



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 371

Interim Report

2008



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Tsang Ngai Man

QUALIFIED ACCOUNTANT

Mr. Tung Woon Cheung, Eric *CPA, CPA (U.S.)*

STOCK CODE

371

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

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PRINCIPAL SHARE AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

Ernst & Young

WEBSITE

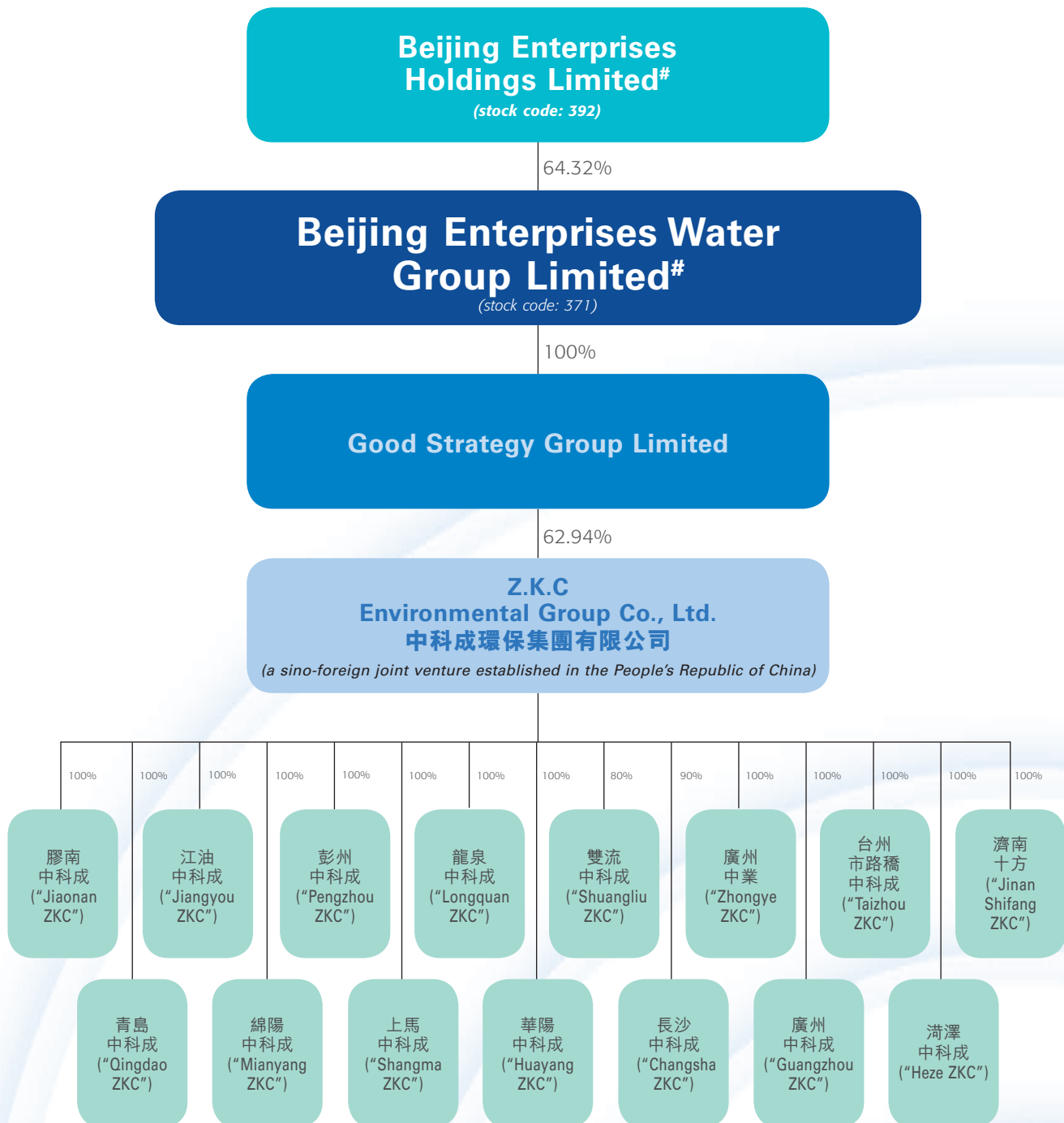
www.bewg.com.hk

PRINCIPAL BANKERS

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

CORPORATE STRUCTURE

AS AT 16TH SEPTEMBER, 2008



[#] Listed on The Main Board of The Stock Exchange of Hong Kong Limited

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Beijing Enterprises Water Group Limited (the "Company") is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (the "Group") for the twelve months ended 30 June 2008 and the unaudited condensed consolidated balance sheet of the Group as at 30 June 2008 with the comparative figures for the corresponding period in 2007.

FINANCIAL HIGHLIGHTS

Revenue of the Group for the twelve months ended 30 June 2008 was HK\$11.0 million representing a decrease of 44.9% as compared with the corresponding period in 2007. During this period, the result from operating activities of the Group turned around to profit of HK\$1.7 million, which represents an increase of 165.4% as compared with the loss from operating activities of HK\$2.6 million in the corresponding period in 2007. Loss for the period amounted to HK\$9.1 million. The Board does not recommend the payment of an interim dividend for the twelve months ended 30 June 2008.

BUSINESS REVIEW

2008 was a remarkable year for the Group's development. Following our dedicated efforts, we have successfully tapped into water service market in China. In order to signify this new strategic move, the Company's name has been changed from Shang Hua Holdings Limited to Beijing Enterprises Water Group Limited.

With the fast-growing economy and rapid urbanization, water pollution problem has emerged as pressing concern in China. Coupled with poor waste water infrastructure, water quality keeps deteriorating in recent years. In view of this, the PRC government has launched a series of measures to protect water resources. As committed in 11th Five Year Plan, RMB1 trillion is expected to be spent on water resources protection in the coming years. Besides, the water price reform and deregulatory policy were introduced to attract foreign and private investments in water industry. This huge government support has created enormous business opportunities in water service market.

The Group considers this booming market as favourable platform for its profit growth and established an aim to diversify into the water treatment business. Meanwhile, Beijing Enterprises Holdings Limited ("BEHL", stock code: 392) has expressed its intention to invest in the Group and to use the Group as its strategic investment vehicle to develop water treatment business. The management believes that the Group will benefit from BEHL's financial strength and its extensive experience and expertise in public utility sectors including water supply and treatment. As such, the Company entered into a share subscription agreement with BEHL during this period. Leveraging on strong support from BEHL, the Group is confident to secure further opportunities in water treatment business, becoming a major player in the industry.

To achieve this target, the Group has recently announced the acquisition of 88.43% equity interest in 中科成環保集團有限公司 (Z.K.C Environmental Group Co., Ltd., ("ZKC")), one of the leading operators in the China's waste water treatment market. At present, ZKC owns 13 water sewage plants located in various provinces in China, such as Sichuan, Hunan, Shandong, Guangdong and Zhejiang with an aggregate water treatment capacity of approximately 900,000 tonnes per day. ZKC has acquired extensive experience not only in bidding, building and operating build-operate-transfer (BOT) waste water projects, but also successfully marketed its patented treatment technology to other operators. Apart from this, the Group also sees great growth potential in ZKC. Given its solid foundation, ZKC continuously pushes itself to achieve growth through both greenfield development as well as acquisition. Following the successful acquisition of ZKC, the Group has gained a significant presence in the waste water treatment market.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

In addition to the acquisition of ZKC, the Group is currently actively evaluating other opportunities which can facilitate the Group's expansion plan in the waste water treatment business. The Group has also signed some memorandum of understanding for waste water treatment projects with aggregate total treatment capacity of approximately 1 million tonnes per day.

The Group is also evaluating certain waste water treatment and water supply projects in provinces and cities such as Beijing, Fujian, Yunnan, Shandong and Heilongjiang 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.

PROSPECT

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

On the other hand, the Group will focus on water treatment and environmental business and strive to become a premier market leader in the industry. We shall continue to identify and actively seek water treatment and environmental projects with sound potential growth with a view to generating considerable return for shareholders and investors.

FINANCIAL PERFORMANCE ANALYSIS

Revenue

For the twelve months period ended 30 June 2008, the Group recorded revenue of HK\$11.0 million, representing a decrease of 44.9% as compared with the corresponding period in 2007. The decrease was due to keen competition in the computer consumer products market. Additionally, during the period, the Group has started to diversify into water treatment and related business. Since then, the Group has progressively reduced its reliance on trading computer products and thus revenue contribution from such business decreased. However, it is anticipated that the ongoing expansion in water treatment business shall boost revenue in the second half of the year.

Gross profit margin

During the period, gross profit margin has slightly increased from 1.0% to 2.1% due to the effective cost control measure.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE ANALYSIS *(Continued)*

Other income and gains, net

The Group recorded other income of HK\$7.4 million. The increase was mainly due to interest income growth of HK\$2.5 million driven by bank deposits from fund raising activities held during this period. Apart from this, there was increase in exchange gain of HK\$2.3 million resulted from the appreciation of monetary assets denominated in Australian dollars.

Administrative expenses

Administrative expenses increased 44.5% to HK\$6.0 million in the current period which was mainly attributable to increase in operating overhead.

Finance costs

During the period, zero coupon convertible bonds of HK\$400 million were issued by the Company to finance the funding for new business development, which resulted in imputed interest expenses of HK\$10.7 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group has achieved a strong liquidity position with cash and cash equivalents surged to HK\$508.3 million. The funds were raised through issuance of new shares and convertible bonds during the period.

During this period, the Group has revamped its business strategy and actively seeks various opportunities to step into water treatment market. With a view to capitalizing sufficient financial resources for new business development, the Company issued convertible bonds with aggregate principal amount of HK\$200 million to Pioneer Wealth Limited, a shareholder of the Company. To further strengthen its financial base, the Company issued 247,000,000 new shares at a subscription price of HK\$0.40 and convertible bonds with principal value of HK\$200 million to Beijing Enterprises Environmental Construction Limited (formerly known as Lucky Crown Management Limited and a wholly-owned subsidiary of BEHL). In aggregate, total net proceed of HK\$496.3 million was raised during this period. These capital resources provided a substantial support for the Group's expansion and development in the water treatment and environmental business.

With the issuance of convertible bonds, the Group's total borrowings increased to HK\$327.1 million as at 30 June 2008. Since the convertible bonds contain both financial liability and equity components, the proceeds from issuance are classified separately as liability and reserves under equity. Thus, the issuance of convertible bonds also gives rise to increase in equity. Accordingly, together with the effect of issuance of new shares, total equity increased significantly to HK\$201.3 million. The gearing ratio (defined as total borrowings, net of cash and cash equivalents, divided by the total equity) was nil as at 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the Group employed 11 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

APPRECIATION

On behalf of the Board, I would like to express my sincere thanks to all the Group's employees for their continuous support and dedicated services.

By order of the Board

Zhang Honghai

Chairman

Hong Kong, 16 September 2008



CONDENSED CONSOLIDATED INCOME STATEMENT

For the twelve months ended 30 June 2008

	Notes	For the twelve months ended 30 June	
		2008 (Unaudited) HK\$'000	2007 (Audited) HK\$'000
REVENUE	5	10,956	19,899
Cost of sales		(10,721)	(19,695)
Gross profit		235	204
Other income and gains, net	5	7,435	1,309
Administrative expenses		(5,974)	(4,133)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	1,696	(2,620)
Finance costs	7	(10,691)	–
LOSS BEFORE TAX		(8,995)	(2,620)
TAX	8	(78)	53
LOSS FOR THE PERIOD		(9,073)	(2,567)
LOSS PER SHARE			
– Basic	9	(HK5.59 cents)	(HK3.08 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

	<i>Notes</i>	30 June 2008 (Unaudited) <i>HK\$'000</i>	30 June 2007 (Audited) <i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment		58	71
Goodwill		–	–
Prepayments, deposits and other receivables		19,969	–
Total non-current assets		20,027	71
Current assets:			
Trade receivables	10	–	2,104
Prepayments, deposits and other receivables		412	147
Financial assets at fair value through profit or loss		–	431
Pledged deposit		–	75
Cash and cash equivalents		508,318	29,287
Total current assets		508,730	32,044
TOTAL ASSETS		528,757	32,115
EQUITY AND LIABILITIES			
Equity:			
Issued capital	11	34,528	8,328
Reserves		166,801	23,108
TOTAL EQUITY		201,329	31,436
Non-current liabilities:			
Convertible bonds	12	327,082	–
Current liabilities:			
Trade payables	13	–	313
Other payables and accruals		346	366
Total current liabilities		346	679
TOTAL LIABILITIES		327,428	679
TOTAL EQUITY AND LIABILITIES		528,757	32,115

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the twelve months ended 30 June 2008

		Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Equity component of convertible bonds (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2007		8,328	-	-	(400)	974	22,534	31,436
Share issue expenses		-	(2,469)	-	-	-	-	(2,469)
Exchange realignment		-	-	-	-	913	-	913
Total income and expense for the period recognised directly in equity		-	(2,469)	-	-	913	-	(1,556)
Loss for the period		-	-	-	-	-	(9,073)	(9,073)
Total income and expense for the period		-	(2,469)	-	-	913	(9,073)	(10,629)
Issue of new shares	11(b)	24,700	74,100	-	-	-	-	98,800
Issue of convertible bonds	12	-	-	78,341	-	-	-	78,341
Shares issued upon conversion of convertible bonds	11(b)	1,500	4,805	(1,037)	-	-	-	5,268
Released upon disposal of subsidiaries	14	-	-	-	-	(1,887)	-	(1,887)
At 30 June 2008		34,528	76,436*	77,304*	(400)*	-*	13,461*	201,329

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the twelve months ended 30 June 2008

	Issued capital (Audited) HK\$'000	Share premium (Audited) HK\$'000	Equity component of convertible bonds (Audited) HK\$'000	Capital reserve (Audited) HK\$'000	Exchange fluctuation reserve (Audited) HK\$'000	Retained profits (Audited) HK\$'000	Total (Audited) HK\$'000
At 1 July 2006	8,328	-	-	(400)	323	25,101	33,352
Income for the period recognised directly in equity							
– Exchange realignment	-	-	-	-	651	-	651
Loss for the period	-	-	-	-	-	(2,567)	(2,567)
Total income and expense for the period	-	-	-	-	651	(2,567)	(1,916)
At 30 June 2007	8,328	-*	-*	(400)*	974*	22,534*	31,436

* These reserve accounts comprise the consolidated reserves of HK\$166,801,000 in the condensed consolidated balance sheet as at 30 June 2008 (2007: HK\$23,108,000).

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the twelve months ended 30 June 2008

	For the twelve months ended 30 June	
	2008 (Unaudited) <i>HK\$'000</i>	2007 (Audited) <i>HK\$'000</i>
Net cash outflow from operating activities	(32,906)	(5,768)
Net cash inflow from investing activities	14,612	2,316
Net cash inflow from financing activities	496,331	–
Increase/(decrease) in cash and cash equivalents	478,037	(3,452)
Cash and cash equivalents at beginning of period	29,287	32,088
Effect of foreign exchange rate changes, net	994	651
Cash and cash equivalents at end of period	508,318	29,287
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	57,913	23,417
Time deposits	450,405	5,945
Less: Pledged deposit	–	(75)
	508,318	29,287

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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. As at 30 June 2008 and the date of approval of these financial statements, the immediate holding company of the Company is Beijing Enterprises Environmental Construction Limited ("BE Environmental", formerly known as Lucky Crown Management Limited and a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("BEHL"), stock code: 392), which is incorporated in the British Virgin Islands, and, in the opinion of the directors, the ultimate holding company is 北京控股集團有限公司 (Beijing Enterprises Group Company Limited), which is a state-owned enterprise established in The People's Republic of China (the "PRC") and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

2. BASIS OF PREPARATION AND CHANGE OF FINANCIAL YEAR END DATE

The unaudited condensed interim consolidated financial statements for the twelve months ended 30 June 2008 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". These interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group's audited financial statements for the year ended 30 June 2007.

On 4 March 2008, the Board passed an ordinary resolution to change the financial year end date of the Company from 30 June to 31 December commencing from the financial year 2008. The reason for the change is to align the financial year end date of the Company with that of its holding company, BEHL. Adoption by the Company of the same financial year end date as that of BEHL will facilitate the preparation of consolidated accounts of BEHL. As a result, the current financial period covers an eighteen-month period from 1 July 2007 to 31 December 2008. Accordingly, the Company prepared the second unaudited interim consolidated results for a twelve-month period from 1 July 2007 to 30 June 2008.

Pursuant to the special resolution of the Company passed on 4 March 2008, the English name of the Company has been changed from "Shang Hua Holdings Limited" to "Beijing Enterprises Water Group Limited" and the Chinese name "北控水務集團有限公司" has replaced "上華控股有限公司" for identification purposes.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 30 June 2007, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretation) that are adopted for the first time for the current period's financial statements:

HK(IFRIC) – Int 11

HK(IFRIC) – Int 12

HK(IFRIC) – Int 14

HKFRS 2 – Group and Treasury Share Transactions

Service Concession Arrangements

HKAS 19 – The Limit on a Defined Benefit Asset,

Minimum Funding Requirements and their Interaction

The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further business segment information is presented as the Group's operations relate solely to the trading of computers and related products. The following tables present revenue and results for the Group's geographical segments.

For the twelve months ended 30 June 2008

	Hong Kong (Unaudited) HK\$'000	Mainland China (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:			
Sales to external customers	10,956	–	10,956
Segment results	(4,558)	–	(4,558)
Corporate and other unallocated income and gains, net			7,452
Corporate and other unallocated expenses			(1,198)
Profit from operating activities			1,696
Finance costs			(10,691)
Loss before tax			(8,995)
Tax			(78)
Loss for the period			(9,073)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION *(continued)*

For the twelve months ended 30 June 2007

	Hong Kong (Audited) <i>HK\$'000</i>	Mainland China (Audited) <i>HK\$'000</i>	Consolidated (Audited) <i>HK\$'000</i>
Segment revenue:			
Sales to external customers	17,775	2,124	19,899
Segment results	(2,265)	(385)	(2,650)
Corporate and other unallocated income and gains, net			1,362
Corporate and other unallocated expenses			(1,332)
Loss from operating activities			(2,620)
Finance costs			–
Loss before tax			(2,620)
Tax			53
Loss for the period			(2,567)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains, net is as follows:

	For the twelve months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Audited) HK\$'000
Revenue		
Sale of goods	10,956	19,899
Other income		
Bank interest income	3,547	1,067
Dividend income from financial assets at fair value through profit or loss	137	8
	3,684	1,075
Gains, net		
Gain on disposal of financial assets at fair value through profit or loss, net	702	209
Gain on disposal of subsidiaries – <i>note 14</i>	760	–
Foreign exchange differences, net	2,289	25
	3,751	234
Other income and gains, net	7,435	1,309

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	For the twelve months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Audited) HK\$'000
Depreciation	42	41
Fair value loss on financial assets at fair value through profit or loss	–	12

7. FINANCE COSTS

Finance costs for the period ended 30 June 2008 are interest on convertible bonds (period ended 30 June 2007: Nil).

8. TAX

	For the twelve months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Audited) HK\$'000
Under/(Over) provision in prior periods – PRC	78	(53)

No provision for Hong Kong profits tax and the PRC corporate income tax have been made in the financial statements as the Group's operations in both Hong Kong and Mainland China incurred tax loss for both periods.

9. LOSS PER SHARE

The calculation of the basic loss per share amounts is based on the unaudited loss for the period of HK\$9,073,000 (period ended 30 June 2007: HK\$2,567,000), and the weighted average number of ordinary shares in issue of 162,184,356 (period ended 30 June 2007: 83,285,449).

The diluted loss per share for the twelve months ended 30 June 2008 is not presented as the potential ordinary shares in respect of the convertible bonds were anti-dilutive. The diluted loss per share for the twelve months ended 30 June 2007 is not presented as there was no diluting event during that period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. TRADE RECEIVABLES

The Group allows an average credit period of 60 days to its customers. The Group's trade receivables as at the balance sheet date, based on invoice date, is aged within 30 days.

The carrying amounts of trade receivables approximate their fair values.

11. ISSUED CAPITAL

	<i>Notes</i>	30 June 2008 (Unaudited) HK\$'000	30 June 2007 (Audited) HK\$'000
Authorised:			
15,000,000,000 (2007: 1,500,000,000) ordinary shares of HK\$0.10 each	<i>(a)</i>	1,500,000	150,000
Issued and fully paid:			
345,285,449 (2007: 83,285,449) ordinary shares of HK\$0.10 each	<i>(b)</i>	34,528	8,328

Notes:

- (a) Pursuant to an ordinary resolution passed on 4 March 2008, the authorised share capital of the Company was increased from HK\$150,000,000 to HK\$1,500,000,000 by the creation of an additional 13,500,000,000 shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.
- (b) On 21 January 2008, the Company entered into a subscription agreement (the "Subscription Agreement") with BEHL and BE Environmental, under which the Company agreed to allot and issue to BE Environmental, and BE Environmental agreed to subscribe for 247,000,000 new shares of the Company at a price of HK\$0.40 per new share. Further details are set out in the Company's circular dated 18 February 2008.

During the twelve months ended 30 June 2008, part of the convertible bonds, amounting to HK\$6,000,000, were exercised by bondholders in exchange for 15,000,000 ordinary shares of the Company at the conversion price of HK\$0.40 per share.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. CONVERTIBLE BONDS

	Liability component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2007 (Audited)	–	–	–
Nominal value of convertible bonds			
issued during the period	321,659	78,341	400,000
Conversion to shares	(5,268)	(1,037)	(6,305)
Interest expense	10,691	–	10,691
At 30 June 2008 (Unaudited)	327,082	77,304	404,386

On 27 July 2007 and 31 March 2008, the Company issued the Tranche 1 Bond and Tranche 2 Bond with principal amount of HK\$100 million each to Pioneer Wealth Limited, a shareholder of the Company, pursuant to a convertible bond subscription agreement dated 12 April 2007. The Tranche 1 Bond and Tranche 2 Bond do not bear any interest and will be matured on the dates falling on the third anniversary date of their respective issue dates. The conversion price is set as HK\$0.40 per share of the Company and the outstanding principal amount of the convertible bonds, if not converted, will be repaid on their respective maturity dates, for the entire outstanding amount. Further details are set out in the Company's circular dated 3 May 2007.

Pursuant to the Subscription Agreement, the Company conditionally agreed: (i) to issue to BE Environmental the zero coupon convertible bonds in the aggregate principal amount of HK\$200 million (the "Firm Bonds"); and (ii) to grant BE Environmental a call option (the "First Call Option") to require the Company to issue zero coupon convertible bonds in an aggregate principal amount of HK\$300 million (the "First Option Bonds") any time during the 12-month period after the completion of the Subscription Agreement; (iii) to grant BE Environmental a call option (the "Second Call Option") to require the Company to issue zero coupon convertible bonds in an aggregate principal amount of HK\$200 million (the "Second Option Bonds") any time during the period commencing on the completion date of the Subscription Agreement and ending on 31 December 2009. The Firm Bonds, the First Option Bonds and the Second Option Bonds are convertible, at the option of BE Environmental, into fully-paid ordinary shares of the Company at a conversion price of HK\$0.40 per share and will be matured on the dates falling on the third anniversary date of their respective issue dates. Further details are set out in the Company's circular dated 18 February 2008. On 7 March 2008, the Company issued the Firm Bonds to BE Environmental and the First Call Option and the Second Call Option were exercised by BE Environmental on 17 July 2008.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. TRADE PAYABLES

The Group's trade payables as at 30 June 2007 is aged over 60 days.

The carrying amounts of trade payables approximate their fair values.

14. DISPOSAL OF SUBSIDIARIES

Pursuant to a sale and purchase agreement dated 27 May 2008, the Group disposed of its entire equity interest in Shanghai Classic Limited to an independent third party, for a cash consideration of HK\$11,412,420. Shanghai Classic Limited is an investment holding company and holds entire equity interest in Shanghai Jian Kai International Trading Company Limited which is a trading company in Shanghai with no operation. Details of the disposal are summarised as below:

	For the twelve months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Audited) HK\$'000
Net assets disposed of:		
Cash and bank balances	1,664	–
Prepayments, deposits and other receivables	10,875	–
	12,539	–
Exchange fluctuation reserve realised	(1,887)	–
Gain on disposal of subsidiaries	760	–
	11,412	–
Satisfied by cash	11,412	–

15. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2008 (2007: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. CAPITAL COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	30 June 2008 (Unaudited) HK\$'000	30 June 2007 (Audited) HK\$'000
Contracted, but not provided for		
Acquisition of Gainstar Limited – note 17(a)	1,370,665	–

17. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, the following significant events occur:

(a) Acquisition of Gainstar Limited

On 3 June 2008, the Company, Good Strategy Group Limited (the “Purchaser”, an indirect wholly-owned subsidiary of the Company), Besto Holdings Limited (“Besto”), Tenson Investment Limited (“Tenson”) and Newton Finance Holdings Limited (“Newton”), (collectively, the “Vendors”) and the Warrantors (including Besto, Tenson, Newton, Terisa Yutinnie Liang, Hu Xiaoyong, Zhou Min, Hou Feng and Ngai Hiu Tung) entered into an acquisition agreement (the “Acquisition Agreement”). Pursuant to the Acquisition Agreement: (a) the Vendors agreed to sell and the Purchaser agreed to purchase the entire issued share capital (the “Gainstar Sale Shares”) of Gainstar Limited (“Gainstar”) at a consideration of HK\$975,557,782 (the “Gainstar Consideration”); and (b) Tenson agreed to use its best endeavours to procure the sale to the Purchaser, and the Purchaser agreed to procure Gainstar to purchase the entire issued share capital (the “Monico Sale Shares”) of Monico Investments Limited (“Monico”) at a consideration of HK\$395,107,218 (the “Monico Consideration”).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

(a) Acquisition of Gainstar Limited *(continued)*

The Gainstar Consideration will be satisfied at the completion of the sale and purchase of the Gainstar Sale Shares (the "First Completion") by: (i) the allotment and issue of 559,787,908 new shares at HK\$0.69 per share, credited as fully paid, by the Company to the Vendors or their respective nominees; and (ii) the issue of convertible bonds in the principal amounts of HK\$589,304,125 (the "Gainstar Convertible Bonds") by the Company to the Vendors or their respective nominees. The Monico Consideration will be satisfied at the completion of the sale and purchase of the Monico Sale Shares (the "Second Completion") by: (i) the allotment and issue of 226,683,106 new shares at HK\$0.69 per share, credited as fully paid, by the Company to Tenson or its nominees; and (ii) the issue of convertible bonds in the principal amounts of HK\$238,695,875 (the "Monico Convertible Bonds") by the Company to Tenson or its nominees. The Gainstar Convertible Bonds and the Monico Convertible Bonds are convertible into shares of the Company at a conversion price of HK\$0.69 per share and will be matured on the date falling on the fifth anniversary of the date of issue by the Company. Further details of this transaction are set out in the Company's circular dated 30 June 2008.

As at 30 June 2008, Gainstar held all the issued share capital of China Field Development Limited ("China Field"), which in turn held a 62.94% equity interest in 中科成環保集團有限公司 (Z.K.C Environmental Group Co., Ltd.), ("ZKC", a Sino-foreign joint venture established in the PRC). As at 30 June 2008, Monico held approximately 25.49% equity interest in ZKC. Gainstar and Monico are investment holding companies. As at 30 June 2008, Gainstar held all the issued share capital of Monico, which in turn directly held an approximately 25.49% equity interest in ZKC. Gainstar therefore, indirectly holds approximately 88.43% equity interests in ZKC. ZKC, through its subsidiaries, is principally engaged in waste water treatment in China. Accordingly, Gainstar, Monico and ZKC and its subsidiaries (collectively, the "Gainstar Group") will become subsidiaries of the Company and their results will be consolidated into the Group's financial statements.

The abovementioned transactions were approved by the shareholders of the Company in a special general meeting held on 15 July 2008. Subsequently, the First Completion took place on 24 July 2008 and Gainstar became a wholly-owned subsidiary of the Company. As at the date of approval of these financial statements, the Second Completion has not yet taken place. The Group is in the progress of making an assessment of the amounts for each class of Gainstar Group's assets, liabilities and contingent liabilities to be recognised at the acquisition date, their respective carrying amounts immediately before the acquisition and whether a goodwill or an excess over the cost of business combination was resulted from the acquisition. However, the Group is not yet in a position to disclose any of the above information in these financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

(b) Acquisition of Shenzhen Hua Qiang Chuang Xin Investment Company Limited

Pursuant to share transfer agreements dated 8 September 2008 (the "Share Transfer Agreement"), ZKC agreed to purchase, and 深圳華強集團股份有限公司 (Shenzhen Hua Qiang Group Company Limited) together with 深圳華強實業股份有限公司 (Shenzhen Hua Qiang Enterprise Company Limited) (collectively, "Shenzhen Hua Qiang") agreed to sell, a 60% equity interest in 深圳華強創新投資有限公司 (Shenzhen Hua Qiang Chuang Xin Investment Company Limited) (the "Target Company") for a consideration of RMB235,362,074 (equivalent to HK\$268,279,814 approximately) (the "Consideration").

Pursuant to the Share Transfer Agreement, ZKC is required to pay to Shenzhen Hua Qiang RMB6,000,000 (equivalent to HK\$6,839,160 approximately) within three business days from the date of the Share Transfer Agreement, as security money for securing its obligations under the Share Transfer Agreement. It will be converted to part of settlement of second instalment or refundable at ZKC's discretion. The first instalment of the consideration, being RMB223,593,970 (equivalent to approximately HK\$254,865,823), is to be paid by ZKC to Shenzhen Hua Qiang before 28 September 2008. The second instalment of the consideration, being RMB11,768,104 (equivalent to approximately HK\$13,413,991), is to be paid by ZKC to Shenzhen Hua Qiang on the date of completion.

The Target Company is interested in Shenzhen Hua Qiang Feng Tai Investment Company Limited (深圳華強豐泰投資有限公司) ("Shenzhen Hua Qiang Feng Tai"), Binzhou Hua Qiang Xi Hai Shui Wu Company Limited (濱州華強西海水務有限公司) ("Binzhou Hua Qiang") and Zhanhua Hua Qiang Shui Wu Huan Bao Company Limited (沾化華強水務環保有限公司) ("Zhanhua Hua Qiang") as to 80%, 83.8% and 55% respectively. Shenzhen Hua Qiang Feng Tai and Zhanhua Hua Qiang are principally engaged in water treatment business. Binzhou Hua Qiang is principally engaged in the water supply of Binzhou. As mentioned in note 17 (a) above, ZKC became a subsidiary of the Company as a result of the First Completion on 24 July 2008. As such, upon the completion of the Share Transfer Agreement, the Target Company, Shenzhen Hua Qiang Feng Tai, Binzhou Hua Qiang and Zhanhua Hua Qiang will become subsidiaries of the Company and their results will be consolidated into the Group's financial statements.

As at the date of approval of these financial statements, the completion of this acquisition has not yet taken place. Thus, the Group is not yet in a position to disclose any of the above information in these financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. EVENTS AFTER THE BALANCE SHEET DATE *(continued)*

(c) Issuance of new shares from conversion of convertible bonds

As at the date of this approval of these financial statements, part of the convertible bonds, amounting to HK\$600,000,000, have been exercised by certain bondholders in exchange for 1,500,000,000 new shares. As a result of the conversion and 559,787,908 shares issued as part of the Gainstar Consideration mentioned in note 17 (a) above, the issued capital of the Company has been increased from HK\$34,528,545 divided into 345,285,449 shares to HK\$240,507,336 divided into 2,405,073,357 shares.

18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	For the twelve months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Audited) HK\$'000
Short term employee benefits	1,202	1,191
Post-employment benefits	9	–
Total compensation paid to key management personnel	1,211	1,191

19. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified, where appropriate, in order to conform to the current period's presentation.

20. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2008 amounted to HK\$508,384,000 (2007: HK\$31,365,000) and HK\$528,411,000 (2007: HK\$31,436,000), respectively.

DISCLOSEABLE INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2008, the interests of the directors and chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

(a) Long position in ordinary shares of associated corporations

Name of directors	Name of associated corporations	Number of ordinary shares held	Percentage of the associated corporation's issued share capital
Mr. Liu Kai	Beijing Enterprises Holdings Limited ("BEHL")	6,000	0.0005%
Mr. E Meng	BEHL	50,000	0.0044%
Mr. Jiang Xinhao	BEHL	60,000	0.0053%
Ms. Qi Xiaohong	BEHL	50,000	0.0044%

* All interests disclosed above are directly beneficially owned by the directors

Save as disclosed above, as at 30 June 2008, none of the directors or chief executive had registered an interest or a 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.

DISCLOSEABLE INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

(b) Long positions in underlying shares of associated corporations

<u>Name of directors</u>	<u>Name of associated corporations</u>	<u>Number of shares option</u>
Mr. Jiang Xinhao	BEHL	110,000

These share options were granted on 19 July 2006 at an exercise price of HK\$12.55 per ordinary share of BEHL. The exercise price was determined based on the average closing price of the previous five trading days before the date of grant. The cash consideration paid by each director and employee for the share options granted was HK\$1 per grant of share options. The share options are exercisable at any time six months after date of grant. All share options, if not otherwise exercised, will lapse on 19 July 2011.

Each grant of the share options to executive directors has complied with the requirements of Rule 17.04 of the Listing Rules and was approved by the independent non-executive directors of BEHL to whom share options have not been granted.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES AND UNDERLYING SHARES

At 30 June 2008, the following interest and short positions of 5% or more of the issued share capital of the Company, were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

<u>Name</u>	<u>Number of ordinary shares held, capacity and nature of interest</u>			<u>Percentage of the Company's issued share capital</u>
	<u>Directly beneficially owned</u>	<u>Through controlled corporation</u>	<u>Total</u>	
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	247,000,000	–	247,000,000	71.54%
BEHL	–	247,000,000 ^(a)	247,000,000	71.54%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	–	247,000,000 ^(b)	247,000,000	71.54%
Beijing Enterprises Group Company Limited ("Beijing Enterprises Group") 北京控股集團有限公司	–	247,000,000 ^(c)	247,000,000	71.54%
Pioneer Wealth Limited ^(d)	17,897,875	–	17,897,875	5.18%

DISCLOSEABLE INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES AND UNDERLYING SHARES

(continued)

Notes:

- (a) BEHL was deemed to be interested in the 247,000,000 shares by virtue of its controlling interests in its wholly owned subsidiary, BE Environmental.
- (b) The interest disclosed includes the shares owned by BEHL as detailed in note (a). BEHL is held directly as to 36.14% by BE Group BVI. Accordingly, BE Group BVI is deemed to be interested in the shares owned by BEHL.
- (c) The interest disclosed includes the shares owned by BE Group BVI as detailed in note (b). BE Group BVI is held directly as to 100% by Beijing Enterprises Group. Accordingly, Beijing Enterprises Group is deemed to be interested in the shares held by BE Group BVI.
- (d) The entire share capital of Pioneer Wealth Limited is beneficially owned by Ms. Lucy Du and Ms. Helen Zhang, independent third parties and not connected persons of the Company.

All the interests stated above represented long position. Save as disclosed above, the Company has not been notified of any other parties having relevant interests or short positions in the issued share capital of the Company as at 30 June 2008.

SUFFICIENCY OF PUBLIC FLOAT

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

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

During the twelve months ended 30 June 2008, neither the Company nor any of its subsidiaries has purchased, sold nor redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

CODE ON CORPORATE GOVERNANCE PRACTICES

During the twelve months ended 30 June 2008, in the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Listing Rules, except that, with respect to Code A.4.1, the non-executive directors of the Company have not been appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for securities transaction as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding securities transactions by the directors. Following specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.

AUDIT COMMITTEE

The Audit Committee of the Company was established in accordance with the requirements of the CG Code as set out in Appendix 14 of the Listing Rules. It comprises three independent non-executive directors of the Company to review on matters regarding internal controls and financial reporting of the Group, including review of the unaudited interim results for the twelve months ended 30 June 2008 and considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established, with specific terms of reference in compliance with the CG Code as set out in Appendix 14 of the Listing Rules. It comprises three independent non-executive directors of the Company. The Committee is responsible for making recommendations to the Board on the Company’s policy and packages of remuneration for directors and senior executive of the Company.

