中國水業集團有限公司*
CHINA WATER INDUSTRY GROUP LIMITED

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011 together with comparative figures for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	Notes	**2011** **HK$'000**	2010 *HK$'000*
Continuing operation			
Revenue	*4*	**284,954**	238,771
Cost of sales		**(175,158)**	(141,693)
Gross profit		**109,796**	97,078
Other operating income		**5,795**	14,650
Selling and distribution expenses		**(10,651)**	(7,667)
Administrative expenses		**(72,934)**	(62,400)
Finance costs	*6*	**(31,948)**	(9,534)
Change in fair value of convertible bonds		**(6,873)**	(28,326)
Change in fair value of derivative financial instruments		**(6,582)**	(4,135)
Extinguishment gain (loss) of convertible bonds		**34,652**	(1,521)
Loss on redemption of convertible bonds		**(4,659)**	(10,542)
Loss on deemed partial disposal of an associate		**(146,295)**	(79,449)
Loss on reclassification from an associate to available-for-sale investments		**(32,649)**	–
Gain on disposal of available-for-sale investments		**–**	4,928
Impairment loss recognised on prepaid lease payments		**(2,135)**	–
Impairment loss recognised on trade and other receivables	*12*	**(79,284)**	(880)
Impairment loss recognised on concession intangible assets		**(36,988)**	–
Impairment loss recognised on property, plant and equipment		**(20,421)**	–
Impairment loss recognised on an associate		**(33,540)**	–
Impairment loss recognised on available-for-sale investments		**–**	(30,502)
Impairment loss recognised on goodwill		**(145,606)**	(40,258)
Share of results of associates		**(22,066)**	(8,109)
Loss before tax		**(502,388)**	(166,667)
Income tax expense	*7*	**(13,425)**	(10,813)

	Notes	2011 HK$'000	2010 HK$'000
Loss for the year from continuing operation	8	**(515,813)**	(177,480)
Discontinued operations			
Profit for the year from discontinued operations		**–**	27,684
Loss for the year		**(515,813)**	(149,796)
Other comprehensive income (expenses) for the year			
Exchange difference arising on translation		**13,925**	14,030
Exchange reserve released upon disposal of a subsidiary		**–**	42
Change in fair value of available-for-sale investments		**–**	(30,873)
Release of investment revaluation reserve upon disposal of available-for-sale investments		**–**	(694)
Share of other comprehensive income of associates		**20,561**	2,163
Impairment loss recognised on available-for-sale investments		**–**	30,502
Exchange reserve realised upon disposal of an associate		**(17,601)**	–
Other comprehensive income for the year, net of income tax		**16,885**	15,170
Total comprehensive expenses for the year		**(498,928)**	(134,626)
(Loss) profit for the year attributable to:			
Owners of the Company			
From continuing operation		**(531,534)**	(205,043)
From discontinued operations		**–**	112,358
Loss for the year attributable to owners of the Company		**(531,534)**	(92,685)
Non-controlling interests			
From continuing operation		**15,721**	27,563
From discontinued operations		**–**	(84,674)
Profit (loss) for the year attributable to non-controlling interests		**15,721**	(57,111)
		(515,813)	(149,796)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(519,279)**	(82,918)
Non-controlling interests		**20,351**	(51,708)
		(498,928)	(134,626)
Loss per share (HK cents)	11		
			(Restated)
From continuing and discontinued operations			
Basic and diluted		**(136.64)**	(32.72)
From continuing operation			
Basic and diluted		**(136.64)**	(72.39)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**97,250**	97,598
Prepaid lease payments		**43,002**	40,621
Concession intangible assets		**520,477**	483,829
Intangible assets		**–**	–
Goodwill		**10,292**	142,373
Available-for-sale investments		**53,959**	29,898
Interest in associates		**37,962**	281,407
		762,942	1,075,726
Current assets			
Inventories		**45,602**	26,748
Trade and other receivables	*12*	**96,391**	148,900
Prepaid lease payments		**1,231**	1,150
Derivative financial instruments		**–**	10,239
Amounts due from customers for contract works		**27,225**	18,864
Cash held at financial institutions		**3,533**	37,724
Bank balances and cash		**88,301**	100,291
		262,283	343,916
Current liabilities			
Trade and other payables	*13*	**215,643**	163,572
Amounts due to customers for contract works		**4,252**	592
Bank borrowings		**35,397**	34,240
Other loans		**69,683**	39,885
Amounts due to non-controlling shareholders of subsidiaries		**3,059**	6,216
Loan from an associate		**2,757**	2,419
Convertible bonds		**73,459**	397,187
Tax payables		**5,921**	3,379
		410,171	647,490
Net current liabilities		**(147,888)**	(303,574)
Total assets less current liabilities		**615,054**	772,152

	2011	2010
	HK$'000	*HK$'000*
Capital and reserves		
Share capital	**410,332**	324,765
Share premium and reserves	**(307,016)**	124,128
Equity attributable to owners of the Company	**103,316**	448,893
Non-controlling interests	**200,355**	179,164
Total equity	**303,671**	628,057
Non-current liabilities		
Bank borrowings	**18,309**	21,253
Other loans	**70,686**	47,487
Convertible bonds	**138,568**	3,000
Government grants	**71,345**	64,074
Deferred tax liabilities	**12,475**	8,281
	311,383	144,095
	615,054	772,152

Notes

1. COMPANY INFORMATION

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 Room 1207, 12/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong.

The Company and its subsidiaries (the "Group") are principally engaged in provision of water supply and sewage treatment as well as construction services in the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION

The Group reported a consolidated loss attributable to owners of the Company of approximately HK$531,534,000 for the year ended 31 December 2011 and had a consolidated net current liabilities of approximately HK$147,888,000 as at 31 December 2011. 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 2011 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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendment)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standards ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

HKFRS 1 (Amendment)	Severe Hyper inflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards – Government loans[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangement[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 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 anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosure regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

– HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

– The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. 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 recognition 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.

The directors of the Company are in the process of assessing the impact from application of the new standard on the results and the financial position of the Company.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these fives standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joints arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendment to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

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

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 for the year.

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

	2011	2010
	HK$'000	*HK$'000*
Water supply services	**103,749**	87,959
Sewage treatment services	**27,369**	18,078
Water supply related installation and construction income	**121,355**	100,712
Water supply and sewage treatment infrastructure construction income	**32,481**	32,022
	284,954	238,771

5. SEGMENT INFORMATION

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the board of directors of the Company, being the chief operating decision maker for the purposes of allocation resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

The Group is organised into a single operating segment as provision of water supply and sewage treatment as well as construction services primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business is presented.

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.

For the year ended 31 December 2011 and 2010, the Group does not have any single significant customer with the transaction value over 10% of the turnover from continuing operation.

6. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Continuing operation:		
Interest on:		
– Convertible bonds	**8,748**	967
– Imputed interest charged on convertible bonds	**8,330**	201
– Bank borrowings wholly repayable within five years	**3,831**	2,681
– Bank borrowings wholly repayable more than five years	**2,246**	1,633
– Other loans wholly repayable within five years	**6,736**	2,353
– Other loans wholly repayable more than five years	**1,512**	1,443
– Amounts due to non-controlling shareholders of subsidiaries	**426**	200
– Loan from an associate	**119**	56
	31,948	9,534

7. INCOME TAX EXPENSE

	2011	2010
	HK$'000	*HK$'000*
Continuing operating:		
PRC Enterprise Income Tax ("EIT") for the current year	**10,425**	7,929
Deferred tax	**3,000**	2,884
	13,425	10,813

No provision for Hong Kong Profit Tax has been made in the consolidated financial statements as the Company did not have assessable profits subject to Hong Kong Profit Tax for both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. Accordingly, provision for PRC EIT for the PRC subsidiaries is calculated at 25% of estimated assessable profits for both periods, except disclosed as follows:

The first profit-making year of Yichun Water Industry Co., Ltd ("Yichun Water") is 2009. Accordingly, Yichun Water is exempted from PRC income tax from 1 January 2009 to 31 December 2010 and is entitled to a 50% exemption of income tax from 1 January 2011 to 31 December 2012.

The first profit-making year of Jining City Haiyuan Water Treatment Company Ltd* ("Jining Haiyuan") is 2007. Accordingly, Jining Haiyuan is exempted from PRC income tax from 1 January 2007 to 31 December 2008 and is entitled to a 50% exemption of income tax from 1 January 2009 to 31 December 2011.

The PRC subsidiaries which are currently entitled to the tax exemptions from 1 January 2008 would continue to enjoy such treatments until the tax exemptions period expires, but not beyond 2012.

8. LOSS FOR THE YEAR FROM CONTINUING OPERATION

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

	2011	2010
	HK$'000	*HK$'000*
Staff costs excluding directors' emoluments		
– Salaries, wages and other benefits	**39,481**	32,676
– Retirement benefits scheme contributions	**7,714**	7,276
Total staff costs	**47,195**	39,952
Amortisation of prepaid lease payments	**1,210**	1,093
Amortisation of concession intangible assets (included in cost of sales)	**19,618**	13,792
Auditors' remuneration	**1,000**	1,000
Cost of inventories recognised as expenses	**42,754**	25,674
Depreciation of property, plant and equipment	**6,399**	6,505
Write down of inventories (included in cost of sales)	**–**	1,750
Loss on disposal of property, plant and equipment	**19**	619
Concession intangible assets written off	**951**	–
Minimum lease payment under operating leases	**2,034**	1,651

9. DISCONTINUED OPERATIONS

On 23 October 2009, iMerchants Limited ("iMerchants"), the then non-wholly owned subsidiary of the Company, 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 was 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 was 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 profit 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 loss for the year from discontinued operations is analysed as follows:

	2010 *HK$'000*
Loss on the discontinued operations for the year	(230,545)
Gain on deemed disposal of a subsidiary	258,229
	27,684

	2010 *HK$'000*
Loss for the year from discontinued operations	
Revenue	114,720
Cost of sales	(2,386)
Gross profit	112,334
Other operating income	353
Selling and distribution expense	(4,157)
Administrative expenses	(53,933)
Impairment loss recognised on an intangible asset	(245,639)
Impairment loss recognised on trade and other receivables	(419)
Finance costs	(10,588)
Loss before tax	(202,049)
Taxation	(28,496)
Loss for the year from discontinued operations	(230,545)

Loss for the year from discontinued operating include the following:

	2010
	HK$'000
Loss before tax has been arrived at after charging:	
Amortisation of prepaid lease payments	47
Amortisation of an intangible asset	46,279
Depreciation of property, plant and equipment	423
Minimum lease payment under operating leases	1,006
Finance costs	
Interest on other loans	384
Imputed interest on convertible bonds	10,204
Staff costs excluding directors' emoluments	
– Salaries, wages and other benefits	1,824
– Retirement benefits scheme contributions	55
Total staff costs	1,879
Cash flows from discontinued operations	
Net cash outflows from operation activities	(52,771)
Net cash inflows from investing activities	5,079
Net cash inflows from financing activities	1,464
Net cash outflows	(46,228)

10. DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

11. LOSS PER SHARE

From continuing operation

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

	2011	2010
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company	**(531,534)**	(92,685)
Less: Profit for the year from discontinued operations	**–**	(112,358)
Loss for the purposes of basic and diluted loss per share from continuing operation	**(531,534)**	(205,043)
Number of shares	***'000***	*'000* (restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**389,007**	283,236

The weighted average of ordinary shares for the purpose of calculating basic loss per share for both year have been retrospectively adjusted for the effect of share consolidation completed in September 2011.

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 31 December 2011 and 2010.

Diluted loss per share was same as the basic loss per share for the year ended 31 December 2011 and 2010, as the effect of the conversion of the Company's outstanding share options and convertible bonds would result in a decrease in loss per shares from continuing operation for the year ended 31 December 2011 and 2010.

From discontinued operations

Basic and diluted earnings per share for the discontinued operations was HK$39.67 cents per share for the year ended 31 December 2010, based on the profit for the year from the discontinued operations of approximately HK$112,358,000 and the denominators detailed above for both basic and diluted earnings per share.

12. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**21,087**	16,219
Less: impairment loss recognised	**(8,531)**	(5,246)
	12,556	10,973
Other receivables	**16,556**	22,754
Less: impairment loss recognised	**(5,595)**	(8,903)
	10,961	13,851
Loans receivables	**152,911**	129,480
Less: impairment loss recognised	**(81,939)**	(5,720)
	70,972	123,760
Deposits and prepayments	**1,902**	316
	96,391	148,900

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:

	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**5,399**	6,517
91 to 180 days	**4,636**	3,537
181 to 365 days	**2,278**	807
Over 1 year	**243**	112
	12,556	10,973

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$1,439,000 (2010: HK$1,267,000) which were past due at the end of the reporting period and for which the Group has not provided for impairment loss. Ageing of trade receivables which are past due but not impaired:

	2011	2010
	HK$'000	*HK$'000*
Within 90 days	**1,036**	918
91 to 180 days	**158**	136
181 to 365 days	**245**	213
Total	**1,439**	1,267

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

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

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

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**5,246**	5,807
Deemed disposal of a subsidiary	**–**	(1,246)
Impairment loss recognised	**3,062**	1,299
Reversal of impairment loss	**–**	(921)
Exchange realignment	**223**	307
Balance at end of the year	**8,531**	5,246

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$8,531,000 (2010: HK$5,246,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

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

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**8,903**	8,680
Impairment loss recognised	**3**	–
Amounts written off as uncollectible	**(3,471)**	–
Exchange realignment	**160**	223
Balance at end of the year	**5,595**	8,903

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$5,595,000 (2010: HK$8,903,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

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

	2011	2010
	HK$'000	*HK$'000*
Balance at beginning of the year	**5,720**	5,720
Impairment loss recognised	**76,219**	–
Balance at end of the year	**81,939**	5,720

As at 31 December 2010, loan receivables included HK$68,206,000 due from Top Vision Management Ltd ("Top Vision"). During the year ended 31 December 2011, part of the aforesaid loan balance of HK$15,500,000 was used to set off the consideration paid to Top Vision for the acquisition of 70% equity interest in Foshan City Gaoming Huaxin Sewage Treatment Company Ltd* ("Gaoming Huaxin"). In addition, another part of the loan balance of approximately HK$9,108,000 was assigned from Top Vision to Gaoming Huaxin upon the Group's acquisition of Gaoming Huaxin. In the opinion of the directors of the Company, the possibility of the recovery of HK$15,598,000 out of the remaining balance of HK$43,598,000 is remote and impossible, impairment loss of approximately HK$15,598,000 (2010: Nil) in respect of the loan receivable was made in the year ended 31 December 2011.

Included in loan receivables were amounts advanced to two independent third parties amounting to HK$10,000,000 and HK$2,513,000, which were unsecured, repayable within one year and carry interest at 5% per annum. Also, included in loan receivables were amounts advance to another two independent third parties amounting to HK$42,446,000 and HK$9,575,000, which were secured by personal guarantee from an independent third party, repayable within one year and carry interest at 5% per annum.

In the opinion of the directors of the Company, the possibility of the recovery of these four loan receivables are remote and impossible, impairment loss of approximately HK$10,000,000, HK$600,000, HK$40,746,000 and HK$9,275,000 in respect of the loan receivable was made in the year ended 31 December 2011.

Included in loan receivables were amounts advanced to two independent third parties ("Borrowers") amounting to HK$24,412,000 and HK$14,647,000 respectively. The amounts were unsecured, carrying 25% and 20% interest rate per annum respectively and repayable in one year.

13. TRADE AND OTHER PAYABLES

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

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**11,757**	6,237
31 to 90 days	**1,090**	518
91 to 180 days	**411**	713
181 to 365 days	**776**	611
Over 1 year	**2,027**	1,018
	16,061	9,097
Other payables	**115,100**	79,309
Interest payables	**84,482**	75,166
	215,643	163,572

The credit terms of trade payables vary according to the terms agreed with different 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

	2011	2010
	HK$'000	*HK$'000*
Capital commitments contracted but not provided for, in respect of acquisition of concession intangible assets and property, plant and equipment	**19,899**	7,079

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$31,735,000 (equivalent to RMB26,000,000) (2010: HK$30,698,000 equivalent to RMB26,000,000) and the interests of approximately HK$55,610,000 (equivalent to RMB45,560,000) (2010: HK$50,972,000, equivalent to RMB43,171,000).

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 for 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 frozen 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 reasons:

(1) Super Sino is still the legal owner of Danzhou City Water from 15 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 date of this announcement, 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 opinion that the power to govern the financial and operating policies of Danzhou City Water are still rest on the Group.

INFORMATION FROM INDEPENDENT AUDITOR'S REPORT

Basis for Disclaimer of Opinion

During the course of our audit of the Group for the year ended 31 December 2011, we encountered significant of limitation of audit scope in respect of various areas as set out below:

1. Comparative figures

As previously explained in our report dated 30 March 2011 on the Group's consolidated financial statements for the year ended 31 December 2010, we were not provided with sufficient audit evidence to satisfy ourselves as to whether the loan balance of HK$68,206,000 due from Top Vision Management Limited would be recoverable in full or in part. We disclaimed our opinion on the consolidated financial statements for the year ended 31 December 2010 in respect of this scope limitation. During the year ended 31 December 2011, approximately HK$24,608,000 was recovered, details are explained in note 12 to the consolidated financial statements.

Any adjustments in connection with the remaining loan receivables of HK$43,598,000 outstanding as at 31 December 2010 would have a consequential effect on the accumulated losses and net assets of the Group as at 31 December 2010 and on the Group's loss for the year then ended and the related disclosures in the consolidated financial statements.

2. Impairment assessment of loan receivables

As explained in note 12 to the consolidated financial statements, included in loan receivables as at 31 December 2011 were amounts advanced to three independent parties of approximately HK$43,598,000, HK$24,412,000 and HK$14,647,000 respectively, before provision of impairment loss. Impairment loss of HK$15,598,000 was recognised during the year ended 31 December 2011 for the loan receivable of HK$43,598,000. We have not been provided with sufficient evidence to satisfy ourselves as to the recoverability of the aforesaid loan receivables and as to whether the impairment loss of the loan receivable determined by the directors of the Company against the carrying amount of the loan receivable were fairly stated. There are no other satisfactory audit procedures which we could adopt to ascertain the carrying value of the loan receivables as at 31 December 2011 and the amount of impairment loss recognised during the year ended 31 December 2011 being fairly stated in the consolidated financial statements.

Any adjustments in connection with the loan receivables and impairment loss would have a consequential effect on the net assets of the Group as at 31 December 2011 and on the Group's loss for the year then ended and the related disclosures in the consolidated financial statements.

3. **Available-for-sale investments**

As to the consolidated financial statements, the Group had an investment in listed equity securities in Hong Kong with carrying value of HK$29,898,000 as at 31 December 2011. The trading of the listed equity investment has been suspended during the year and up to date of this announcement. The directors of the Company considered that there was no material change in the fair value of the listed equity investment. We have not been provided with sufficient evidence to satisfy ourselves as to the available-for-sale investments were fairly stated. There are no other satisfactory audit procedures which we could adopt to ascertain the fair value of the available-for-sale investments stated in the consolidated statement of financial position as at 31 December 2011.

Any adjustments in connection with the available-for-sale investments would have a consequential effect on the net assets of the Group as at 31 December 2011 and on the Group's loss and/or equity for the year then ended and the related disclosures in the consolidated financial statements.

Fundamental uncertainty relating to the going concern basis

As explained in note 2 to the consolidated financial statements, which indicates that the Group incurred a consolidated loss attributable to owners of the Company of approximately HK$531,534,000 for the year ended 31 December 2011 and had a consolidated net current liabilities of approximately HK$147,888,000 as at 31 December 2011, 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 availability 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 regarding this situation, but we consider that the fundamental uncertainty in relation to whether the adoption of the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

RESULTS

Financial Results

The Group recorded a consolidated net loss of HK$515.81 million for the year, which was significant larger than the net loss of HK$177.48 in 2010. The main contributing factors are summarized as follows:

– Impairment losses in the aggregate amount of HK$317.97 million being:

  HK$145.61 million recognised on goodwill;

  HK$79.28 million recognised on trade and other receivables;

  HK$36.99 million recognised on concession intangible assets;

  HK$33.54 million recognised on an associate;

  HK$20.42 million recognised on property, plant and equipment; and

  HK$2.13 million recognised on prepaid lease payments.

– Losses in a total amount of HK$197.92 million incurred from an associate, iMerchants Limited ("iMerchants"), being:

  HK$146.30 million on deemed partial disposal of an associate;

  HK$32.65 million on reclassification from an associate to available-for-sale investments; and

  HK$18.97 million share of results of an associate.

Revenue and Gross Profit

For the year ended 31 December 2011, the Group achieved a continuing growth in revenue and gross profit, which amounted to HK$284.95 million and HK$109.80 million respectively. This represented a growth of 19.3% in revenue and 13.1% 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 68.8% of the consolidated revenue and 79.3% of gross profit respectively. The financial analysis of revenue and gross profit is as follows:

	Revenue				**Gross Profit**			
	2011		2010		**2011**		2010	
	HK$'M	*%*	*HK$'M*	*%*	***HK$'M***	*%*	*HK$'M*	*%*
Water supply services	**103.75**	**36.4**	87.02	36.4	**37.42**	**34.1**	29.47	30.4
Sewage treatment services	**27.37**	**9.6**	18.08	7.6	**10.56**	**9.6**	6.07	6.3
Construction services	**153.83**	**54.0**	133.67	56.0	**61.82**	**56.3**	61.54	63.3
Total	**284.95**	**100.0**	238.77	100.0	**109.80**	**100.0**	97.08	100.0

Water supply business

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$103.75 million, representing 36.4% of the Group's total revenue. The price of water supply ranged from HK$1.5 to HK$2.4 per tonne.

Sewage treatment business

Sewage treatment business consisted of 3 sewage treatment plants which were located in Jiangxi Province, Guangdong Province and Shandong Province. The daily disposal sewage capacities were approximately 130,000 tonnes per day contributing revenue of HK$27.37 million, representing 9.6% of the Group's total revenue. The price of sewage treatment ranged from HK$0.6 to HK$1.6 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$153.83 million during the year, representing 54.0% of the Group's total revenue.

Other Operating Income

Other operating income decreased by HK$8.85 million to HK$5.80 million (2010: 14.65 million). The income included mainly interest income of HK$1.08 million, the handling fee of HK$1.53 million paid by the PRC government of the respective water plant, cleaning and disinfection handling fees of HK$0.61 million and dismantling fees of HK$0.68 million.

Selling and distribution costs and administrative expenses

Selling and distribution costs together with administrative expenses were collectively increased by HK$13.51 million to HK$83.58 million (2010: HK$70.07 million). The increase was mainly due to additional legal and professional incurred for restructuring of convertible bonds and increase in staff costs. These expenses mainly consisted of legal and professional fees of HK$6.67 million, staff cost of HK$50.10 million, repair and maintenance of HK$2.29 million and depreciation and amortisation of HK$7.61 million.

Loss on deemed partial disposal of an associate

During the period from January to September 2011, the holders of 14,692,390 Convertible Preference Share ("**CPS**") and 50,000,000 Convertible Bonds ("**CB**") exercised their rights to convert the CPS and CB into fully paid ordinary shares of iMerchants. After the conversion, the equity interest of iMerchants owned by the Company has reduced further from 36.57% as at 31 December 2010 to 12.61% as at 31 December 2011. As a result, the amount of iMerchant's net asset value shared by the Group decreased from HK$221.97 million to HK$75.67 million. The difference of HK$146.30 million was recognized as a loss in the consolidated statement of comprehensive income.

Loss on reclassification from an associate to available-for-sale investments

Up to 19 September 2011, 3 out of 8 directors of iMerchants who either resigned or retired were also directors of the Company. The Board considered that the Group cannot exercise significant influence over iMerchants' financial and operating policy decisions. In light of this, the Board determined to reclassify the equity interest in iMerchants to available-for-sale investments. The loss of HK$32.65 million was recognized based upon the comparison of the net asset value of iMerchants shared by the Group with the fair value of the iMerchants' share price at the date of the of loss significance influence.

Impairment loss recognized trade and other receivables

Impairment loss of HK$79.28 million was mainly provided for the loan receivables advanced to four independent third parties (the "Borrowers") in the aggregate amount of HK$75.62 million. The directors of the Company have individually assessed these receivables and believe that the Company will have difficulties in recovering the sums indicated. Legal demand letters for collection of the debts were issued to the deposit holder and the respective Borrowers. The possibility of recovery of debts are remote and thin and thus the associated impairment losses are provided.

Impairment loss recognized on available-for-sale investments

Included in the available-for-sale investments were equity investment in two listed equity securities in Hong Kong. During the year, no impairment loss has been provided as one of the equity securities which its shares was suspended in trading in the Stock Exchange since 30 June 2011 and up to the date of this announcement. In the absence of any available quoted market bid prices, the Company is unable to evaluate the fair value of this equity security and whether it is appropriate to provide any further impairment loss on this investment. In previous year, there was HK$30.50 million of impairment loss provided for this suspended equity security due to significant or prolonged decline in market value.

Impairment loss recognized in respect of goodwill

During the year ended 31 December 2011, the Group recognized an impairment loss in aggregate amount of HK$145.61 million in relation to the goodwill arising from acquisition of Blue Mountain Hong Kong Group Limited ("Blue Mountain"), Onfar International Limited ("Onfar"), Anhui Dang Shan Water Industry Company Ltd* ("Anhui Dang Shan") and Foshan City Gaoming Huaxin Sewage Treatment Company Ltd* (佛山市高明區華信污水處理有限公司) ("Gaoming Huaxin") (2010: HK$40.25 million). The goodwill arose from the acquisition of Blue Mountain, Onfar, Anhui Dang Shan and Gaoming Huaxin which was allocated to the cash-generating units for the provision of water supply and sewage treatment. The impairment loss incurred as the present value of estimated future cash flows expected to arise from the individual cash-generating units less than the respective carrying amount of the units. The carrying amount included the carrying value of goodwill and the net asset value.

Impairment loss recognized on concession intangible assets

The impairment loss of HK$36.99 million was mainly provided for Danzhou Qingyuan Water Industry Company Limited* (儋州清源水務有限公司) and Onfar, amounting to HK$28.57 and HK$8.42 respectively (2010: Nil). The concession intangible assets are the exclusive operating rights granted by the respective local governments to the water supply plants and sewage treatment plants for the provision of water supply services and sewage treatment services to the public users. The loss was due to the estimated recoverable amounts in using concession intangible assets less than its respective carrying amounts.

Impairment loss recognised on an associate

Owing to the continuing losses during the year ended 31 December 2011 and 2010, the impairment loss of HK$33.54 million was provided for Jinan Hongquan Water Production Co. Ltd. ("Jinan Hongquan") whose business activity is provision of water supply service (2010: Nil)

Impairment loss recognized on property, plant and equipment

In light of the continuing loss-making of Anhui Dang Shan, the impairment loss of HK$20.42 million was provided for the property, plant and equipment due to the estimated recoverable amount less than its respective carrying amounts.

Finance costs

Finance costs of HK$31.95 million were mainly represented by interest payments to banks and other loans of HK$14.33 million and to the convertible bond ("**CB**") holders of HK$17.08 million (2010: HK$9.53 million). The increase of HK$22.41 million was mainly additional interest paid to CB holders of HK$15.91 million.

Share of loss from associates

The Group had two associated companies, iMerchants and Jinan Hongquan. As at 31 December 2011, the Group held 12.61% equity interests in iMerchants and shared the loss of HK$18.97 million. During the year, the Group shared 35% loss from Jinan Hongquan of HK$3.10 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group recorded cash and bank balance including cash held at financial institutions of HK$91.83 million (compared with HK$138.02 million on 31 December 2010). The decrease was mainly due to repayment of a portion of the issued CB, loan advanced to independent third parties and associate of the Group. The Group has had steady cash flow generating from the water supply and sewage treatment business segments.

Total liabilities of the Group as at 31 December 2011 were HK$721.55 million (compared with HK$791.59 million on 31 December 2010). They mainly comprised of the CB of HK$212.03 million (2010: HK$400.19 million), bank and other borrowings of HK$194.08 million (2010: HK$142.87 million), and government grants of HK$71.35 million (2010: HK$64.07 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 2011 was 70.38% (2010: 55.76%). The ratio was calculated by dividing total liabilities of HK$721.55 million over total assets of the Group of HK$1,025.22 million.

The Group's consolidated non-current assets decreased by HK$312.78 million to HK$762.94 million (2010: HK$1,075.73) million. The decrease was mainly attributable to the cost of investment of HK$229.50 million in associate, iMerchants. The reduced cost of investment was mainly as a result of the loss on deemed partial disposal and the loss on reclassification from associate to available-for-sales investments. After deduction the aforesaid losses, the balance of cost of investment relating to iMerchants was reclassified as available-for-sales investments upon the loss of significant influence by the Group.

The trade and other receivables including loans receivable in the current asset decreased by HK$52.51 million to HK$96.39 million (2010: HK$148.90 million). The decrease was mainly due to additional impairment loss of HK$79.28 million being provided.

At as 31 December 2011, the Group had net current liabilities of HK$147.89 million (2010: net current liabilities of HK$303.57 million). The current portion of CBs amounting to HK$73.46 million represented 17.91% of the total current liabilities (2010: CB of HK$397.19 million).

During the year, the Company entered into repurchase agreements with several CB holders to repurchase convertible bonds which issued to them on 3 August 2007 (the "**2007 Bonds**") and 30 September 2010 (the "**2010 Bonds**" and together with 2007 Bonds, collectively referred to as the "**Bonds**") at a consideration of $73.10 million and HK$205 million respectively. Following the repurchase, no Bonds are remained outstanding. The amount paid for the repurchasing of the Bonds was at approximately 21% discount to the accrued amounts owing to the holders if the outstanding Bonds were held to maturity, the Directors took the view that the terms for the repurchase were favorable to the Company.

To refinance the repurchase of Bonds, the Company borrowed two short-term interest bearing loans from two independent third parties, one being a 2-month unsecured loan facility of HK$80 million and the other a 6-month secured loan facility of HK$205 million. Both loans bear interest at rate of 12% per annum. To meet the aforesaid debts obligation when they fall due, the Company issued two zero coupon convertible bonds ("**Convertible Notes**") including HK$80 million zero CB due 2012 and HK$200 million zero CB due 2014 to Honghu Capital Co. Ltd ("**Subscriber**"). The net proceeds of approximately HK$277 million from the issuance of Convertible Notes were utilized for the repayment of the aforesaid two short-term interest bearing loans. The Board believed that this financing structure is in the best interest of the Company to solve the imminent financial needs without incurring interest expenses. Up to the date of this announcement, none of the Convertible Notes is converted into shares by the Subscriber.

CAPITAL RAISING AND USE OF PROCEEDS

On 31 March 2011, the Company entered into the Top up Placing and Subscription Agreement with existing shareholders and the Placing Agent pursuant to which the Company placed out a maximum of 324,000,000 new ordinary share of HK$0.1 each at a placing price of HK$0.128 per share, through the Placing Agent on a best effort basis. The Top-up Placing and Top-up Subscription were completed on 6 April 2011 and 8 April 2011 respectively. The net proceed of HK$40 million from the placing had been used on repayment of debts and general working capital of the Group.

On 29 April 2011, the Company entered into the Top up Placing and Subscription Agreement with existing shareholders and the Placing Agent pursuant to which the Company placed out a maximum of 325,000,000 new ordinary share of HK$0.1 each at a placing price of HK$0.123 per share, through the Placing Agent on a best effort basis. The Top-up Placing and Top-up Subscription were completed on 5 May 2011 and 6 May 2011 respectively. The net proceed of HK$38.5 million from the placing had been utilized on repayment of debts and general working capital of the Group.

In March 2011, three 2010 Bonds holders exercised their rights and converted the aggregate principle CB amount of HK$31 million into 206,666,664 shares at the conversion price of HK$0.15 per share. Details of the conversion were announced in the Next Day Disclosure Returns on 3 March 2011, 15 March 2011 and 28 March 2011.

On 19 August 2011, the Company had implemented a share consolidation scheme on the basis that every ten (10) issued and unissued shares of HK$0.1 each in the share capital of the Company were consolidated into one (1) consolidated share of HK$1 each in the issued share capital of the Company. As approved by shareholders at the extraordinary general meeting ("EGM") held on 26 September, 2011, the share consolidation was effected on 27 September 2011 resulting in the authorized share capital of HK$2,000,000,000 divided into 2,000,000,000 ordinary shares of HK$1.00 each and in the issued share capital of 410,331,766 of HK$1.00 each.

During the year, the Group incurred capital expenditures amounting to HK$54.27 million (2010: HK$76.46 million), while HK$32.31 million had been used for acquisition of concession intangible assets.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Repurchase of Bonds

On 2 August 2011 and 29 July 2011, the Company entered into repurchase agreements with several CB holders to repurchase convertible bonds issued to them on 3 August 2007 and on 30 September 2010 respectively ("Bonds"). The total consideration paid for the Bonds was HK$73.10 million and HK$205 million, respectively. The Bonds were repurchased with the proceeds from short term interest bearing loans on an arm's length basis, entered into by the Company and Independent third party lenders on 28 July 2011 and 3 August 2011 respectively. The repurchased Bonds were settled on 8 August 2011 and then all Bonds were cancelled pursuant to the terms and conditions of the Bonds. Following such cancellation, no Bonds are remained outstanding.

Issue of Convertible Notes under General Mandate, Issue of Convertible Notes under Specific Mandate, Placing of Convertible Notes and Capital Reorganization

On 15 August 2011, the Company entered into Subscription Agreement I ("Subscription I") and Subscription Agreement II ("Subscription II") with Subscriber, under which the Company has agreed to issue, and the Subscriber has agreed to subscribe for, the zero interest Convertible Notes I due 2012 ("Convertible Notes I") and the zero interest Convertible Notes II due 2014 ("Convertible Note II") to be issued by the Company in an aggregate principal amount of HK$80 million and HK$200 million respectively. At the same date, the Company entered into the Placing Agreement ("Placing") with Kingston Securities Limited (the "Placing Agent"), pursuant to which the Placing Agent agreed to procure placees to subscribe for HK$200 million of the zero interest Convertible Notes III 2014 ("Convertible Notes III") on a best endeavours basis. Following the Share Consolidation and Capital Reduction becoming effective on 27 September 2011 and 7 March 2012 respectively, for Convertible Notes I, a total of 80,000,000 Conversion Shares I will be allotted and issued under general mandate to Subscriber at Conversion Price I of HK$1.00 per Share. For Convertible Notes II, a total of 400,000,000 Conversion Shares II will be allotted and issued under the Specific Mandate to Subscriber at the Conversion Price II of HK$0.50 per Share (being the current par value of the Shares). For the Convertible Notes III fully placed, a total of 400,000,000 Conversion Shares III will be allotted and issued under the Specific Mandate at the Conversion Price III of HK$0.50 per Share (being the current par value of the Shares). The Specific Mandate was approved by Shareholders at the EGM on 26 September 2011. Due to the downturn and uncertainty of the global financial market, the Placing Agent indicated that investors are unwilling to commit to any investment in debt instruments, the Placing Agreement lapsed on 12 January 2012.

To cater for additional new Shares to be allotted and issued for Convertible Note I, II and III, the authorised share capital increased by the creation of an additional 2,400,000,000 Consolidated Shares with a par value of HK$0.50 each immediately following the Share Consolidation and Capital Reduction. The authorised share capital increased was approved by Shareholders at the EGM on 26 September 2011.

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 ("Agreement") with Vendor A – Top Vision Management Limited ("Top Vision"), Vendor B – Da Xin Waterworks Management (Huizhou) Co., Ltd.* ("Da Xin Waterworks") (達信水務管理(惠州)有限公司) and Mr. Yang Wei Hua ("Mr. Yang"), pursuant to which the Mark Profit 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); 100% of the registered capital of Sihui City South China Waterworks Development Co., Ltd.* ("Sihui South China") (四會市華南水務發展有限公司), 100% interest of Boluo Da Xin Sewage Treatment Company Ltd.* ("Boluo Daxin") (博羅達信污水處理有限公司) respectively, at a consideration of HK$50 million. The consideration of HK$6.5 million will be paid in cash for refundable deposit before completion and the remaining balance of HK$43.5 million will be offset by the loan which was owed by Top Vision. The acquisition of Gaoming Huaxin was completed on 30 September 2011 which brought an additional 20,000 tonnes per day of sewage treatment capacity to the Group. The consideration of acquisition of Gaoming Huaxin at HK$15.5 million was settled by netting off the loan.

On the other hand, the acquisition of Sihui South China and Boluo Daxin have not been completed up to the date of this announcement. In view of the current progress of relevant governmental or regulatory authorities, additional time will be required for obtaining regulatory approval of shares transfer. Pursuant to the Agreement, the acquisition is subject to the satisfaction (or wavier, where applicable) of the condition precedents set forth therein on or before 31 May 2011. In this connection, the Company entered into the Supplemental Agreement with Top Vision, Da Xin Waterworks and Mr. Yang on 7 December 2011 to extend the Long Stop Date for the fulfillment of the conditions precedent from 31 May 2011 to 30 June 2012.

MAJOR EVENT SUBSEQUENT TO THE YEAR UNDER REVIEW

Deemed disposal of 40% interest in a subsidiary

On 10 February 2012, Super Sino Investment Limited ("**Super Sino**"), an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Water Affairs Bureau of Dang Shan County, Anhui Province, the PRC ("**Dang Shan County Water Bureau**") in relation to the capital injection by Dang Shan County Water Bureau in the amount of RMB10 million to Anhui Dang Shan Water Industry Company Limited* (安徽省碭山水業有限公司) ("Dang Shan") as its registered capital. After the capital injection, Dang Shan will change from a wholly-owned foreign enterprise to a Sino-foreign equity joint venture in which Super Sino and Dang Shan County Water Bureau will be interested in as to 60% and as to 40% respectively. After the deemed disposal, Dang Shan will change from a wholly owned subsidiary of the Company to a joint venture in which the Company has 60% equity interest and the financial results of Dang Shan will continue to be consolidated into the financial results of the Group.

Completion of Capital Reduction

On 19 August 2011, the Company proposed to effect the Capital Reduction pursuant to which the par value of each of the issued Consolidated Shares will be reduced from HK$1.00 to HK$0.50 each by cancelling paid-up capital to the extent of HK$0.50 per issued Consolidated Share resulting in each issued Consolidated Share of HK$1.00 each being treated as one fully paid-up New Share of HK$0.50 each in the share capital of the Company. Upon receipt of the order granted by the Grand Court of the Cayman Islands and other relevant documents duly filed and registered with the Registrar of Companies in the Cayman Islands, the capital reduction and the share subdivision became effective on 7 March 2012 resulting in the authorized share of HK$2,200,000,000 divided into 4,000,000,000 ordinary shares par value HK$0.50 each and 2,000,000,000 convertible preference shares of par value of HK$0.1 each.

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 29th August 2008, the court made an order to appoint Kenny Tam & Company, Certified Public Accountant as a liquidator of Technostore and Happy Hour Limited and Mr. Mao Chi Fai to become members in the committee of inspection. 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. 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. On 25th August 2011, the Liquidator indicated that no additional assets of Technostore have been realized and it anticipates that there will be no further assets for realization. The Liquidator has further indicated that it will apply to the Court for his release as the liquidator of Technostore after the determination of a validation order. On 29th February 2012, the Liquidator further advised that there was no additional assets realization since 25th August 2011. The Liquidators also advised that they are preparing an application for validation order and will file their release application pending sanction of the validation order by the Court. Up to the date of this announcement, the Liquidators have yet to confirm the details of the validation order application. 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, an indirect wholly-owned subsidiary of the Company

On 6 November 2007, the People's Government of Danzhou and 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 Company owned by Super Sino (the "shares") have been frozen 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 Company due to the following reason:

(1) Super Sino is still the legal owner of Danzhou City Water Company during the year ended 31 December 2011 and up to the date of this announcement.

(2) As Danzhou City Water Company 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 date of this announcement, 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.

FOREIGN EXCHANGE RISK

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

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$93.85 million in total as at 31 December 2011 (2010: HK$60.22 million were secured by:

(i) Charges over property, plant and equipment in which their carrying amount was HK$2.20 million (2010: HK$2.19 million);

(ii) Charges over prepaid lease payments in relation to land use right in which their aggregate carrying amount was HK$10.47 million (2010: HK$10.28 million);

(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$19.16 million (2010: HK$19.24 million); and

(iv) The entire equity interest in the Group's wholly-owned subsidiaries, Billion City Investments Limited, Nourish Gain Investments Limited, Smart Giant Group Limited and China Ace Investment Limited were pledged for the other loan of the Group.

CONTINGENT LIABILITIES

As at 31 December 2011, the group did not have any significant contingent liabilities (2010: Nil).

CAPITAL COMMITMENTS

As at 31 December 2011, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK$19.90 million (2010: HK$7.08 million).

EMPLOYEES AND REMUNERATION POLICES

As at 31 December 2011, the Group has employed approximately 972 full-time employees (2010: 898 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

Water industry currently remains the Company's principal business. It's our ambition to strengthening and expanding our city water supply and sewage treatment business. To accomplish it, we plan, firstly, to enhance our management and explore the potential in improving water supply ability and sewage treatment capacity, secondly, to control costs and increase profits, and thirdly, to continue to acquire new water supply companies and sewage treatment plants, in order to improve the results of the Group's principal business.

The new Board and management have drawn up a three-year development plan for the Group:

2012: Straightening out group relationship and issues, building a solid foundation and a strong management, to keep the profit

2013: Expanding our business scale and coverage, and enhancing our efficiency, to keep the growth

2014: Following the innovative development concept, achieving economies of scale, strengthening the brand, to keep the sustainable development

The serious shortage of water resources and stricter requirements on environmental protection from the public bring a different situation upon our future development. Another round of nationwide increase in urban water price has been initiated; the integration of urban and rural water supply drives a rapid upgrading in water supply capacity; and the nationwide popularization of township sewage treatment plants will generate more new business opportunities, basing on the above, we are fairly confident about the future development of water industry.

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 2011 (2010: Nil).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code throughout the financial year ended 31 December 2011 except for deviations from the code provision A4.1 as below:

- Pursuant to A4.1 of the 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 Article of Association.

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 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 confirmed that directors of the Company had complied with the Model Code regarding directors' securities transactions during the year and up to the date of this announcement.

AUDIT COMMITTEE

The Audit Committee of the Company was established since 29 June 2005 with written terms of reference. 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 and the external auditors on the accounting principles and practices adopted by the Group. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited financial statements of the Group for the year ended 31 December 2011. The Company has received from each of the independent non-executive Director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-executive Director to be independent.

REMUNERATION COMMITTEE

The Company has established a remuneration committee since 29 June 2005 with written terms of reference. 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. Liu Feng (Executive Director). The Remuneration Committee is mainly responsible for making recommendation to the Board on the Company's policy and structure for all remuneration of directors and senior management and ensuring the remuneration offered is appropriate for the duties in line with market practice.

NOMINATION COMMITTEE

The Nomination Committee was established on 19 January 2012 with term of reference and comprising a majority of Independent Non-executive Directors. The Nomination Committee currently comprises an Executive Director, namely Mr. Wang De Yin (Committee Chairman), two Independent Non-executive Directors, namely Mr. Chang Kin Man and Mr. Wu Tak Lung. The Nomination Committee is mainly responsible for reviewing the Board composition, advising the Board on the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors.

INVESTMENT COMMITTEE

The Investment Committee of the Company was established since 18 December 2008 with specific terms of reference. The Committee members currently consist of four Executive Directors, namely Mr. Wang De Yin (Committee Chairman), Mr. Yang Bin, Mr. Liu Feng and Mr. Tang Hui Ping, Paul and one Independent Non-executive Director, namely 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.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2011 as set out in the Preliminary Announcement have been agreed by the Group's auditors, Messrs. SHINEWING (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. SHINEWING (HK) CPA Limited on the preliminary announcement.

By Order Of The Board
China Water Industry Group Limited
Wang De Yin
Chairman

Hong Kong, 29 March 2012

As at the date of this announcement, the Board comprises Mr. Wang De Yin, Mr. Yang Bin, Mr. Lin Yue Hui, Mr. Liu Feng, Mr. Tang Hui Ping and Ms. Chu Yin Yin, Georgiana, all being executive directors, and Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Gu Wen Xuan, all being independent non-executive directors.

* *for identification purpose only*