*(a)*	3,600	–	–	3,600	–	–

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

25. DUE FROM/TO RELATED COMPANIES (continued)

Notes:

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

(b) During the year ended 31 December 2006, Changsha ZKC had made a loan of RMB1,000,000 to Hunan Jinsheng, one of its equity holders, pursuant to a loan agreement dated 30 June 2006 entered into between the two parties. The loan bore interest at a rate of 12% per annum and was repayable on 31 July 2006. Other than the loan balance, the remaining balances of the amounts due from Hunan Jinsheng as at each of the balance sheet dates during the Relevant Periods are unsecured, interest-free and are repayable on demand. The carrying amounts of the balances approximate to their fair values.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	ZKC Group			ZKC Company		
	31 December			31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	39,883	241,839	78,620	7,319	160,042	45,720
Less: Pledged deposits	(874)	–	–	–	–	–
	39,009	241,839	78,620	7,319	160,042	45,720

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

At 31 December 2005, 2006 and 2007, the cash and bank balances of the ZKC Group denominated in RMB amounted to RMB39,883,000, RMB241,839,000 and RMB76,444,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the ZKC Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

27. PAID-UP CAPITAL

ZKC Company

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-up capital	67,430	286,969	286,969

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

27. PAID-UP CAPITAL (continued)

A summary of the movements in the registered and paid-up capital of ZKC Company during each of the Relevant Periods is as follows:

	Notes	*RMB'000*
At 1 January 2005, 31 December 2005 and 1 January 2006		67,430
Capitalisation of reserves	*(a)*	33,715
Capital contributions from equity holders	*(b)*	185,824
At 31 December 2006, 1 January 2007 and 31 December 2007		286,969

Notes:

(a) Pursuant to a resolution passed by ZKC Company's equity holders on 18 June 2006, the registered capital of ZKC Company was increased by RMB33,715,000 from RMB67,430,000 to RMB101,145,000 by way of capitalisation of the sums of RMB4,680,000 and RMB29,035,000 standing to the credit of the capital reserve and retained profits of ZKC Company, respectively *(note 28(b))*.

(b) Pursuant to a resolution passed by ZKC Company's equity holders on 30 August 2006 and the approval document 商外資川府字 [2006] No. 0056 issued by the People's Government of Sichuan Province on 3 September 2006, the registered capital of ZKC Company was increased by RMB185,824,071 from RMB101,145,000 to RMB286,969,071 by way of an aggregate capital contribution of RMB257,207,872 in cash from certain of the then equity holders of ZKC Company and China Field. The excess of the capital contribution over the increase in registered capital of RMB71,383,801 was credited to the capital reserve of ZKC Company *(note 28(b))*. Following the completion of the capital contribution, ZKC Company was transformed into a Sino-foreign joint venture under the Company Law of the PRC and was owned as to 62.94% by China Field.

28. RESERVES

(a) ZKC Group

(i) The amounts of the ZKC Group's reserves and the movements therein for each of the Relevant Periods are presented in the consolidated statements of changes in equity.

(ii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the ZKC Group. None of the ZKC Group's PRC reserve funds as at 31 December 2005, 2006 and 2007 were distributable in the form of cash dividends.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

28. RESERVES (continued)

(b) ZKC Company

	Notes	Capital reserve# RMB'000	PRC reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005		4,681	5,011	19,741	29,433
Profit for the year and total income and expense for the year		–	–	18,395	18,395
Final 2004 dividend declared	*13(i)*	–	–	(2,023)	(2,023)
Proposed final 2005 dividend	*13(ii)*	–	–	(3,372)	(3,372)
Transfer to reserves		–	3,973	(3,973)	–
At 31 December 2005 and 1 January 2006		4,681	8,984	28,768	42,433
Profit for the year and total income and expense for the year		–	–	19,397	19,397
Capitalisation of reserves	*27(a)*	(4,680)	–	(29,035)	(33,715)
Capital contributions from equity holders	*27(b)*	71,384	–	–	71,384
Transfer to reserves		–	3,780	(3,780)	–
At 31 December 2006 and 1 January 2007		71,385	12,764	15,350	99,499
Profit for the year and total income and expense for the year		–	–	91,372	91,372
Final 2006 dividend declared	*13(iii)*	–	–	(31,566)	(31,566)
Proposed final 2007 dividend	*13(iv)*	–	–	(30,000)	(30,000)
Transfer to reserves		–	3,219	(3,219)	–
At 31 December 2007		71,385	15,983	41,937	129,305

\# *The capital reserve of ZKC Company include non-distributable reserves created in accordance with accounting and financial regulations in the PRC. It could be capitalised into paid-up capital upon approval.*

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

29. BANK AND OTHER BORROWINGS

	ZKC Group 31 December			ZKC Company 31 December		
	2005	2006	2007	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans, secured	364,660	393,771	533,278	–	–	–
Other loan, unsecured	27,000	30,500	11,000	20,000	20,000	–
Total bank and other borrowings	391,660	424,271	544,278	20,000	20,000	–
Analysed into:						
Bank loans repayable:						
Within one year	28,154	40,485	62,508	–	–	–
In the second year	36,306	61,996	80,845	–	–	–
In the third to fifth years, inclusive	189,200	209,120	263,395	–	–	–
Beyond five years	111,000	82,170	126,530	–	–	–
	364,660	393,771	533,278	–	–	–
Other loans repayable:						
Within one year	2,000	25,500	6,000	–	20,000	–
In the second year	20,000	–	1,000	20,000	–	–
In the third to fifth years, inclusive	2,000	3,000	3,000	–	–	–
Beyond five years	3,000	2,000	1,000	–	–	–
	27,000	30,500	11,000	20,000	20,000	–
Total bank and other borrowings	391,660	424,271	544,278	20,000	20,000	–
Portion classified as current liabilities	(30,154)	(65,985)	(68,508)	–	(20,000)	–
Non-current portion	361,506	358,286	475,770	20,000	–	–

Notes:

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

(i) mortgages over sewage treatment concession rights, land use rights and certain operating facilities of the sewage treatment plants which are under the management of the ZKC Group pursuant to the relevant service concession agreements signed with the grantors. These land use rights and operating facilities are normally registered under the names of the relevant entities in the ZKC Group and are required to be returned to the grantors at the end of the respective Service Concession Periods *(notes 4 and 16)*; and

(ii) guarantees given by ZKC Company and/or its subsidiaries.

(b) The other loans of ZKC Company and the ZKC Group as at 31 December 2005 and 2006 included a loan of RMB20,000,000 made from 四川久遠投資控股有限公司 ("Sichuan Jiuyuan"), an equity holder of ZKC Company. Pursuant to the loan agreement dated 20 October 2004 entered into between ZKC Company and Sichuan Jiuyuan, the loan was unsecured, bore interest at a rate equivalent to a one-year floating rate loan promulgated by the People's Bank of China from time to time and was repayable in October 2007.

(c) All the ZKC Group's bank and other borrowings are denominated in RMB and bear interest at floating interest rates, except for an interest-free government loan, amounted to RMB2,000,000, RMB5,500,000, RMB6,000,000 as at three years ended 31 December 2005, 2006 and 2007, respectively. The carrying amounts of the ZKC Group's bank and other borrowings approximate to their fair values.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

30. FINANCE LEASE PAYABLE

The purchase of certain equipment, which forms part of a sewage treatment plant constructed by the ZKC Group, was financed by a finance lease arrangement with an original lease term of 5 years. Pursuant to the lease agreement, a deposit of RMB8,000,000 is required to be placed at the lessor as a guarantee in respect of the arrangement, which will be refunded from the lessor upon the completion of all obligations by the ZKC Group under the lease arrangement *(note 20)*.

At each of the balance sheet dates during the Relevant Periods, the total future minimum lease payments under the finance lease and their present values were as follows:

ZKC Group

	Minimum lease payments 31 December			Present value of minimum lease payments 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts payable:						
Within one year	–	6,202	6,119	–	4,122	4,391
In the second year	–	5,840	5,840	–	4,227	4,652
In the third to fifth years, inclusive	–	16,060	10,220	–	13,949	9,296
Total minimum finance lease payments	–	28,102	22,179	–	22,298	18,339
Future finance charges	–	(5,804)	(3,840)			
Total net finance lease payables	–	22,298	18,339			
Portion classified as current liabilities	–	(4,122)	(4,391)			
Non-current portion	–	18,176	13,948			

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

31. PROVISION FOR MAJOR OVERHAULS

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

The movements in the provision for the major overhauls of sewage treatment plants for each of the Relevant Periods are as follows:

ZKC Group

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	9,319	17,569	28,833
Additional provision	7,971	10,737	12,377
Increase in discounted amounts arising from the passage of time *(note 8)*	279	527	865
At 31 December	17,569	28,833	42,075

32. DEFERRED INCOME

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

33. DEFERRED TAX LIABILITIES

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

ZKC Group

	Impairment and provision *RMB'000*	Difference in revenue recognition *RMB'000*	Net deferred tax assets/ (liabilities) *RMB'000*
At 1 January 2005	71	(5,566)	(5,495)
Credited/(charged) to the income statement during the year *(note 10)*	37	(6,007)	(5,970)
At 31 December 2005 and 1 January 2006	108	(11,573)	(11,465)
Credited/(charged) to the income statement during the year *(note 10)*	229	(5,033)	(4,804)
At 31 December 2006 and 1 January 2007	337	(16,606)	(16,269)
Charged to the income statement during the year *(note 10)*	–	(11,484)	(11,484)
Effect of change in tax rate *(note 10)*	–	(19,191)	(19,191)
At 31 December 2007	337	(47,281)	(46,944)

ZKC Company

	Impairment and provision *RMB'000*	Difference in revenue recognition *RMB'000*	Net deferred tax assets/ (liabilities) *RMB'000*
At 1 January 2005	71	–	71
Credited/(charged) to the income statement during the year	37	(6,738)	(6,701)
At 31 December 2005 and 1 January 2006	108	(6,738)	(6,630)
Credited to the income statement during the year	229	–	229
At 31 December 2006 and 1 January 2007	337	(6,738)	(6,401)
Charged to the income statement during the year	–	(12,735)	(12,735)
At 31 December 2007	337	(19,473)	(19,136)

The ZKC Group had unutilised tax losses of approximately RMB3,772,000, RMB3,883,000 and RMB7,998,000 as at 31 December 2005, 2006 and 2007, respectively, that can be carried forward for five years from the year/period in which the losses arose for offsetting against future taxable profits of the tax entity in which the losses arose. Deferred tax assets are recognised for tax losses carried forward only to the extent that the realisation of related benefits through future taxable profits is probable. The ZKC Group did not recognise deferred tax assets of RMB629,000, RMB484,000 and RMB1,358,000 as at 31 December 2005, 2006 and 2007, respectively, in respect of such unutilised tax losses due to the unpredictability of future profit streams in the subsidiaries to which the tax losses relate.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

34. TRADE PAYABLES

An aged analysis of the trade payables, based on the invoice date, as at each of the balance sheet dates during the Relevant Periods is as follows:

	ZKC Group			ZKC Company		
	31 December			31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	15,794	12,281	13,522	534	–	–
3 to 6 months	1,218	383	873	144	–	–
6 months to 1 year	21,027	6,328	7,527	134	–	65
1 to 2 years	4,959	7,713	2,281	56	19	–
2 to 3 years	88	1,360	6,144	51	187	187
Over 3 years	75	2,119	3,372	59	105	105
	43,161	30,184	33,719	978	311	357

The trade payables are non-interest-bearing and unsecured and are normally settled on 60-day terms. The carrying amounts of these balances approximate to their fair values.

35. OTHER PAYABLES AND ACCRUALS

		ZKC Group			ZKC Company		
		31 December			31 December		
		2005	**2006**	**2007**	**2005**	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other liabilities		152,312	193,918	162,905	103,174	81,236	74,931
Accruals		150	150	–	–	–	–
Receipts in advance		–	412	60	–	312	–
Salaries and welfare payables		994	397	1,215	442	107	218
Due to subsidiaries	*18*	–	–	–	38,456	63,331	49,242
Due to a related company	*25*	3,600	–	–	3,600	–	–
		157,056	194,877	164,180	145,672	144,986	124,391
Portion classified as current liabilities		(91,017)	(109,855)	(131,821)	(121,992)	(144,986)	(124,391)
Non-current portion		66,039	85,022	32,359	23,680	–	–

Notes:

(a) Included in other liabilities as at 31 December 2005, 2006 and 2007 is outstanding consideration in the amount of RMB73,681,000, RMB109,680,000 and RMB87,680,000, respectively, payable to the Mianyang Government, the Taizhou Government and the Heze Government for the transfer of the sewage treatment facilities to the ZKC Group under TOT arrangements.

(b) The other payables are non-interest-bearing and have an average term of three months. The carrying amounts of other payables approximate to their fair values.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

36. TAXES PAYABLE

	ZKC Group			ZKC Company		
	31 December			31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Income tax	3,055	7,107	3,342	1,673	1,270	(289)
Business tax	162	137	478	93	65	399
Value-added tax	–	–	100	–	–	100
Others	230	298	353	7	2	–
	3,447	7,542	4,273	1,773	1,337	210

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

Major non-cash transactions

In addition to the increase in paid-up capital of ZKC Company by way of capitalisation of the capital reserve and retained profits of ZKC Company during the year ended 31 December 2006 as disclosed in note 27(a), the ZKC Group purchased certain equipment, which forms part of a sewage treatment plant constructed by the ZKC Group, with a total capital value of RMB28,553,000 under a finance lease arrangement in the same year. The total finance amount at the inception of the lease amounted to RMB24,000,000.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The ZKC Group's income and operating cash flows are substantially independent of changes in market interest rates. The ZKC Group has no significant interest-bearing assets. The ZKC Group's exposure to the risk of changes in market interest rates relates primarily to the ZKC Group's long-term debt obligations. Borrowings at floating rates expose the ZKC Group to cash flow interest rate risk. Since the ZKC Group has mainly entered into floating interest rate borrowings, there is no significant fair value interest rate risk. The ZKC Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total	Effective interest rate
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*%*
31 December 2005								
Floating rate:								
Pledged deposits	874	–	–	–	–	–	874	0.72
Cash and cash equivalents	39,009	–	–	–	–	–	39,009	0.72
Bank and other borrowings	28,154	56,306	56,200	61,400	73,600	114,000	389,660	6.85
Fixed rate:								
Bank and other borrowings	2,000	–	–	–	–	–	2,000	–
31 December 2006								
Floating rate:								
Cash and cash equivalents	241,839	–	–	–	–	–	241,839	0.72
Bank and other borrowings	60,485	61,996	64,565	78,460	69,095	84,170	418,771	6.58
Finance lease payable	4,518	4,559	4,906	5,280	4,223	–	23,486	6.58
Fixed rate:								
Bank and other borrowings	5,500	–	–	–	–	–	5,500	–
31 December 2007								
Floating rate:								
Cash and cash equivalents	78,620	–	–	–	–	–	78,620	0.72
Bank and other borrowings	62,508	81,845	97,560	94,095	74,740	127,530	538,278	7.09
Finance lease payable	4,855	4,906	5,280	4,223	–	–	19,264	7.09
Fixed rate:								
Bank and other borrowings	6,000	–	–	–	–	–	6,000	–

It is estimated that a general decrease/increase of 100 basis points in interest rate of average balances of bank and other loans and bank balances during the Relevant Periods, with all other variables held constant, would increase/decrease the ZKC Group's profit before tax for the years 31 December ended 2005, 2006 and 2007, by approximately RMB2,739,000, RMB2,638,000 and RMB3,641,000, respectively.

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The ZKC Group's businesses are located at Mainland China and all transactions are conducted in RMB, except for certain bank balances denominated in US dollar (USD), amounted to USD 9,168 as at year ended 31 December 2007. In addition, there are no purchases and payments made in foreign currencies. In the opinion of the director of ZKC Company, fluctuations of the exchange rates of RMB against foreign currencies are not expected to have significant impact on the results of the ZKC Group.

Credit risk

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

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

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

Liquidity risk

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 year but less than 3 years	More than 3 year but less than 4 years	More than 4 year but less than 5 years	More than 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2005								
Bank loans	–	28,154	36,306	56,200	60,400	72,600	111,000	364,660
Other loans	2,000	–	20,000	–	1,000	1,000	3,000	27,000
Trade and bills payables	–	43,161	–	–	–	–	–	43,161
Other payables and accruals	1,825	85,592	20,000	13,680	10,000	22,359	–	153,456
Other tax payables	–	392	–	–	–	–	–	392
Due to a related company	3,600	–	–	–	–	–	–	3,600
	7,425	157,299	76,306	69,880	71,400	95,959	114,000	592,269
31 December 2006								
Bank loans	–	40,485	61,996	63,565	77,460	68,095	82,170	393,771
Other loans	5,500	20,000	–	1,000	1,000	1,000	2,000	30,500
Trade and bills payables	–	30,184	–	–	–	–	–	30,184
Other payables and accruals	1,825	108,030	52,663	10,000	22,359	–	–	194,877
Other tax payables	–	435	–	–	–	–	–	435
	7,325	199,134	114,659	74,565	100,819	69,095	84,170	649,767
31 December 2007								
Bank loans	–	62,508	80,845	96,560	93,095	73,740	126,530	533,278
Other loans	6,000	–	1,000	1,000	1,000	1,000	1,000	11,000
Trade and bills payables	–	33,719	–	–	–	–	–	33,719
Other tax payables	1,825	129,996	10,000	22,359	–	–	–	164,180
Other liabilities	–	931	–	–	–	–	–	931
	7,825	227,154	91,845	119,919	94,095	74,740	127,530	743,108

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values

The following table sets out a comparison by category of carrying amounts and fair values of the ZKC Group's financial instruments that are carried in the Financial Information at other than fair values.

		Carrying amount			Fair value		
		31 December			31 December		
		2005	2006	2007	2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets:							
Available-for-sales investment	*(i)*	400	400	400	400	400	400
Long term deposit	*(ii)*	–	8,000	8,000	–	4,808	5,271
Non-current trade receivables	*(ii)*	587,106	754,433	1,028,066	587,106	754,433	1,028,066
Financial liabilities:							
Non-current bank and other borrowings	*(ii)*	361,506	358,286	475,770	361,506	358,286	475,770
Finance lease payable	*(ii)*	–	17,467	13,137	–	17,467	13,137

Notes:

(i) The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 19 of this section, the available-for-sale investment of the ZKC Group as at each of the balance sheet dates during the Relevant Periods is not stated at fair value but at cost less any accumulated impairment losses because fair value of which cannot be reasonably assessed and therefore no disclosure of the fair value of this financial instrument is made.

(ii) The fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates.

Capital Management

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

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

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital Management (continued)

The ZKC Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated based on net debt and adjusted capital. Net debt is calculated as total interest-bearing bank and other borrowings (as shown in the balance sheet) less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, minority interests and retained earnings), and includes the amounts due to related parties and jointly-controlled entities. The ZKC Group aims to maintain the debt-to-adjusted capital ratio not exceeding 200%. The debt-to-adjusted capital ratios at 31 December 2005, 2006 and 2007 were as follows:

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Bank and other borrowings	389,660	418,771	538,278
Equity attributable to equity holders of ZKC Company	251,846	556,396	605,728
Total equity and bank and other borrowings	641,506	975,167	1,144,006
Gearing ratio	61%	43%	47%

39. FINANCIAL INSTRUMENTS BY CATEGORY

Other than an unlisted equity investment being classified as an available-for-sale investment as disclosed in note 19 of this section, all financial assets and liabilities of the ZKC Group and ZKC Company as at 31 December 2005, 2006 and 2007 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

40. CONTINGENT LIABILITIES

The ZKC Group did not have any significant contingent liabilities as at each of the balance sheet dates during the Relevant Periods.

In respect of ZKC Company, corporate guarantees have been given by ZKC Company to certain banks for the obligations under the bank loans granted to certain of its subsidiaries with principal amounts of RMB304,037,000, RMB342,146,000 and RMB472,130,000 in aggregate as at 31 December 2005, 2006 and 2007, respectively.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

41. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The ZKC Group leases its buildings (included in the operating concessions *(note 16)*) under operating lease arrangements, with the leases negotiated for terms ranging from 4 to 6 years. The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments according to the then prevailing market conditions.

At each of the balance sheet dates during the Relevant Periods, the ZKC Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

ZKC Group

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	166	888	896
In the second to fifth years, inclusive	734	3,550	2,894
After five years	104	240	–
	1,004	4,678	3,790

ZKC Company did not have any operating lease arrangements as lessor during each of the Relevant Periods.

(b) As lessee

The ZKC Group leases certain office properties under operating lease arrangements with the leases negotiated for terms ranging from 1 to 3 years.

At each of the balance sheet dates during the Relevant Periods, the ZKC Group and ZKC Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	ZKC Group 31 December			ZKC Company 31 December		
	2005	**2006**	**2007**	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	300	212	311	300	212	311
In the second to fifth years, inclusive	212	–	220	212	–	220
	512	212	531	512	212	531

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

42. CAPITAL COMMITMENTS

The ZKC Group had the following capital commitments in respect of plant and equipment as at each of the balance sheet dates during the Relevant Periods:

		31 December	
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Authorised, but not contracted for	–	137,309	153,040
Contracted, but not provided for	40,595	45,357	30,768
	40,595	182,666	183,808

ZKC Company did not have any significant capital commitments as at each of the balance sheet dates during the Relevant Periods.

43. RELATED PARTY DISCLOSURES

(a) Other than the transactions and balances detailed in notes 24, 25, 29 and 35 of this section, the ZKC Group had no outstanding balance and other transaction with related parties during the Relevant Periods.

(b) Compensation of key management personnel of the ZKC Group

In the opinion of the directors of ZKC Company, the directors of ZKC Company represented the key management personnel of the ZKC Group and details of the compensation of which are set out in note 9 of this section.

44. FIRST-TIME ADOPTION OF HKFRSS

Reconciliation of equity at 1 January 2005 (date of transition to HKFRSs)

	RMB'000
Equity attributable to equity holders of ZKC Company under PRC GAAP	107,339
Adoption of HK(IFRIC) – Int 12	70,807
Deferred tax effect on adoption of HK(IFRIC) – Int 12	(5,566)
Minority interests	(527)
Equity attributable to equity holders of ZKC Company under HKFRSs	172,053

Reconciliation of equity at 31 December 2007 (end of the latest period presented in the most recent annual financial statements under PRC GAAP)

	RMB'000
Equity attributable to equity holders of ZKC Company under PRC GAAP	446,407
Adoption of HK(IFRIC) – Int 12	189,122
Deferred tax effect on adoption of HK(IFRIC) – Int 12	(47,280)
Additional excess over the cost acquisition of minority interests as a result of adoption of HK(IFRIC) – Int 12	4,815
Minority interests	(2,615)
Equity attributable to equity holders of ZKC Company under HKFRSs	590,449

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

44. FIRST-TIME ADOPTION OF HKFRSS (continued)

Reconciliation of profit for the year ended 31 December 2007

	RMB'000
Profit attributable to equity holders of ZKC Company under PRC GAAP	65,440
Adjustment for pre-operating expenses	200
Adoption of HK(IFRIC) – Int 12	45,936
Deferred tax effect on adoption of HK(IFRIC) – Int 12	(30,675)
Minority interests	(728)
Profit attributable to equity holders of ZKC Company under HKFRSs	80,173

45. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the Relevant Periods, the following significant events occurred:

(i) On 8 January 2008, ZKC Company entered into a supplementary service concession agreement with the People's Government of the Mianyang Municipality (the "Mianyang Municipal Government") for certain changes to the original terms of the service concession agreements dated 21 October 2002 and 26 June 2003 (collectively the "Original Mianyang Service Concession Agreements") regarding sewage treatment plants operated by Mianyang ZKC. Pursuant to the supplementary agreement, the changes to the original terms included:

– the implementation of a new pricing mechanism effective from 1 January 2007 for the determination of the sewage treatment fee to be charged by Mianyang ZKC;

– an amendment to the repayment terms of the remaining outstanding consideration payable by the ZKC Group for the acquisition of a 100% equity interest in Mianyang ZKC by the ZKC Group in 2002. The outstanding consideration remained unsettled by the ZKC Group as at 31 December 2007 amounted to RMB74,838,800, with RMB59,838,000 and RMB15,000,000 being carried in the non-current liabilities and current liabilities in the consolidated balance sheet of the ZKC Group as at that date, respectively. Pursuant to the supplementary agreement, the aforesaid outstanding consideration will be repayable by five annual instalments, with the first four instalments of RMB15,000,000 each being due for repayment commencing from 2008 and the last instalment of RMB14,838,800 being due for repayment in 2012; and

– ZKC Company agreed to surrender its right under the Original Mianyang Service Concession Agreements to be the sole operator of a new sewage treatment plant, which is to be constructed with a sewage treatment capacity of 50,000m^3/day, but to invest and operate jointly with two independent third parties.

(ii) On 8 January 2008, ZKC Company, the Mianyang Municipal Government and the two independent third parties as referred to in note (i) above entered into a service concession agreement, pursuant to which ZKC Company and the two independent third parties were granted by the Mianyang Municipal Government the right to operate a new sewage treatment plant on BOT basis with a sewage treatment capacity of 50,000m^3/day and an estimated total construction cost of RMB53,190,000 for a period of 30 years commencing from 1 August 2008. In accordance with the service concession agreement, the rights and obligations under the service concession granted will be undertaken by a joint venture to be formed by the three parties with its 35% equity interest being held by ZKC Company and 65% by the two independent third parties, respectively.

(iii) On 6 February 2008, ZKC Company declared a dividend of RMB30,000,000 in respect of the year ended 31 December 2007 pursuant to a resolution of its equity holders passed on the same date.

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

45. EVENTS AFTER THE BALANCE SHEET DATE (continued)

(iv) On 28 March 2008, ZKC Company entered into a shareholders' agreement (the "Fund Shareholders' Agreement") with two independent third parties to set up a fund management company (產業基金管理公司) with an initial registered capital of RMB100,000,000 and owned as to 23% by ZKC Company and the remaining 77% by the two independent third parties.

In accordance with the Fund Shareholders' Agreement, the fund management company will set up a fund investment company which will be incorporated as a limited partnership under the Partnership Law of the PRC and engaged in fund investment with a minimum and maximum fund size of RMB4.8 billion and RMB6.0 billion, respectively. ZKC Company is committed to subscribe for fund from the fund investment company at a minimum amount of RMB100 million. As at the date of this report, both the fund management company and the fund investment company have not been established.

(v) On 12 May 2008, an earthquake with a magnitude of 7.8 on the Richter scale struck Wenchuan area of Sichuan Province, the PRC, which affected the operations of the ZKC Group located in Chengdu, Mianyang and Jiangyou cities. In the Wenchuan earthquake and the related aftershocks (collectively the "Earthquakes"), there were no casualties among the employees of the ZKC Group, however, the operating facilities of the sewage treatment plants operated by Mianyang ZKC and Jiangyou ZKC, both being subsidiaries of ZKC Company, were damaged in different degree, which caused temporary suspension of the operations of these sewage treatment plants. The Earthquakes had little impact on other operations of the ZKC Group, which are mainly located in Guangdong Province, Shandong Province, Hunan Province and Zhejiang Province. The ZKC Group has actively carried out quake relief work to resume operations of the affected sewage treatment plants after the occurrence of the Earthquakes. As at the date of this report, the operations of the sewage treatment plants operated by Mianyang ZKC and Jiangyou ZKC have been resumed.

Owing to frequent aftershocks and rescue work being underway, the ZCK Group is unable to arrange independent engineers to carry out site assessment on loss of assets for the time being. Accordingly, in the opinion of the directors of ZKC Company, the loss incurred by the ZKC Group as a result of the Earthquakes and its financial impacts could not be estimated reliably as at the date of this report.

Summary financial information of the affected subsidiaries of the ZKC Group which has been dealt with in the Financial Information in respect of the year ended 31 December 2007 is as follows:

Financial positions as at 31 December 2007

	Mianyang ZKC	**Jiangyou ZKC**
	RMB'000	*RMB'000*
Non-current assets	285,496	64,062
Current assets	70,001	15,825
Non-current liabilities	(181,207)	(34,674)
Current liabilities	(69,596)	(26,907)
Net assets	104,694	18,306
Net assets attributable to the ZKC Group	104,694	18,306

I. FINANCIAL INFORMATION (continued)

Notes to the Financial Information

45. EVENTS AFTER THE BALANCE SHEET DATE (continued)

(v) (continued)

Results of operations for the year ended 31 December 2007

	Mianyang ZKC *RMB'000*	Jiangyou ZKC *RMB'000*
Revenue	21,630	15,890
Interest income	25,095	4,538
Profit before tax	19,574	7,212
Profit for the year	5,835	5,774
Profit for the year attributable to ZKC Company	5,835	5,774

II. DISTRIBUTABLE RESERVES

At 31 December 2007, in accordance with the Company Law of the PRC, ZKC Company's reserves available for distribution to its equity holders amounted to approximately RMB73,632,000.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by ZKC Company in respect of any period subsequent to 31 December 2007. Save as disclosed in this report, no dividend has been declared, made or paid by ZKC Company in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. MANAGEMENT DISCUSSION AND ANALYSIS

1. THE GROUP

The following is the extract of certain sections of the management discussion and analysis of the business and financial results of the Group for each of the three years ended 30 June 2005, 2006 and 2007 as contained in the annual report of the Company for each of the three years ended 30 June 2005, 2006 and 2007.

For the year ended 30 June 2005

"Results

Turnover of the Group for the year amounted to approximately HK$66,036,000, representing a decrease of 4.58% over the last financial year. The net loss for the year amounted to approximately HK$15,963,000.

Dividend

The board of Directors (the "Board") does not recommend the payment of any dividend for the year ended 30 June 2005."

"Business Review and Prospects

There is keen competition in the market of computer consumer products and the Group has actively engaged in the sales and promotion of computers and related products with higher gross profits, so as to improve the profit margin as a whole. The gross profit margin has increase from 2.65% to 3.51% compared to last financial year.

The Group will continue its existing business which focus on the computer consumer products, including various types of computer products including wireless LAN, broadband router, Ethernet LAN, PCMCIA adapter, flash memory, card reader and various types of storage solution in Hong Kong.

On 12 August 2004, Wanon Industries Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party, as the purchaser, for the disposal of its office property in Kowloon Bay for a cash consideration of HK$2,850,000. The disposal was completed on 31 October 2004.

The Group will continue to seek opportunities to diversify the business of the Group in order to broaden the revenue base.

Financial and Capital Structure

During the year under review, the Company had reduced the nominal value of all issued shares of HK$0.10 each to HK$0.005, and then every 20 issued shares of HK$0.005 each in the capital of the Company were consolidated into one consolidated shares of HK$0.10. Consequently, the number of ordinary shares of the Company was reduced from 1,110,472,663 to 55,523,633. As at 30 June 2005, the bank and cash balances were totaling approximately HK$27,363,000. The current ratio was about 11 times with the net current assets amounting to approximately HK$33,285,000. Basically, its own liquid resources financed all business activities of the Company. The gearing ratio has remained almost at zero for the past three years. The Group has little exposure to foreign exchange fluctuations as most of its assets, receipts and payment are in Hong Kong dollars or Chinese Renminbi. Exchange rates between these currencies were relatively stable during the year. At 30 June 2005, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions. In addition, other than bank deposits of approximately HK$75,000 were pledged to secure general banking facilities granted to a subsidiary, none of Group's assets was charged or subject to encumbrance.

Subsequent Events

On 22 August 2005, the Company raised net proceeds of approximately HK$2.6 million by an open offer of 27,761,816 offers shares at HK$0.10 per share on the basis of one offer share for every two shares held ("Open Offer") to provide additional working capital for the Group. Upon completion of the Open Offer, the number of ordinary shares issued and fully paid of the Company was increased from 55,523,633 to 83,285,449.

Employee and Remuneration Policies

Including the directors of the Group, as at 30 June 2005, the Group employed a total of approximately 23 staffs. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. All of the share options were lapsed at 30 June 2003 and during the year, no share option has been granted or exercised. The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. Employees of the Group in the PRC are members of the statesponsored pension operated by the PRC Government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits."

For the year ended 30 June 2006

"Results

Revenue of the Group for the year amounted to approximately HK$35,786,000, representing a decrease of 45.81% over the last financial year. The net loss for the year amounted to approximately HK$3,188,000.

Dividend

The board of Directors (the "Board") does not recommend the payment of any dividend for the year ended 30 June 2006."

"Business Review And Prospects

There is keen competition in the market of computer consumer products. The gross profit margin has decreased from 2.94% to 2.45% compared to last financial year.

The Group will continue its existing business which focus on the computer consumer products, including various types of computer products including wireless LAN, broadband router, Ethernet LAN, PCMCIA adapter, flash memory, card reader and various types of storage solution in Hong Kong.

The Group will continue to seek opportunities to diversify the business of the Group in order to broaden the revenue base.

Financial And Capital Structure

On 22 August 2005, the Company raised net proceeds of approximately HK$2.6 million by an open offer of 27,761,816 offer shares at HK$0.10 per share on the basis of one offer share for every two shares held (the "Open Offer") to provide additional working capital for the Group. Upon completion of the Open Offer, the number of ordinary shares issued and fully paid of the Company was increase from 55,523,633 to 83,285,449. As at 30 June 2006, the bank and cash balances were totalling approximately HK$32,088,000. The current ratio was about 46 times with the net current assets amounting to approximately HK$33,255,000. Basically, the Group's own liquid resources are sufficient to finance the existing business activities of the Company. The gearing ratio has remained almost at zero for the past three years. The Group has little exposure to foreign exchange fluctuations as most of its assets, receipts and payment are in Hong Kong dollars or Chinese Renminbi. At 30 June 2006, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions. In addition, other than bank deposits of approximately HK$75,000 were pledged to secure general banking facilities granted to a subsidiary, none of Group's assets was charged or subject to encumbrance.

Employee And Remuneration Policies

Including the directors of the Group, as at 30 June 2006, the Group employed a total of approximately 14 staffs. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. All of the share options were lapsed at 30 June 2003 and during the year, no share option has been granted or exercised. The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. Employees of the Group in the PRC are members of the statesponsored pension operated by the PRC Government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits."

For the year ended 30 June 2007

"Financial Review

Results

For the year ended 30 June 2007, the Group recorded a turnover of approximately HK$19,899,000, representing a decrease of approximately 44.39% as compared to the last year (2006: HK$35,786,000). This significant contraction in business during the financial year is a result of keen competition in the computer consumer products market during the year.

The Group's gross profit margin was approximately 1.03% for the year ended 30 June 2007 as compared to approximately 2.45% in 2006. Other revenue earned by the Group for the year ended 30 June 2007 was approximately HK$1,362,000, representing an increase of approximately 57.82% as compared to the last year (2006: HK$863,000).

The Group's administrative expense was approximately HK$4,186,000 for the year ended 30 June 2007, representing a decrease of approximately 13.99% as compared to the last year (2006: HK$4,867,000).

The Group has no finance cost during the year ended 30 June 2007 as the Group incurred no borrowing for the year.

For the year ended 30 June 2007, the loss attributable to shareholders of the Group was amounted to HK$2,567,000, representing an improvement of approximately HK$621,000 or a decrease of approximately 19.48% as compared to the last year (2006: HK$3,188,000). This improvement was due to the effective control of the overall operating expenses of the Group.

Significant investments and acquisitions

The share capital of Shang Hua Capital Limited, a wholly-owned subsidiary of the Company, was increased from HK$200,000 to HK$10,000,000.

Saved as mentioned above, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the year ended 30 June 2007. (2006: Nil).

Capital commitments

As at 30 June 2007, the Group did not have any capital commitment (2006: Nil).

Contingent liabilities

As at 30 June 2007, the Group did not have any contingent liabilities (2006: Nil).

Charges on group assets

As at 30 June 2007, the Group pledged bank deposits of approximately HK$75,000 (2006: HK$75,000), which carry fixed interest rate of 3.75% to secure general banking facilities granted to a subsidiary.

Saved as mentioned above, the Group did not have any charges on the Group's assets.

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars and Renminbi. The Directors consider the impact of foreign exchange exposure of the Group is not significant as the terms of purchase and sales contracts dealt with foreigners will consider the foreign exchange effect and will not bear unforeseeable foreign currency exchange risk.

Liquidity and financial resources

The Group generally finances its operations with internally generated resources. As at 30 June 2007, the Group did not have any banking facilities.

As at 30 June 2007, there was a surplus in the shareholders' funds amounting to approximately HK$31,436,000 (2006: HK$33,352,000). Current assets amounted to approximately HK$32,044,000, of which approximately 91.4% or HK$29,287,000 was bank and cash balances. The Group's current liabilities amounted to approximately HK$679,000 which mainly was trade and other payables. The current ratio was about 47 with times (2006: 46 times). Basically, the Group's own liquid resources are sufficient to finance the existing business activities of the Company.

On 12 April 2007, the Company entered into a subscription agreement with the major shareholder, Pioneer Wealth Limited, in which the Company contemplated to issue convertible bonds to Pioneer Wealth Limited in the aggregate amount of HK$200 million. The new funding is primarily for development of the new business in financial service sector in next two years.

Furthermore, the Group has sufficient resources to enable the Company to participate into new business if and when suitable opportunity arises.

Gearing ratio

As at 30 June 2007, the Group's gearing ratio was almost zero as the Group has no borrowing."

"Employees and Remuneration Policies

As at 30 June 2007, the Group had 18 employees (including the directors) (2006: 14) and staff costs (excluding directors' remuneration) amounted to approximately HK$2,503,000 (2006: HK$2,425,000) whilst the directors' remuneration amounted to approximately HK$764,000 (2006: HK$484,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. All of the share options were lapsed on 30 June 2003 and during the year, no share option has been granted or exercised. The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. Employees of the Group in the PRC are members of the state-sponsored pension operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits.

The Group has continued and will continue to employ additional operational and business development personnel to strengthen the operation of the Group and to promote the Group's products.

Business Review

In the year under review, the competition in computer consumer products was keen, and the turnover and gross profit margin were continued declining. This situation of intense competition is expected to continue and the Board believes that prospects in this market will not be exciting in the near term future.

The Group will continue to identify and actively seek prospective business to broaden its income sources.

On the other hand, the Group has imposed effective cost controls to reduce the administrative costs by approximately 13.99% for the year ended 30 June 2007.

Prospects

Given the keen competition in the computer consumer products market in recent years, the Group is pessimistic about its future prospects. The Group has revamped its business strategy by diversifying its focus and resources to new business, and will continue to develop and introduce new profitable business. In time, the Group will continue to collaborate with local co-operative partners to seek prospective business in areas of high growth.

The Group believes its business prospects in the near future especially in view of the increasing attractions of financial markets in Hong Kong, Macau and China, as well as the increasing demand on environmental protection worldwide.

The Group is expecting to realize stronger and better business performance in the coming future."

2. BVI HOLDCO

The BVI Holdco was incorporated on 5 July 2005 with limited liability in the BVI. Except for its indirect investment in the PRC Holdco, the BVI Holdco has not engaged in any other business since its incorporation.

For the period ended 31 December 2005, the revenue and net profit of the BVI Holdco were both nil. The BVI Holdco did not have any assets or liabilities as at 31 December 2005.

For the year ended 31 December 2006, the BVI Holdco did not have any revenue but recorded bank interest income and share of profit of China Field of approximately HK$841,000 and approximately HK$23,915,000 respectively. The net profit for the year ended 31 December 2006 was approximately HK$24,756,000. As at 31 December 2006, the major balance sheet items were interest in China Field of approximately HK$92,935,000 and amount due to ultimately holding company of approximately HK$66,460,000. The net asset value as at 31 December 2006 was approximately HK$26,483,000.

For the year ended 31 December 2007, the BVI Holdco did not have any revenue but recorded bank interest income and share of profit of China Field of approximately HK$365,000 and approximately HK$14,245,000 respectively. The net profit for the year ended 31 December 2007 was approximately HK$14,610,000. During such year, dividend in the amount of approximately HK$6,078,000 was declared. As at 31 December 2007, the major balance sheet items were interest in China Field of approximately HK$109,340,000 and amount due to ultimately holding company of approximately HK$67,307,000. The net asset value as at 31 December 2006 was approximately HK$42,047,000.

During the period from 5 July 2005 to 31 December 2007, the BVI Holdco did not have any employees, contingent liabilities or material acquisitions or disposals of subsidiaries and associated companies.

3. CHINA FIELD

China Field was incorporated on 19 July 2006 with limited liability in Hong Kong for the purpose of holding a 62.94% equity interest in the ZKC Group. China Field has not carried out any business since the date of its incorporation save for the holding of the investment in the ZKC Group.

For the period ended 31 December 2006 and the year 31 December 2007, China Field had no revenue but a share of profit of the ZKC Group of approximately HK$86,929,000 and HK$51,773,000, respectively. China Field's net profit after taxation was approximately HK$86,900,000 and HK$51,763,000 for the year ended 31 December 2006 and the year ended 31 December 2007, respectively.

As at 31 December 2006, China Field had total shareholders' equity of approximately HK$337,661,000, and did not have any bank borrowings. The majority of the assets is its interest in ZKC, with a book value of approximately HK$339,910,000.

As at 31 December 2007, China Field had total shareholders' equity of approximately HK$397,277,000, and did not have any bank borrowings. China Field's interest in ZKC had a book value of approximately HK$397,197,000.

During the period from 19 July 2006 to 31 December 2007, China Field did not have any employees, contingent liabilities or material acquisitions or disposals of subsidiaries and associated companies.

4. HK HOLDCO

The HK Holdco is a company incorporated in Hong Kong on 14 January 2008 and principally engages in investment holding. As at the Latest Practicable Date, the HK Holdco was owned as to approximately 48.7% by Allyking Holdings Limited, as to approximately 38.1% by Faith Access Holdings Limited, as to approximately 8.4% by Huge Jolly Holdings Limited and as to approximately 4.8% by Right Benefit Holdings Limited.

Since its incorporation, the HK Holdco has not carried on any business activities. Following the issuance of the approval by the relevant PRC governmental authority on 17 June 2008 approving the transfer of approximately 25.49% equity interest in the PRC Holdco from the Former Shareholders of the PRC Holdco to the HK Holdco, the HK Holdco legally holds approximately 25.49% equity interest in the PRC Holdco. Upon the Second Completion, the BVI Holdco shall be interested in the entire issued share capital of the HK Holdco, which in turn will hold approximately 25.49% equity interest in the PRC Holdco.

According to the unaudited management accounts for the period from 14 January 2008 to 30 April 2008, the only asset of the HK Holdco as of 30 April 2008 was the account receivable from its shareholders in the sum of HK$731,580 representing its entire issued share capital. Apart from the cost of incorporation of HK$24,613, there is no material income and/or expenses incurred up to 30 April 2008 and the loss for the period from the date of its incorporation to 30 April 2008 was HK$24,613. Save for the completion of the transfer of 25.49% equity interest in the PRC Holdco to the HK Holdco and settlement of the cash consideration to be made, there are no commitment, contingent liabilities and/or post balance sheet event. As at the Latest Practicable Date, there were no material changes in the results and the financial position of the HK Holdco since 30 April 2008.

During the period from 14 January 2008 to 30 April 2008, the HK Holdco did not have any employees or material acquisitions or disposals of subsidiaries and associated companies.

5. ZKC GROUP

The following is the management discussion and analysis of the business, financial results and position of the ZKC Group, being the principal operating subsidiaries of the BVI Holdco and HK Holdco, for the period from the date of 31 December 2005 to 31 December 2007.

For the year ended 31 December 2005

1. Turnover and profit margin

Turnover for the year ended 31 December 2005 was approximately RMB209,167,000.

Gross profit margin of waste water treatment business for the year ended 31 December 2005 was approximately 17.67%.

Waste water treatment operation

Total revenue generated from waste water treatment operations was approximately RMB48,086,000, accounting for approximately 22.99% of total revenue. Total amount of waste water treated in 2005 was approximately 105.33 million tonnes.

Construction contract revenue

According to Hong Kong's new accounting rules, construction undertakings are considered as part of the organisation's revenue. Construction contract revenue is calculated based on an appropriate proportion of contract revenue of construction contracts. For the year ended 31 December 2005, construction contract revenue was approximately RMB156,136,000, accounting for approximately 74.65% of total revenue.

Technical consulting services

During the year ended 31 December 2005, total revenue generated from consulting services was approximately RMB1,971,000, accounting for approximately 0.94% of total revenue.

2. Cost of sales

For the year ended 31 December 2005, the cost of sales was approximately RMB178,062,000. Construction and waste water treatment expenses were approximately RMB136,575,000 and RMB39,589,000 respectively, and in aggregate they accounted for approximately 98.93% of the total cost of sales incurred during the year.

3. Liquidity, financial resources and gearing ratio

During the year, the ZKC Group had drawn down bank borrowings of approximately RMB208,311,000. As at 31 December 2005, the ZKC Group had cash and bank balances of approximately RMB39,009,000 and it had bank and other borrowings of approximately RMB391,660,000 of which approximately RMB30,154,000 was payable within one year while the remaining RMB361,506,000 was payable after one year. All bank and other borrowings are denominated in Renminbi with floating interest rates.

The gearing ratio (calculated as dividing total long term debt (including finance lease) by shareholders' equity) as at 31 December 2005 was approximately 143.54%.

4. Contingent liabilities

As at 31 December 2005, the ZKC Group did not have any material contingent liabilities.

5. Pledged assets

As at 31 December 2005, the ZKC Group had pledged deposits in the amount of approximately RMB874,000.

For the year ended 31 December 2006

1. Turnover and profit margin

Turnover for the year ended 31 December 2006 was approximately RMB170,167,000, showing a decline of approximately RMB39,000,000 (18.65%) from that of approximately RMB209,167,000 for the year ended 31 December 2005. The reduction in revenue was mainly due to the fewer number of construction contracts undertaken during the year.

Gross profit margin of waste water treatment business in 2006 was approximately 26.75% (2005: 17.67%). This increase in profitability was primarily attributed to higher utilization of treatment capacity.

Waste water treatment operation

Total revenue generated from waste water treatment operations was approximately RMB67,451,000 (2005: RMB48,086,000), accounting for approximately 39.64% (2005: 22.99%) of ZKC's total revenue. Total amount of waste water treated in 2006 was approximately 135.41 million tonnes (2005: 105.33 million tonnes), representing an increase of approximately 28.56% in volume. The significant increase in waste water treatment revenue was mainly attributed to new facilities becoming operational and undergoing ramp up.

Construction contract revenue

For the year ended 31 December 2006, construction contract revenue was approximately RMB80,476,000 (2005: RMB156,136,000), representing a decline of approximately 48.46% as compared with that of the prior year. As mentioned previously, the ZKC Group entered into fewer number of construction projects in 2006 than in 2005, resulting in reduction of construction contract revenue.

Technical consulting services

During the year ended 31 December 2006, total revenue generated from consulting services was approximately RMB13,760,000 (2005: RMB1,971,000), accounting for approximately 8.09% (2005: 0.94%) of total revenue.

2. *Cost of sales*

For the year ended 31 December 2006, the cost of sales was approximately RMB121,244,000 (2005: RMB178,062,000. Construction and waste water treatment expenses were approximately RMB70,724,000 and RMB49,405,000 respectively (2005: RMB136,575,000 and RMB39,589,000 respectively), and in aggregate they accounted for approximately 99.08% of the total cost of sales incurred during the year.

3. *Liquidity, financial resources and gearing ratio*

As at 31 December 2006, the ZKC Group had cash and bank balances of approximately RMB241,839,000 (2005: RMB39,009,000).

During the year, the ZKC Group had drawn down and repaid bank borrowings of approximately RMB54,900,000 and RMB22,289,000 respectively. As at 31 December 2006, total bank and other borrowings amounted to approximately RMB424,271,000 of which approximately RMB65,985,000 was payable within one year while the remaining RMB358,286,000 was payable after one year. All and other bank borrowings are denominated in Renminbi with floating interest rates.

The gearing ratio as at 31 December 2006 was approximately 67.66% (2005: 143.54%). This reduction was mainly due to increase in shareholders' equity.

4. *Contingent liabilities*

As at 31 December 2006, the ZKC Group did not have any material contingent liabilities.

5. *Pledged assets*

As at 31 December 2006, the ZKC Group had no pledged assets.

For the year ended 31 December 2007

1. *Turnover and profit margin*

Turnover for the year ended 31 December 2007 was approximately RMB337,118,000, showing an increase of approximately RMB166,951,000 (98.11%) from that of approximately RMB170,167,000 for the year ended 31 December 2006. The increase was mainly due to the increase in construction contracts and waste water treatment capacity.

Gross profit margin of waste water treatment business in 2007 was approximately 28.31% (2006: 26.75%). The company's gross profit margin remained relatively stable as compared with the previous year.

Waste water treatment operation

Total revenue generated from waste water treatment operations was approximately RMB88,493,000 (2006: RMB67,451,000), accounting for approximately 26.25% (2006: 39.64%) of ZKC's total revenue. Total amount of waste water treated in 2007 was approximately 164.57 million tonnes (2006: 135.41 million tonnes), representing an increase of approximately 21.53% in volume. The significant increase in waste water treatment revenue was mainly due to new waste water treatment plants commencing operations.

Construction contract revenue

For the year ended 31 December 2007, construction contract revenue was approximately RMB238,885,000 (2006: RMB80,476,000), representing an increase of approximately 196.84% as compared with that of the prior year. This significant rise was primarily a result of the numerous new projects that the ZKC Group had undertaken to further expand its waste water treatment capacity.

Technical consulting services

During the year ended 31 December 2007, total revenue generated from consulting services was approximately RMB6,940,000 (2006: RMB13,760,000), accounting for approximately 2.06% (2006: 8.09%) of total revenue. The ZKC Group has identified this segment as another key growth driver and it intends to develop this segment to further expand the company's revenue source.

2. *Cost of sales*

For the year ended 31 December 2007, the cost of sales was approximately RMB274,026,000 (2006: RMB121,244,000). Construction and waste water treatment expenses were approximately RMB208,648,000 and RMB63,445,000 respectively (2006: RMB70,724,000 and RMB49,405,000 respectively), and in aggregate they accounted for approximately 99.29% of the total cost of sales incurred during the year.

3. Liquidity, financial resources and gearing ratio

As at 31 December 2007, the ZKC Group had cash and bank balances of approximately RMB78,620,000 (2006: RMB241,839,000).

During the year, ZKC Group had drawn down and repaid bank borrowings of approximately RMB179,540,000 and RMB59,533,000 respectively (2006: RMB54,900,000 and RMB22,289,000 respectively). As at 31 December 2007, total bank and other borrowings amounted to approximately RMB544,278,000 of which approximately RMB68,508,000 was payable within one year while the remaining RMB475,770,000 was payable after one year. All bank and other borrowings are denominated in Renminbi with floating interest rates.

The gearing ratio of ZKC as at 31 December 2007 was approximately 80.85% (2006: 67.66%).

4. Contingent liabilities

As at 31 December 2007, the ZKC Group did not have any material contingent liabilities.

5. Pledged assets

As at 31 December 2007, the ZKC Group had no pledged assets.

6. Employees

As at the Latest Practicable Date, the ZKC Group had approximately 580 employees.

B. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

1. THE GROUP

The Group has been reviewing various opportunities with an aim to explore opportunities in waste water treatment and environmental business. The Acquisition will enable the Group to gain significant presence in the PRC's waste water treatment market as ZKC is one of the leading operators in the sector. In addition to ZKC's existing waste water treatment facilities, ZKC is currently in the process of evaluating the acquisitions of certain waste water treatment projects in other provinces in the PRC, namely Guangdong province, Shandong province, Guizhou province, and Sichuan province. Coupled with the Company's financial resources, the Acquisition will enable the Group to expand further into waste water treatment and environmental business.

Apart from the Acquisition, the Group is currently actively evaluating other opportunities which will facilitate the Group's expansion plan in the waste water treatment, sewage purification and treatment, and environmental business. The Group has also signed memorandum of understanding with each of (i) 南鄭縣人民政府 (the People's Government of Nanzheng Municipal*) on 5 April 2008; (ii) 漢中市城鄉建設管理局 (Hanzhong City Chengxiang Construction Bureau*) on 5 April 2008; (iii) 保定市人民政府 (the People's Government of Baoding Municipal*) on 28 March 2008; (iv) 安徽國

* *For identification purposes only*

禎環保節能科技股份有限公司 (Anhui Guozhen Huanbao Jieneng Science and Technology Company Limited*) on 16 April 2008; these waste water treatment projects have a total treatment capacity of approximately 1 million tonnes per day. The memoranda of understanding are not legally binding and subject to further due diligence and negotiations.

The Group is also evaluating certain waste water treatment and water supply projects in provinces and cities such as Beijing, Fujian, Yunnan, Shandong and Heilonjiang with a total capacity of approximately 1.85 million tonnes per day for waste water treatment and 2.94 million tonnes per day for water supply.

2. ACQUIRED GROUP

ZKC was established in 2001 using technology developed by 中國工程物理研究院 (Chinese Academy of Engineering Physics) to design, construct, invest and operate waste water treatment facilities in provinces including Sichuan, Guangdong, Hunan, Shandong and Zhejiang. As at the end of 2007, total waste water treatment capacity for ZKC's facilities amounted to approximately 600,000 tonnes per day, and this capacity is expected to increase to approximately 900,000 tonnes per day in 2008 as expansion phases of existing facilities are completed and newly secured BOT projects commence operation.

Waste water treatment has become one of the fast-growing industries in PRC as both the central and local government have invested heavily to improve the deteriorating water quality caused by pollution and lack of water resources. Significant water pollution problems not only pose serious threats to human health but also potential adverse effects on the economy.

This problem is further worsened by the lack of waste water infrastructure in many parts of the country, and as a result, the central government has encouraged private sector investment to speed up construction of waste water treatment facilities. ZKC has been one of the leading pioneers in developing the relevant technologies and investing in the waste water and environmental industry. In the past 8 years, ZKC has acquired extensive experience not only in bidding, building and operating BOT waste water projects throughout various provinces of the PRC, but also successfully marketed its patented treatment technology to other operators. ZKC intends to further develop its waste water business through both greenfield development as well as acquisition.

The investment held by the ZKC Group as at 31 December 2005, 2006 and 2007 was a 9.5% equity interest in 四川省科學城天人環境技術有限公司, which is an unlisted equity investment in the PRC and mainly provides engineering consultancy and technical services to water-related projects.

On 28 March 2008, ZKC entered into a shareholders' agreement (the "Fund Shareholders' Agreement") with two independent third parties to set up a fund management company (產業基金管理公司) with an initial registered capital of RMB100,000,000 and owned as to 23% by ZKC and the remaining 77% by the two independent third parties.

In accordance with the Fund Shareholders' Agreement, the fund management company will set up a fund investment company which will be incorporated as a limited partnership under the Partnership Law of the PRC and engaged in fund investment with a minimum and maximum fund size of RMB4.8 billion and RMB6.0 billion, respectively. ZKC is committed to subscribe for fund from the fund investment company a minimum of RMB100 million. As at the date of the accountants' report on the ZKC Group, both the fund management company and the fund investment company have not been established.

Construction plan for the next 18 months

Plant	**Capacity (tonnes per day)**	**Estimated construction cost (RMBm)**	**Construction commence in**
Longquan	20,000	73	Q1 2008
Qingdao Jiaonan	80,000	72	Q3 2008
Taizhou	50,000	60	Q3 2008
Mianyang *(Note)*	50,000	50	Q4 2008
Huayang	20,000	9	Q1 2009
Guangzhou Nansha	50,000	20	Q1 2009
Shuangliu	25,000	10	Q1 2009
Qingdao Jiaozhou	50,000	25	Q2 2009

Note: This project will be undertaken by a joint venture to be formed by three parties with its 35% equity interests being held by ZKC and 65% by the two independent third parties, respectively. For detailed information, please refer to note 45 (ii) in the accountants' report of the ZKC Group as set out in Appendix IV to this circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

INTRODUCTION

The accompanying unaudited pro forma financial information of the Enlarged Group (as defined in this circular), comprising the unaudited pro forma income statement, balance sheet and cash flow statement of the Enlarged Group, has been prepared by the Directors in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purposes only, to provide information about how the proposed Acquisition (as defined in this circular) as detailed in the section headed "Letter from the Board" in this circular might have affected the results of operations, financial position and cash flows of the Group as if the Acquisition had been completed on (i) 1 July 2006 in respect of the unaudited pro forma income statement and cash flow statement of the Enlarged Group; and (ii) 31 December 2007 in respect of the unaudited pro forma balance sheet of the Enlarged Group.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the audited consolidated income statement of the Group for the year ended 30 June 2007 and the unaudited condensed consolidated balance sheet of the Group as at 31 December 2007 as set out in Sections B and C of Appendix I to this circular, respectively, and the audited financial information of the BVI Holdco, China Field and the ZKC Group (as defined in this circular) as set out in the accountants' reports in Appendices II, III and IV to this circular, respectively, after giving effect to the pro forma adjustments described in the accompanying notes. Narrative descriptions of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are set out in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual results of operations, financial position and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future results of operations, financial position or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the audited financial information of the Group for the year ended 30 June 2007 and the unaudited condensed financial information of the Group for the six months ended 31 December 2007 as set out in Sections B and C of Appendix I to this circular, respectively, and the audited financial information of the BVI Holdco, China Field and the ZKC Group for the year ended 31 December 2007 as set out in Appendices II, III and IV to this circular, respectively, and other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 30 JUNE 2007

	The Group For the year ended 30 June 2007	The BVI Holdco For the year ended 31 December 2007	China Field For the year ended 31 December 2007	The ZKC Group For the year ended 31 December 2007		Pro forma adjustments	Notes	Pro forma combined: The Enlarged Group For the year ended 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note (1))	*(Note (2))*	*(Note (3))*	*(Note (4))*	*(Note (4))*			
REVENUE	19,899	–	–	337,118	345,883			365,782
Cost of sales	(19,695)	–	–	(274,026)	(281,151)			(300,846)
Gross profit	204	–	–	63,092	64,732			64,936
Interest income	1,067	365	–	85,968	88,203			89,635
Other income and gains, net	295	–	5	20,688	21,226			21,526
Administrative expenses	(4,186)	–	(15)	(24,861)	(25,507)	(25)	*10*	(29,733)
Other operating expenses, net	–	–	–	(405)	(416)			(416)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(2,620)	365	(10)	144,482	148,238			145,948
Finance costs	–	–	–	(27,395)	(28,107)	(55,312)	*15*	(83,419)
Share of profit of a jointly-controlled entity	–	–	51,773	–	–	(51,773)	*9*	–
Share of profit of an associate	–	14,245	–	–	–	(14,245)	*8*	–
PROFIT/(LOSS) BEFORE TAX	(2,620)	14,610	51,763	117,087	120,131			62,529
Tax	53	–	–	(35,415)	(36,336)			(36,283)
PROFIT/(LOSS) FOR THE YEAR	(2,567)	14,610	51,763	81,672	83,795			26,246
ATTRIBUTABLE TO:								
Shareholders of the Company	(2,567)	14,610	51,763	80,173	82,257	(130,872)	*8,9,10,15,16*	15,191
Minority interests	–	–	–	1,499	1,538	9,517	*16*	11,055
	(2,567)	14,610	51,763	81,672	83,795			26,246

UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP AS AT 31 DECEMBER 2007

	The Group As at 31 December 2007	The BVI Holdco As at 31 December 2007	China Field As at 31 December 2007	The ZKC Group As at 31 December 2007	The ZKC Group As at 31 December 2007	Pro forma adjustments		Pro forma combined: The Enlarged Group As at 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note (5))	*(Note (2))*	*(Note (3))*	*(Note (4))*	*(Note (4))*			
ASSETS								
Non-current assets:								
Equipment	68	–	–	5,467	5,843			5,911
Goodwill	–	–	–	41	44	860,175	*11*	860,219
Operating concessions	–	–	–	159,819	170,815			170,815
Other intangible assets	–	–	–	150	160			160
Interest in a jointly-controlled entity	–	–	397,197	–	–	(397,197)	*13*	–
Interest in an associate	–	109,340	–	–	–	(109,340)	*13*	–
Available-for-sale investment	–	–	–	400	428			428
Long-term deposit	–	–	–	8,000	8,550			8,550
Trade receivables	–	–	–	1,028,066	1,098,797			1,098,797
Total non-current assets	68	109,340	397,197	1,201,943	1,284,637			2,144,880
Current assets:								
Inventories	–	–	–	1,282	1,370			1,370
Amounts due from customers for contract work	–	–	–	10,875	11,623			11,623
Trade receivables	–	–	–	83,700	89,459			89,459
Prepayments, deposits and other receivables	18,763	–	–	84,153	89,943	732	*10*	109,438
Financial assets at fair value through profit or loss	18,978	–	–	–	–			18,978
Pledged bank balances	150	–	–	–	–			150
Cash and cash equivalents	92,210	14	83	78,620	84,029			176,336
Total current assets	130,101	14	83	258,630	276,424			407,354
TOTAL ASSETS	130,169	109,354	397,280	1,460,573	1,561,061			2,552,234

	The Group As at 31 December 2007	The BVI Holdco As at 31 December 2007	China Field As at 31 December 2007	The ZKC Group As at 31 December 2007	The ZKC Group As at 31 December 2007	Pro forma adjustments		Pro forma combined: The Enlarged Group As at 31 December 2007
	HK$'000	*HK$'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note (5))	*(Note (2))*	*(Note (3))*	*(Note (4))*	*(Note (4))*			
EQUITY AND LIABILITIES								
Equity attributable to shareholders of the Company	44,851	42,047	397,277	590,449	631,072	(32,064)	*6*	587,516
						67,293	*7*	
						707	*10*	
						542,665	*12(a)*	
						(1,106,332)	*13*	
Minority interests	–	–	–	15,279	16,330	69,305	*13*	85,635
TOTAL EQUITY	44,851	42,047	397,277	605,728	647,402			673,151
Non-current liabilities:								
Other payables and accruals	–	–	–	32,359	34,585			34,585
Bank and other borrowings	–	–	–	475,770	508,503			508,503
Convertible bonds	85,044	–	–	–	–	479,910	*12(b)*	564,954
Finance lease payable	–	–	–	13,948	14,908			14,908
Provision for major overhauls	–	–	–	42,075	44,970			44,970
Deferred income	–	–	–	1,037	1,108			1,108
Deferred tax liabilities	–	–	–	46,944	50,174			50,174
Total non-current liabilities	85,044	–	–	612,133	654,248			1,219,202
Current liabilities:								
Trade payables	–	–	–	33,719	36,039			36,039
Other payables and accruals	274	67,307	3	131,821	140,890	32,064	*6*	193,270
						(67,293)	*7*	
						25	*10*	
						20,000	*12(c)*	
Taxes payable	–	–	–	4,273	4,567			4,567
Derivative liability	–	–	–	–	–	348,090	*12(b)*	348,090
Bank and other borrowings	–	–	–	68,508	73,222			73,222
Finance lease payable	–	–	–	4,391	4,693			4,693
Total current liabilities	274	67,307	3	242,712	259,411			659,881
TOTAL LIABILITIES	85,318	67,307	3	854,845	913,659			1,879,083
TOTAL EQUITY AND LIABILITIES	130,169	109,354	397,280	1,460,573	1,561,061			2,552,234

UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP FOR THE YEAR ENDED 30 JUNE 2007

	The Group For the year ended 30 June 2007	The BVI Holdco For the year ended 31 December 2007	China Field For the year ended 31 December 2007	The ZKC Group For the year ended 31 December 2007	The ZKC Group For the year ended 31 December 2007	Pro forma adjustments	Notes	Pro forma combined: The Enlarged Group For the year ended 30 June 2007
	HK$'000	*HK$'000*	*HK$'000*	*RMB'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
	(Note (1))	*(Note (2))*	*(Note (3))*	*(Note (4))*	*(Note (4))*			
CASH FLOWS FROM OPERATING ACTIVITIES								
Profit/(loss) before tax	(2,620)	14,610	51,763	117,087	120,131	(14,245)	*8*	62,554
						(51,773)	*9*	
						(55,312)	*15*	
Adjustments for:								
Interest income	(1,067)	(365)	(5)	(85,968)	(88,203)			(89,640)
Gain on disposal of financial assets at fair value through profit or loss	–	–	–	(19,715)	(20,227)			(20,227)
Fair value gain on financial assets at fair value through profit or loss, net	(25)	–	–	–	–			(25)
Loss on disposal of items of equipment	13	–	–	–	–			13
Share of profit of a jointly-controlled entity	–	–	(51,773)	–	–	51,773	*9*	–
Share of profit of an associate	–	(14,245)	–	–	–	14,245	*8*	–
Depreciation	40	–	–	1,514	1,553			1,593
Amortisation of operating concessions	–	–	–	5,259	5,396			5,396
Amortisation of other intangible assets	–	–	–	56	57			57
Reversal of impairment of trade receivables, net	–	–	–	(315)	(323)			(323)
Impairment of other receivables	–	–	–	631	647			647
Provision for major overhauls	–	–	–	12,377	12,699			12,699
Finance costs	–	–	–	37,151	38,117	55,312	*15*	93,429
	(3,659)	–	(15)	68,077	69,847			66,173
Increase in inventories	–	–	–	(107)	(110)			(110)
Increase in amounts due from customers for contract work	–	–	–	(873)	(896)			(896)
Increase in trade receivables	(2,044)	–	–	(237,257)	(243,425)			(245,469)
Increase in prepayments, deposits and other receivables	–	–	–	(19,917)	(20,435)			(20,435)
Increase in trade payables	–	–	–	3,535	3,627			3,627
Decrease in other payables and accruals	(65)	–	(8)	(30,697)	(31,495)	847	*18*	(30,721)
Increase in other taxes payable	–	–	–	496	509			509
Increase in deferred income	–	–	–	129	132			132
Purchases of financial assets at fair value through profit or loss	–	–	–	(19,773)	(20,287)			(20,287)

	The Group For the year ended 30 June 2007 HK$'000 (Note (1))	The BVI Holdco For the year ended 31 December 2007 HK$'000 (Note (2))	China Field For the year ended 31 December 2007 HK$'000 (Note (3))	The ZKC Group For the year ended 31 December 2007 RMB'000 (Note (4))	The ZKC Group For the year ended 31 December 2007 HK$'000 (Note (4))	Pro forma adjustments HK$'000	Notes	Pro forma combined: The Enlarged Group For the year ended 30 June 2007 HK$'000
Proceeds from disposal of financial assets at fair value through profit or loss	–	–	–	39,488	40,515	1,276	*18*	41,791
Exchange adjustments	–	–	–	–	(6,986)	(337)	*17*	(7,323)
Cash used in operations	(5,768)	–	(23)	(196,899)	(209,004)			(213,009)
Mainland China income tax paid	–	–	–	(8,505)	(8,727)			(8,727)
Net cash outflow from operating activities	(5,768)	–	(23)	(205,404)	(217,731)			(221,736)
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of items of equipment	(27)	–	–	(917)	(941)			(968)
Proceeds from disposal of items of equipment	–	–	–	15	15			15
Purchases of operating concessions	–	–	–	(5,812)	(5,963)			(5,963)
Proceeds from disposal of financial assets at fair value through profit or loss	1,276	–	–	–	–	(1,276)	*18*	–
Interest received	1,067	365	5	1,477	1,516			2,953
Dividend received from a jointly-controlled entity	–	–	20,040	–	–	(20,040)	*17*	–
Dividend received from an associate	–	4,872	–	–	–	(4,872)	*17*	–
Net cash inflow/(outflow) from investing activities	2,316	5,237	20,045	(5,237)	(5,373)			(3,963)

	The Group For the year ended 30 June 2007 HK$'000 (Note (1))	The BVI Holdco For the year ended 31 December 2007 HK$'000 (Note (2))	China Field For the year ended 31 December 2007 HK$'000 (Note (3))	The ZKC Group For the year ended 31 December 2007 RMB'000 (Note (4))	The ZKC Group For the year ended 31 December 2007 HK$'000 (Note (4))	Pro forma adjustments HK$'000	Notes	Pro forma combined: The Enlarged Group For the year ended 30 June 2007 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES								
Increase in amount due to the ultimate holding company	–	847	–	–	–	(847)	18	–
New bank and other borrowings	–	–	–	179,540	184,208			184,208
Repayment of bank and other borrowings	–	–	–	(59,533)	(61,081)			(61,081)
Decrease in amounts due to directors	–	–	(2,251)	–	–			(2,251)
Capital element of finance lease rental payments	–	–	–	(3,959)	(4,062)			(4,062)
Interest paid	–	–	–	(34,480)	(35,376)			(35,376)
Interest element of finance lease rental payments	–	–	–	(1,806)	(1,853)			(1,853)
Dividends paid	–	(6,078)	(17,701)	(31,566)	(32,387)	6,078	17	–
						17,701	17	
						32,387	17	
Dividends paid to minority shareholders	–	–	–	(774)	(794)	(3,747)	17	(4,541)
Net cash inflow/(outflow) from financing activities	–	(5,231)	(19,952)	47,422	48,655			75,044
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(3,452)	6	70	(163,219)	(174,449)			(150,655)
Cash and cash equivalents at beginning of year	32,088	8	13	241,839	241,041			273,150
Effect of foreign exchange rate changes, net	651	–	–	–	17,437			18,088
CASH AND CASH EQUIVALENTS AT END OF YEAR	29,287	14	83	78,620	84,029			140,583

Notes:

1. The balances are extracted from the audited financial information of the Group for the year ended 30 June 2007 as set out in Section B of Appendix I to this circular.

2. The balances are extracted from the audited financial information of the BVI Holdco for the year ended 31 December 2007 as set out in Appendix II to this circular.

3. The balances are extracted from the audited financial information of China Field for the year ended 31 December 2007 as set out in Appendix III to this circular.

4. The balances are extracted from the audited financial information of the ZKC Group for the year ended 31 December 2007 as set out in Appendix IV to this circular and were translated to Hong Kong dollars at translation rates of RMB100 = HK$106.88 in respect of the unaudited pro forma balance sheet and RMB100 = HK$102.60 in respect of the unaudited pro forma income statement and cash flow statement.

5. The balances are extracted from the unaudited condensed financial information of the Group for the six months ended 31 December 2007 as set out in Section C of Appendix I to this circular.

6. Being the adjustment for the net effect on the Enlarged Group of the dividends declared by the BVI Holdco, China Field and the PRC Holdco (as defined in this circular) subsequent to 31 December 2007 as detailed in notes 12(i), 11 and 45(iii) of each Section I of Appendices II, III and IV, respectively.

7. Being the adjustment for the allotment and issuance of 244,486,812 new ordinary shares of HK$1 each by the BVI Holdco on 26 April 2008 to the First Vendor, the Second Vendor and the Third Vendor (as defined in this circular) subsequent to 31 December 2007 for an aggregate consideration of HK$244,486,812, which was subsequently satisfied as to HK$67,293,148, HK$67,293,158 and HK$109,900,506 by way of the capitalisation of an amount due to the First Vendor by the BVI Holdco of HK$67,293,148, and the transfer of 27.52% and 44.96% equity interests in China Field to the BVI Holdco on 13 June 2008 in respect of the shares allotted to the First Vendor, the Second Vendor and the Third Vendor, respectively.

8. Being the adjustment for elimination of the share of profit of China Field for the year ended 31 December 2007 by the BVI Holdco.

9. Being the adjustment for elimination of the share of profit of the ZKC Group for the year ended 31 December 2007 by China Field.

10. Being the adjustment for incorporation of the unaudited income statement of the HK Holdco (as defined in this circular) for the period from 14 January 2008 (date of incorporation) to 30 April 2008 and its unaudited balance sheet as at 30 April 2008.

Notes: (continued)

11. Being the adjustment for recognition of goodwill of approximately HK$860,175,000 arising from the Acquisition. Under Hong Kong Financial Reporting Standard 3 *Business Combinations* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the Group will apply the purchase method to account for the acquisition of the BVI Holdco, the HK Holdco, China Field and the ZKC Group (collectively the "Target Companies") in the consolidated financial statements of the Group.

The goodwill arising from the Acquisition is calculated as follows:

	HK$'000
Total cost of acquisition *(note 12)*	1,390,665
Net assets of the Target Companies acquired *(note 13)*	(530,490)
Goodwill arising from the Acquisition *(note 12(a))*	860,175

12. In accordance with the Acquisition Agreement (as defined in this circular), the aggregate value of consideration for the Acquisition is HK$1,370,665,000, satisfied as to: (i) HK$542,665,000 by the issue of the Consideration Shares (as defined in this circular) by the Company at the date of Completion (as defined in this circular); and (ii) HK$828,000,000 by the issue of the Convertible Bonds (as defined in this circular) by the Company.

	HK$'000
An analysis of the total cost of the Acquisition is set out as follows:	
Consideration for the Acquisition:	
Consideration Shares *(note (a))*	542,665
Convertible Bonds *(note (b))*	828,000
	1,370,665
Estimated expenses incurred directly on the Acquisition *(note (c))*	20,000
Total cost of the Acquisition	1,390,665

Notes:

(a) The value of the Consideration Shares issued for the Acquisition was based on the 786,471,014 ordinary shares of the Company issued at HK$0.69 per share in accordance with the Acquisition Agreement. However, the fair value of the Consideration Shares issued as consideration for the Acquisition so arrived at as aforesaid and used for the purpose of the unaudited pro forma financial information set out above may be substantially different from their fair value at the date of Completion. Accordingly, the actual goodwill arising from the Acquisition may be different from that shown in note 11 above.

Notes: (continued)

12. *(continued)*

(b) The Convertible Bonds with an aggregate principal amount of HK$828,000,000 to be issued by the Company as consideration for the Acquisition will be separated into a liability component and a derivative component for the purpose of recognition of the Convertible Bonds in the unaudited pro forma balance sheet in accordance with Hong Kong Accounting Standard ("HKAS") 32 *Financial Instruments: Disclosure and Presentation* issued by the HKICPA. The fair value of the liability component amounted to approximately HK$479,910,000, which was valued (i) using the discounted cashflow method with an effective discount rate of 11.5255% applied as determined from the market comparables of convertible bonds trading in the market; and (ii) based on the fact that the Convertible Bonds issued as consideration are five-year zero coupon bonds. As such, the liability component is 57.9601% of the principal amount, computed by the formula 1/(1+11.5255%)^5. The residual amount of HK$348,090,000 was assigned to the derivative component which will be credited to the liability of the Company.

(c) The direct expenses of legal and professional services related to the Acquisition, among others, and for the purpose of the preparation of this circular are estimated to be approximately HK$20,000,000.

13. The net assets of the Target Companies acquired is calculated as follows:

	HK$'000
Net assets of the BVI Holdco as at 31 December 2007	42,047
Net assets of China Field as at 31 December 2007	397,277
Net assets of the ZKC Group as at 31 December 2007	631,072
Net assets of the HK Holdco as at 30 April 2008 *(note 10)*	707
Combined total	1,071,103
Adjustments for:	
Interest in China Field included in the net assets of the BVI Holdco	(109,340)
Interest in the ZKC Group included in the net assets of China Field	(397,197)
Effect of dividends declared by the Target Companies subsequent to 31 December 2007 *(note 6)*	(32,064)
Issues of new shares by the BVI Holdco satisfied by way of the capitalisation of an amount due to the First Vendor *(note 7)*	67,293
Minority interests in the net assets of the ZKC Group as at 31 December 2007 calculated based on an 88.43% equity interest in the PRC Holdco to be held by the Group pursuant to the terms of the Acquisition Agreement and taking into account the effect of the dividend of RMB30,000,000 (equivalent to approximately HK$32,064,000) declared by the PRC Holdco subsequent to 31 December 2007	(69,305)*
	530,490

Notes: (continued)

13. *(continued)*

* The amount is calculated as follows:

	HK$'000
Net assets of the ZKC Group as at 31 December 2007	631,072
Less: Dividend of RMB30,000,000 declared by the PRC Holdco subsequent to 31 December 2007	(32,064)
Adjusted net assets of the ZKC Group	599,008
Minority interests in the adjusted net assets of the ZKC Group (11.57% equity interest in the PRC Holdco)	69,305

14. Upon the issuance of new Shares by the Company in connection with the Acquisition at value of HK$542,665,000, the share capital of the Company will be increased by approximately HK$78,647,000 and the share premium arising from the issuance is approximately HK$464,018,000.

15. Being the recognition of imputed interest expenses for the Convertible Bonds, which are to be issued as consideration for the Acquisition in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. The interest rate used for the purpose of this adjustment is 11.5255%, being the rate used for the determination of the liability component of the Convertible Bonds as detailed in note 12(b), and the date of issue is assumed to be 1 July 2006 for the purpose of the unaudited pro forma income statement and cash flow statement of the Enlarged Group, and 31 December 2007 for the purpose of the unaudited pro forma balance sheet of the Enlarged Group.

16. Being the minority interests in the profit of the PRC Holdco for the year ended 31 December 2007, calculated based on an 88.43% equity interest in the PRC Holdco to be held by the Group pursuant to the terms of the Acquisition Agreement.

17. Being the reversal of dividends received and paid by the BVI Holdco, China Field and the PRC Holdco, where appropriate, and related exchange difference on intercompany dividends.

18. Being the reclassification of amounts for consistency in presentation of similar items in the pro forma financial information.

B. ACCOUNTANTS' REPORT ON THE PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma income statement, balance sheet and cash flow statement of the Enlarged Group as set out in Section A of Appendix VI to this circular. As described in the section headed "Documents available for inspection" in Appendix VIII, a copy of the accountants' report is available for inspection.

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

30 June 2008

The Directors
Beijing Enterprises Water Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") set out in Section A of Appendix VI to the shareholders' circular (the "Circular") of Beijing Enterprises Water Group Limited (the "Company", together with its subsidiaries, referred to as the "Group") dated 30 June 2008, which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Gainstar Limited (the "Target Company", together with its then subsidiaries upon the completion of the sale and purchase agreement dated 3 June 2008 in respect of the proposed acquisition, referred to as the "Target Companies"), might have affected the historical financial information presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Introduction" in Section A of Appendix VI to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is solely the responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 *Accountants' Reports on Pro Forma Financial Information in Investment Circulars* issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2007 had the acquisition of the Target Companies actually been completed on that date or any future date; nor

- the results of operations and cash flows of the Group for the year ended 30 June 2007 had the acquisition of the Target Companies actually been completed on 1 July 2006 or any future periods.

OPINION

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

C. INDEBTEDNESS STATEMENT OF THE ENLARGED GROUP

Borrowings

At the close of business on 30 April 2008, being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Enlarged Group (as defined in this circular) had the following borrowings:

	30 April 2008
	HK$'000
Bank loans, secured	581,541
Other loans, unsecured	12,679
Finance lease payable	18,044
Convertible bonds, unsecured	328,275
Total borrowings	940,539

Note: The Enlarged Group's secured bank loans and obligations under a finance lease contract as at 30 April 2008 are secured by mortgages over sewage treatment concession rights, land use rights and certain operating facilities of the sewage treatment plants which are under the management of the ZKC Group (as defined in this circular) pursuant to the relevant service concession agreements signed with the grantors. These land use rights and operating facilities are normally registered under the names of the relevant entities in the ZKC Group and are required to be returned to the grantors at the end of the respective service concession periods.

Contingent liabilities

At the close of business on 30 April 2008, the Enlarged Group did not have any significant contingent liabilities.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on 30 April 2008, other outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

D. WORKING CAPITAL OF THE ENLARGED GROUP

The Directors are of the opinion that, after taking into account the internal resources of the Enlarged Group, the banking facilities in place, convertible bonds and other sources of financing available to the Enlarged Group, the Enlarged Group will, following completion of the Acquisition, have sufficient working capital for its present requirement for the next 12 months from the date of this circular in the absence of material unforeseen circumstances.

E. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2007 (being the date to which the latest published interim report of the Company were made up).

The following is the text of a letter with the summary of values and valuation certificate received from CB Richard Ellis Limited, an independent property valuer, prepared for the purpose of incorporation in the circular in connection with its valuation as at 30 April 2008 of the property interests of the Group.

CBRE
CB RICHARD ELLIS
世邦魏理仕

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18 Harbour Road
Wanchai, Hong Kong
T 852 2820 2800
F 852 2810 0830

香港灣仔港灣道十八號中環廣場三十四樓
電話 852 2820 2800 傳真 852 2810 0830

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30 June 2008

The Board of Directors
Beijing Enterprises Water Group Limited
Room 1601, 16/F
Cosco Tower,
No. 183 Queen's Road Central,
Sheung Wan,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Beijing Enterprises Water Group Limited (the "Company") and its subsidiaries (hereinafter together known as the "Group") in Hong Kong. We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of such property interests as at 30 April 2008 (the "date of valuation").

Our valuation is our opinion of Market Value which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Unless otherwise stated, our valuation is prepared in accordance with the "First Edition of The HKIS Valuation Standards on Properties" published by The Hong Kong Institute of Surveyors (the "HKIS"). We have also complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5, Practice Note 12 and Practice Note 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

For the property interests which is rented by the Group in Hong Kong, we considered they have no commercial value primarily due to the prohibition against assignment or sub-letting and/or due to the lack of substantial profit rent.

We have relied to a considerable extent on information given by the Group, in particular, but not limited to, planning approvals, statutory notices, easements, tenancies and floor areas. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificate are only approximations. We have taken every reasonable care in both inspecting the information provided to us and making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided to us.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions and the services etc. for any future development.

No allowance has been made in our valuation neither for any charges, mortgages or mounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts are stated in Renminbi (''RMB'').

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Kam Hung YU
BSc(Hons) FHKIS FRICS RPS(GP) FHIREA
Senior Managing Director
Valuation & Advisory Services

Note: Mr. Yu is the President of the Hong Kong Institute of Surveyors. He is a Registered Professional Surveyor (General Practice), a fellow of Royal Institution of Chartered Surveyors, a fellow of the Hong Kong Institute of Surveyors and a fellow of the Hong Kong Institute of Real Estate Administration. He has over 26 years' valuation experience in Hong Kong and the PRC.

SUMMARY OF VALUES

Property Interests	Capital Value in existing state as at 30 April 2008 (RMB)	Interests attributable to the Group	Capital Value attributable to the Group as at 30 April 2008 (RMB)
Property interests rented by the Group in Hong Kong			
1. Unit 1601, Floor 16, High Block, Cosco Tower, No.183, Queen's Road Central, Hong Kong			No Commercial Value
		Grand Total:	No Commercial Value

Property interests rented by the Group in Hong Kong

VALUATION CERTIFICATE

Property	**Description and tenure**	**Details of occupancy**	**Capital value in existing state as at 30 April 2008** (RMB)
1. Unit 1601, Floor 16, High Block, Cosco Tower, No.183, Queen's Road Central, Hong Kong	The property comprises an office unit in a 53-storey office building which completed in 1998. The property is leased to the Group for a term commencing from 1 October 2007 and expiring on 30 September 2009 at a monthly rental of HK$44,299 with air-conditioning and management charges of HK$5,144.40 per month.	The property is currently occupied by the Group as an office.	No Commercial Value

Notes:

1. The registered owner of the property is Reco Grand Limited.
2. The instrument was registered in the Land Registry by the Memorial No. 07100301990127 on 3 October 2007.
3. We are advised that the registered owner is an independent third party from the Group.
4. The property lies within an area zoned for "Commercial" use under the relevant outline zoning plan.

The following is the text of a letter with the summary of values and valuation certificate received from CB Richard Ellis Limited, an independent property valuer, prepared for the purpose of incorporation in the circular in connection with its valuation as at 30 April 2008 of the property interests of ZKC Group.

CB RICHARD ELLIS
世邦魏理仕

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www.cbre.com.hk

30 June 2008

The Board of Directors
Beijing Enterprises Water Group Limited
Room 1601, 16/F
Cosco Tower,
No. 183 Queen's Road Central,
Sheung Wan,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Z.K.C Environmental Group Co., Ltd. (the "ZKC") and its subsidiaries (hereinafter together known as the "ZKC Group") in the People's Republic of China (the "PRC"). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of such property interests as at 30 April 2008 (the "date of valuation").

Our valuation is our opinion of Market Value which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Unless otherwise stated, our valuation is prepared in accordance with the "First Edition of The HKIS Valuation Standards on Properties" published by The Hong Kong Institute of Surveyors (the "HKIS"). We have also complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5, Practice Note 12 and Practice Note 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

For the property interests in Group I, which are held by ZKC Group for occupation in the PRC, we have ascribed no commercial value to the property interests due to the non-transferability nature of those property interests in the market.

For the property interests in Group II, which are property interests contracted to be held in the PRC, as for which ZKC Group has entered into agreements with relevant owners of the property interests or government authority, but for which ZKC Group has not yet obtained the State-owned Land Use Rights Certificates as at the date of valuation. We have ascribed no commercial value to those property interests.

In valuing the property interests in Group III, which are rented in the PRC, we considered they have no commercial value primarily due to the prohibition against assignment or sub-letting and/or due to the lack of substantial profit rent.

In the course of our valuation for the property interests in the PRC, we have relied on the legal opinion provided by the Group's PRC legal adviser, Haiwen & Partners (the "PRC Legal Opinion"). We have been provided with extracts from title documents relating to such property interests. We have not, however, searched for the original documents to verify ownership or existence of any amendment which do not appear on the copies handed to us. All documents have been used for reference only.

We have relied to a considerable extent on information given by ZKC Group, in particular, but not limited to, planning approvals, statutory notices, easements, tenancies and floor areas. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificate are only approximations. We have taken every reasonable care in both inspecting the information provided to us and making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by ZKC Group, which is material to the valuation. We were also advised by ZKC Group that no material facts have been omitted from the information provided to us.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions and the services etc. for any future development.

No allowance has been made in our valuation neither for any charges, mortgages or mounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts are stated in Renminbi (''RMB'').

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Kam Hung YU
BSc(Hons) FHKIS FRICS RPS(GP) FHIREA
Senior Managing Director
Valuation & Advisory Services

Note: Mr. Yu is the President of the Hong Kong Institute of Surveyors. He is a Registered Professional Surveyor (General Practice), a fellow of Royal Institution of Chartered Surveyors, a fellow of the Hong Kong Institute of Surveyors and a fellow of the Hong Kong Institute of Real Estate Administration. He has over 26 years' valuation experience in Hong Kong and the PRC.

SUMMARY OF VALUES

Property Interests	**Capital Value in existing state as at 30 April 2008** *(RMB)*	**Interests attributable to ZKC Group**	**Capital Value attributable to ZKC Group as at 30 April 2008** *(RMB)*
Group I – Property interests held by ZKC Group for occupation in the PRC			
1. An industrial complex in Banqiao Village, Tangxun Town, Fucheng District, Mianyang City, Sichuan Province, the People's Republic of China			No Commercial Value
2. An industrial complex in Beijiang Village, Zhangming Town, Jiangyou City, Sichuan Province, the People's Republic of China			No Commercial Value
3. An industrial complex on North of Century Avenue East, Seashore Industrial Park, Jiaonan City, Shandong Province, the People's Republic of China			No Commercial Value
4. An industrial complex in Jiaozhou Bay Industrial Park No. 2 Sub-Park, Jiaozhou City, Shandong Province, the People's Republic of China			No Commercial Value
5. An industrial complex in Dong Feng Salt Ground, Shangma, Chengyang District, Qingdao City, Shandong Province, the People's Republic of China			No Commercial Value
		Sub-Total:	No Commercial Value

Property Interests	Capital Value in existing state as at 30 April 2008 *(RMB)*	Interests attributable to ZKC Group	Capital Value attributable to ZKC Group as at 30 April 2008 *(RMB)*
Group II – Property interests contracted to be held by ZKC Group in the PRC			
6. An industrial complex in Zhang Li Village, Lu Nan Community, Lu Qiao District Taizhou City, Zhejiang Province, the People's Republic of China			No Commercial Value
7. An industrial complex in Er He Village, Bai He Town, Long Quan Yi District, Chengdu City, Sichuan Province, the People's Republic of China			No Commercial Value
8. An industrial complex in Wen Tong Village, Huangshui Town, Shuangliu County, Chengdu City, Sichuan Province, the People's Republic of China			No Commercial Value
9. An industrial complex on East of Changjiang Road, Heze City, Shandong Province, the People's Republic of China			No Commercial Value
10. An industrial complex on No.199 Fu Rong Road North, Changsha City, Hunan Province, the People's Republic of China			No Commercial Value
11. An industrial complex in Nan Sha Economic and Technological Development Zone, Pan Yu District, Guangzhou City, Guangdong Province, the People's Republic of China			No Commercial Value
12. An industrial complex in Da Ling Village, Xin Hua Town, Hua Du District, Guangzhou City, Guangdong Province, the People's Republic of China			No Commercial Value
13. An industrial complex in Guang Fu Village, Hua Yang Town, Shuangliu County, Chengdu City, Sichuan Province, the People's Republic of China			No Commercial Value
		Sub-Total:	No Commercial Value

Property Interests	Capital Value in existing state as at 30 April 2008 *(RMB)*	Interests attributable to ZKC Group	Capital Value attributable to ZKC Group as at 30 April 2008 *(RMB)*
Group III – Property interests rented by ZKC Group in the PRC			
14. An office unit of No.14, 11/F Block 1, Kehua Road North, Wuhou District, Chengdu City, Sichuan Province, the People's Republic of China			No Commercial Value
15. A residential unit of Unit F, 17/F Block Rui Jing, Zong Lv Garden, Chengdu City, Sichuan Province, the People's Republic of China			No Commercial Value
16. An office unit on 11/F, Hong Di Mansion, No. 153 Kehua Road North, Wuhou District, Chengdu City, Sichuan Province, the People's Republic of China			No Commercial Value
		Sub-Total:	No Commercial Value
		Grand Total:	No Commercial Value

Group I – Property interests held by ZKC Group for occupation in the PRC

VALUATION CERTIFICATE

Property	**Description and tenure**	**Details of occupancy**	**Capital value in existing state as at 30 April 2008** *(RMB)*
1. An industrial complex in Banqiao Village, Tangxun Town, Fucheng District, Mianyang City, Sichuan Province, the People's Republic of China	The property comprises 10 single floor buildings, one 5-storey office building with a total gross floor area of approximately 7,249.69 sq.m. and various structures erected on a site with a land area of approximately 125,745.64 sq.m. (the "Site"). The gross floor areas of each building are summarized as below: **Building** — **Gross Floor Area** *(sq.m.)* Office — 4,315.99 Other Composite Buildings — 2,933.70 Total — 7,249.69 As advised by ZKC Group, the property was developed in two phases from 1998 to 2002. The Site is held for industrial use for a land use term of 30 years.	The property is currently occupied by ZKC Group as a plant.	No Commercial Value

Notes:

1. Pursuant to the State-owned Land Use Rights Grant Contract No. 200-004686 dated on 22 June 2004, the Site with a land area of approximately 125,745.46 sq.m. has been granted to ZKC Group for industrial use with a total consideration of RMB13,957,766.

2. Pursuant to the State-owned Land Use Rights Certificate No. Mian Cheng Guo Yong (2004) Di 02656 Hao dated on 23 June 2004, the Site with a land area of approximately 125,745.46 sq.m. has been granted to ZKC Group for industrial use with the expiry date on 20 June 2034.

3. Pursuant to the following Building Ownership Certificates, the building ownership of the property with a total gross floor area of approximately 7,249.69 sq.m. is held by ZKC Group.

Building Ownership Certificate Number	**Corresponding Land Certificate Number**	**Date of Issuance**	**Gross Floor Area** *(sq.m.)*	**Use**
Mian Fang Quan Zheng Shi Fang Jian Zi Di 200500084 Hao	Mian Cheng Guo Yong (2004) Di 02656 Hao	5 January 2005	29 4,315.99	Other Office
Mian Fang Quan Zheng Shi Fang Jian Zi Di 200500085 Hao	Mian Cheng Guo Yong (2004) Di 02656 Hao	5 January 2005	1,947.99	Other
Mian Fang Quan Zheng Shi Fang Jian Zi Di 200500086 Hao	Mian Cheng Guo Yong (2004) Di 02656 Hao	5 January 2005	955.78	Other
		Total	7,248.76	

4. Pursuant to the Building Mortgage Certificates No. Mian Fang Shi Fang Jian Ta Zi Di 20053391, 20053392 and 20053393 Hao, the buildings stated in Note 3 have been mortgaged to Branch of Science City of China Construction Bank with a total value of RMB21,053,060 expiring on 27 March 2011 and 27 February 2011 respectively.

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the State-owned Land Use Rights Certificates and Building Ownership Certificates stated in Note 2 and 3 above, ZKC Group has the right to legally use the property.

   (b) Pursuant to the policy of utility license agreement, ZKC Group is not allowed to dispose or mortgage the property within the term of license.

   (c) Regarding to the Building Mortgage Certificate stated in Note 4 above, no approval from the relevant governmental authority has been received.

VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
2.	An industrial complex in Beijiang Village, Zhangming Town, Jiangyou City, Sichuan Province, the People's Republic of China	The property comprises 5 single floor buildings, one 2-storey office building with a total gross floor area of approximately 2,284.58 sq.m. and various structures erected on a site with a land area of approximately 40,125 sq.m. (the "Site"). The gross floor areas of each building are summarized as below:	The property is currently occupied by ZKC Group as a plant.	No Commercial Value

Building	Gross Floor Area *(sq.m.)*
Car Parking Space	194.49
Office	800.34
Workshop	1,242.52
Other Composite Buildings	47.23
Total	2,284.58

As advised by ZKC Group, the property was completed in two phases from 2005 to 2007.

The Site is held for industrial use for a land use term of 32 years.

Notes:

1. Pursuant to the State-owned Land Use Rights Grant Contract No. 200-00391 dated on 2 September 2003, the Site with a land area of approximately 40,125 sq.m. has been granted to ZKC Group for industrial use with a total consideration of RMB936,518.
2. Pursuant to the BOT license agreement dated on 13 December 2002 and its supplementary agreement dated on 27 June 2005, the land use rights of a site area of approximately 60 mu has been granted to ZKC Group for a term of 32 years by Jiangyou Municipal Government.
3. Pursuant to the State-owned Land Use Rights Certificate No. Jiang Guo Yong (2004) Zi Di 0600243 Hao dated on 14 May 2004, the Site with a land area of approximately 40,125 sq.m. has been granted to ZKC Group for industrial use with the expiry date on 1 September 2035.
4. Pursuant to the following Building Ownership Certificates, the building ownership of the property with a total gross floor area of approximately 2,284.58 sq.m. is held by ZKC Group.

Building Ownership Certificate Number	**Corresponding Land Certificate Number.**	**Date of Issuance**		**Gross Floor Area** *(sq.m.)*	**Use**
Jiang Fang Quan Zheng Jian Zheng Zi Di 0096792 Hao	Jiang Guo Yong (2004) Di 0600243 Hao	14 August 2007		800.34 194.49	Office Car Park
Jiang Fang Quan Zheng Jian Zheng Zi Di 0096793 Hao	Jiang Guo Yong (2004) Di 0600243 Hao	14 August 2007		1,242.52 47.23	Workshop Other
			Total	2,284.58	

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the State-owned Land Use Rights Certificates and Building Ownership Certificates stated in Note 3 and 4 above, ZKC Group has the right to legally use the property.

   (b) Pursuant to the policy of utility license agreement, ZKC Group is not allowed to dispose or mortgage the property within the term of license.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
3.	An industrial complex on North of Century Avenue East, Seashore Industrial Park, Jiaonan City Shandong Province, the People's Republic of China	The property comprises 3 office buildings, one security booth and ancillary facility with a total gross floor area of approximately 4,047.33 sq.m. and various structures erected on a site with a land area of approximately 200,000 sq.m. (the "Site"). The gross floor areas of each building are summarized as below: **Building** / **Gross Floor Area** *(sq.m.)* Office 2,441.82 Security Booth 37.31 Ancillary Facility 1,568.2 Total 4,047.33 As advised by ZKC Group, the property was completed in June 2005. The Site is held for industrial use.	An office building of the property with a total gross floor area of approximately 570 sq.m. is currently tenanted as office for a term from 1 May 2006 to 30 April 2012 for an annual rental of RMB60,000. The remaining portion of the property is currently occupied by ZKC Group as a plant.	No Commercial Value

Notes:

1. Pursuant to the BOT license agreement dated on 10 November 2003 entered into between Jiaonan Urban Construction Bureau and ZKC Group, the land use rights of a site area of approximately 200,000 sq.m. has been allocated to ZKC Group with a term expiring on 19 June 2025.

2. Pursuant to the State-owned Land Use Rights Certificate No. Nan Guo Yong (2004) Zi Di 5974 Hao dated on 15 April 2004, the Site with a land area of approximately 200,000 sq.m. has been allocated to ZKC Group for industrial use.

3. Pursuant to the Building Ownership Certificate No. Fang Quan Zheng Chu Si Zi Di 01591 Hao, the building ownership of the property with a total gross floor area of approximately 4,047.33 sq.m. is held by ZKC Group for the usage of office, security booth and ancillary facility.

4. Pursuant to the Tenancy Agreement dated on 12 May 2006 entered into between Qingdao Sheng Ze Concrete Manufacturing Co., Ltd. and ZKC Group, the property with a total gross floor area of approximately 570 sq.m. has been agreed to lease to Qingdao Sheng Ze Concrete Manufacturing Co., Ltd. for office and manufacture uses commencing from 1 May 2006 to 30 April 2012.

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the State-owned Land Use Rights Certificates and Building Ownership Certificate stated in Note 1 and 2 above, ZKC Group has the right to legally use the property.

   (b) Pursuant to the policy of utility license agreement, ZKC Group is not allowed to dispose or mortgage the property within the term of license.

   (c) Had the tenancy agreement stated in Note 4 above excluded the land use rights of the Site, the tenancy agreement was legal and binding on both parties. ZKC Group has the right to lease the property.

VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
4.	An industrial complex in Jiaozhou Bay Industrial Park No. 2 Sub-Park, Jiaozhou City, Shandong Province, the People's Republic of China	The property comprises 9 single floor buildings, one 3-storey office building with a total gross floor area of approximately 3,053.87 sq.m. and various structures erected on a site with a land area of approximately 149,909 sq.m. (the "Site").	The property is currently occupied by ZKC Group as a plant.	No Commercial Value

The gross floor areas of each building are summarized as below:

Building	Gross Floor Area *(sq.m.)*
Warehouse	349.82
Office	959.11
Staff Canteen	237.05
Security Booth	54.72
Ancillary Facility	347.49
Other Composite Buildings	1,105.68
Total	3,053.87

As advised by ZKC Group, the property was completed in December 2003.

The Site is held for industrial use for a land use term of 21 years.

Notes:

1. Pursuant to the BOT license agreement dated on 20 May 2002 between Jiaozhou Urban Construction Bureau and ZKC Group, the land use rights of a site area of approximately 225mu has been allocated to ZKC Group with a term of 20 years.

2. Pursuant to the State-owned Land Use Rights Transfer Contract No. Jiao Guo Tu Zhuan Nong Zhuan Zi 2002 Di 007 Hao dated on 25 December 2002, the Site with a land area of approximately 149,909 sq.m. has been transferred to ZKC Group for industrial use.

3. Pursuant to the State-owned Land Use Rights Certificate No. Jiao Guo Yong (2002) Zi Di 220046 Hao dated on 27 December 2002, the Site with a land area of approximately 149,909 sq.m. has been granted to ZKC Group for industrial use with the expiry date on 31 December 2023.

4. Pursuant to the Building Ownership Certificate No. Fang Quan Zheng Jiao Zi Zi Di 50075 Hao, the building ownership of the property with a total gross floor area of approximately 3,053.87 sq.m. is held by ZKC Group for the usage of office, warehouse, staff canteen, security booth, ancillary facility and other uses.

5. Pursuant to the Building Mortgage Certificate Jiao Jian Fang 2005 Ta Zi Di 020682 Hao, the buildings stated in Note 3 have been mortgaged to Qingdao Branch of CITIC Industrial Bank with a total value of RMB30,120,000 commencing on 18 July 2005 for the term of 5 years.

6. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the State-owned Land Use Rights Certificate and Building Ownership Certificate stated in Notes 3 and 4 above, ZKC Group has the right to legally use the property.

   (b) Pursuant to the policy of utility license agreement, ZKC Group is not allowed to dispose or mortgage the property within the term of license.

   (c) Regarding to the Building Mortgage Certificate stated in Note 5 above, no approval from the relevant governmental authority has been received.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
5.	An industrial complex in Dong Feng Salt Ground, Shangma, Chengyang District Qingdao City, Shandong Province, the People's Republic of China	The property will comprise one 4-storey office building with a total gross floor area of approximately 1,458 sq.m., various ancillary facilities and structures erected on a site with a land area of approximately 58,112 sq.m. (the "Site").	The property is currently under construction. The property will be occupied by ZKC Group as a plant.	No Commercial Value

As advised by ZKC Group, the area breakdown of the office building is shown as below:

Building	Gross Floor Area *(sq.m.)*
L1	482
L2	483
L3	347
L4	146
Total	1,458

As advised by ZKC Group, the property will be completed in 2008.

The Site is held for the usage of public infrastructure with expiring in March 2027.

Notes:

1. Pursuant to the BOT license agreement dated on 25 July 2005 between Urban Planning and Construction Management Bureau of Qingdao Chengyang District and ZKC Group, the land use rights of a site area of approximately 58,112 sq.m. has been allocated to ZKC Group with a term of 20 years.

2. Pursuant to the State-owned Land Use Rights Certificate No. Cheng Guo Yong (2005) Zi Di 333 Hao dated on 30 December 2005, the Site with a land area of approximately 58,112 sq.m. has been allocated to ZKC Group for the usage of public infrastructure with the expiry date in March 2027.

3. As advised by ZKC Group, the Building Ownership Certificates are under application.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the State-owned Land Use Rights Certificate stated in Note 2 above, ZKC Group has the right to legally use the property.

   (b) Pursuant to the policy of utility license agreement, ZKC Group is not allowed to dispose or mortgage the property within the term of license.

   (c) ZKC Group has not obtained the Building Ownership Certificate(s) of the property.

Group II – Property interests contracted to be held by ZKC Group in the PRC

VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
6.	An industrial complex in Zhang Li Village, Lu Nan Community, Lu Qiao District Taizhou City, Zhejiang Province, the People's Republic of China	The property will comprise various industrial buildings, warehouses, ancillary facilities and structures with a total gross floor area of approximately 23,399.03 sq.m. in Phase I and with a total gross floor area of approximately 20,671.64 sq.m. in Phase II erected on a site with a land area of approximately 35,162 sq.m. (the "Site").	Phase I of the property is currently occupied by ZKC Group as a plant and Phase II is currently under construction.	No Commercial Value

As advised by ZKC Group, the gross floor areas of the property are summarized as below:

Building	**Gross Floor Area** *(sq.m.)*
Phase I	
Office	2,400
Warehouse/Canteen	677
Ancillary Facilities	742
Structures	19,580.03
Sub-Total	23,399.03
Phase II	
Ancillary Facilities	936
Structures	19,735.64
Sub-Total	20,671.64
Total	44,070.67

As advised by ZKC Group, Phase I of the property was completed in 2001 and Phase II will be completed by the end of 2008.

The Site is held for the usage of public infrastructure.

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate No. Lu Guo Yong (2007) Di 00298 Hao dated on 10 December 2007, the Site with a land area of approximately 35,162 sq.m. has been allocated to Taizhou Lu Qiao Sewage Treatment Co., Ltd. for the usage of public infrastructure.

2. Pursuant to the BOT&TOT Asset Transfer Agreement dated on 22 November 2006 between Taizhou Lu Qiao Sewage Treatment Co., Ltd. and ZKC Group, the realty title of the property has been contracted to be transferred to ZKC Group for occupying, using and management with the term of 27 years.

3. As advised by ZKC Group, the Building Ownership Certificates will issued after the completion of Phase II.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Within the license term, ZKC Group has the right to use the site stated in Note 1 above. ZKC Group is not allowed to dispose or mortgage the property within the term of license.

   (b) ZKC Group has not obtained the Building Ownership Certificate(s) of the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
7.	An industrial complex in Er He Village, Bai He Town, Long Quan Yi District, Chengdu City, Sichuan Province, the People's Republic of China	The property will be constructed as a sewage plant. No area information of the building and the structures is provided by ZKC Group. The property will be completed in January 2009.	The property is currently under construction.	No Commercial Value

Notes:

1. Pursuant to the BOT License Agreement dated on 12 December 2007 entered into between Chengdu Long Quan Yi District State Asset Investment Co., Ltd. and ZKC Group, the land use rights of the property have been contracted to be transferred to ZKC Group with the expiry date on 11 December 2032.

2. Pursuant to the Site Instruction Letter No. Xuan Zi Di 510112200810002 Hao dated on 21 February 2008 issued by Planning Management Bureau of Chengdu Long Quan Yi District, the land use rights of the property with a site area of approximately 31.712mu have been contracted to be allocated to ZKC Group.

3. Pursuant to the Land Confirmation Letter dated on 11 March 2008 issued by State-owned Land Resources Bureau of Chengdu Long Quan Yi District, the land use rights of the property with a site area of approximately 31.712mu have been contracted to be allocated to ZKC Group.

4. As advised by ZKC Group, ZKC Group did not obtain any State-owned Land Use Rights Certificate of the property as at 30 April 2008.

5. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) ZKC Group has not obtained the State-owned Land Use Rights Certificate(s) and Building Ownership Certificates of the property.

   (b) Pursuant to the License Agreement, ZKC Group has the right to use the site stated in Notes 1,2,3 above within the term of the license. ZKC Group is not allowed to dispose or mortgage the site.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
8. An industrial complex in Wen Tong Village, Huangshui Town, Shuangliu County, Chengdu City, Sichuan Province, the People's Republic of China	The property comprises one 3-storey office building, ancillary facilities, security booth with a total gross floor area of approximately 1,763.8 sq.m. and various structures erected on a site with a land area of approximately 20,001 sq.m. (the "Site"). As advised by ZKC Group, the gross floor areas of each building are summarized as below:	The property is currently occupied by ZKC Group as a plant.	No Commercial Value

Building	Gross Floor Area *(sq.m.)*
Office	850.8
Security Booth	24
Ancillary Facilities	889
Total	1,763.8

As advised by ZKC Group, the property was completed in July 2005.

Notes:

1. Pursuant to the BOT License Agreement dated on 19 January 2004, the land use rights of a site area of approximately 30mu has been contracted to be granted to ZKC Group at the consideration of RMB2,100,000.

2. Pursuant to the State-owned Land Use Rights Confirmation Letter No. (2005) 27 issued by State Land Resources Bureau of Shuangliu County dated on 31 October 2005, the land use rights of the property occupying a site area of approximately 30mu have been contracted to be granted to ZKC Group for the usage of public infrastructure.

3. As advised by ZKC Group, ZKC Group did not obtain any State-owned Land Use Rights Certificate of the property as at 30 April 2008.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the License Agreement, ZKC Group has the right to use the site stated in Notes 1 and 2 above within the term of the license. ZKC Group is not allowed to dispose or mortgage the site.

   (b) ZKC Group has not obtained the Building Ownership Certificate(s) of the property.

VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
9.	An industrial complex on East of Changjiang Road, Heze City, Shandong Province, the People's Republic of China	The property comprises one 3-storey office building, ancillary facilities, security booth with a total gross floor area of approximately 4,816 sq.m. and various structures erected on a site with a land area of approximately 76,006.6 sq.m. (the "Site").	The property is currently occupied by ZKC Group as a plant.	No Commercial Value

As advised by ZKC Group, the gross floor areas of each building are summarized as below:

Building	**Gross Floor Area** *(sq.m.)*
Office	2,475
Security Booth	54
Ancillary Facilities	2,287
Total	4,816

As advised by ZKC Group, the property was completed in February 2004.

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate No. He Guo Yong (2005) Zi Di 13612 Hao dated on 8 September 2005, the Site with a land area of approximately 76,006.6 sq.m. has been allocated to Heze Construction Bureau for infrastructure use.

2. Pursuant to the TOT License Agreement dated on 12 December 2007 entered into between Heze Construction Bureau and ZKC Group, the realty title of the property occupying a site area of 76,006.6 sq.m., have been contracted to be allocated to ZKC Group for the usage of public infrastructure with the term of 25 years.

3. As advised by ZKC Group, ZKC Group did not obtain any State-owned Land Use Rights Certificate of the property as at 30 April 2008.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the License Agreement, ZKC Group has the right to use the site stated in Note 1 above within the term of the license. ZKC Group is not allowed to dispose or mortgage the site.

   (b) ZKC Group has not obtained the Building Ownership Certificate(s) of the property.

VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
10.	An industrial complex on No.199 Fu Rong Road North, Changsha City, Hunan Province, the People's Republic of China	The property comprises one office building, warehouse, ancillary facilities, security booth and various structures occupying a site with a land area of approximately 111.726 mu. No area information of the property is provided by ZKC Group. As advised by ZKC Group, the property was completed in 2003.	A retail unit of the property with a total gross floor area of approximately 2,000 sq.m. is currently tenanted as a restaurant for a term from 1 July 2005 to 1 July 2011 for an annual rent of RMB170,000 with 7% annual escalation. The remaining portion of the property is currently occupied by ZKC Group as a plant.	No Commercial Value

Notes:

1. Pursuant to the TOT License Agreement dated on 28 December 2004 entered into between Changsha Utility Management Bureau and ZKC Group, the land area of approximately 111.726 mu has been contracted to be allocated to ZKC Group for the usage of sewage plant with the term of 20 years.

2. Pursuant to the Tenancy Agreement dated on 12 April 2005 entered into between Mei Shi Te Restaurant and ZKC Group, a retail unit of the property with a total gross floor area of approximately 2,000 sq.m. has been agreed to lease to the restaurant commencing from 1 July 2005 to 1 July 2011.

3. As advised by ZKC Group, ZKC Group did not obtain any State-owned Land Use Rights Certificate of the property as at 30 April 2008.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the License Agreement, ZKC Group has the right to use the site stated in Note 1 above within the term of the license. ZKC Group is not allowed to dispose or mortgage the site.

   (b) ZKC Group has not obtained the Building Ownership Certificate(s) of the property.

   (c) Regarding to the Tenancy Agreement stated in Note 2 above, it is legal and binding on both parties. ZKC Group has obtained approval from Changsha Utility Management Bureau and has right to lease the property.

VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
11.	An industrial complex in Nan Sha Economic and Technological Development Zone, Pan Yu District, Guangzhou City, Guangdong Province, the People's Republic of China	The property comprises one 3-storey office building, ancillary facilities, warehouses with a total gross floor area of approximately 3,428.98 sq.m. and various structures erected on a site with land area of approximately 254,315 sq.m. (the "Site").	The property is currently occupied by ZKC Group as a plant.	No Commercial Value

As advised by ZKC Group, the gross floor areas of each building are summarized as below:

Building	**Gross Floor Area** *(sq.m.)*
Office	1,560
Security Booth	54
Ancillary Facilities	1,868.98
Total	3,428.98

As advised by ZKC Group, the property was completed in July 2006.

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate No. Sui Nan Guo Yong (2005) Di 000001 Hao dated on 7 June 2005, the Site with a land area of approximately 254,315 sq.m. has been allocated to Nan Sha Construction Bureau for watering construction.

2. Pursuant to the BOT License Agreement dated on 16 September 2004 entered into between Nansha Construction Bureau and ZKC Group, the land use rights of the property occupying a site area of approximately 254,315 sq.m. have been contracted to be allocated to ZKC Group for the usage of sewage plant with the expiry date on 15 September 2026.

3. As advised by ZKC Group, ZKC Group did not obtain any State-owned Land Use Rights Certificate of the property as at 30 April 2008.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the License Agreement, ZKC Group has the right to use the site stated in Notes 1 and 2 above within the term of the license. ZKC Group is not allowed to dispose or mortgage the site.

   (b) ZKC Group has not obtained the Building Ownership Certificate(s) of the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
12.	An industrial complex in Da Ling Village, Xin Hua Town, Hua Du District, Guangzhou City, Guangdong Province, the People's Republic of China	The property comprises one 2-storey office building, 2-storey staff dormitory building, warehouses, ancillary facilities, security booth with a total gross floor area of approximately 3,345.7 sq.m. and various structures erected on a site with a land area of approximately 174,993 sq.m. (the "Site").	The property is currently under construction.	No Commercial Value

As advised by ZKC Group, the gross floor areas of each building are summarized as below:

Building	Gross Floor Area *(sq.m.)*
Office	1,180
Security Booth	36
Staff Dormitory	587
Warehouse	332
Ancillary Facilities	1,990.7
Total	3,345.7

As advised by ZKC Group, the property will be completed in 2008.

Notes:

1. Pursuant to the State-owned Land Use Rights Certificate No. Hua Guo Yong (2007) Di 721561 Hao dated on 21 August 2007, the Site with a land area of approximately 174,993 sq.m. has been allocated to Hua Du Xinhua Sewage Plant for infrastructure use.

2. Pursuant to the BOT License Agreement dated on 7 February 2007 entered into between Guangzhou Hua Du Municipal Landscape Management Bureau and ZKC Group, the land use rights of the property with a land area of approximately 174,993 sq.m. have been contracted to be allocated to ZKC Group for the usage of sewage plant with the term of 25 years.

3. As advised by ZKC Group, ZKC Group did not obtain any State-owned Land Use Rights Certificate of the property as at 30 April 2008.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the License Agreement, ZKC Group has the right to use the site stated in Notes 1 and 2 above within the term of the license. ZKC Group is not allowed to dispose or mortgage the site.

   (b) ZKC Group has not obtained the Building Ownership Certificate(s) of the property.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
13. An industrial complex in Guang Fu Village, Hua Yang Town, Shuangliu County, Chengdu City, Sichuan Province, the People's Republic of China	The property will be constructed as a sewage plant. No area information of the property is provided by ZKC Group As advised by ZKC Group, the property will be completed in 2008.	The property is currently under construction.	No Commercial Value

Notes:

1. Pursuant to the BOT License Agreement dated on 1 March 2006 entered into between the Municipal Government of Shuangliu County and ZKC Group, the land use rights of the property have been contracted to be allocated to ZKC Group for the usage of sewage plant with the term of 20 years.

2. As advised by ZKC Group, ZKC Group did not obtain any State-owned Land Use Rights Certificate of the property as at 30 April 2008.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the License Agreement, ZKC Group has the right to use the site stated in Note 1 above within the term of the license. ZKC Group is not allowed to dispose or mortgage the site.

   (b) ZKC Group has not obtained the Building Ownership Certificate(s) of the property.

Group III–Property interests rented by ZKC Group in the PRC

VALUATION CERTIFICATE

	Property	**Description and tenure**	**Details of occupancy**	**Capital value in existing state as at 30 April 2008** *(RMB)*
14.	An residential unit of No.14, 11/F Block 1, Kehua Road North, Wuhou District, Chengdu City, Sichuan Province, the People's Republic of China	The property comprises a residential unit with a total gross floor area of approximately 51.61 sq.m. in a high-rise residential building. The property is leased by Yang Guangxing to ZKC Group for a term commencing from 12 December 2007 and expiring on 11 December 2008 at an annual rental of RMB18,000.	The property is currently occupied by ZKC Group as a staff dormitory.	No Commercial Value

Notes:

1. We have not been provided with any title certificate of the property.

2. Pursuant to the Tenancy Agreement dated on 22 November 2007 between Yang Guangxing and ZKC Group, the property was contracted to lease to ZKC Group with a monthly rental of RMB1,500 commencing from 12 December 2007 and expiring on 11 December 2008.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) Pursuant to the relevant documents, Yang Guangxing has purchased the property from the former owner and the transfer of the Building Ownership Certificate is currently under application.

   (b) No Building Ownership Certificate or other relevant documents are available to support that ZKC Group has the right to legally occupy the property. However, as the property is rented by ZKC Group for residential usage, it will not affect ZKC Group's business operation and ZKC Group will not bear any legal responsibilities for renting the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
15.	A residential unit of Unit F, 17/F Block Rui Jing, Zong Lv Garden, Chengdu City, Sichuan Province, the People's Republic of China	The property comprises a residential unit in a high-rise residential building. The floor area of the property is approximately 120 sq.m.. The property is leased by Zhang Yong to ZKC Group for a term commencing from 8 November 2006 and expiring on November 7, 2008 at a monthly rental of RMB1,800 for the first year and a monthly rental of RMB2,000 for a half year's extension.	The property is currently occupied by ZKC Group as a staff dormitory.	No Commercial Value

Notes:

1. Pursuant to the Building Ownership Certificate No. Rong Fang Quan Zheng Cheng Fang Jian Zheng Zi Di 0927035 Hao, the property is held by Xia Daiming.

2. Pursuant to the Authority Letter dated on 5 November 2005, Xia Daiming, the owner of the property, has authorized Zhang Yong to handle and sign the Tenancy Agreement with ZKC Group.

3. Pursuant to the Tenancy Agreement and its renewal agreement dated on 9 May 2008 between Zhang Yong and ZKC Group, the property was contracted to lease to ZKC Group with a monthly rental of RMB1,800 commencing from 8 November 2006 and expiring on 7 November 2007 and with a monthly rental of RMB2,000 for the extension period from 8 May 2008 to 7 November 2008.

4. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

    (a) The tenancy agreement is legal and binding on both parties.

    (b) Subject to the Tenancy Agreement, ZKC Group legally uses the property and its rights are under the protection of China's laws.

VALUATION CERTIFICATE

Property		Description and tenure	Details of occupancy	Capital value in existing state as at 30 April 2008 *(RMB)*
16.	An office unit on 11/F, Hong Di Mansion, No. 153 Kehua Road North, Wuhou District, Chengdu City, Sichuan Province, the People's Republic of China	The property comprises an office unit with a total gross floor area of approximately 750 sq.m. in an office building. The property is leased by Chengdu Hong Di Industrial Co., Ltd. to ZKC Group for a term commencing from 15 September 2004 and expiring on 14 September 2009 at an annual rental of RMB 300,000.	The property is currently occupied by ZKC Group as an office.	No Commercial Value

Notes:

1. Pursuant to the Building Ownership Certificate No. Quan 0937753, the property is held by Chengdu Hong Di Industrial Co., Ltd..

2. Pursuant to the Tenancy Agreement and its renewal agreement dated on 25 July 2007 between Chengdu Hong Di industrial Co., Ltd. and ZKC Group, the property was contracted to lease to ZKC Group with an annual rental of RMB300,000 commencing from 15 September 2004 and expiring on 14 September 2009.

3. We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisers, which contains, inter alia, the following information:

   (a) The tenancy agreement is legal and binding on both parties.

   (b) Subject to the Tenancy Agreement, ZKC Group legally uses the property and its rights are under the protection of China's laws.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. This circular is for information purposes only and does not constitute an offer to acquire, purchase, or subscribe for or the solicitation of an offer to acquire, purchase or subscribe for any securities or an invitation to enter into an agreement to do any such things, nor is it calculated to invite any offer to acquire, purchase or subscribe for any securities.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

		HK$
Shares		
Authorised		
15,000,000,000	Shares	150,000,000
Issued and fully paid or credited as fully paid:		
345,285,449	Shares	34,528,545

All Shares currently in issue rank pari passu in all respects with each others, including, in particular, as to dividends, voting rights and return of capital. Other than 247,000,000 new Shares issued by the Company pursuant to the Subscription Agreement as disclosed in the Company's announcement dated 28 January 2008 and 15,000,000 new Shares issued by the Company to an Independent Third Party following the conversion of the principal sum of HK$6,000,000 of the Tranche 1 Bond on 16 June 2008, since 30 June 2007 (being the date to which the latest published audited accounts of the Group were prepared) and up to the Latest Practicable Date, no new Shares have been issued by the Company.

Save and except for the Firm Bonds, the First Call Option Bond, the Second Call Option Bond, the Tranche 1 Bond and the Tranche 2 Bond, there were no other outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

The issued Shares are listed and traded on the main board of the Stock Exchange. No part of the issued share capital of the Company is listed on any other stock exchanges.

3. DISCLOSURE OF INTERESTS

(a) Directors' interests and share positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Director had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Long positions in the shares, underlying Shares and debentures of the Company

Name of Director	Number of shares of BEHL	Appropriate percentage of the issued share capital
Mr. Liu Kai	6,000	0.0005%
Mr. E Meng	5,000	0.0004%
Mr. Jiang Xinhao	60,000	0.0050%
Ms. Qi Xiaohong	50,000	0.0040%

Note: Based on the total issued share capital of BEHL of 1,138,903,000 as at the Latest Practicable Date.

Save as disclosed above, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) Persons who have interests or short positions which are discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares or/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 or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Interests in the Shares and underlying Shares

Name	**Total**	**Approximate percentage of issued capital as at the Latest Practicable Date**
Beijing Enterprises Environmental Construction Limited *(Note 1)*	747,000,000 *(Note 2)*	89.97%
BEHL	747,000,000	89.97%

Notes:

1. Beijing Enterprises Environmental Construction Limited is a wholly-owned subsidiary of BEHL.

2. Upon full conversion of 500,000,000 firm bonds as disclosed in the circular of the Company dated 18 February 2008.

As at the Latest Practicable Date, save as disclosed above, so far as was known to the Directors, no other person (other than the Directors or chief executive of the Company) had, or was deemed or taken to have an interest or short position in the Shares or/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 or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

(c) Since 30 June 2007 (being the date to which the latest published audited consolidated accounts of the Company were made up), none of the Directors or any proposed Director has had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

(d) There was no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, each of Messrs. Zhang Honghai, Lui Kai and E Meng, all being executive Directors, has a service contract with BEHL for a term of three years commencing on 3 December 2006, 16 January 2007 and 17 June 2005 respectively.

Save as disclosed above, as at the Latest Practicable Date, no other Directors have entered into any service contracts with the Company or any of its subsidiaries or associated companies:

(a) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the announcement of the Company dated 13 June 2008 and up to the Latest Practicable Date;

(b) which are continuous contracts with a notice period of 12 months or more; and

(c) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

5. DIRECTORS' INTEREST IN CONTRACTS

As at the Latest Practicable Date:–

(a) there was no agreement, arrangement or understanding (including any compensation arrangement) between any of the Directors and (a) any other persons; or (b) the Vendors or any person acting in concert with any of them which was conditional on or dependent upon the outcome of the Acquisition Agreement;

(b) there was no material contract entered into by the Vendors in which any Director had a material personal interest; and

(c) no benefit had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Acquisition Agreement.

6. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation, claim or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business of the Group) have been entered into by the members of the Group after the date of two years immediately preceding the date of this circular, and up to the Latest Practicable Date, and are or may be material:

1. a subscription agreement dated 12 April 2007 between PWL and the Company whereby PWL agreed to subscribe for the Tranche 1 Bond and the Tranche 2 Bond in the aggregate principal amount of HK$200,000,000;

2. a letter dated 21 June 2007 from the Company to PWL whereby the Company agreed to postpone the Tranche 1 Bond's issue date to 31 July 2007 or any later day as agreed between the parties;

3. a letter dated 18 January 2008 from the Company to PWL whereby the Company agreed to postpone the Tranche 2 Bond's issue date to 31 March 2008;

4. the MOU;

5. the Subscription Agreement;

6. a letter dated 20 January 2008 from PWL to the Company whereby PWL unconditionally and irrevocably agrees to, and shall procure that any subsequent holder(s) of the Tranche 1 Bond and the Tranche 2 Bond to, waive the rights for any adjustment of conversion price under the subscription agreement referred to in paragraph (1) above, the Tranche 1 Bond and Tranche 2 Bond arising from or in connection with (i) the entering into of the Subscription Agreement; and (ii) the Acquisition and any actions including the issue of any Shares contemplated by or referred to therein;

7. an addendum dated 28 January 2008 between the Company, the Subscriber and BEHL amending certain terms of the Subscription Agreement, pursuant to which among others, the Company shall use its reasonable endeavours to ensure that the relevant provisions as to the minimum public float requirement of the Listing Rules are complied with and the holder(s) of the Firm Bonds the First Option Bond and the Second Option Bond shall not exercise any of the conversion rights attaching to the Bonds, if following such exercise, the Company's minimum public float of the Shares as required under the Listing Rules cannot be maintained; and

8. the Acquisition Agreement.

8. CONSENTS AND QUALIFICATIONS

The followings are the names and the qualifications of the professional advisers who have given opinion or advice which are contained or referred to in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
CB Richard Ellis Limited	Property Valuer
Haiwen & Partners	PRC Attorney

As at the Latest Practicable Date, none of Ernst & Young, CB Richard Ellis Limited or Haiwen & Partners had any beneficial interest in the share capital of any member of the Enlarged Group nor did they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group or have any interest, either directly or indirectly, in any assets which have been, since 30 June 2007, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Ernst & Young, CB Richard Ellis Limited or Haiwen & Partners have given and have not withdrawn their respective written letters of consent to the issue of this circular with the inclusion herein of references to their respective names in the form and context in which they appear.

9. COMPETING INTERESTS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors and their respective associates were considered to have any interests in businesses which competed or were likely to compete, either directly or indirectly, with the business of the Group, other than those business where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

10. MISCELLANEOUS

1. The company secretary of the Company is Mr. Tsang Ngai Man, who is a practicing solicitor in Hong Kong and a member of The Law Society of Hong Kong.

2. The qualified accountant of the Company is Mr. Tung Woon Cheung, Eric, a Certified Public Accountant of both the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.

3. The branch share registrar of the Company is Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any weekday (public holidays excepted) at the principal place of business of the Company in Hong Kong at Room 1601, 16/F, Cosco Tower, No. 183 Queen's Road Central, Sheung Wan, Hong Kong from 30 June 2008, being the date of this circular up to and including 15 July 2008:

1. the memorandum and articles of association of the Company;

2. the annual report of the Company for the year ended 30 June 2007;

3. the interim report of the Company for the six months ended 31 December 2007;

4. the circular of the Company dated 18 February 2008 in respect of, among others, the Subscription Agreement;

5. the accountants' report of the BVI Holdco, the text of which is set out in Appendix II to this circular;

6. the accountants' report of China Field, the text of which is set out in Appendix III to this circular;

7. the accountants' report of ZKC Group, the text of which is set out in Appendix IV to this circular;

8. the accountants report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix VI to this circular;

9. the valuation reports of properties of the Enlarged Group, the text of which is set out in Appendix VII to this circular;

10. the legal opinion issued by Haiwen & Partners in respect of the properties of the Enlarged Group;

11. the letters of consent referred to under the paragraph headed "Consents and Qualifications" in this appendix; and

12. a copy of the material contracts referred to in the paragraph headed "Material Contracts" in this appendix.

BEIJING ENTERPRISES WATER GROUP LIMITED

北控水務集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 371)

NOTICE IS HEREBY GIVEN THAT the special general meeting of Beijing Enterprises Water Group Limited (the "**Company**") will be held at Room 4301, 43/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 15 July 2008 at 3 p.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTION

To consider and if thought fit, pass the following resolution as Ordinary Resolution:

1. **THAT**

(A) the Acquisition Agreement (as defined in the circular dated 30 June 2008 despatched to the shareholders of the Company (the "**Circular**"), a copy of which has been produced to the meeting and marked "A", and initialled by the chairman of the meeting for the purpose of identification), a copy of which has been produced to the meeting and marked "B", and initialled by the chairman of the meeting for the purpose of identification, the terms thereof and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(B) the acquisition of the BVI Holdco Sale Shares and the HK Holdco Sale Shares (as defined in the Circular) by the Purchaser on the terms set out in the Acquisition Agreement be and is hereby approved;

(C) the issue of the Convertible Bonds (as defined in the Circular) in favour of each of the Vendors and/or their respective nominees, in each case on the terms set out in the Acquisition Agreement, be and are hereby approved;

(D) the issue and allotment by the Company of the Conversion Shares (as defined in the Circular) from time to time upon exercise of the conversion rights under the Convertible Bonds be and are hereby approved;

(E) the issue and allotment by the Company of the Consideration Shares (as defined in the Circular) in favour of each of the Vendors and/or their respective nominees, in each case on the terms set out in the Acquisition Agreement, be and are hereby approved;

* *For identification purposes only*

(F) all other transactions contemplated under the Acquisition Agreement be and are hereby approved; and

(G) any one director of the Company be and is hereby authorised to do all such acts and things as he in his sole and absolute discretion deems necessary, desirable or expedient to implement, give effect to and/or complete the Acquisition Agreement and the transactions contemplated thereunder, including without limitation, the issue and allotment of the Consideration Shares, the issue of the Convertible Bonds, the issue and allotment of the Conversion Shares from time to time upon exercise of the conversion rights under the Convertible Bonds, and, where required, any amendment of the terms of the Acquisition Agreement and/or the Convertible Bonds."

Yours faithfully
For and on behalf of the Board
Beijing Enterprises Water Group Limited
Zhang Honghai
Chairman

Hong Kong, 30 June 2008

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote instead of him. In the case of a recognized clearing house, it may authorize such person(s) as it thinks fit to act as its representative(s) at the meeting and vote in its stead. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, of 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.