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

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 1129)**

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors (the "Board") of China Water Industry Group Limited (the "Company") hereby announces that the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010 together with comparative figures for the year ended 31 December 2009 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2010*

| | *Notes* | **2010**<br>***HK$'000*** | 2009<br>*HK$'000*<br>(Restated) |
|---|---|---|---|
| **Continuing operation** | | | |
| Revenue | *4* | **238,771** | 202,108 |
| Cost of sales | | **(141,693)** | (129,243) |
| Gross profit | | **97,078** | 72,865 |
| Other operating income | | **14,650** | 3,320 |
| Selling and distribution expenses | | **(7,667)** | (6,632) |
| Administrative expenses | | **(62,400)** | (63,578) |
| Finance costs | *6* | **(9,534)** | (11,993) |
| Change in fair value of convertible bonds | | **(28,326)** | (204,404) |
| Change in fair value of derivative financial instruments | | **(4,135)** | – |
| Extinguishment loss of convertible bonds | | **(10,542)** | – |
| Loss on redemption of convertible bonds | | **(1,521)** | – |
| Loss on deemed partial disposal of an associate | | **(79,449)** | – |
| Gain on disposal of subsidiaries | | **–** | 7,504 |
| Loss on disposal of a business | | **–** | (4,760) |
| Net gain (loss) on disposal of available-for-sale investments | | **4,928** | (22,721) |
| Net gain on disposal of listed trading securities | | **–** | 1,729 |
| Impairment loss recognised on trade and other receivables | | **(880)** | (7,671) |
| Impairment loss recognised on available-for-sale investments | | **(30,502)** | – |
| Impairment loss recognised on goodwill | | **(40,258)** | (66,069) |
| Share of results of an associate | | **(8,109)** | 2,183 |
| Loss before tax | *7* | **(166,667)** | (300,227) |
| Income tax expense | *8* | **(10,813)** | (8,448) |

| | Notes | 2010 HK$'000 | 2009 HK$'000 (Restated) |
|---|---|---|---|
| Loss for the year from continuing operation | | **(177,480)** | (308,675) |
| **Discontinued operations** | 9 | | |
| Profit (loss) for the year from discontinued operations | | **27,684** | (33,810) |
| Loss for the year | | **(149,796)** | (342,485) |
| Other comprehensive (expenses) income for the year | | | |
| Exchange difference arising on translation | | **14,030** | 3,057 |
| Exchange reserve released upon disposal/deemed disposal of a subsidiary | | **42** | (5,028) |
| Change in fair value of available-for-sale investments | | **(30,873)** | 10,265 |
| Release of investment revaluation reserve upon disposal of available-for-sale investments | | **(694)** | 70,520 |
| Share of other comprehensive income of associates | | **2,163** | 681 |
| **Other comprehensive (expenses) income for the year** | | **(15,332)** | 79,495 |
| Total comprehensive expenses for the year | | **(165,128)** | (262,990) |
| **(Loss) profit for the year attributable to:** | | | |
| Owners of the Company | | | |
| From continuing operation | | **(205,043)** | (328,359) |
| From discontinued operations | | **112,358** | (25,880) |
| Loss for the year attributable to owners of the Company | | **(92,685)** | (354,239) |
| Non-controlling interests | | | |
| From continuing operation | | **27,563** | 19,684 |
| From discontinued operations | | **(84,674)** | (7,930) |
| (Loss) profit for the year attributable to non-controlling interests | | **(57,111)** | 11,754 |
| | | **(149,796)** | (342,485) |
| **Total comprehensive (expenses) income attributable to:** | | | |
| Owners of the Company | | **(113,420)** | (284,909) |
| Non-controlling interests | | **(51,708)** | 21,919 |
| | | **(165,128)** | (262,990) |
| **Loss per share (HK cents)** | 11 | | |
| From continuing and discontinued operations | | | |
| Basic and diluted | | **(3.27)** | (15.68) |
| From continuing operation | | | |
| Basic and diluted | | **(7.24)** | (14.53) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **97,598** | 103,164 |
| Prepaid lease payments | | **40,621** | 42,854 |
| Concession intangible assets | | **483,829** | 416,718 |
| Intangible asset | | **–** | 915,301 |
| Goodwill | | **142,373** | 250,995 |
| Available-for-sale investments | | **29,898** | 65,040 |
| Interest in associates | | **281,407** | 57,853 |
| Deposit paid for acquisition of subsidiaries | | **–** | 50,901 |
| | | **1,075,726** | 1,902,826 |
| **Current assets** | | | |
| Inventories | | **26,748** | 13,304 |
| Trade and other receivables | *12* | **148,900** | 74,600 |
| Prepaid lease payments | | **1,150** | 1,181 |
| Derivative financial instruments | | **10,239** | – |
| Amounts due from customers for contract works | | **18,864** | 10,884 |
| Cash held at financial institutions | | **37,724** | 212,474 |
| Bank balances and cash | | **100,291** | 65,383 |
| | | **343,916** | 377,826 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **163,572** | 138,959 |
| Amounts due to customers for contract works | | **592** | 657 |
| Bank borrowings | | **34,240** | 33,017 |
| Other loans | | **39,885** | 33,813 |
| Amounts due to non-controlling shareholders of a subsidiary | | **6,216** | 8,258 |
| Loan from an associate | | **2,419** | – |
| Convertible bonds | | **397,187** | 466,739 |
| Tax payables | | **3,379** | 3,000 |
| | | **647,490** | 684,443 |
| **Net current liabilities** | | **(303,574)** | (306,617) |
| **Total assets less current liabilities** | | **772,152** | 1,596,209 |
| **Capital and reserves** | | | |
| Share capital | | **324,765** | 270,638 |
| Share premium and reserves | | **124,128** | 190,659 |
| Equity attributable to owners of the Company | | **448,893** | 461,297 |
| Non-controlling interests | | **179,164** | 882,237 |
| **Total equity** | | **628,057** | 1,343,534 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **21,253** | 23,909 |
| Other loans | | **47,487** | 44,902 |
| Convertible bonds | | **3,000** | – |
| Convertible bonds of a subsidiary | | **–** | 118,427 |
| Government grants | | **64,074** | 60,040 |
| Deferred tax liabilities | | **8,281** | 5,397 |
| | | **144,095** | 252,675 |
| | | **772,152** | 1,596,209 |

*Notes*

## 1. GENERAL

China Water Industry Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

The Company is an investment holding company.

## 2. BASIS OF PREPARATION

The Group reported a consolidated loss attributable to owners of the Company of approximately HK$92,685,000 for the year ended 31 December 2010 and had a consolidated net current liabilities of approximately HK$303,574,000 as at 31 December 2010. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2010 giving that the directors of the Company will consider different sources of financing being available.

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

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

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

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009 |
| Hong Kong Accounting Standard ("HKAS") 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 1 (Revised) | First-time Adoption of HKFRSs |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK – INT 5 | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |
| HK(IFRIC) – INT 17 | Distributions of Non-cash Assets to Owners |

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

**HKFRS 3 (Revised 2008) Business Combinations**

HKFRS 3 (Revised 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (Revised 2008) is as follows:

a. HKFRS 3 (Revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree.

b. HKFRS 3 (Revised 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

c. HKFRS 3 (Revised 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

d. HKFRS 3 (Revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

**HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements**

The application of HKAS 27 (Revised 2008) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under HKAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

In respect of the disposal during the year of part of the Group's interest in iMerchants, the impact of the change in policy has been that the loss on deemed partial disposal of a subsidiary of approximately HK$2,292,000 has been recognised directly in equity. Had the previous accounting policy been applied, this amount would have been recognised in profit or loss. Therefore the change in accounting policy has resulted in a decrease in the loss for the year ended 31 December 2010 and loss per share of 2010 of approximately HK$2,292,000 and HK$0.08 cents respectively.

In addition, under HKAS 27 (Revised 2008), the definition of non-controlling interest has been changed. Specifically, under the revised standard, non-controlling interest is defined as the equity in a subsidiary not attributable, directly or indirectly, to a parent. The application of the revised standard has resulted in non-redeemable convertible preference shares and equitable component of convertible bonds of a subsidiary, being included as part of non-controlling interest in the consolidated statement of changes in equity in 2009.

*Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

The amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations issued in 2009, as part of the Improvements to HKFRSs clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It states that disclosure requirements of other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs have specific disclosure requirement in respect of such asset (or disposal groups); or the disclosures relate to the measurement of an individual asset or assets, as part of a disposal group which follows others HKFRSs and the information is not disclosed elsewhere in the consolidated financial statements.

*Amendment to HKAS 17 Lease*

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land at 1 January 2010 based on information that existed at the inception of the leases. In the opinion of the directors of the Company, no reclassification is considered necessary because none of the leasehold land qualifies for finance lease classification. The adoption of amendment to HKAS 17 has had no effect on the consolidated financial statements for the year ended 31 December 2010 and 2009.

**Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause**

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current year. HK INT 5 requires retrospective application.

In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities. This Interpretation did not have a material impact on the Group's financial statements for the year ended 31 December 2010 and 2009.

The application of the other new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods for the year ended 31 December 2010 and 2009.

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 except of the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1] |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[5] |
| HKFRS 9 | Financial Instruments[7] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[6] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendment) | Classification of Rights Issues[2] |
| HK(IFRIC)-INT 14 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC)-INT 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments adds requirements for financial liabilities and for derecognition.

– Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

– In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 of the Company is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual periods beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments HKFRS 7 *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

The amendments to HKAS 32 *Classification of Rights Issues address* the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

The amendments to HK(IFRIC)-Int 14 *Prepayment of a Minimum Funding Requirement* require entities to recognise as an economic benefit any prepayment of minimum funding requirement contributions. As the Group has no defined benefit scheme, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-19 Extinguishing Financial Liabilities with Equity Instruments ("HK(IFRIC)-19") provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC)-Int 19 will affect the required accounting. In particular, under HK(IFRIC)-Int 19 equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statement.

## 4. REVENUE

Revenue represents revenue arising from the provision of water supply services, sewage treatment services, water supply related installation and construction income and water supply and sewage treatment infrastructure construction income.

An analysis of the Group's revenue for the year from continuing operation is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Water supply services | **87,959** | 84,201 |
| Sewage treatment services | **18,078** | 18,543 |
| Water supply related installation and construction income | **100,712** | 85,536 |
| Water supply and sewage treatment infrastructure construction income | **32,022** | 13,828 |
| | **238,771** | 202,108 |

## 5. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focused on types of goods and services delivered or provided.

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

With effect from October 2010, the equity interest in iMerchants owned by the Group was diluted to 36.57%. The investments in iMerchants were then reclassified from an investment in a subsidiary to investment in an associate. iMerchants is engaged in the business of investments in financial products and manufacturing and trading of ceramic sewage materials which was reported as a separate operating segment and a major component of the Group's other operating segment respectively for the year ended 31 December 2009. Upon the deemed partial disposal of iMerchants from a subsidiary to an associate, the operation of iMerchants was classified as discontinued operations of the Group.

**Segment revenues, results, assets and liabilities**

Upon the deemed partial disposal of iMerchants from a subsidiary to an associate in September 2010, the Group has only one single continuing operation, namely provision of water supply and sewage treatment as well as construction services, accordingly no further segment information is presented.

**Geographical information**

No geographical information is presented as the Group's business is principally carried out in the PRC (country of domicile) and the Group's revenue from external customers and non-current assets are in the PRC. No geographical information for other country is of a significant size to be reported separately.

**Information about major customers**

For the year ended 31 December 2010 and 2009, the Group does not have any single significant customer with the transaction value over 10% of the turnover from continuing operation.

## 6. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Continuing operation:** | | |
| Interest on: | | |
| – Interest on convertible bonds | **967** | 963 |
| – Imputed interest charged on convertible bonds | **201** | – |
| – Bank borrowings wholly repayable within five years | **2,681** | 2,163 |
| – Bank borrowings wholly repayable more than five years | **1,633** | 1,762 |
| – Other loans wholly repayable within five years | **2,353** | 5,214 |
| – Other loans wholly repayable more than five years | **1,443** | 1,394 |
| – Amounts due to non-controlling shareholders of subsidiaries | **200** | 278 |
| – Loan from an associate | **56** | 219 |
| | **9,534** | 11,993 |

## 7. LOSS FOR THE YEAR FROM CONTINUING OPERATION

Loss for the year from continuing operation has been arrived at after charging:

| | **Year ended** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Amortisation of prepaid lease payments | **1,093** | 1,302 |
| Amortisation of concession intangible assets (included in cost of sales) | **13,792** | 14,864 |
| Auditors' remuneration | **1,000** | 960 |
| Bad debts directly written off on other receivables | **–** | 2,807 |
| Depreciation of property, plant and equipment | **6,505** | 5,458 |
| Impairment loss on concession intangible assets | **–** | 2,222 |
| Write down of inventories (included in cost of sales) | **–** | 1,682 |
| Loss on disposal of concession intangible assets | **–** | 309 |
| Loss on disposal of property, plant and equipment | **619** | 54 |
| Minimum lease payment under operating leases | **1,651** | 2,552 |
| Net exchange loss | **–** | 77 |
| Staff costs excluding directors' emoluments | | |
| – Salaries, wages and other benefits | **32,676** | 33,977 |
| – Retirement benefits scheme contributions | **7,276** | 6,114 |
| Total staff costs | **39,952** | 40,091 |

## 8. INCOME TAX EXPENSE

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Continuing operation:** | | |
| PRC Enterprise Income Tax ("EIT") | | |
| – Current | **7,929** | 6,316 |
| – Under provision in prior years | **–** | 294 |
| | **7,929** | 6,610 |
| Deferred tax | **2,884** | 1,838 |
| | **10,813** | 8,448 |

No tax is payable on the profit arising in Hong Kong in both years since the assessable profit is wholly absorbed by tax losses brought forward.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Group are exempted from PRC EIT for two years from the first profit making year, followed by a 50% reduction for the next three years. Yichun Water Supply Co., Ltd, Yichun City Water Supply Engineering Limited and Jining City Haiyuan Water Treatment Company Limited were under the 50% tax reduction for both years.

Under the Law of the EIT and Implementation Regulation of the Law of the EIT, the tax rate of the other PRC subsidiaries is at 25% for both years.

## 9. DISCONTINUED OPERATIONS

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

In June 2010, the holders of 440,000,000 Convertible Preference Shares exercised their rights to convert the Convertible Preference Shares into fully paid ordinary shares of iMerchants. After the conversion, the equity interest of iMerchants owned by the Group has reduced from 76.66% to 67.23%. The Group retained control of iMerchants subsequent to the conversion. The amount of approximately HK$2,292,000, being the difference between the carrying amount of the Convertible Preference Shares converted of approximately HK$17,600,000 and the respective increase in the interest attributable to shares held in subsidiaries of approximately HK$19,892,000, was recognised directly in equity and attributed to the owners of the Company.

In September and October 2010, the holders of 1,308,800,000 Convertible Preference Shares exercised their rights to convert the Convertible Preference Shares into fully paid ordinary shares of iMerchants. After the conversion, the equity interest of iMerchants owned by the Group has reduced further from 67.23% to 49.23%. The investments in iMerchants were then changed from investment in a subsidiary to investment in an associate.

**Analysis of loss for the year from discontinued operations**

iMerchants is engaged in the business of investments in financial products and manufacturing and trading of ceramic sewage. The combined results of these discontinued operations in the consolidated statement of comprehensive income and consolidated statement of cash flows are set out below. The comparative loss and cash flows from the discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

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

| | **Period ended 30/9/2010** *HK$'000* | Year ended 31/12/2009 *HK$'000* |
|---|---|---|
| Loss on the discontinued operations for the year | **(230,545)** | (55,133) |
| Gain on deemed disposal of a subsidiary | **258,229** | – |
| Gain on deemed partial disposal of a subsidiary | **–** | 21,323 |
| | **27,684** | (33,810) |

| | **Period ended 30/9/2010** *HK$'000* | Year ended 31/12/2009 *HK$'000* |
|---|---|---|
| **Loss for the year from discontinued operations** | | |
| Revenue | **114,720** | 8,938 |
| Cost of sales | **(2,386)** | (4,119) |
| Gross profit | **112,334** | 4,819 |
| Other operating income | **353** | 2,065 |
| Selling and distribution expenses | **(4,157)** | (4,565) |
| Administrative expenses | **(53,933)** | (21,239) |
| Impairment loss recognised on an intangible asset | **(245,639)** | – |
| Impairment loss recognised on trade and other receivables | **(419)** | (773) |
| Impairment loss recognised on goodwill | **–** | (32,616) |
| Finance costs | **(10,588)** | (2,937) |
| Loss before tax | **(202,049)** | (55,246) |
| Taxation | **(28,496)** | 113 |
| Loss for the year from discontinued operations | **(230,545)** | (55,133) |

**Loss for the year from discontinued operating include the following:**

| | **Period ended 30/9/2010** *HK$'000* | Year ended 31/12/2009 *HK$'000* |
|---|---|---|
| **Loss before tax has been arrived at after charging:** | | |
| Amortisation of prepaid lease payments | **47** | 60 |
| Amortisation of an intangible asset | **46,279** | 10,283 |
| Depreciation of property, plant and equipment | **423** | 414 |
| Minimum lease payment under operating leases | **1,006** | 1,028 |
| Finance costs | | |
| – Interest on other loans | **384** | 465 |
| – Imputed interest on convertible bonds | **10,204** | 2,472 |
| Staff costs excluding directors' emoluments | | |
| – Salaries, wages and other benefits | **1,824** | 3,108 |
| – Retirement benefits scheme contributions | **55** | 76 |
| Total staff costs | **1,879** | 3,184 |

| | Period ended 30/9/2010 HK$'000 | Year ended 31/12/2009 HK$'000 |
|---|---|---|
| Cash flows from discontinued operations | | |
| Net cash (outflows) inflows from operating activities | **(52,771)** | 103,628 |
| Net cash inflows (outflows) from investing activities | **5,079** | (159,911) |
| Net cash inflows from financing activities | **1,464** | 56,497 |
| Net cash (outflows) inflows | **(46,228)** | 214 |

## 10. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

## 11. LOSS PER SHARE

**From continuing operation**

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| **(Loss) earning** | | |
| Loss for the year attributable to owners of the Company | **(92,685)** | (354,239) |
| Less: Profit (loss) for the year from discontinued operations | **112,358** | (25,880) |
| Loss for the purposes of basic and diluted loss per share from continuing operation | **(205,043)** | (328,359) |
| **Number of shares** | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **2,832,357** | 2,259,686 |

*Note:* The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as exercise price of those options is higher than the average market price of shares for the years ended 2010 and 2009.

Diluted loss per share was same as the basic loss per share for the year ended 31 December 2010 and 2009, as the effect of the conversion of the Company's outstanding share options and convertible bonds as well as the outstanding convertible bonds and non-redeemable preference shares issued by iMerchants would result in a decrease in loss per shares from continuing operation for the year ended 31 December 2010 and 2009.

**From discontinued operations**

Basic and diluted earnings per share for the discontinued operations is HK$3.97 cents per share (2009: Basic and diluted loss per share for discontinued operations is HK$1.15 cents per share), based on the profit for the year from the discontinued operations of approximately HK$112,358,000 (2009: loss for the year from the discontinued operations of approximately HK$25,880,000) and the denominators detailed above for both basic and diluted earnings per share.

## 12. TRADE AND OTHER RECEIVABLES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Trade receivables | **16,219** | 14,983 |
| Less: impairment loss recognised | **(5,246)** | (5,807) |
| | **10,973** | 9,176 |
| Other receivables | **22,754** | 53,594 |
| Less: impairment loss recognised | **(8,903)** | (8,680) |
| | **13,851** | 44,914 |
| Loans receivables | **129,480** | 23,025 |
| Less: impairment loss recognised | **(5,720)** | (5,720) |
| | **123,760** | 17,305 |
| Deposits and prepayments | **316** | 3,205 |
| | **148,900** | 74,600 |

Included in the loans receivables was an amount of HK$68,206,000 (2009: HK$17,305,000) due from Top Vision Management Ltd ("Top Vision"). The amount is unsecured, interest-free and repayable on demand. The remaining balance of HK$55,554,000 (2009: Nil) represents loan to other independent third parties which were unsecured, repayable within one year and carry interest at 5% per annum.

As at 31 December 2009, included in other receivables is an amount due from Construction Bureau of Yingtan City (鷹潭市建設局) of approximately HK$22,770,000 (equivalent to RMB20,000,000) which are unsecured, carrying on interest of 12% per annum and repayable on demand. The amount has been fully settled during the year ended 31 December 2010.

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

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Within 90 days | **6,517** | 3,537 |
| 91 to 180 days | **3,537** | 4,889 |
| 181 to 365 days | **807** | 710 |
| Over 1 year | **112** | 40 |
| | **10,973** | 9,176 |

## 13. TRADE AND OTHER PAYABLES

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **6,237** | 5,067 |
| 31 to 90 days | **518** | 1,907 |
| 91 to 180 days | **713** | 555 |
| 181 to 365 days | **611** | 587 |
| Over 1 year | **1,018** | 2,464 |
| | **9,097** | 10,580 |
| Other payables | **79,309** | 61,323 |
| Interest payables | **75,166** | 67,056 |
| | **163,572** | 138,959 |

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

## 14. CAPITAL COMMITMENT

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital commitments contracted but not provided for, in respect of acquisition of concession intangible assets and property, plant and equipment | **7,079** | 7,514 |
| Acquisition of subsidiaries | **–** | 119,099 |

## 15. LITIGATION

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

In November 2007, the People's Government of Danzhou City and Super Sino entered into a net asset transfer agreement, pursuant to which all assets and liabilities of Danzhou City Water were transferred to Super Sino. On 26 June 2008, Super Sino was notified that Agricultural Bank of China, Danzhou Branch ("the Plaintiff") filed a claim regarding the liabilities transferred by Danzhou City Water with the Court against Danzhou City Water, Super Sino, Danzhou Urban Development Corporation and the People's Government of Danzhou City for the repayment of the loan principal of approximately HK$30,698,000 (equivalent to RMB26,000,000) (2009: HK$29,601,000 equivalent to RMB26,000,000) and the interests of approximately HK$50,972,000 (equivalent to RMB43,171,000) (2009: HK$46,494,000 equivalent to RMB40,838,000) arising from the defendants of Danzhou City Water and Super Sino to the plaintiff.

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

On 17 December 2009, the Plaintiff made an appeal to the Higher People's Court of Hainan Province court seeking the fulfilment of the guarantee responsibility of Danzhou Urban Development Corporation.

On 15 December 2010, Higher People's Court of Hainan Province issued verdict, pursuant to which all the shares of Danzhou City Water owned by Super Sino (the "shares") have been freezed from 15 December 2010 to 14 December 2012. The Company cannot transfer or dispose of the shares during the period. According to the legal advice, the directors of the Company are of the opinion that the verdict will not impair the control of the Group over Danzhou City Water due to the following reason:

(1) Super Sino is still the legal owner of Danzhou City Water during the year ended 31 December 2010 and up to the date of approval of these consolidated financial statements.

(2) As Danzhou City Water is engaged in the business of provision of water in the PRC which requires special license from the respective PRC government authorities. The procedures for the change of shareholding is complicated and require the approval from several PRC government authorities.

As at the reporting date, the directors of the Company are discussing the settlement arrangement with the Plaintiff and there is no demand for settlement from the Plaintiff at the moment. The principal of the said loan and the interest thereon have been included in the consolidated financial statements of the Group. The directors of the Company consider that the financial and operating decision of Danzhou City Water are still under the Company.

## INFORMATION FROM INDEPENDENT AUDITOR'S REPORT

### Scope limitation – Loans receivables

As explained in note to the consolidated financial statements, included in loans receivables was an amount of approximately HK$68,206,000 amounting to HK$50,901,000 was paid by the Group in the year of 2009 as deposit for the acquisition of certain equity interests in three companies which were established in the People's Republic of China (the "Acquisition"). The Acquisition was terminated by Swift Surplus Holdings Limited, a wholly-owned subsidiary of the Group, during the year ended 31 December 2010 and the deposit paid was then assigned as loan to the holding company of the vendors. Further details are set out in note to the consolidated financial statements. We have not been provided with sufficient evidence to satisfy ourselves as to whether the loan balance would be recovered in full. There are no other satisfactory audit procedures that we could adopt to ascertain the impairment loss amount, if any, and the carrying value of the aforesaid loan receivables as at 31 December 2010 being fairly stated in the consolidated statement of financial position.

Any adjustment to the above as at 31 December 2010 was found to be necessary would have a consequential impact on the Group's net assets as at 31 December 2010 and on the consolidated loss for the year then ended and the related disclosure thereof in the consolidated financial statements.

### Fundamental uncertainty relating to the going concern basis

As explained in note to the consolidated financial statements, which indicates that the Group incurred a consolidated loss attributable to owners of the Company of approximately HK$92,685,000 for the year ended 31 December 2010 and had a consolidated net current liabilities of approximately HK$303,574,000 as at 31 December 2010, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon future funding available.

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL PERFORMANCE

### Financial results

The Group recorded a consolidated net loss of HK$149.80 million for the year. Comparing with the net loss in the previous year of HK$342.49 million, this represented a significant recovery of HK$192.69 million. This was mainly due to a decrease of HK$176.08 from change in fair value of the Convertible Bonds ("CB"), and an improvement of HK$27.65 million from a loss to a gain in value relating to the disposal of available-for-sale investments. The main contributing factors to the net loss for the current year can be summarized as follows:

– loss of HK$79.45 million on deemed partial disposal of an associate,

– loss of HK$28.33 million from the change in fair value of CB issued in previous years,

– impairment loss of HK$30.50 million recognized on available-for-sale investments, and

– impairment loss of HK$40.26 million recognized on goodwill.

The loss before the accounting treatments of the change in fair value of CB and the two impairment losses is HK$50.71 million.

### Revenue and gross profit for the continuing operation

Upon the deemed partial disposal of iMerchants Limited ("iMerchants") from a subsidiary to an associate in September 2010, the Group has only one single business operation involving the provision of water supply, sewage treatment and construction of water supply and sewage treatment infrastructures. For the year ended 31 December 2010, the Group achieved a continuing growth in revenue and gross profit, which amounted to HK$238.77 million and HK$97.08 million respectively. This represented a growth of 18.14 % in revenue and 33.24% in gross profit as compared to the last year. The main revenue and gross profit contributors for the year were Yichun

Water Industry Co., Ltd. ("Yichun Water") and Yingtan Water Supply Co., Ltd. ("Yingtan Water"), which collectively accounted for 68.26% of the consolidated revenue and 86.15% of gross profit respectively. The financial analysis of revenue and gross profit is as follows:

| | **Revenue** | | | | **Gross Profit** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | | 2009 | | **2010** | | 2009 | |
| | ***HK$'M*** | **%** | *HK$'M* | % | ***HK$'M*** | **%** | *HK$'M* | % |
| Water supply services | **87.96** | **36.8%** | 84.21 | 41.7% | **29.47** | **30.4%** | 27.01 | 37.1% |
| Sewage treatment services | **18.08** | **7.6%** | 18.54 | 9.2% | **6.07** | **6.3%** | 6.90 | 9.5% |
| Construction services | **132.73** | **55.6%** | 99.36 | 49.1% | **61.54** | **63.3%** | 38.95 | 53.4% |
| Total | **238.77** | | 202.11 | | **97.08** | | 72.86 | |

**Other operating income**

Other operating income increased by HK$11.33 million to HK$14.65 million. The increase was mainly due to interest received of HK$5.39 million from the Bureau of Yingtan City, sewage turnover compensation paid by the PRC government of HK$1.30 million and reversal of impairment loss of trade and other receivable of HK$0.92 million.

**Selling and distribution costs and administrative expenses**

Selling and distribution costs as well as administrative expenses recorded an aggregate amount of HK$70.07 million (2009: HK$70.21 million). These expenses mainly consisted of staff costs, legal and professional fees, rent and rates and depreciation.

**Loss on deemed partial disposal of an associate**

From October to December 2010, the equity interest of iMerchants owned by the Group had further reduced by 12.66% to 36.57% as a result of the amounts of iMerchant's net asset value shared by the Group decreased from HK$308.95 million to HK$229.50 million. The difference of HK$79.45 million was recognized as loss in the Consolidated Statement of Comprehensive Income.

**Net Gain on disposal of available-for-sale investments**

Net gain from the disposal of available-for-sale investments rose substantially by HK$27.65 million to HK$4.93 million (2009: loss of HK$22.72 million). The major contribution was an amount of HK$3.22 million by selling equity investments held by iMerchants.

**Impairment loss recognized on available-for-sale investments**

This loss of HK$30.50 million arose from the fair value of the equity investment in Birmingham International Holdings Limited (stock code: 2309) at the end of the reporting period being less than investment cost. Pursuant to the HKFRS, the equity investment is determined to be impaired when there is a significant or prolonged decline in the fair value of that investment below its cost, this is considered to be objective evidence of impairment. The respective cumulative loss previously accumulated in the investment revaluation reserve is reclassified to loss and are recognized in consolidated statement of comprehensive income.

**Impairment loss recognized in respect of goodwill**

During the year ended 31 December 2010, the Group recognized an impairment loss of goodwill of HK$40.26 million (2009: HK$66.07 million). The goodwill arose mainly from the acquisition of Blue Mountain Hong Kong Group Limited which was allocated a cash-generating unit for the provision of water supply. The impairment loss incurred as the present value of estimated future cash flows expected to arise from the cash-generating unit less than the respective carrying amount of the unit. The carrying amount included the carrying value of goodwill and the net asset value.

**Finance costs**

Finance costs of HK$9.53 million were mainly interest payments to banks and other borrowings of HK$8.11 million and to the convertible bondholders of HK$0.97 million (2009: HK$11.99 million).

**Share of loss from associates**

The Group had two associated companies, iMerchants and Jinan Hongquan Water Production Co., Ltd. ("Jinan Hongquan"). In October 2010, the status of iMerchants was changed from a subsidiary to an associate of the Group. The Group held 36.57% equity interest in iMerchants, and shared the loss of HK$7.53 million from October to December 2010. During the year, the Group shared 35% loss from Jinan Hongquan of HK$0.58 million.

**Discontinued operation of iMerchants**

iMerchants was engaged in the business of investments in financial products and manufacturing and trading of ceramic sewage materials business. On 8 April 2009, iMerchants through its wholly-owned subsidiary of Growwise Holdings Limited, entered into a sale and purchase agreement with Rightshine Holdings Limited, to acquire the entire issued share capital of Supreme Luck International Limited ("Supreme Luck") at a consideration of HK$900,000,000. Upon completion of the acquisition, 61,522,160 Consideration Shares and 2,938,477,840 Convertible Preference Shares with a par value of HK$0.2 each as a partial consideration were allotted and issued to the Vendor by the iMerchants on 23 October 2009. During the year, the Convertible Preference Shares holders exercised their rights to convert into ordinary shares of iMerchants. There were a total of 3,439,800,000 shares issued at HK$0.04 each upon the conversion of preference shares. After the conversion, the equity interest of iMerchants owned by the Group had reduced further to 36.57% from 67.23%. iMerchants ceased to be a subsidiary of the Group and iMerchants' financial results were not consolidated into the Group's financial results and its businesses were classified in discontinued operation. The profit from January to September 2010 from iMerchants was analyzed as follows:

| | | **Period ended 30.9.2010** *HK$'M* | Year ended 31.12.2009 *HK$'M* |
|---|---|---|---|
| Revenue | (a) | **114.72** | 8.94 |
| Gross profit | | **112.33** | 4.82 |
| Loss on the discontinued operations | (b) | **(230.55)** | (55.13) |
| Gain on deemed disposal of subsidiary | (c) | **258.23** | – |
| Gain on deemed partial disposal of subsidiary | | **–** | 21.32 |
| | | **27.68** | (33.81) |

(a) The revenue was mainly attributable for the signed management contract between Supreme Luck with Shenzhen Careall Capital Investment Co., Ltd. dated 19 August 2009.

(b) Included in the loss of 2010, HK$245.64 million of impairment loss recognized on an intangible asset. Pursuant to the HKFRS, if the recoverable amount of intangible asset is estimated to be less than its carrying amounts, the difference is deemed as impairment loss and recognized as an expense in profit and loss.

(c) During the year, the Group's equity interest of iMerchants was diluted to 36.57% from 67.23%. Pursuant to the HKFRS, the Group was deemed to have disposed 30.66% of iMerchants and a gain thereon of HK$258.23 million was recognized.

**BUSINESS SEGMENTS REVIEW**

**FOR CONTINUING OPERATION**

In 2010, the capital market was still stringent despite the overall gradual recovery of the world economy. As a result, the business expansion of the Group was encumbered to some extent. For its principal businesses, the Group continued its effort to strengthen the management of its subsidiaries and endeavoured to increase the amounts of water supply and sewage treatment on its existing capacity, and continued to explore the potential for various cost reductions, thus achieving a relatively significant growth in the income and gross profit from its principal businesses. Although the disposal of its interests in an associate and convertible bonds brought a loss to the Company, the amount of its loss this year decreased HK$192.68 million significantly to HK$149.80 million, representing a decrease of 56.26% from HK$342.48 million in the previous year, the Group's revenue in 2010 amounted to HK$238.77, representing an increase of 18.14% from HK$202.11 million in the previous year, and its gross profit amounted to HK$97.08, representing an increase of 33.14% from HK$72.87 million in the previous year.

**Water supply business**

In 2010, the Group's water supply business consisted of 6 water supply plants which were located in Jiangxi Province, Anhui Province, Shandong Province and Hainan Province. The total daily water supply capacities were approximately 1,960,000 tonnes contributing revenue of HK$87.96 million during the year, representing 36.8% of the Group's total revenue. The price of water supply ranged from HK$1.21 to HK$2.21 per tonne.

**Sewage treatment business**

Sewage treatment business consisted of 2 sewage treatment plants which were located in Jiangxi Province and Shandong Province. The daily disposal sewage capacities were approximately 110,000 tonnes per day contributing revenue of HK$18.08 million during the year, representing 7.6% of the Group's total revenue. The price of sewage treatment ranged from HK$0.57 to HK$0.92 per tonne.

**Construction of water Supply and Sewage treatment infrastructure**

Construction service comprised water meter installation, construction of pipelines and pipelines repairing. This was the Group's major source of revenue contributing HK$132.73 million during the year, representing 56% of the Group's total revenue.

## DISCONTINUED OPERATIONS

iMerchants, whose shares are listed on the Growth Enterprise Market was engaged in the business of investments in financial products and manufacturing and trading of ceramic sewage materials business. From October 2010, iMerchants ceased to be a subsidiary of Company, its whole businesses were reclassified to discontinued operations. Detail of iMerchants is set out under headings of "Discontinued Operations".

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group recorded cash and bank balance including cash held at financial institutions of HK$138.02 million (2009: HK$277.86 million). The decrease was mainly due to repayment of a portion of the issued CB and advances to independent third parties. The Group has had steady cash flow generating from the water supply and sewage treatment business segments.

The Group's consolidated non-current assets decreased by HK$827.10 million to HK$1,075.73 million (2009: HK$1,902.83 million). The decrease was mainly due to the intangible assets of HK$915.30 million being disposed of along with the deemed disposal of iMerchants during the year. This intangible asset was obtained through the acquisition of Supreme Luck by iMerchants in 2009.

The trade and other receivables including loans receivable in the current asset increased by HK$74.30 million to HK$l48.90 million. The increase was mainly due to (i) reclassification the deposit paid of HK$50.90 million for acquisition of subsidiaries to loans receivable and (ii) loans to independent third parties. The deposit paid of HK$50.90 million was included in the loans receivable of HK$68.21 million which was due from Top Vision Management Limited ("Top Vision"). The Group considered to off-set HK$43.5 million as part of the consideration in the acquisition of sewage treatment plants from Top Vision. The responsible director has submitted the application of share transfer relating to the acquisition of the sewage treatment plants to the Administration for Industry and Commerce* (工商行政管理局), the PRC. As the procedures for the change of shareholding are complicated and require the approval from several PRC government authorities. The Board expects that the share transfer will be completed in 2 months.

Total liabilities of the Group as at 31 December 2010 were HK$791.59 million (compared with HK$937.12 million on 31 December 2009). They mainly comprised of the CB of HK$400.19 million (2009: HK$585.17 million), bank and other borrowings of HK$142.87 million (2009: HK$135.64 million), and government grants of HK$64.07 million (2009: HK$60.04 million). The CB were denominated in HK dollars, while others were denominated in Renminbi and the interest rates of which were fixed.

The Group's gearing ratio as at 31 December 2010 was 55.76 % (compared with 41.09% on 31 December 2009). The ratio was calculated by dividing total liabilities of HK$791.59 million over total assets of the Group of HK$1,419.65 million.

At as 31 December 2010, the Group had net current liabilities of HK$7,303.57 million (2009: net current liabilities of HK$306.62 million). The current portion of CB amounting to HK$397.19 million represented 50.18% of the total current liabilities. During the year, the Company successfully restructured the existing CB with bondholders and entered into two Definitive Agreements on 13 August 2010 and 24 September 2010. The bondholders agreed to the Company to pay a partial of the CB in a series of installments commencing in August 2010 and ending in August 2012, and to issue New Bonds for the remaining CB balance. Details of CB are set out under headings of "Issue of new HK$ New Bonds in 2010" and "Restructuring of convertible bonds issued in 2007". To meet these debt obligations, the board considered various fund raising alternatives to strengthen the capital base of the Company. The Board is confident that the Group will be able to meet its financial obligation as and when they fall due and has sufficient working capital to support future operational needs.

## CAPITAL RAISING AND USE OF PROCEEDS

On 9 August 2010, the Company entered into a top-up placing agreement with existing shareholders and placing agent, pursuant to which, the Company placed out 265,476,000 new ordinary share of HK$0.1 each at a placing price of HK$0.108 per share. The placing was completed on 12 August 2010. The net proceed from the placing was approximately HK$28 million after deducting related expenses. At the same date, the Company entered into a new placing agreement with the placing agent, pursuant to which, the Company placed out 275,796,000 new ordinary share of HK$0.1 each at a placing price of HK$0.108 per share. The placing was completed on 30 November 2010. The net proceed from the placing was approximately HK$29 million after deducting related expenses. The proceeds from the fund raising exercises were for general working capital purposes.

Subsequent to year 2010, three CB holders exercised their rights and converted the aggregate principle CB amount of HK$31 million into 206,666,664 shares. Details of the conversion were announced in the Next Day Disclosure Returns on 3 March 2011, 15 March 2011 and 28 March 2011.

During the year, the Group incurred capital expenditures amounting to HK$71.50 million (2009: HK$207.21 million), while had been used for acquisition of concession intangible assets.

## MAJOR EVENTS DURING THE YEAR UNDER REVIEW

### Termination to acquire of subsidiaries

On 18 September 2009, Swift Surplus Holdings Limited ("Swift Surplus") entered into the Sales and Purchase Agreement with Sihui South China Waterworks Development Co., Ltd.* ("Sihui South China") (四會市華南水務發展有限公司), Shenzhen City South China Waterworks Group Co., Ltd.* ("Shenzhen City South China") (深圳市華南水務集團有限公司) and Da Xin Waterworks Management (Huizhou) Co., Ltd.* ("Da Xin Waterworks") (達信水務管理（惠州）有限公司), pursuant to which the Swift Surplus has conditionally agreed to acquire 70% of the registered capital of Foshan City Gaoming Huaxin Sewage Treatment Company Ltd.* ("Gaoming Huaxin") (佛山市高明區華信污水處理有限公司); 70% of the registered capital of Tangshan City Hongxiang Waterworks Limited* ("Hongxiang") (唐山市鴻翔水務有限公司); 100% interest of Boluo Phase II Project Company ("Boluo Phase II") (博羅二期項目公司) respectively, at a consideration of HK$170 million. The Group has paid HK$50.90 million as a deposit for the acquisition and the remaining amount will be paid upon the completion of the transaction. Since the conditions precedent to the acquisition have not been fulfilled on or before the extended long stop date on 31 October 2010, the relevant parties entered into the Termination Agreement on 29 November 2010 to cancel this acquisition with immediate effect. The deposit paid amounting to HK$50.90 million was assigned as loan to the holding company of the Vendors, Top Vision. The Directors are of view that the termination will not cause any material adverse impact on the existing business of the Group.

### Acquisition of subsidiaries

On 1 December 2010, Mark Profit Group Holdings Limited ("Mark Profit"), a wholly owned subsidiary of the Company, entered into the Sales and Purchase Agreement with Top Vision and Da Xin Waterworks pursuant to which the Mark Profit has conditionally agreed to acquire 70% of the registered capital of Gaoming Huaxin, 100% of the registered capital of Sihui South China, 100% interest of Boluo Da Xin Sewage Treatment Company Ltd.* ("Boluo Daxin") (博羅達信污水有限公司) respectively, at a consideration of HK$50 million. The consideration of HK$6.5 million will be paid in cash for refundable deposit and the remaining balance of HK$43.5 million will be offset by the loan which was owed by Top Vision. The acquisition has not been completed as of the report date. The responsible director has submitted the application of share transfer relating to the acquisition of the sewage treatment plants to the Administration for Industry and Commerce* (工商行政管理局), PRC. As the procedures for the change of shareholding are complicated and require the approval from several PRC government authorities. The Board expects that the share transfer will be completed in 2 months. Upon completion of acquisition, additional 3 sewage treatment plants will add to the Group.

**Changed from the investment in a subsidiary to investment in an associate**

From June to October 2010, the Convertible Preference Shares holders exercised their rights to convert the Convertible Preference Shares into ordinary shares of iMerchants. There were totally 3,439,800,000 iMerchants shares at HK$0.04 each issued upon the Conversion of Preference Shares. After the conversion, the equity interest of iMerchants owned by the Group has reduced further from 67.23% to 36.57%.

**Issue of new HK$ New Bonds in 2010**

On 13 August 2010, the Company entered into a series of Definitive Agreements ("DA1") with investors who collectively held approximately 79% of the existing CB (the "Majority Investors"). New CB due in 2012 in the aggregate principal amount of HK$337 million were issued as a consideration of settling the Majority Investors' interests in existing CB. The new CB comprised a portion of HK$175 million Repurchase Bonds which could neither be converted nor redeemed into ordinary share of the Company, and could not be traded. The remaining portion of new CB of HK$162 million could be converted at the opinion of the Majority Investors at a conversion price of HK$0.15 per ordinary share at any time on or after 15 October 2010 and up to the close of business on 9 August 2012.

**Restructuring of convertible bonds issued in 2007**

On 24 September 2010, the Company entered into another series Definitive Agreements ("DA2") with investors who collectively holding the remaining approximately 21% of the existing CB (the "Minority Investors"). Pursuant to the DA2, the terms and conditions of the existing CB were restructured with the following key terms:

1. Redemptions by installments: The existing CB held by the Minority Investors could be redeemed for a total consideration of approximately HK$128,000,000 in cash (excluding interest costs and discounts for early repayment), payable in a series of installments commencing from October 2010 and ending in July 2012.

2. Revised maturity date: The original maturity date, being 3 August 2012, was brought forward to 31 July 2012.

3. Removal of the Company Sweep-up call option: The Company's sweep-up call option to early redeem the existing CB if and when at least 90% of the existing CB had already been converted, redeemed or purchased and cancelled had been removed.

4. Revised further indebtedness covenant: The original limitation on further indebtedness has been revised so that as long as the New Bonds are outstanding, the Group should not incur any further debts for which there was any recourse to the Company without the prior written consent of the holders representing over 50% in principal amount of the existing CB then outstanding unless the aggregate principal amounts of such further debt incurred after 3 August 2007 was less than US$50 million.

Save for the abovementioned key terms, the existing CB would substantially have the same terms and conditions stated in the bond purchase agreement dated 30 July 2007 and in particular, the prevailing conversion price for existing CB remained at HK$1.136 and the existing conversion price adjustments preserved.

**Letter of Intent**

On 13 December 2010, Neutral Crown Holdings Limited ("Neutral Crown"), a wholly owned subsidiary of the Company, entered into a non-legally binding Letter of Intent with Vendors, pursuant to which Neutral Crown intends to acquire eight sewage treatment plants in Zhaoqing City, Guangdong Province, the PRC, at a consideration not more than HK$200 million and Vendors agree to sell the entire equity interest of Li Lai Investment Holdings Limited ("Li Lai"). Li Lai has owned an indirectly wholly-owned subsidiary namely Guangdong Zhong Tian Heng Ji Environment Protection Investment Co., Ltd.* which has obtained the concessions of eight sewage treatment plants projects. Up to the report date, no sales and purchase agreement has been signed.

**Supplemental build operate transfer**

On 31 August 2010, Jining City Haiyuan Water Treatment Company Limited*. ("Jining Haiyuan"), an indirect subsidiary of the Company, entered into a supplemental build operate transfer agreement with the government of Jinxiang county, Jining city ("Supplemental BOT Agreement"). Pursuant to the Supplemental BOT Agreement, Jining Haiyuan shall further invest in the expansion and upgrades of the Plant ("Project") such that the discharged water quality shall improve from grade 1B standard to grade 1A standard in the PRC and the sewage charges shall increase from Renminbi 0.80 to Renminbi 1.19 per tonne, Jinxiang county government has also agreed to grant exemptions from various administrative charges. The upgraded plant has been put into operation at the end of the year.

**PENDING LITIGATION**

**(i) Technostore Limited, a subsidiary of the Company**

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

Following court hearings regarding the winding-up proceeding in the preceding year, on 29 August 2008, the court made an order to appoint Kenny Tam & Company, Certified Public Accountant as a liquidator of Technostore. The Liquidator, Happy Hour Limited and Mr. Mao Chi Fai become members in the Committee of Inspection ("COI"). In October 2009, all stocks of Technostore with costs valued at approximately HK$2.2 million transferred by the Official Receiver's Office to the Liquidator were disposed at the consideration of around HK$0.62 million by public tender. As of the report date, the latest development in the liquidation process reported by the Liquidator was that preferential and ordinary dividends were distributed in November 2010. Further a sum of less than HK$1,000 was realized from the bank accounts of Technostore. The Liquidator has further indicated that it anticipates that statements of accounts containing further details of the distribution have been submitted to the Official Receiver's Office for approval and shall be circulated once approved by the Official Receiver. The matter is still in the liquidation process up to the report date and is being handled by the Official Receiver's Office. The directors of the Company believe that no material future outflows resources from the Group is expected and sufficient provision on assets related to TechnoStore have been provided. It is unlikely that there will be a material adverse financial impact on the Group.

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

On 6 November 2007, the People's Government of Danzhou and Super Sino Investment Limited ("Super Sino") entered into an assets and liabilities transfer agreement, pursuant to which the assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) were transferred to Super Sino. On 26 June 2008, Agricultural Bank of China Danzhou Branch instituted proceedings with Hainan Intermediate People's Court against Danzhou City Water Company, Super Sino and the People's Government of Danzhou (a third party) regarding the abovementioned transfer of the relevant liabilities, claiming for the principal of RMB26 million and the interest thereon of RMB43.17 million repayable by Danzhou City Water Company and Super Sino (as defendants). On 13 November 2009, the First Intermediate People's Court of Hainan Province issued a civil verdict, pursuant to which Super Sino was ordered to fully repay the loan principal of RMB26 million together with the interest thereon. On 17 December 2009, the Plaintiff made an appeal to the Higher People's Court of Hainan Province court seeking the fulfilment of the guarantee responsibility of Danzhou Urban Development Corporation. On 15 December 2010, Higher People's Court of Hainan Province issued verdict, pursuant to which all the shares of Danzhou City Water owned by Super Sino (the "shares") have been freezed from 15 December 2010 to 14 December 2012. The Company cannot transfer or dispose of the shares during the period.

According to the legal advice, the directors of the Company are of the opinion that the verdict will not impair the control of the Group over Danzhou City Water due to the following reason:

(1) Super Sino is still the legal owner of Danzhou City Water during the year ended 31 December 2010 and up to the reporting date.

(2) As Danzhou City Water is engaged in the business of provision of water in the PRC which requires special license from the respective the PRC government authorities. The procedures for the change of shareholding is complicated and require the approval from several the PRC government authorities.

As at the reporting date, the directors of the Company are discussing the settlement arrangement with the Plaintiff and there is no demand for settlement from the Plaintiff at the moment. The principal of the said loan and the interest thereon have been included in the consolidated financial statements of the Group. The directors of the Company are of the view that the aforesaid litigation is unlikely to have any significant material financial impact on the Group.

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

## PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$35.42 million in total as at 31 December 2010 (2009: HK$36.74 million were secured by:

(i) Charges over property, plant and equipment in which their carrying amount was HK$2.19 million (2009: HK$2.19 million);

(ii) Charges over prepaid lease payments in relation to land use right in which their aggregate carrying amount was HK$10.28 million (2009: 12.88 million); and

(iii) Charges over concession intangible assets in relation to exclusive operating rights for provision of water supply and sewage treatment service to the public users in which their aggregate carrying amount was HK$19.24 million (2009: HK$19.39 million).

## CAPITAL COMMITMENTS

As at 31 December 2010, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK$7.08 million (2009: HK$7.51 million).

## FOREIGN EXCHANGE RISK

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

## EMPLOYEES AND REMUNERATION POLICES

As at 31 December 2010, the Group has employed approximately 898 full-time employees (2009: 884 full-time employees). Most of them stationed in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

## PROSPECTS

The 21$^{st}$ century is considered a "century to tackle water shortage" by many. The severity and importance of water shortage have become a widespread consensus among the society and have been brought to the attention of the Central Government and local governments of China at all levels. For this reason, the water industry will become one of China's fastest growing industries in future.

It is explicitly stated in the Chinese Central Government's No. 1 Document in 2011 that "water is the origin of life, the cornerstone of production and the foundation of ecology". This short sentence stresses the importance of water for mankind. Article 26 in the Document unambiguously declares: "Water price reform will be proactively pushed forward, price escalation system will be gradually adopted in the excess volume of water consumed by industrial and service sectors, and the difference in water prices between water-consuming sectors and other sectors will be widened. Urban water prices will be reasonably adjusted, and the water price escalation system will be introduced steadily." Just like the saying: "the early bird catches the fish", all participants in the water industry have perceived these opportunities and are well-prepared for its future development. While enjoying the achievements but at the same time experiencing hardship and anxiety in this transformation process, they are once again encouraged in an unprecedented way. The problem of water prices, a restraining factor for the development of water industry, now looks poised to be resolved as the overall water price reform has reached a consensus among the State's decision-makers. With years of preparations in policies, considerations in public opinions and developments in technologies, the reform will hopefully be put into practice very soon. It will lay a solid foundation for the growth of our principal businesses.

In the past year, the Chinese economy maintained an admirable growth. As the Chinese government and civil society have shown greater concern for environmental protection industries, the infrastructure industry, including the water supply and sewage treatment sectors, has ascertained benefit from this trend. 2011 is the first year of the "Twelfth Five-year Plan" period, as disclosed in the outlines of the "Twelfth Five-year Plan" promulgated by the Chinese government, the energy conservation and environmental projects are among the list of pillar industries. It even clearly points out that "the role of industrial policy shall be exerted to the effect that more investments shall be attracted to the fields associated with people's likelihood, social welfare, agriculture and villages, technical innovation, ecological protection and resource conservation." Fixed asset investments for China's water industry have grown over 25% for 4 consecutive years. According to the estimates of relevant experts, the whole PRC water industry has a total market value of approximately RMB350 billion in 2010, and will increase to RMB750 billion by 2015. Apparently, the PRC water industry is greeting an unprecedented opportunity for rapid development.

During the past few years, under the leadership of the Board and with the concerted efforts of all our staff, the Group made achievements in business expansion, industrial layout, principal business scale, enterprise management and other aspects, and possessed a certain influence in the industry by relying on the extensive management experiences of the Group's leadership. Especially in 2010, the principal business of the Group recorded substantial growth in both revenue and profitability. To ensure high-quality safe water supply and qualified sewage treatment, the Group successfully transformed one of its sewage treatment plants into an enterprise that met the grade 1A of national waste water discharge standard; continued to implement the identified sewage treatment projects; created additional income beyond principal business; implemented strategic partnership with certain central enterprises with international and domestic influence; and continued to develop new business and so on. All these achievements demonstrate that the Group has firmly seized the historical opportunities under the new circumstances and laid a solid foundation for future development.

Looking ahead, the Group will continue to strengthen its strict scientific management on existing projects, so as to enhance economic efficiency; will continue to actively seek water projects with good investment return and growth potential; will further finance through various channels and attract strategic investors, and to implement as soon as possible the specific projects identified with strategic partners; will continue to achieve the Group's prescribed water investment objectives, that is, a water supply capacity of 10 million tons per day and a sewage treatment capacity of 2 million tons per day, and better profitability through merger and acquisition, investment and water supply and treatment related construction. Furthermore, the Group will strive to achieve its strategic target of becoming a nationwide leading water group in the near future, while working hard to yield substantial returns for shareholders and investors.

## PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

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

## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

## CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance Code ("CG Code")throughout the financial year ended 31 December 2010 except for deviations from the code provision A4.1 and C2.2 as below:

- Pursuant to A4.1 of the CG Code, Non-Executive Directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years. All Independent Non-Executive Directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Articles of Association.

- Pursuant to C2.2 of the CG code, the Board's annual review should consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The Company has not undertaken this review but the financial department of the Company is managed by the qualified accountant and accountants of the subsidiaries have at least 5 years working experience in financial and accounting field. The Board believes that the Company has sufficient qualifications and experience staff in accounting and financial reporting function. The Company understands the importance to comply with the code provision C2.2 so the Chief Internal Auditor will carry out this evaluation on annual basis and report the review result to the Audit Committee.

The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDIT COMMITTEE

The Audit Committee of the Company was established since 29 June 2005 with written terms of reference which are of no less exacting terms than those stipulated in Code provision The Audit Committee comprises 3 Independent Non-Executive Directors, namely Mr. Chang Kin Man (Committee Chairman), Mr. Wu Tak Lung and Mr. Gu Wen Xuan. Mr. Chang and Mr. Wu both are certified public accountants. The Audit Committee acts as an important link between the Board and the Company's auditors in matter within the scope of the group audit. The duties of Audit Committee are to review the Group's interim and annual reports and accounts, to oversight the internal control system and to provide advices to the Board. The Committee discusses regularly with the management, the external auditors on the accounting principles and practices adopted by the Group. The Audit Committee had reviewed the financial statement for the year ended 31 December 2010.

## REMUNERATION COMMITTEE

The Company has established a remuneration committee since 29 June 2005 for the purpose of making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management. The written terms of reference, which describe the authority and duties of the Remuneration Committee are in line with the CG code. The members of remuneration committee comprised Mr. Chang Kin Man (Independent Non-executive Director) who acts as Committee Chairman, Mr. Wu Tak Lung (Independent Non-executive Director) and Mr. Li Wen Jun (Executive Director).

## INVESTMENT COMMITTEE

The Investment Committee of the Company was established since 18 December 2009 with written terms of reference, consisted of 5 directors, namely Mr. Li Yu Gui (Committee Chairman), Mr. Li Wen Jun, Mr. Liu Bai Yue, Mr. Yang Bin and Mr. Chang Kin Man. The role of Investment Committee is to oversee the Company's strategic and investment policy on a regular basis and to advise the Board on the investment of the Company including asset allocation and new investment proposal.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.chinawaterind.com). The annual report will be dispatched to the shareholders and will be available on websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

By Order Of The Board
**China Water Industry Group Limited**
**Li Yu Gui**
*Chairman*

Hong Kong, 30 March 2011

*As at the date of this announcement, the Board comprises Mr. Li Yu Gui, Mr. Yang Bin, Ms. Chu Yin Yin, Georgiana, Mr. Li Wen Jun and Mr. Tang Hui Ping, all being the executive directors and Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Gu Wen Xuan, all being the independent non-executive directors.*

* *for identification only*