

Report of the Directors

The Board of Directors of the Company, present their report together with the audited consolidated financial statements of the company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders in the extraordinary general meeting held on 18 December 2006, the Company had changed its name from "Sky Hawk Computer Group Holdings Limited" to "China Water Industry Group Limited" and the new Chinese name "中國水業集團有限公司*" for identification purposes only to replace "天鷹電腦集團控股有限公司" to reflect the change in the business focus of the Group. The Certificate of Incorporation on Change of Name issued by the Registrar of Companies of Cayman Islands has certified that the Company's name was changed and registered with effect from 18 December 2006.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 38 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the group's performance for the year by business category is set out in note 6 to the consolidated financial statements.

SEGMENTAL INFORMATION

The analysis of the Group's principal activities and geographical locations of customers of the group during the financial year are set out in note 7 to the consolidated financial statements.

RESULTS

The results of the Group for year ended 31 December 2006 are set out in the consolidated income statement on page 33.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006.

LOSS PER SHARE

The calculation of basic loss per share for the year is based on the loss for the year attributable to equity holders of the parent of approximately HK\$95,452,000 (2005: HK\$44,172,000), the weighted average number of 989,705,000 (2005: 575,914,000) ordinary shares in issue and share options issued by the Company of 98,400,000 shares (2005: nil) in issue during the year.

No diluted loss per share is presented for the year ended 31 December 2006 as the effect of the conversion of the Company's outstanding share options since their exercise was anti-dilutive.

No diluted loss per share has been presented for the year ended 31 December 2005 as there was no dilutive event existed in 2005.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	10.0%	–
Five largest customers in aggregate	38.5%	–
The largest supplier	–	63.3%
Five largest suppliers in aggregate	–	73.0%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 35.

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2006 are set out in note 23 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on page 82.

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Wang Chia Chin (<i>Chairman</i>)	
Mr. Chen Ho Fa	(Resigned on 1 June 2006)
Mr. Wu Chi Lok	(Resigned on 16 January 2007)
Mr. Wong Chong Fai, William	(Resigned on 4 October 2006)
Mr. Yeung Tsz Keung, Jackey	(Resigned on 6 June 2006)
Mr. Luk Chi Shing	(Appointed on 6 June 2006 and resigned on 14 November 2006)
Mr. Sze Chun Ning, Vincent (<i>Deputy Managing Director</i>)	(Appointed on 23 June 2006)
Mr. Shi De Mao	(Appointed on 10 August 2006)
Mr. Zhong Wen Sheng (<i>Managing Director</i>)	(Appointed on 28 November 2006)
Mr. Wang Xiao Bo (<i>Deputy Chairman</i>)	(Appointed on 5 December 2006)
Ms. Chu Yin Yin, Georgiana	(Appointed on 12 October 2006)
Mr. Liu Bai Yue (<i>Chief Operating Officer</i>)	(Appointed on 8 January 2007)

Non-Executive Directors

Mr. Huang Yuan Wen	(Appointed on 9 November 2006)
Mr. Pan Shi Ying	(Appointed on 9 November 2006)

Independent Non-Executive Directors

Mr. Lien Wai Hung	(Appointed on 8 May 2006 and resigned on 15 September 2006)
Mr. Lee Hung Sang	(Appointed on 12 May 2006 and resigned on 10 October 2006)
Mr. Chan But Leung	(Resigned on 6 June 2006)
Mr. Shum Po Cheung	(Resigned on 8 May 2006)
Mr. Chang Kin Man	(Appointed on 6 June 2006)
Mr. Wu Tak Lung	(Appointed on 23 June 2006)
Mr. Gu Wen Xuan	(Appointed on 9 November 2006)
Mr. Lui Nam Kit	(Resigned on 15 September 2006)

In accordance with article 108(A) and article 112 of the Company's articles of association, Mr. Sze Chun Ning, Vincent, Mr. Shi De Mao, Mr. Zhong Wen Sheng, Mr. Wang Xiao Bo, Ms. Chu Yin Yin, Georgiana, Mr. Liu Bai Yue, Mr. Huang Yuan Wen, Mr. Pan Shi Ying, Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Gu Wen Xuan shall retire from office at the forthcoming annual general meeting and shall be eligible for re-election.

Report of the Directors

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company are set out on pages 12 to 13 of the annual report.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out as "Share Option Scheme" below.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Wang Chia Chin and Mr. Wu Chi Lok, both being Executive Director, has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 January 2002 for Mr. Wang and for an initial fixed term of two years commencing from 30 April 2005 for Mr. Wu, and will continue thereafter until terminated by in writing served by either party giving to the other not less than three months' notice after the expiration of the said initial fixed term.

As at 31 December 2006, saved for service contracts of Mr. Wang and Mr. Wu, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations and does not have specific terms of appointment but is subject for retirement and for re-elections at the forthcoming Annual General Meeting as required by the articles of association of the Company. Mr. Wu has resigned as an Executive Director with effective 16 January 2007.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of the Directors and Chief Executive of the Company, or their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the "SFO") which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to the Section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock exchange (the "Listing Rules"), to be notified to Company and the Stock Exchange were as follows:

Name of director	Nature of interest	Number of issued ordinary shares held	Total interest	Percentage of the issued share capital of the Company
Mr. Wang Chia Chin	Beneficial owner Interest of spouse (Note 1)	23,872,000	23,572,000 (L)	2.02%
Mr. Wang Xiao Bo	Interest in controlled corporation (Note 2)	130,150,000	130,150,000 (L)	4.72%
Mr. Sze Chun Ning, Vincent	Interest in controlled corporation (Note 3)	55,000,000	55,000,000 (L)	11.18%

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

Report of the Directors

Notes:

1. These 23,872,000 Shares are held and beneficially owned by Ms. Ko Su Mei, the spouse of Mr. Wang Chia Chin. Under the SFO, Mr. Wang Chia Chin is deemed to be interested in these 23,872,000 Shares.
2. These 130,150,000 Shares are held by Favor Jumbo Investments Limited, a company beneficially wholly-owned by Mr. Wang Xiao Bo
3. These 55,000,000 Shares are held by Sure Ability Limited, a company beneficially wholly-owned by Mr. Sze Chun Ning, Vincent.

Save as disclosed above, as at 31 December 2006, none of the directors or Chief executive of the Company had any interest or short position in any shares, underlying shares or debenture of the Company or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under SFO) or were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, as far as it was known by the Directors or Chief Executive of the Company, the following persons (other than a Director or chief executive of the Company disclosed under the section "Directors' and Chief Executive's interests in Securities" above) had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of Shares carrying rights to vote in all circumstances at general meetings of the Company:

Name of shareholder	Capacity	Number of issued Shares held	Total interest	Approximate Percentage of the issued share capital of the Company
Boost Skill Investments Limited	Beneficial owner	180,000,000	180,000,000 (L)	15.46%

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

Save as disclosed herein, there is no person known to the Directors, who, as at 31 December 2006, had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the normal value of any class of shares carrying rights to vote in all circumstances at general of the Company or any other members of the Group.



Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or Chief Executive of the Company or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in the year under review.

CONNECTED TRANSACTIONS

During the year there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which directors were appointed as directors to represent the interest of the Company and/or the Group.

Report of the Directors

SHARE OPTION SCHEME

The Company had adopted share option scheme on 17 January 2002 (the "Scheme") for which the details are set out in note 36 to the consolidated financial statements.

Details of the movements in the share options during the year ended 31 December 2006 under the Scheme are as follows:

Name or category of participant	Date of grant	Outstanding	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding	Exercisable period	Exercise Price per share of the Company HK\$
		as at 1 January 2006				as at 31st December 2006		
Eligible persons, in aggregate	25 September 2006	–	98,400,000	98,400,000	–	–	26 September 2006 to 24th September 2016	HK\$0.173

Subsequent to the balance sheet date, the Company had granted in aggregate of 28,200,000 share options to 3 Executive Directors, pursuant to the Company's Share Option Scheme. On 11 January 2007, each of Mr. Sze Chun Ning, Vincent and Ms. Chu Yin Yin, Georgiana had been granted 11,600,000 share options at an exercise price of HK\$0.335 per share. On 17 January 2007, the Company had granted 5,000,000 share options to Mr. Liu Bai Yue at an exercise price of HK\$0.42 per share.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

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

RETIREMENT BENEFIT SCHEMES

The Group's subsidiary in the People's Republic of China (the "PRC") participates in the Central Pension Scheme (the "CPS") operated by the PRC local municipal government and is required these PRC subsidiaries to make contribution ranging from 8% to 10% of payroll costs to the CPS. The Group's subsidiaries in Hong Kong has also participated in a mandatory provident fund scheme for its staff baled in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees. Save as disclosed the Group was not required to operate any other of retirement benefits of its employees during the year.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events for the year are set out in note 39 to the consolidated financial statements.



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SUFFICIENT OF PUBLIC FLOAT

As far as the information publicly available to the company is concerned and to the best knowledge of the Directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at 27 April 2007 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained in this report).

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an audit committee comprising three independent non-executive directors of the Company. The Audit Committee of the Company has reviewed the unaudited consolidated financial statements for the year ended 31 December 2006. Information on the work of Audit Committee and its composition are set out in the Report of the Corporate Governance on page 21 to 22 of this Annual Report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on page 15 to 22 of this Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own Code of Conduct regarding securities transactions by the Directors of the Company. All Directors have confirmed following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the year.

AUDITORS

SHINEWING (HK) CPA Limited retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

Zhong Wen Sheng

Managing Director

Hong Kong, 25 April 2007