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

Create For A Better Tomorrow

Annual Report 2011

* *For identification purpose only*

CONTENTS

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang De Yin *(Chairman)*
(Appointed on 12 August 2011)
Mr. Yang Bin *(Chief Executive Officer)*
Mr. Lin Yue Hui (Appointed on 12 August 2011)
Mr. Liu Feng (Appointed on 12 August 2011)
Mr. Tang Hui Ping, Paul
(Appointed on 1 January 2011)
Ms. Chu Yin Yin, Georgiana
Mr. Li Yu Gui *(Chairman)*
(Resigned on 12 August 2011)
Mr. Li Wen Jun (Resigned on 12 August 2011)
Mr. Chan Shi Yung (Appointed on 3 May 2011 and Resigned on 12 August 2011)
Mr. Liu Bai Yue *(Chief Operating Officer)*
(Resigned on 1 January 2011)

Independent Non-Executive Directors

Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Gu Wen Xuan

AUDIT COMMITTEE

Mr. Chang Kin Man *(Chairman)*
Mr. Wu Tak Lung
Mr. Gu Wen Xuan

REMUNERATION COMMITTEE

Mr. Chang Kin Man *(Chairman)*
Mr. Wu Tak Lung
Mr. Liu Feng (Appointed on 12 August 2011)
Mr. Li Wen Jun (Resigned on 12 August 2011)

NOMINATION COMMITTEE

Mr. Wang De Yin *(Chairman)*
(Appointed on 19 January 2012)
Mr. Chang Kin Man (Appointed on 19 January 2012)
Mr. Wu Tak Lung (Appointed on 19 January 2012)

INVESTMENT COMMITTEE

Mr. Wang De Yin (*Chairman*)
(Appointed on 12 August 2011)
Mr. Yang Bin
Mr. Liu Feng (Appointed on 12 August 2011)
Mr. Tang Hui Ping, Paul (Appointed on 1 January 2011)
Mr. Chang Kin Man
Mr. Li Wen Jun (Resigned on 12 August 2011)
Mr. Liu Bai Yue (Resigned on 1 January 2011)

COMPANY SECRETARY

Ms. Chu Yin Yin, Georgiana

PRINCIPAL BANKERS

PRC

Agricultural Bank of China
Bank of China
Industrial and Commercial Bank of China Limited

Hong Kong

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Chiyu Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

LEGAL ADVISERS TO HONG KONG LAWS

Robertsons Solicitors & Notaries
Johnny K.K. Leung & Co.
William W. L. Fan & Company

AS TO CAYMAN ISLANDS LAWS

Conyers Dill & Pearman

AUDITORS

SHINEWING (HK) CPA Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR TRANSFER OFFICE

Union Registrars Limited
18/F., Fook Lee Commercial Centre, Town Place
33 Lockhart Road
Wanchai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1207, 12th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan, Hong Kong

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STOCK CODE

1129

2011 would be possibly the toughest year for China Water Industry Group Limited and its subsidiaries (collectively referred to as the "**Group**"), for the Company had to repurchase its Convertible Bonds ("CB"), and which in return caused a pressure on our capital. On the other hand, 2011 was also a year of significant adjustment for the Group, with changes occurring in the Company's Board and management team, and a variety of difficulties threatening the Company found settled successively.

Most of the Group's water supply plants and sewage treatment plants recorded an improvement performance in 2011, and showed a trend of continuous growth. Unfortunately, the Group suffered huge losses throughout 2011, a majority of which were not losses from our principal businesses, but losses from accumulated investments made by the Company over the past years and bad debts required to be provided under the accounting system. Through clearing and sorting out the accounts, the Group aimed to clear off all those issues left over from history, creating a good operation situation.

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.

APPRECIATION

Finally, on behalf of the Directors, I wish to express my gratitude to all shareholders, investors, and business partners for their continued trust and support. And I really appreciate the support and assistance our subsidiaries received from the local government I would also like to thank the staff members of the Group for the valuable contribution they have made. I look forward to continuing working hand-in-hand with all of us for mutual advancement. With staff members at all levels going all out, we can certainly bring our potential into full play to achieve the Group's operation objectives and create shareholders' value. Let's go, for the Group's vision: to assure the government, to satisfy the residents, to gain shareholders' recognition, and to build employees sense of belonging.

Wang De Yin
Chairman

Hong Kong, 29 March 2012

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 million 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**	87.96	36.8	**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**	132.73	55.6	**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 report date. 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 HK$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 report date, 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 18 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 the 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). 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 relating to the Convertible Notes III 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 report date. 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 18 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 29 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 25 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 29 February 2012, the Liquidator further advised that there was no additional assets realization since 25 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 report date, 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 RMB45.56 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 report date.

(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 report, 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 power to control the financial and operating policies of Danzhou City Water Company are still belonged to the Group. 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.

DIRECTORS

Executive Directors

Mr. Wang De Yin ("Mr. Wang"), aged 49, was appointed as an Executive Director of the Company and the Chairman in August 2011. He is currently the managing director and general manager of Shenzhen Xinhelian Investment Co. Ltd. Mr. Wang graduated from Xidian University with a bachelor's degree in Computer Engineering. He is a member of the 9th Session of Tibet Autonomous Region, The Chinese People's Political Consultative Conference, Before joining the Company, Mr. Wang had over 25 years of experience in information technology and business restructuring. He led various scientific research projects and won various awards during his service with Maanshan Iron and Steel Design and Research Institute of The Ministry of Metallurgical Industry. He had been the chairman and president of Shenzhen Modern Computer Company Limited and founder and managing director and chief executive officer of Shenzhen Hornson Science and Tech. Company Limited. From 2005 to 2009, he served as the managing director and general manager of Tibet Urban Development and Investment Co., Ltd. (formerly known as Tibet Jinzhu Co., Ltd.) (Shanghai Stock Exchange stock code: 600773), during which, he undertook business restructuring of the company and launched a series of effective reforms and innovative measures, which prepared the company for the asset restructuring that followed.

Mr. Yang Bin ("Mr. Yang"), aged 38, was appointed as Executive Director of the Company in December 2008 and the Chief Executive Officer in June 2009. Mr. Yang was graduated from the college of Jiu-jiang, Jiangxi Province, the PRC. He has also completed his studies in Economy Administration in Distance Learning College of The Party School of the Central Committee of the Communist Party of China. Mr. Yang joined the Company in 2007 as a deputy general manager in charge of the Operation Division of the Company. He has over 10 years' working experience in water industry. Before joining the Company, Mr. Yang was a General Manager Assistant of Jiangxi Shangrao City Water Supply Company* (江西省上饒市自來水公司) where he was mainly responsible for marketing and promoting water supply business to the urban residents of Shangrao City, the People's Republic of China (the "PRC") as well as designing and constructing water supply piping network.

Mr. Lin Yue Hui ("Mr. Lin"), aged 40, was appointed as an Executive Director of the Company in August 2011. He is currently a partner of Guanghe Law Firm. Mr. Lin graduated from the Correspondence Institute of the Party School of Central Committee of C.P.C. majoring in Law and subsequently obtained a Certificate of Graduation from Doctoral Program from China University of Political Science and Law. Mr. Lin was granted the PRC lawyer's qualification certificate in 2001. Before joining the Company, Mr. Lin had accumulated 17 years of experience in the law profession, his area of practice includes litigation matters involving acquisitions and mergers, real estate, economic disputes etc. He had also been a legal consultant of various companies.

Mr. Liu Feng ("Mr. Liu"), aged 49, was appointed as an Executive Director of the Company in August 2011. He is currently an Independent Non-executive Director of Goodtop Tin International Holdings Limited which is listed on the Main Board of the Stock Exchange of Hong Kong (stock code: 00195). Mr. Liu graduated from Guangdong Provincial Party School majoring in Economics and subsequently attained postgraduate qualification. Before joining the Company, he had accumulated over 30 years of experience in the banking, finance and property sectors, including the posts of section chief and deputy governor of Foshan Commercial Bank and held directors and senior posts in various investment companies.

Mr. Tang Hui Ping, Paul ("Mr. Tang"), aged 57, was appointed as an Executive Director in January 2011. He is currently a Chief Internal Auditor and Deputy General Manager since 2009. Mr. Tang holds a Bachelor Degree in Accountancy from the South Central University of Finance & Economic, Politics & Law, China and a Master's Degree in Business Administration from the Oklahoma City University, United States of America. He is a member of Certified Management Accountant of Australia in 2000. Mr. Tang has more than 27 years extensive experience in the finance & accounting field in the PRC, Hong Kong and Canada.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 41, was appointed as the Executive Director and Company Secretary of the Company in October 2006. Ms. Chu holds a Bachelor's Degree of Business Administration in Accountancy and a Master's Degree of Corporate Governance. She is a fellow member of both the Hong Kong Institute of Certified Public Accountants, the Association of the Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales. Ms. Chu is also an associate of the Institute of Chartered Secretaries and Administrators and a member of the Hong Kong Institute of Company Secretaries. Prior to joining the Company, she has over 15 years' extensive experience by working in an international audit firm and other listed companies.

Independent Non-executive Directors

Mr. Chang Kin Man ("Mr. Chang"), aged 48, was appointed as the Independent Non-executive Director of the Company in June 2006. He is a certified public accountant in Hong Kong and a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chang holds a Bachelor's Degree in Economics and a Master's Degree in Applied Finance. Mr. Chang has extensive experience in corporate finance and in accounting field. He worked for an international accounting firm and a number of public listed companies for more than 15 years.

Mr. Wu Tak Lung ("Mr. Wu"), aged 46, was appointed as the Independent Non-executive Director of the Company in June 2006. Mr. Wu is currently an Independent Non-executive Director of AUPU Group Holding Company Limited (stock code: 477) which is listed on the Main Board of the Stock Exchange of Hong Kong and Valuetronics Holdings Limited (Stock code: BN2) which is listed on the Main Board of Singapore Stock Exchange. Mr. Wu is a fellow member of The Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and The Taxation Institute of Hong Kong. Mr. Wu is also a full Member of the Hong Kong Securities Institute and an associate member of The Hong Kong Institute of Certified Accountants. Mr. Wu received a Bachelor's Degree in Business Administration from the Hong Kong Baptist University and a Master's Degree in Business Administration from the University of Manchester and the University of Wale. Mr. Wu is a President of The Association of Chartered Certified Accountant. He is also a Vice-President of Hong Kong Guangdong Youth Exchange Promotion Association, a Council Member of Kiangsu and Chekiang Shanghai Resident (HK) Association and an Honorary Associate of the School of Business of the Hong Kong Baptist University.

Mr. Gu Wen Xuan ("Mr. Gu"), aged 69, was appointed as the Independent Non-executive Director of the Company in November 2006. Mr. Gu had been the Deputy Director General of The Department of Urban Planning of The Ministry of Construction of the PRC and taking a leading role in other related bureau. During his working for the government bureau, Mr. Gu was responsible for urban planning and in charge of the designs of various infra-structures (which includes the planning and designs of water supply-related projects) for the urban cities in the PRC. Mr. Gu had accumulated over 15 years of experience in urban planning. Mr. Gu obtained his Bachelor degree in Geography and Master's Degree of Science in Regional Planning from The Beijing Normal University. Mr. Gu has been qualified as a Research Fellow of the Seal of the Evaluation Committee of Professional Titles and also a State Certified Planner of The Ministry of Construction of the PRC.

SENIOR MANAGEMENT OF THE GROUP

Mr. Gu Ling Bo ("Mr. Gu"), aged 43, joined the Company as the General Manager in December 2006. He holds a Bachelor's Degree in Radiation Chemistry from Sichuan University, the PRC and a Master's Degree in Business Administration from the New York Institute of Technology, USA. Currently, Mr. Gu is the Vice Executive President of Jiangxi Yichun Water Industry Co., Ltd. ("Yichun Water") (江西宜春市供水有限公司) since 2004 and also being the Managing Director of Jiangxi Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke") (江西宜春市方科污水處理有限公司) since 2005. He has successfully reorganized the management team of Yichun Water and brought a remarkable profit growth to Yichun Water under his governance. Mr. Gu has more than 10 years extensive expertise and experiences in corporate development and project management.

Ms. Lam Man Yee, Maria ("Ms. Lam"), aged 40, was appointed as the Financial Controller of the Company in December 2006 and is responsible for Financial Management and Corporate Administration. Ms. Lam holds a Bachelor's Degree in Accountancy. She is an associate member of Hong Kong Institute of Certified Public Accountant and an associate member of Association of International Accountants. Before joining the Group in December 2006, she had over 15 years of working experience in auditing, internal auditing, financial accounting and management accounting.

Mr. Zhang Yan Qing ("Mr. Zhang"), aged 43, joined the Company as a Deputy General Manager in December 2006. Mr. Zhang holds a Master's Degree in Business Administration from Hefei University of Technology. Before joining Company, Mr. Zhang was a financial controller of Yichun Water since 2004. He has over 10 years' extensive experience in the financial accounting and management accounting.

Mr. Liu Peng Cheng ("Mr. Liu"), aged 39, joined the Company in June 2007 and serves as a General Manager of the Engineering Department of the Company. Mr. Liu holds a Bachelor of Science Degree in Physics from the Shenzhen University. Before joining the Company, he was the Chief Marketing Executive in Southern China Region of Anhui Guo Zhen Environmental Energy Savings Technology Company Limited* (安徽國禎環保節能科技有限公司), which is a sizeable enterprise in the PRC engaging in environmental protection industry. Mr. Liu has extensive expertise and more than 10 years experience in water and water related industries. He had been responsible for the design and constructing of various water supply and sewage treatment factories in the PRC.

OVERVIEW

The board of directors (the "Board") believes that good corporate governance enhances credibility and improves shareholders' and other stakeholders' interests. Maintaining a good, solid, and sensible framework of corporate governance is one of the Company's prime tasks.

CORPORATE GOVERNANCE PRACTICES

Rigorous standards of corporate governance enhance the Group's accountability and transparency, earning the confidence of shareholders and the public. Except for the deviations from code A.4.1, throughout the financial year ended 31 December 2011, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") which was in force prior to 1 January 2005.

A Directors

A.1 Board of Directors

- The overall management of the Company's business is vested in the Board. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to take decisions objectively in the interests of the Company. The Company has held 45 Board meetings in the year of 2011. Directors have been consulted to advice the agenda of the Board meetings. Sufficient notices of the Board meetings have been given to the Directors.

- Directors may attend meetings in person or through other means of telephone, electronic or other communication facilities in accordance with the minutes of the Board. The Board Committees are recorded in sufficient details and kept by the company secretary for inspection at any reasonable time on reasonable notice by any Director.

- Directors were supplied with adequate and relevant information in a timely manner to enable them forming decision in the relevant meetings. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Agreed procedures are in place providing to the member of the Board and/or committee to seek independent professional advice at the Company's expenses to assist them to discharge their duties.

- Where a substantial shareholder or a Director had a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, a Board meeting was held by physical board meeting rather than a written resolution with the presence of Independent Non-executive Directors who have no material interest in the transaction.

- There was in place a Directors' and Officers' Liabilities Insurance cover in respect of legal actions against Directors and senior management arising out of corporate activities.

- The Board holds meetings on a regular basis and will meet on other occasions when a board-level decision on a particular matter is required. The names of the directors during the financial year and their individual attendance of are set out below:

Name	Number of Board Meetings Attended/Total
Total numbers of meetings held during the year of 2011	45
Executives Directors:	
Mr. Wang De Yin *(Chairman)* (Appointed on 12 August 2011)	23/45
Mr. Yang Bin *(Chief Executive Officer)*	31/45
Mr. Lin Yue Hui (Appointed on 12 August 2011)	23/45
Mr. Liu Feng (Appointed on 12 August 2011)	23/45
Mr. Tang Hui Pang, Paul (Appointed on 1 January 2011)	36/45
Ms. Chu Yin Yin, Georgiana	45/45
Mr. Li Yu Gui *(Chairman)* (Resigned on 12 August 2011)	21/45
Mr. Li Wen Jun (Resigned on 12 August 2011)	21/45
Mr. Liu Bai Yue *(Chief Operating Officer)* (Resigned on 1 January 2011)	0/45
Mr. Chan Shi Yung (Appointed on 3 May 2011) (Resigned on 12 August 2011)	6/45
Independent Non-Executive Directors:	
Mr. Chang Kin Man	37/45
Mr. Wu Tak Lung	8/45
Mr. Gu Wen Xuan	35/45

A.2. Chairman and Chief Executive Officer

- The Chairman of the Group is Mr. Wang De Yin ("Mr. Wang") and the Chief Executive Officer of the Group ("CEO") is Mr. Yang Bin ("Mr. Yang"). The roles of Chairman and CEO are separate and not performed by the same individual to ensure a balance of power and authority. Their responsibilities are clearly defined and set out in writing.

- The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice, and encourages and facilitates active contribution of directors in board activities and constructive relations between executive and non-executive directors. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at board meeting.

- The Chairman also ensures that the Board works effectively and discusses all key and appropriate issues in a timely manner.

- The CEO focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives and risk assessment for the Board's approval.

A.3 Board Composition

- The composition of the Board is shown on page 17 of this report. The Board comprises a total of 9 members including 6 Executive Directors and 3 Independent Non-executive Directors. Members of the Board have different professional and relevant industry experiences and background so as to bring in valuable contributions and advices for the development of the Group's business.

- During the year, the Board at all times met the requirements of the Listing Rules relating to having at least 3 Independent Non-executive Directors and two of them are qualified accountants.

- The Company has received written confirmation from each Independent Non-executive Director of their independence to the Group. The Group considered all of Independent Non-executive Directors meets the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

- The Company has maintained an updated list of its directors identifying their role and function on its website and on the Stock Exchange's website.

- The names of the directors and their respective biographies are set out on pages 13 to 15 of this annual report and update to the Company's website.

A.4 Appointment, re-election and removal

The Company has on 19 January 2012 established Nomination Committee, further details of which are set out in section of A.5 Nomination Committee. Before the establishment of Nomination Committee, the power to nominate or appoint additional directors was vested in the Board according to the Articles of Association ("A.A") of the Company. In addition, the shareholders have right to nominate any person to become a director of the Company in accordance with the A.A of the Company, the procedure for election of directors was published on the Company's website.

- The Board takes the responsibility to review the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of Independent Non-executive Directors. During the year, the Board held 3 meetings including for the approval of the change of Chairman and the change of directorship of the Group. The names of the directors during the financial year and their individual attendance of are set out below:

Name	Number of Board Meetings Attended/Total
Total numbers of meetings held during the year of 2011	3
Executives Directors:	
Mr. Wang De Yin *(Chairman)* (Appointed on 12 August 2011)	1/3
Mr. Yang Bin *(Chief Executive Officer)*	2/3
Mr. Lin Yue Hui (Appointed on 12 August 2011)	1/3
Mr. Liu Feng (Appointed on 12 August 2011)	1/3
Mr. Tang Hui Pang (Appointed on 1 January 2011)	3/3
Ms. Chu Yin Yin, Georgiana	3/3
Mr. Li Yu Gui *(Chairman)* (Resigned on 12 August 2011)	2/3
Mr. Li Wen Jun (Resigned on 12 August 2011)	2/3
Mr. Liu Bai Yue *(Chief Operating Officer)* (Resigned on 1 January 2011)	0/3
Mr. Chan Shi Yung (Appointed on 3 May 2011) (Resigned on 12 August 2011)	1/3
Independent Non-Executive Directors:	
Mr. Chang Kin Man	3/3
Mr. Wu Tak Lung	1/3
Mr. Gu Wen Xuan	2/3

- The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follow the A.A which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an additional to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position. Mr. Wang De Yin ("Mr. Wang"), Mr. Lin Yue Hui ("Mr. Lin") and Mr. Liu Feng ("Mr. Liu") were appointed as directors after carried out the above process of selecting and procedures by the Board. Mr. Wang, Mr. Lin and Mr. Liu should be subject to election by shareholders in the coming Annual General Meeting ("AGM") after their appointment.

- At every AGM, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation provided that every Directors, including those appointed for a specific term shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election to fill a casual vacancy until the next general meeting or the next annual general meeting.

- 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 A. A.

- In order to enable shareholders of the Company to make an informed decision on the re-election of Directors, the biographical details demonstrating qualification, experience, expertise, skills and other directorships held in listed companies of the retiring Directors were set out in the AGM circular which was dispatched to the shareholders of the Company.

- For those directors who resigned from office, the announcement relating to the director's resignation had stated the reasons given by the director for his resignation and a statement to confirm no disagreement with the Company that need to be brought to the attention of shareholders of the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

A.5 Nomination Committee

Subsequent to the year ended, 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 terms of reference of the Nomination Committee is available on the Company's website and on the Stock Exchange's website.

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.

A.6 Responsibilities of the Directors

- The Company ensures that every newly appointed Director should receive a comprehensive information package containing business activities and operation of the Group, the Directors' responsibilities and duties and other statutory requirement upon his appointment. The Company Secretary is responsible for keeping all Directors updated on the Listing Rules and other statutory requirement.

- Independent non-executive Directors were well aware of their functions and had been actively providing their independent advices at the Board meetings, take the lead where potential conflicts of interest arise and scrutinize the Company's performance so as to achieve agreed corporate goals.

- Independent non-executive Directors are also members of the Audit, Remuneration, Nomination and Investment Committees.

- There were satisfactory attendances and active participations at the Board meetings, the Board Committee meetings and the general meetings by the Directors.

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

A.7 Supply of and access to information

- The Company's senior management regularly supplies the Board and its Committees with adequate information in a timely manner to enable them to make informed decisions.

- For Board meetings and the Board Committee meetings, the agenda accompanying with Board papers and relevant materials were sent to all Directors at least 3 days before the intended date of the Board meetings or Board Committee meetings. Queries raised by the Directors would be responded promptly by the relevant management.

B Remuneration of directors and Senior Management

The Company has established a Remuneration Committee since 29 June 2005 with written terms of reference in consistence with the Corporate Governance Code. A majority members of the Remuneration Committee are Independent Non-executive Directors. The Remuneration Committee currently comprises two Independent Non-executive Directors, namely Mr. Chang Kin Man (Committee Chairman), Mr. Wu Tak Lung and an Executive Director, namely Mr. Liu Feng. The terms of reference of the Remuneration Committee is available on the Company's website and on the Stock Exchange's website.

- The main duties of the Remuneration Committee include the following:

  i. To make recommendation to the board on the Company's policy and structure for all remuneration of directors and senior management;

  ii. To determine the remuneration packages of executive directors and senior management, according to the major scope, responsibilities and duties, importance of position of the directors and the senior management as well as the remuneration level of the related position in the market;

  iii. to review and approve management remuneration policy with reference to corporate goals and objectives resolved by the Board from time to time.

- The Remuneration Committee would consult the Chairman or CEO the proposals relating to the remuneration of other Executive Directors. The Remuneration Committee may have access to external professional advice if considered necessary.

- Further details on the emolument policy and the basis of determining the emolument payable to the Directors are set out in the page 82 of this annual report.

- The Group's stock option scheme as described on page 35 to 36 of this annual report is adopted as the Group's long-term incentive scheme.

- The Remuneration Committee held 3 meeting during the year to review and approve the remuneration of executive Directors including Independent non-executive Directors and senior management. The attendance record of individual members is set out below:

Name	Number of Meetings Attended/Total
Independent Non-Executive Directors:	
Mr. Chang Kin Man *(Chairman)*	3/3
Mr. Wu Tak Lung	2/3
Executive Director:	
Mr. Liu Feng (Appointed on 12 August 2011)	1/3
Mr. Li Wen Jun (Resigned on 12 August 2011)	2/3

C Accountability and Audit

C.1 Financial Reporting

- Management was required to provide detailed reports and sufficient explanation to enable the Board to make an informed assessment of the financial and other information put before for approval.

- The directors acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2011.

- The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirement.

- A statement by the independent auditor of the Company about their reporting responsibilities is included in the Report of the Auditors on page 38 to 40 of this annual report.

- A separate statement in the Annual Report on page 4 to 12 containing a discussion and analysis of the group's performance.

C.2 Internal Control

- The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times. The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

- In addition, a policy and procedure regarding the Publication Price-Sensitive Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of price-sensitive information in a timely manner.

- The scope of internal audit covers key areas such as the Company operation, investments, corporate governance and financial management. The work results and suggestions of the Internal Audit Department are reported by the Chief Internal Auditor directly to the Audit Committee for consideration, then makes recommendations to the management of the Company and reports to the Board in respect thereof.

- During the year, the Board has through the Chief Internal Auditor conducted an annual review on the Group's internal control systems, including but not limited to financial, operational and compliance controls and risk management functions. The Board is of the view that the internal control system of the Group are effective and adequate, no material deficiencies have been identified.

- The annual review of the adequacy of resources, qualifications or experience of staff of the Company's accounting and financial reporting function and their training programs and budget was conducted in 2011. The Board believed that the Company has sufficient qualifications and experience staff in accounting and financial reporting function.

C.3 Audit Committee

The Audit Committee of the Company was established since 29 June 2005 with specific 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 for many years. The terms of reference of the Audit Committee is available on the Company's website and on the Stock Exchange's website.

The major duties of the Audit Committee include:

(a) to make recommendations to the Board on the appointment, reappointment and removal of the external auditor and to approve the remuneration and the terms of engagement of the external auditor;

(b) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and to review significant financial reporting judgments contained in them;

(c) to oversight the Company's financial controls, internal control and risk management systems;

(d) to co-ordinate between the internal and external auditors, to monitor the performance of both internal and external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(e) to review the interim and final results of the Group prior to recommending them to the Board for approval;

(f) to ensure compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, an internal rules and procedures approved by the Board;

(g) to review and discuss the adequacy of resources, qualifications or experience of staff of the Company's accounting and financial reporting function and their training programs and budget;

(h) to monitor the compliance of the Whistle-blowing policy and ensuring the fair and independent investigation with appropriate follow up action.

For the year under review, the Audit Committee held 2 meetings included the review of the final results for the year ended 31 December 2011 and interim accounts for 30 June 2011. The Group's annual report for the year ended 31 December 2011 has been reviewed by the Audit Committee. The individual attendance records of each member are as follows:

Name	Number of Meetings Attended/Total
Independent Non-Executive Directors:	
Mr. Chang Kin Man *(Chairman)*	2/2
Mr. Wu Tak Lung	2/2
Mr. Gu Wen Xuan	2/2

D. Delegation by the Board

D.1 Management functions

- When the Board delegates aspects of its management and administration functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

- The segregation of duties and responsibilities between the Board and the management has been defined as follows:

The duties of the Board include:

– Formulating the Company's operational strategies and management policies and establishing corporate governance and internal control system;

– Setting the objectives and targets of the Company; and

– Monitoring performance of management and providing guidance to the management.

The duties of the management include:

– Reviewing the business and operation performance;

– Ensuring adequate fundings; and

– Monitoring performance of the management of the Group.

D.2 Board Committees

The Company has set up four committees including an Audit Committee, a Remuneration Committee, a Nomination Committee and an Investment Committee of the Board with respective terms of reference which clearly defined its authority and duties. The Chairman of Board Committees reported to the Board their work, findings and recommendations at the Board meetings.

D.3 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 terms of reference of the Investment Committee is available on the Company's website.

The role of Investment Committee is to oversee the Company's long-term development strategies and major investment decisions and to provide recommendations on the investment of the Company including asset allocation and new investment proposal. The Investment Committee held 1 meeting during the year. The attendance record of individual members is set out below:

Name	Number of Meetings Attended/Total
Executive Directors	
Mr. Wang De Yin *(Chairman)* (Appointed on 12 August 2011)	1/1
Mr. Yang Bin	0/1
Mr. Liu Feng (Appointed on 12 August 2011)	1/1
Mr. Tang Hui Ping, Paul (Appointed on 30 March 2011)	1/1
Mr. Li Yu Gui *(Chairman)* (Resigned on 12 August 2011)	0/1
Mr. Li Wen Jun (Resigned on 12 August 2011)	0/1
Mr. Liu Bai Yue (Resigned on 1 January 2011)	0/1
Independent Non-Executive Director:	
Mr. Chang Kin Man	0/1

E Communication with shareholders and investors

E.1 Effective communication

- The AGM or other general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings. The annual report together with AGM circular is distributed to all the shareholders at least 20 clear business days before the AGM and at least 10 clear business days in case of all other general meetings.

- The external auditor of the Company should attend the AGM to answer questions about the conduct of audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

- Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors proposed by shareholders.

- The Company continues to enhance communications and relationships with its investors. Designated Directors or senior management maintains regular dialogue with investors and analysis to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

- The Company maintains a corporate website (www.chinawaterind.com) as one of the channels to promote effective corporate communication with the investors and the general public. The website is used to disseminate company announcements, shareholder information and other relevant financial and non-financial information in an electronic format on a timely basis.

- The updated consolidated version of the Company's Memorandum and Articles of Association is available on the Company's website and on the Stock Exchange's website.

E.2 Voting by poll

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's articles of association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results were published on the website of the Stock Exchange as well as the Company's website.

AUDITORS' REMUNERATION

For the financial year, SHINEWING (HK) CPA Limited, the auditors of the Company, the fee paid or payable to the auditor for audit service provided to the Group is approximately HK$1,000,000 and for non-audit service provided is approximately HK$440,000 mainly for the purpose of reviewing interim result and preparing tax returns. The auditors' remuneration has been duly approved by the Audit Committee and there was no disagreement between the Board and the Audit Committee on the selection and appointment of auditor.

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 AGM of the Company in line with the Company's A.A.

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.

The Broad of Directors of the Company, present their report together with the audited consolidated financial statements of the company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the Group include: (i) provision of water supply; (ii) sewage treatment and (iii) construction of water supply and sewage treatment infrastructure.

SEGMENT INFORMATION

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 and geographical information is presented.

RESULTS

The results of the Group for year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 41 to page 42.

DIVIDENDS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the aggregate amount of turnover attribute to the Group's five largest customers was less than 30% of the total value of the Group's turnover. The Group's purchase to the five largest suppliers accounted for less than 30% of the total value of the Group's purchase.

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 16 to the consolidated financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of the movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 33, 43, and 32 to the consolidated financial statements, respectively.

RESERVES AND DISTRIBUTIVE 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 45 to page 46.

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2011 are set out in note 28 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 140.

DIRECTORS

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

Executives Directors:

Mr. Wang De Yin *(Chairman)*	(Appointed on 12 August 2011)
Mr. Yang Bin *(Chief Executive Officer)*	
Mr. Lin Yue Hui	(Appointed on 12 August 2011)
Mr. Liu Feng	(Appointed on 12 August 2011)
Mr. Tang Hui Ping, Paul	(Appointed on 1 January 2011)
Ms. Chu Yin Yin, Georgiana	
Mr. Li Yu Gui *(Chairman)*	(Resigned on 12 August 2011)
Mr. Li Wen Jun	(Resigned on 12 August 2011)
Mr. Chan Shi Yung	(Appointed on 3 May 2011 and resigned on 12 August 2011)
Mr. Liu Bai Yue *(Chief Operating Officer)*	(Resigned on 1 January 2011)

Independent Non-Executive Directors:

Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Gu Wen Xuan

In accordance with article 108(A) of the Company's Articles of Association, one-third of the Directors for the time being or, if their number is not a multiple of three or a multiple of three, then the number nearest to but not exceeding one-third shall retire from the office by rotation at least once every three years, Ms. Chu Yin Yin, Georgiana and Mr. Gu Wen Xuan will retire from office by rotation and will offer themselves for re-election at the AGM.

In accordance with article 112 of the Company's Articles of Association, at any time to appoint directors either to fill a causal vacancy or as an addition to the Board, they shall retire from office at the forthcoming AGM and shall be eligible for re-election. Mr. Wang De Yin, Mr. Liu Feng and Mr. Lin Yue Hui shall hold office only until the AGM and will offer themselves for re-election at the AGM.

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company are set out on pages 13 to 15 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

As at 31 December 2011, 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 AGM as required by the Articles of Association of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2011, the interests and short positions of each Director 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 the Securities and Futures Ordinance ("SFO") which (a) had been notified of 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 Directors have taken or deemed to have under such provisions of the SFO) or which (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in Appendix 10 to the Listing Rules to be notified to Company and the Stock Exchange were as follows:

(i) Interest in the Shares

Name of director	Nature of interest	Number of issued ordinary shares held	Total interest	Percentage of the issued share capital of the Company
Chu Yin Yin, Georgiana	Beneficial owner	543,200	543,200 (L)	0.13%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 410,331,766 Shares in issue as at 31 December 2011.

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

(ii) Interest in underlying Shares

Name of director	Exercise Price HK$	Exercise period	Number of underlying Shares (under share options scheme of the Company) Outstanding as at 1 January 2011	Lapsed during the year	Outstanding as at 31 December 2011	Approximate shareholding %
Chu Yin Yin, Georgiana	0.335	11 January 2007 to 10 January 2017	3,000,000	(3,000,000) *(Note)*	–	–

Note: Owing to the termination of the Existing Share Option Scheme and adoption of the New Share Option Scheme at the Annual General Meeting held on 3 June 2011, those share options granted under the Existing Share Option Scheme were lapsed accordingly.

Save as disclosed above, as at 31 December 2011, 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 (within meaning of the SFO) which (a) were 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 and short positions which Directors have taken or deemed to have under such provisions of SFO) or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which (c) were required, pursuant to the Model Code to be notified to Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, the following persons and entities, other than a Director or Chief Executive of the Company disclosed under the section of "Directors' and Chief executive's interests in Securities" above, had interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of SFO:

Name of shareholder	Capacity	Number of shares held	Number of underlying shares held under equity derivatives	Approximate Percentage of the issued share capital of the Company
Deng Jun Jie	Beneficial owner	–	200,000,000(S) *(Note 1)* 80,000,000(L) *(Note 1)*	48.7% 19.5%
Honghu Capital Company Limited	Beneficial owner	–	200,000,000(S) *(Note 1)* 80,000,000(L) *(Note 1)*	48.7% 19.5%
Chu Yuet Wah	Interest of controlled corporation	–	200,000,000(L) *(Note 2)*	48.7%
Best Forth Limited	Interest of controlled corporation	–	200,000,000(L) *(Note 2)*	48.7%
Ample Cheer Limited	Interest of controlled corporation	–	200,000,000(L) *(Note 2)*	48.7%
Kingston Finance Limited	Persons having a security interest in shares	–	200,000,000(L) *(Note 2)*	48.7%

Note 1: These 280,000,000 underlying Shares held under equity derivatives are those Shares which would be issued upon exercise of the convertible rights attached to the convertible bonds issued by the Company as disclosed in the announcement of the Company dated 18 August 2011. These underlying Shares are held by Honghu Capital Co. Ltd. ("Honghu") which Mr. Deng Jun Jie ("Mr. Deng") is the beneficial owner. Mr. Deng is deemed to be interested in underlying Shares by virtue of the SFO. On 10 October 2011, Honghu pledged 200,000,000 underlying Shares to Kingston Finance Limited ("Kingston") for obtaining the fundings facility.

Note 2: These 200,000,000 underlying Shares held under equity derivatives are those Shares which would be issued upon exercise of the convertible rights attached to the convertible bonds issued by the Company as disclosed in the announcement of the Company dated 18 August 2011. On 10 October 2011, Kingston granted fundings facility to Honghu. This facility was secured by 200,000,000 underlying Shares which are beneficially owned by Honghu. Kingston is wholly-owned by Ample Cheer Limited ("Ample"). Best Forth Limited ("Best Forth") is interested in 80% of the equity interest in Ample. Ms. Chu Yuet Wah ("Ms. Chu") holds the entire equity interest in the Best Forth. As the issued share capital of Kingston is held directly or indirectly by Ample, Best Forth and Ms. Chu, they are deemed to be interested in underlying Shares by virtue of the SFO.

Note 3: The shareholding percentage in China Water is calculated on the basis of 410,331,766 China Water Shares in issue as at 31 December 2011.

Note 4: The letter "L" denotes a long position in Shares, the letter "S" denotes a short position in Shares.

DIRECTORS' RIGHTS TO ACQUIRES 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, 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 47 to the financial statements.

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.

SHARE OPTION SCHEME

At the AGM of the Company held on 3 June 2011, the shareholders of the Company approved the adoption of the Company's New Share Option Scheme ("Scheme") and the termination of the Company's then Existing Share Option Scheme. Options granted under the Existing Share Option Scheme but not exercised or lapsed in accordance with the terms of the New Scheme were cancelled by the Company with the approval of the Option Holders. The Scheme was adopted for the primary purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group, and will expire on 2 June 2021.

During the year ended 31 December 2011, there are no option has been granted since the adoption of New Share Option Scheme, for which the details are set out in note 43 to the consolidated financial statements. Details of the movements are as follows:

Name or category of participant	Date of grant	Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2011	Exercisable period	Exercise Price per share of the Company HK$
Directors								
Chu Yin Yin, Georgiana *(Note 1)*	11 January 2007	3,000,000	–	–	(3,000,000)	–	11 January 2007 to 10 January 2017	0.335
Liu Bai Yue *(Note 1, 2)*	17 January 2007	5,000,000	–	–	(5,000,000)	–	17 January 2007 to 16 January 2017	0.420
Total as at 31 December 2011		**8,000,000**	**–**	**–**	**(8,000,000)**	**–**		

Note 1: Owing to the termination of the Existing Share Option Scheme and adoption of the New Share Option Scheme at the AGM held on 3 June 2011, those share options granted under the Existing Share Option Scheme were lapsed accordingly.

Note 2: Liu Bai Yue resigned all position in the Group in June 2011.

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 SCHEMES

The Group's subsidiary in the People's Republic of China (the "PRC") participates in a central pension scheme ("CPS") operated by the PRC government. The subsidiaries are required to contribute a certain percentage of the relevant PRC employees' salaries to the CPS. The Group's subsidiary in Hong Kong has also participated in a mandatory provident fund scheme for its staff based in Hong Kong pursuant to the Mandatory Provident Fund Schemes Ordinance. 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 49 to the consolidated financial statements.

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 the date of report.

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.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 16 to 29 of this Annual Report.

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 publication of the Annual Report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

AUDITORS

SHINEWING (HK) CPA Limited ("SHINEWING") retire and, being eligible, offer themselves for reappointment. A resolution for their reappointment of SHINEWING as auditors of the Company will be proposed at the forthcoming AGM.

By order of the Board
Wang De Yin
Chairman

Hong Kong, 29 March 2012

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF
CHINA WATER INDUSTRY GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have engaged to audit the consolidated financial statements of China Water Industry Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 41 to 139, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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 ("Top Vision") 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 24 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 24 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 disclosed in note 21 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 report. 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.

Disclaimer of opinion: disclaimer on view given by the consolidated financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Hon Kei, Anthony
Practising Certificate Number: P05591

Hong Kong
29 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Continuing operation			
Revenue	6	**284,954**	238,771
Cost of sales		**(175,158)**	(141,693)
Gross profit		**109,796**	97,078
Other operating income	8	**5,795**	14,650
Selling and distribution expenses		**(10,651)**	(7,667)
Administrative expenses		**(72,934)**	(62,400)
Finance costs	9	**(31,948)**	(9,534)
Change in fair value of convertible bonds	32	**(6,873)**	(28,326)
Change in fair value of derivative financial instruments	32	**(6,582)**	(4,135)
Extinguishment gain (loss) of convertible bonds	32	**34,652**	(1,521)
Loss on redemption of convertible bonds	32	**(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	17	**(2,135)**	–
Impairment loss recognised on trade and other receivables	24	**(79,284)**	(880)
Impairment loss recognised on concession intangible assets	18	**(36,988)**	–
Impairment loss recognised on property, plant and equipment	16	**(20,421)**	–
Impairment loss recognised on an associate	22	**(33,540)**	–
Impairment loss recognised on available-for-sale investments	21	**–**	(30,502)
Impairment loss recognised on goodwill	20	**(145,606)**	(40,258)
Share of results of associates	22	**(22,066)**	(8,109)
Loss before tax		**(502,388)**	(166,667)
Income tax expense	10	**(13,425)**	(10,813)
Loss for the year from continuing operation	11	**(515,813)**	(177,480)
Discontinued operations			
Profit for the year from discontinued operations	12	**–**	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)**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
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 (expenses) 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)	15		
			(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	16	**97,250**	97,598
Prepaid lease payments	17	**43,002**	40,621
Concession intangible assets	18	**520,477**	483,829
Intangible asset	19	**–**	–
Goodwill	20	**10,292**	142,373
Available-for-sale investments	21	**53,959**	29,898
Interest in associates	22	**37,962**	281,407
		762,942	1,075,726
Current assets			
Inventories	23	**45,602**	26,748
Trade and other receivables	24	**96,391**	148,900
Prepaid lease payments	17	**1,231**	1,150
Derivative financial instruments	32	**–**	10,239
Amounts due from customers for contract works	27	**27,225**	18,864
Cash held at financial institutions	25	**3,533**	37,724
Bank balances and cash	25	**88,301**	100,291
		262,283	343,916
Current liabilities			
Trade and other payables	26	**215,643**	163,572
Amounts due to customers for contract works	27	**4,252**	592
Bank borrowings	28	**35,397**	34,240
Other loans	29	**69,683**	39,885
Amounts due to non-controlling shareholders of subsidiaries	30	**3,059**	6,216
Loan from an associate	31	**2,757**	2,419
Convertible bonds	32	**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Capital and reserves			
Share capital	33	**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	28	**18,309**	21,253
Other loans	29	**70,686**	47,487
Convertible bonds	32	**138,568**	3,000
Government grants	34	**71,345**	64,074
Deferred tax liabilities	35	**12,475**	8,281
		311,383	144,095
		615,054	772,152

The consolidated financial statements on pages 41 to 139 were approved and authorised for issue by the board of directors on 29 March 2012 and are signed on its behalf by:

Wang De Yin
Chairman

Liu Feng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company											Non-controlling interests				
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Convertible bond equity reserve HK$'000	Translation reserve HK$'000	Other reserve HK$'000 (note 3)	Reserve funds HK$'000 (note 1)	Investment revaluation reserves HK$'000	Special capital reserve HK$'000 (note 2)	Accumulated losses HK$'000	Sub-total HK$'000	Non-redeemable convertible preference shares of a subsidiary HK$'000	Equity component of convertible bonds of a subsidiary HK$'000	Non-controlling interests HK$'000	Sub-total HK$'000	Total HK$'000
At 1 January 2010	270,638	582,441	727	–	19,611	–	5,373	1,065	(15,769)	(402,789)	461,297	587,696	84,045	210,496	882,237	1,343,534
Loss for the year	–	–	–	–	–	–	–	–	–	(92,685)	(92,685)	–	–	(57,111)	(57,111)	(149,796)
Other comprehensive income (expense) for the year	–	–	–	–	10,832	–	–	(1,065)	–	–	9,767	–	–	5,403	5,403	15,170
Total comprehensive income (expenses) for the year	–	–	–	–	10,832	–	–	(1,065)	–	(92,685)	(82,918)	–	–	(51,708)	(51,708)	(134,626)
Placing of new shares *(note 33)*	54,127	4,330	–	–	–	–	–	–	–	–	58,457	–	–	–	–	58,457
Transaction cost attributable to issue of share	–	(1,565)	–	–	–	–	–	–	–	–	(1,565)	–	–	–	–	(1,565)
Recognition of equity component of convertible bonds	–	–	–	15,914	–	–	–	–	–	–	15,914	–	–	–	–	15,914
Deemed partial disposal of a subsidiary	–	–	–	–	–	(2,292)	–	–	–	–	(2,292)	(17,600)	–	19,892	2,292	–
Lapse of share options	–	–	(404)	–	–	–	–	–	–	404	–	–	–	–	–	–
Transfer	–	–	–	–	–	–	3,481	–	–	(3,481)	–	–	–	–	–	–
Deemed disposal of a subsidiary	–	–	–	–	–	2,292	–	–	15,769	(18,061)	–	(570,096)	(84,045)	8,976	(645,165)	(645,165)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	–	(8,492)	(8,492)	(8,492)
At 31 December 2010	324,765	585,206	323	15,914	30,443	–	8,854	–	–	(516,612)	448,893	–	–	179,164	179,164	628,057

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company									
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Share options reserve** *HK$'000*	**Convertible bond equity reserve** *HK$'000*	**Translation reserve** *HK$'000*	**Reserve funds** *HK$'000* *(note 1)*	**Accumulated losses** *HK$'000*	**Sub-total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total** *HK$'000*
At 1 January 2011	324,765	585,206	323	15,914	30,443	8,854	(516,612)	448,893	179,164	628,057
(Loss) profit for the year	–	–	–	–	–	–	(531,534)	(531,534)	15,721	(515,813)
Other comprehensive income (expense) for the year	–	–	–	–	12,255	–	–	12,255	4,630	16,885
Total comprehensive income (expenses) for the year	–	–	–	–	12,255	–	(531,534)	(519,279)	20,351	(498,928)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	840	840
Placing of new shares *(note 33)*	64,900	16,547	–	–	–	–	–	81,447	–	81,447
Transaction cost attributable to issue of share	–	(2,508)	–	–	–	–	–	(2,508)	–	(2,508)
Share issued upon conversion of convertible bonds	20,667	10,333	–	(3,045)	–	–	–	27,955	–	27,955
Effect of extinguishment of convertible bonds	–	–	–	(12,869)	–	–	4,875	(7,994)	–	(7,994)
Issuance of convertible bonds	–	–	–	75,081	–	–	–	75,081	–	75,081
Transaction cost attributable to issue of convertible bonds	–	–	–	(279)	–	–	–	(279)	–	(279)
Lapse of share options	–	–	(121)	–	–	–	121	–	–	–
Cancellation of share options	–	–	(202)	–	–	–	202	–	–	–
Transfer	–	–	–	–	–	1,663	(1,663)	–	–	–
At 31 December 2011	410,332	609,578	–	74,802	42,698	10,517	(1,044,611)	103,316	200,355	303,671

Notes:

1. As stipulated in the relevant laws and regulations, certain subsidiaries operating in the People's Republic of China (the "PRC") are required to maintain certain statutory reserves (the "Reserve Funds"). Appropriations to the Reserve Funds are made out of net profit as reported in the PRC statutory financial statements. The amounts of appropriations are determined by the respective board of directors. All statutory reserves are for specific purposes and are not distributable in the form of dividends.

2. On 23 October 2009, iMerchants Limited, a non-wholly owned subsidiary of the Group ("iMerchants"), whose shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), issued approximately 2,938,478,000 non-redeemable convertible preference shares (the "Convertible Preference Shares") with a par value of HK$0.2 each, as a partial consideration for the acquisition of an intangible asset through acquisition of a subsidiary. The fair value of the Convertible Preference Shares as at 23 October 2009 amounted to approximately HK$567,126,000, representing HK$0.193 per Convertible Preference Share. The discount of approximately HK$20,570,000, which represented the difference between the fair value of the Convertible Preference Shares as of 23 October 2009 and the par value, was charged to the special capital reserve in the equity of iMerchants. The Group's share of this reserve amounted to HK$15,769,000. Such special capital reserve was released upon the deemed disposal of iMerchants during the year ended 31 December 2010.

3. In June 2010, the holders of 440,000,000 Convertible Preference Shares exercised their rights to convert the Convertible Preference Shares into fully paid ordinary shares of iMerchants. After the conversion, the equity interest of iMerchants owned by the Group has reduced from 76.66% to 67.23%. The Group retained control of iMerchants subsequent to the conversion. The amount of approximately HK$2,292,000, being the difference between the carrying amount of the Convertible Preference Shares converted of approximately HK$17,600,000 and the respective increase in the interest attributable to shares held in subsidiaries of approximately HK$19,892,000, was recognised directly in equity and attributed to the owners of the Company. The related reserve was released upon the deemed disposal of iMerchants during the year ended 31 December 2010.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
OPERATING ACTIVITIES		
Loss before tax from continuing operation	**(502,388)**	(166,667)
Profit before tax from discontinued operations	**–**	56,180
Loss before taxation	**(502,388)**	(110,487)
Amortisation of concession intangible assets	**19,618**	15,292
Amortisation of an intangible asset	**–**	46,279
Amortisation of prepaid lease payments	**1,210**	1,140
Change in fair value of convertible bonds	**6,873**	28,326
Change in fair value of financial derivative instruments	**6,582**	4,135
Depreciation of property, plant and equipment	**6,399**	6,928
Finance costs	**31,948**	20,122
Loss on disposal of property, plant and equipment	**19**	619
Concession intangible assets written off	**951**	–
Gain on deemed disposal of a subsidiary	**–**	(258,229)
Impairment loss recognised on trade and other receivables	**79,284**	1,299
Impairment loss recognised on goodwill	**145,606**	40,258
Impairment loss recognised on concession intangible assets	**36,988**	–
Impairment loss recognised on property, plant and equipment	**20,421**	–
Impairment loss recognised on prepaid lease payments	**2,135**	–
Impairment loss recognised on an associate	**33,540**	–
Impairment loss recognised on an intangible asset	**–**	245,639
Impairment loss recognised in respect of available-for-sale investments	**-**	30,502
Interest income	**(1,079)**	(6,279)
Loss on redemption of convertible bonds	**4,659**	10,542
Extinguishment (gain) loss of convertible bonds	**(34,652)**	1,521
Loss on deemed partial disposal of an associate	**146,295**	79,449
Net gain on disposal of available-for-sale investments	**–**	(4,928)
Reversal of impairment loss on other receivables	**–**	(921)
Share of results of associates	**22,066**	8,109
Write down of inventories	**–**	1,750
Loss on reclassification from an associate to available-for-sale investments	**32,649**	–
Operating cash flows before movements in working capital	**59,124**	161,066
Increase in inventories	**(18,854)**	(15,522)
Decrease (increase) in trade and other receivables	**1,415**	(113,518)
Increase in amounts due from customers for contract works	**(8,361)**	(7,980)
Increase in trade and other payables	**32,009**	23,383
Increase (decrease) in amounts due to customers for contract works	**3,660**	(65)
Cash generated from operations	**68,993**	47,364
Income taxes paid	**(7,883)**	(1,846)
NET CASH FROM OPERATING ACTIVITIES	**61,110**	45,518

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 HK$'000	2010 HK$'000
INVESTING ACTIVITIES			
Increase in loan receivables		**(38,931)**	(72,859)
Acquisition of concession intangible assets		**(32,311)**	(71,508)
Purchase of property, plant and equipment		**(21,963)**	(4,957)
Purchase of prepaid lease payment		**(4,396)**	–
Net cash outflow in respect of deemed disposal of a subsidiary		**–**	(3,121)
Net proceeds from sales of available-for-sale investments		**–**	8,503
Interest received		**1,079**	6,279
Proceeds from disposals of property, plant and equipment		**424**	713
Proceeds from disposals of concession intangible assets		**–**	196
Acquisition of a subsidiary	36	**166**	–
Investment in an associate		**(12,206)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(108,138)**	(136,754)
FINANCING ACTIVITIES			
Issue of new shares		**81,447**	58,457
Transaction cost attributable to issue of shares		**(2,508)**	(1,565)
New bank and other loans raised		**18,762**	39,585
Government grants received		**5,096**	3,285
Advance from an associate		**–**	2,419
(Repayment to) advance from non-controlling shareholders of a subsidiary		**(3,157)**	162
Redemption of convertible bonds		**(78,659)**	(105,602)
Repayment of bank borrowings and other loans		**(3,239)**	(30,638)
Interest paid		**(20,312)**	(9,717)
Dividend paid to non-controlling shareholder		**–**	(8,492)
NET CASH USED IN FINANCING ACTIVITIES		**(2,570)**	(52,106)
NET DECREASE IN CASH AND CASH AND CASH EQUIVALENTS		**(49,598)**	(143,342)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**138,015**	277,857
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**3,417**	3,500
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash and cash held at financial institutions		**91,834**	138,015

1. GENERAL

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

The consolidated financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries (collectively referred to as the "Group") is HK$.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 48.

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]

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

[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 of the Company 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.

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

HKFRS 9 Financial Instruments *(Continued)*

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).

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures *(Continued)*

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 of the Company 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.

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

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 of the Company 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. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries *(Continued)*

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Concession intangible assets

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets at fair value upon initial recognition. The concession intangible assets representing water supply and sewage treatment operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses.

The concession intangible assets are amortised to write off their cost, over their expected useful lives in the remaining concession period using an amortisation period which reflects the pattern in which their future economic benefits are expected to be consumed on a straight-line basis.

Costs in relation to the day-to-day servicing, repair and maintenance of the water supply and sewage treatment infrastructures are recognised as expenses in the periods in which they are incurred.

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Construction contracts

Where the outcome of a construction contract (including construction or upgrade services of the infrastructure under a service concession arrangement) can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on effective interest basis for the debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, cash held at financial institutions and bank balance and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserves, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserves is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment loss on financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserves.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group as recognised at the proceeds received, net of direct issue cost.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as FVTPL, of which the interest expense is included in net gains or losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities at fair value through profit or loss (the "FVTPL")

Financial liabilities at FVTPL has two subcategories, including financial liability held for trading and those designated at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to non-controlling shareholders of subsidiaries, loan from an associate, bank borrowings and other loans are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds designated at FVTPL

Convertible bonds issued by the Group (including related embedded derivatives) are designated at FVTPL on initial recognition. At each end of the reporting period subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Convertible bonds contain liability and equity components

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Convertible bonds contain liability and equity components *(Continued)*

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in convertible bond equity reserve.

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in equity until the embedded option is exercised (in which case the balance stated in equity will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond equity reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity components are charged directly to equity. Transaction costs relating to the liability components are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Convertible bonds contain liability and equity components, and early redemption option derivative

Convertible bonds issued by the Group that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both the liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible bond and the fair values assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible bond equity reserve).

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded conversion option is exercised (in which case the balance stated in convertible bond equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Convertible bonds contain liability and equity components, and early redemption option derivative *(Continued)*

Upon redemption of the convertible bonds, the redemption consideration will be allocated to the liability component and equity component using the same allocation basis as when the convertible bonds were originally issued.

Differences between the fair value and the carrying amount of the liability component will be recognised in the consolidated statement of comprehensive income. The difference between the redemption consideration and the fair value of the equity component will be included in equity (convertible bond equity reserve) and released to accumulated losses.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the early redemption option derivatives are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees of the Group (after 7 November 2002 and vested on or after 1 January 2005)

The fair value of services received are determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Share options granted to eligible persons

Share options issued in exchange for services are measured at fair values of services received. The fair values of services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above.

Impairment loss on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising from water supply is recognised based on water supplied as recorded by meter readings during the year.

Revenue from sewage treatment is recognised based on actual sewage treated from meter readings during the year.

Water supply related installation and construction income is recognised when services are rendered and income can be measured reliably.

Revenue from long-term construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see above).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Sales of available-for-sale investments are recognised on a trade date basis.

Taxation

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. "HK$") at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the translation reserve (attributed to non-controlling interest as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

The subsidiaries in the PRC participate in the Central Pension Scheme (the "CPS") operated by the PRC government for all of their staff. The subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group with respect to the CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are recognised as expenses as they fall due in accordance with the rules of the CPS.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Going concern basis

Although the Group had net current liabilities at the end of the reporting period, the Group manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Group's liquidity requirements in the short and long term. Details of liquidity risk are disclosed in note 38.

Building and land use right

Despite the Group has paid the full purchase consideration as detailed in notes 16 and 17, certain of the Group's rights to use of the building and land were not granted formal titles from the relevant government authorities. The directors of the Company are of the opinions that the risks and rewards of using these assets have been transferred to the Group and the absence of formal titles to these buildings and land use rights do not impair the value of the relevant properties to the Group.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying the entity's accounting policies *(Continued)*

Control of Danzhou Qingyuan Water Industry Company Limited ("Danzhou City Water")

As detailed in note 46, all shares of Danzhou City Water owned by the Group have been frozen by Higher People's Court of Hainan Province from 15 December 2010 to the date of this report. The directors of Company are of the opinion that after having sought the legal advice from the Company's lawyer, the control of Danzhou City Water is still existed, accordingly, the asset, liabilities and financial results of Danzhou City Water has been incorporated in the consolidated financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of comprehensive income.

Impairment loss recognised in respect of property, plant and equipment

During the year, impairment loss on property, plant and equipment was recognised in the consolidated income statement amounting to approximately HK$20,421,000 (2010: Nil) and the carrying amount of property, plant and equipment is approximately HK$97,250,000 (2010: HK$97,598,000). Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

Impairment loss recognised in respect of prepaid lease payments

During the year, impairment loss on prepaid lease payments was recognised in the consolidated statement of comprehensive income amounting to approximately HK$2,135,000 (2010: Nil) and the carrying amount of prepaid lease payments is approximately HK$44,233,000 (2010: HK$41,771,000). Determining whether prepaid lease payments are impaired requires an estimation of the recoverable amount of the prepaid lease payments. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2011, the carrying amount of trade receivables was approximately HK$12,556,000 (2010: HK$10,973,000) (net of accumulated impairment losses of approximately HK$8,531,000 (2010: HK$5,246,000)).

Impairment loss recognised in respect of other receivables and loans receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amounts of other receivables and loans receivables are HK$10,961,000 (2010: HK$13,851,000) and HK$70,972,000 (2010: HK$123,760,000) respectively (net of accumulated impairment losses of HK$5,595,000 (2010: HK$8,903,000) and HK$81,939,000 (2010: HK$5,720,000) respectively)).

Impairment loss of concession intangible assets

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. As at 31 December 2011, the carrying amounts of concession intangible assets are HK$520,477,000 (2010: HK$483,829,000) (net of accumulated impairment losses of HK$39,210,000 (2010: HK$2,222,000)).

Impairment of available-for-sales investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of the investment is less than its cost. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, change in technology and operational and financing cash flows. As at 31 December 2011, the carrying amounts of available-for-sales investments was approximately HK$53,959,000 (2010: HK$29,898,000) (net of accumulated impairment losses of HK$30,502,000 (2010: HK$30,502,000)).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amounts of goodwill was approximately HK$10,292,000 (2010: HK$142,373,000) (net of accumulated impairment losses of HK$251,933,000 (2010: HK$106,327,000)). Details of impairment testing on goodwill are set out in note 20.

Fair values of convertible bonds

The fair values of the convertible bonds involve assumptions on the Company's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the valuation.

Revenue from construction contracts

Revenue from construction contracts of certain water supply and sewage treatment of the Group are recognised by reference to the stage of completion of the contract activity at the end of the reporting period. In recognition of profit and loss on the construction contracts, the management makes their best estimation of the future expected revenue from the contracts and future expected cost to complete the job. The estimates are determined by the management based on the current market conditions and expected time cost, material cost, other overhead expense to be incurred, expectations of future changes in the market and experience of similar transactions. Should there be a change in these estimates, then will be an impact on the amount of contract revenue or contract loss.

6. 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 ***HK$'000***	2010 *HK$'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

7. 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.

8. OTHER OPERATING INCOME

	2011 ***HK$'000***	2010 *HK$'000*
Continuing operation:		
Handling charges	**1,533**	1,311
Interest from Bureau of Yingtan City *(note i)*	–	5,394
Net exchange gain	–	223
Loan interest income	**395**	636
Bank interest income	**684**	249
Government subsidies *(note ii)*	–	1,301
Penalty income	**273**	351
Reversal impairment loss of other receivables	–	921
Others	**2,910**	4,264
	5,795	14,650

Notes:

(i) Interest from Bureau of Yingtan City was earned from fund provided to the relevant government authorities for construction of the sewage treatment operation. The interest rate was at 12% per annum. The fund was fully settled during the year ended 31 December 2010.

(ii) The amount for the year ended 31 December 2010 represented the discretionary sewage turnover compensation received by the Group from the PRC government to subsidise the Group's sewage treatment operation.

9. FINANCE COSTS

	2011 HK$'000	2010 HK$'000
Continuing operation:		
Interest on:		
– Convertible bonds	**8,748**	967
– Imputed interest charged on convertible bonds (note 32)	**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

10. INCOME TAX EXPENSE

	2011 HK$'000	2010 HK$'000
Continuing operation:		
PRC Enterprise Income Tax ("EIT") for the current year	**10,425**	7,929
Deferred tax (note 35)	**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.

10. INCOME TAX EXPENSE *(Continued)*

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.

The income tax expense for the year can be reconciled to the loss before tax per the consolidated statement of comprehensive income as follows:

	2011	2010
	HK$'000	*HK$'000*
Loss before tax	**(502,388)**	(166,667)
Tax at the domestic income tax rate of 25% (2010: 25%)	**(125,597)**	(41,667)
Tax effect of share of results of associates	**5,517**	2,027
Tax effect of expenses not deductible for tax purpose	**70,230**	50,295
Tax effect of income not taxable for tax purpose	**(5,815)**	(5,179)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**36,602**	7,625
Effect of tax exemption granted to PRC subsidiaries	**(3,091)**	(3,673)
Tax effect of tax losses and deductible temporary differences not recognised	**34,395**	244
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries from 1 January 2008 onwards	**1,184**	1,141
Income tax expense for the year	**13,425**	10,813

Details of deferred tax are set out in note 35.

11. LOSS FOR THE YEAR FROM CONTINUING OPERATION

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

	2011 HK$'000	2010 HK$'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

12. DISCONTINUED OPERATIONS

On 23 October 2009, iMerchants Limited ("iMerchants"), the 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. Details of this deemed disposal is set out in note 39.

12. DISCONTINUED OPERATIONS *(Continued)*

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:

	Note	2010 HK$'000
Loss on the discontinued operations for the year		(230,545)
Gain on deemed disposal of a subsidiary	*39*	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)

12. DISCONTINUED OPERATIONS *(Continued)*

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)

13. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES

(a) Directors' emoluments

The emolument paid or payable to each of the 13 (2010: 9) directors were as follows:

For the year ended 31 December 2011

Name	Fees HK$'000	Salaries, allowance and benefits in kind HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors:				
Li Yu Gui[2]	–	307	11	318
Yang Bin	–	244	12	256
Liu Bai Yue[1]	–	–	–	–
Chu Yin Yin, Georgiana	–	663	12	675
Li Wen Jun[2]	–	143	11	154
Chan Shi Yung[2,3]	–	135	5	140
Lin Yue Hui[5]	–	135	–	135
Liu Feng[5]	–	135	–	135
Tang Hui Ping, Paul[4]	–	425	12	437
Wang De Yin[5]	–	271	–	271
	–	2,458	63	2,521
Independent Non-Executive Directors:				
Chang Kin Man	120	–	–	120
Wu Tak Lung	144	–	–	144
Gu Wen Xuan	120	–	–	120
	384	–	–	384
Total	384	2,458	63	2,905

1. Resigned on 1 January 2011
2. Resigned on 12 August 2011
3. Appointed on 3 May 2011
4. Appointed on 1 January 2011
5. Appointed on 12 August 2011

13. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2010

Name	Fees	Salaries, allowance and benefits in kind	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors:				
Li Yu Gui	–	390	12	402
Yang Bin	–	350	9	359
Zhong Wen Sheng[1]	–	256	–	256
Liu Bai Yue[2]	–	497	12	509
Chu Yin Yin, Georgiana	–	546	12	558
Li Wen Jun[3]	–	300	9	309
	–	2,339	54	2,393
Independent Non-Executive Directors:				
Chang Kin Man	120	–	–	120
Wu Tak Lung	144	–	–	144
Gu Wen Xuan	120	–	–	120
	384	–	–	384
Total	384	2,339	54	2,777

1. Resigned on 4 January 2010
2. Resigned on 1 January 2011
3. Resigned on 12 August 2011

There was no arrangement under which directors waived or agreed to waive any emoluments during the two years ended 31 December 2011 and 2010.

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

13. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(Continued)*

(b) Employees' emoluments

Details of the five highest paid individuals included two (2010: two) directors whose emoluments are set out in (a) above. The emolument of the remaining three (2010: three) highest paid individual was as follow:

	2011	2010
	HK$'000	*HK$'000*
Salaries, allowance and benefits in kind	**1,306**	1,295
Retirement benefits scheme contributions	**36**	33
	1,342	1,328

Their emoluments were within the following bands:

	2011	2010
	No. of employees	No. of employees
	HK$'000	*HK$'000*
Nil to HK$1,000,000	**3**	3

No emolument was paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, during the two years ended 31 December 2011 and 2010.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

15. 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 year 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.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Water pipeline HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 January 2010	38,789	408	3,759	9,304	46,981	13,225	112,466
Additions	928	1,112	577	2,340	–	–	4,957
Transfer	649	–	209	–	–	(858)	–
Disposals	–	(83)	(191)	(2,776)	–	–	(3,050)
Deemed disposal of a subsidiary	(6,305)	(1,024)	(369)	(115)	–	–	(7,813)
Exchange realignment	1,651	211	121	311	2,185	362	4,841
At 31 December 2010 and 1 January 2011	35,712	624	4,106	9,064	49,166	12,729	111,401
Additions	4,745	1,180	4,501	2,579	5	8,953	21,963
Transfers	2,746	10	–	–	–	(2,756)	–
Disposals	–	(136)	(59)	(27)	(25)	(394)	(641)
Exchange realignment	1,482	213	607	291	2,749	954	6,296
At 31 December 2011	**44,685**	**1,891**	**9,155**	**11,907**	**51,895**	**19,486**	**139,019**
ACCUMULATED DEPRECIATION							
At 1 January 2010	2,597	27	673	2,391	3,614	–	9,302
Provided for the year	1,791	511	618	1,541	2,467	–	6,928
Eliminated on disposals	–	(14)	(108)	(1,596)	–	–	(1,718)
Deemed disposal of a subsidiary	(393)	(391)	(111)	(47)	–	–	(942)
Exchange realignment	58	15	17	27	116	–	233
At 31 December 2010 and 1 January 2011	4,053	148	1,089	2,316	6,197	–	13,803
Provided for the year	1,594	679	542	1,220	2,364	–	6,399
Impairment loss for the year	–	–	–	–	20,043	378	20,421
Eliminated on disposals	–	(129)	(38)	(25)	(6)	–	(198)
Exchange realignment	116	40	34	35	1,119	–	1,344
At 31 December 2011	**5,763**	**738**	**1,627**	**3,546**	**29,717**	**378**	**41,769**
CARRYING VALUES							
At 31 December 2011	**38,922**	**1,153**	**7,528**	**8,361**	**22,178**	**19,108**	**97,250**
At 31 December 2010	31,659	476	3,017	6,748	42,969	12,729	97,598

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, or 30 years
Plant and machinery	5 to 10 years
Leasehold improvements	Over the shorter of the term of the lease, or 5 to 10 years
Motor vehicles	5 years
Water pipeline	15 to 25 years

The buildings are situated in the PRC and are situated on land under medium-term land use rights.

As at 31 December 2011, the property usage permits of certain buildings have not been granted by relevant government authorities with the aggregate carrying values of approximately HK$3,133,000 (2010: HK$3,178,000). In the opinion of the directors of the Company, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group. The directors of the Company also believe that property usage permits to these buildings will be granted to the Group in due course.

The Group has pledged buildings with carrying amount of approximately HK$2,156,000 (2010: HK$2,195,000) to secure the bank and other borrowings granted to the Group.

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these property, plant and equipment. The directors of the Company engaged AVISTA Valuation Advisory Limited ("AVISTA"), to perform a valuation of these property, plant and equipment in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, an impairment loss of HK$20,421,000 (2010: Nil) was made to the carrying amounts of the property, plant and equipment, which has been charged to the consolidated statement of comprehensive income for the year ended 31 December 2011. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were 13% (2010: 11.28%).

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments in relation to land use rights are under medium-term leases in the PRC, and analysed for reporting purposes as:

	2011 HK$'000	2010 HK$'000
CARRYING VALUES:		
At 1 January	**41,771**	44,035
Additions	**4,396**	–
Deemed disposal of a subsidiary	**–**	(2,720)
Amortisation for the year	**(1,210)**	(1,140)
Impairment loss for the year	**(2,135)**	–
Exchange realignment	**1,411**	1,596
At 31 December	**44,233**	41,771
Current assets	**1,231**	1,150
Non-current assets	**43,002**	40,621
	44,233	41,771

At 31 December 2011, legal titles to land use rights with carrying values of approximately HK$12,799,000 (2010: HK$14,756,000) has not been granted by the relevant government authorities. The Group is in process to obtain the land use rights certificate and in the opinion of the directors of the Company, the formal title of the land use rights will be granted to the Group in due course.

As at 31 December 2011, the Group had pledged prepaid lease payments with carrying amount of approximately HK$10,473,000 (2010: HK$10,284,000) to secure bank and other borrowings granted to the Group.

In light of the continuing loss-making of certain subsidiaries situated in the PRC, an impairment assessment has been performed by the directors of the Company to determine the recoverable amount of these prepaid lease payments. The directors of the Company engaged AVISTA, to perform a valuation of these prepaid lease payments in order to provide them with the impairment assessment. Having regard to the future plan of the Group and the valuation performed by AVISTA, an impairment loss of HK$2,135,000 (2010: Nil) was made to the carrying amounts of the prepaid lease payments, which has been charged to the consolidated statement of comprehensive income for the year ended 31 December 2011. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use were 13% (2010: 11.28%).

18. CONCESSION INTANGIBLE ASSETS

	Total
	HK$'000
COST	
At 1 January 2010	445,542
Additions	71,508
Disposals	(220)
Exchange realignment	12,482
At 31 December 2010 and 1 January 2011	529,312
Additions	32,311
Written off	(1,089)
Acquired on acquisition of a subsidiary	50,923
Exchange realignment	12,724
At 31 December 2011	**624,181**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2010	28,824
Provided for the year	13,792
Eliminated on disposals	(24)
Exchange realignment	2,891
At 31 December 2010 and 1 January 2011	45,483
Provided for the year	19,618
Elimination on written off	(138)
Impairment loss for the year	36,988
Exchange realignment	1,753
At 31 December 2011	**103,704**
CARRYING VALUES	
At 31 December 2011	**520,477**
At 31 December 2010	483,829

18. CONCESSION INTANGIBLE ASSETS *(Continued)*

The subsidiaries of the Group, Yichun Water Industry Co., Ltd ("Yichun Water"), Linyi Fenghuang Water Industry Co., Ltd ("Linyi Fenghuang"), Danzhou Qingyuan Water Industry Company Ltd.* ("Danzhou Qingyuan") and Yingtan Water Supply Co., Ltd ("Yingtan Water Supply") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of water supply plant and was granted with an exclusive operating right for provision of water supply services to the public users for a period of 30 years commencing from the operation of the respective water supply plant.

The subsidiaries of the Group, Yichun Fangke Sewage Treatment Company Limited* ("Yichun Fangke"), Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan") and Foshan City Gaoming Huaxin Sewage Treatment Company Limited* ("Gaoming Huaxin") entered into service concession arrangements with the respective local government whereby the above subsidiaries are required to build the infrastructure of sewage treatment plant and was granted with an exclusive operating right for provision of sewage treatment services to the public users for a period ranging from 25 to 29 years, commencing from the operation of the respective waste treatment plant.

Amortisation for the above concession intangible assets has been provided on a straight-line basis over the remaining terms of the operating rights, ranging from 25 to 30 years, since commencement of operations. The receipt from these service concession arrangement, are contingent on the extent that public uses the services.

As at 31 December 2011, the Group had pledged concession intangible assets with carrying amount of approximately HK$19,157,000 (2010: HK$19,240,000) to secure bank borrowings granted to the Group.

The recoverable amounts of the concession intangible assets have been determined by using value-in-use calculation with reference to the valuation performed by AVISTA (2010: Asset Appraisal Limited ("Asset Appraisal"), the qualified valuers not connected with the Group. The calculation uses cash flow projections based on financial budgets approved by management covering a 5 year periods, and pre-tax discount rate of 13% (2010: 11.28%). Cash flows beyond the 5 year periods have been extrapolated using a steady 2% (2010: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The directors of the Company were of the opinion that the recoverable amount is less than its respective carrying amount as at 31 December 2011, accordingly an impairment loss of approximately HK$36,988,000 (2010: Nil) was recognised.

19. INTANGIBLE ASSET

	2011 HK$'000	2010 HK$'000
COST		
At 1 January	–	925,584
Deemed disposals of a subsidiary	–	(925,584)
At 31 December	–	–
ACCUMULATED AMORTISATION		
At 1 January	–	10,283
Provided for the year	–	46,279
Impairment loss recognised	–	245,639
Deemed disposal of a subsidiary	–	(302,201)
At 31 December	–	–
CARRYING VALUES		
At 31 December	–	–

The intangible asset represented the exclusive right which derived from a management agreement ("Management Agreement") to receive management fee equivalent to 70% of the net profits of Shenzhen Careall Capital Investment Co., Ltd ("Shenzhen Careall"), a company established in the PRC and being an independent third party of the Group. Under the Management Agreement, Shenzhen Careall shall irrevocably and unconditionally warrant, guarantee and undertake to and with Supreme Luck International Limited ("Supreme Luck"), a wholly-owned subsidiary of iMerchants that the net profits during the one-year period commencing from the date of the Management Agreement shall not be less than approximately RMB100,000,000 (equivalent to HK$113,380,000); the second one-year period commencing from the date of the Management Agreement shall not less than approximately RMB150,000,000 (equivalent to HK$170,070,000); and the third one-year period commencing from the date of the Management Agreement shall not less than approximately RMB200,000,000 (equivalents to HK$226,760,000). Shenzhen Careall is principally engaged in venture investment, venture investment advisory and management services, with the objective of investment in the equities of the new technology-based enterprises in the PRC. The exclusive right was acquired through the acquisition of the entire issued share capital of Supreme Luck during the year ended 31 December 2009.

19. INTANGIBLE ASSET *(Continued)*

The intangible asset was amortised on straight-line basis over its estimated useful lives of 15 years. Intangible assets was disposed of along with the deemed disposal of iMerchants for the year ended 31 December 2010.

The recoverable amount of the exclusive right had been determined on the basis of value-in-use calculation with reference to a valuation performed by Grant Sherman Appraisal Limited, an independent qualified valuer not connected to the Group. The value-in-use calculations used cash flow projections of 15 years and based on financial budgets approved by management of the Company covering a 3-year period, and a discount rate of 20.36%. Cash flows beyond the 5 year periods had been extrapolated using a steady 3% growth rate. This rate of return was based on the relevant track record of Careall Capital and did not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period for the exclusive right was based on the budgeted sales and expected realisable profit during the budget period and the similar quality of new investments during the budget period. Expected cash inflows/outflows, which included budgeted sales of listed securities, cost of acquiring new investment portfolio and other direct costs had been determined based on past performance and management's expectations for the market development. The directors of the Company were of the opinion that the recoverable amount was less than its respective carrying amount as at the date of deemed disposal of iMerchants, accordingly an impairment loss of approximately HK$245,639,000 was recognised for the year ended 31 December 2010.

20. GOODWILL

	Provision of water supply and sewage treatment *HK$'000*	Investments in financial products *HK$'000*	Others *HK$'000*	Total *HK$'000*
COST				
At 1 January 2010	248,700	51,411	49,569	349,680
Released upon deemed disposal of interest in a subsidiary *(note 39)*	–	(51,411)	(49,569)	(100,980)
At 31 December 2010 and 1 January 2011	248,700	–	–	248,700
Acquisition of a subsidiary	13,525	–	–	13,525
At 31 December 2011	**262,225**	**–**	**–**	**262,225**
IMPAIRMENT				
At 1 January 2010	66,069	–	32,616	98,685
Released upon deemed disposal of a subsidiary *(note 39)*	–	–	(32,616)	(32,616)
Impairment loss recognised during the year	40,258	–	–	40,258
At 31 December 2010 and 1 January 2011	106,327	–	–	106,327
Impairment loss recognised during the year	145,606	–	–	145,606
At 31 December 2011	**251,933**	**–**	**–**	**251,933**
CARRYING VALUES				
At 31 December 2011	**10,292**	**–**	**–**	**10,292**
At 31 December 2010	142,373	–	–	142,373

20. GOODWILL *(Continued)*

Impairment test on goodwill

For the purposes of impairment testing, goodwill have been allocated to six individual certain cash generating unit ("**CGUs**"). The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2011 allocated to these units are as follows:

	2011	2010
	HK$'000	*HK$'000*
Blue Mountain Hong Kong Group Limited ("**Blue Mountain**")	**–**	127,360
Danzhou Lian Shun Tong Water Pipe Company Limited	**–**	–
Onfar International Limited ("**Onfar**")	**–**	14,006
Jining Haiyuan	**–**	–
Anhui Dang Shan Water Industry Company Limited ("**Anhui Dang Shan**")	**–**	1,007
Gaoming Huaxin	**10,292**	–
	10,292	142,373

During the year ended 31 December 2011, impairment loss of approximately HK$127,360,000 has been recognised in respect of the goodwill arising from the acquisition of Blue Mountain due to its continuing losses since 2010 and the significant capital expenditure incurred for maintaining product quality. In addition, the impairment loss of approximately HK$18,246,000 has been recognised in respect of the goodwill arising from the acquisition of Onfar, Anhui Dang Shan and Gaoming Huaxin since the expected future performance is expected to be less optimistic.

The Group tests goodwill annually for impairment, or more frequently when there is indication that the unit may be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGUs to which goodwill has been allocated by reference to, amongst other things, the existing operations, and future prospects of the CGUs. Accordingly, the Group recognised impairment losses with an aggregate amount of HK$145,606,000 (2010: HK$40,258,000) in relation to goodwill arising on acquisition of Blue Mountain, Onfar, Anhui Dang Shan and Gaoming Huaxin (2010: Blue Mountain and Onfar).

The basis of the recoverable amount of the CGUs and the major underlying assumptions are summarised below:

Water supply and sewage treatment

The recoverable amounts of this CGUs under the water supply and sewage treatment operation have been determined on the basis of value-in-use calculation with reference to a valuation performed by AVISTA. That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year periods, and discount rate of 13% (2010: 11.28%). Cash flows beyond the 5 year periods have been extrapolated using a steady 2% (2010: 3%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

21. AVAILABLE-FOR-SALE INVESTMENTS

	2011 HK$'000	2010 HK$'000
Available-for-sale investments comprise:		
– Equity securities listed in Hong Kong	**53,959**	29,898

The fair values of the above listed securities are determined based on the quoted market bid prices available on the Stock Exchange.

Included in the available-for-sales investments of HK$29,898,000 was an investment in equity securities listed in Hong Kong of which its trading of shares were suspended in the Stock Exchange during the year.

The directors considered the prolonged decrease in market price of the Hong Kong listed securities and an impairment loss of HK$30,502,000 (2011: Nil) was recognised for the year ended 31 December 2010.

22. INTEREST IN ASSOCIATES

	2011 HK$'000	2010 HK$'000
Cost of investment in associates (net of impairment)		
Listed in Hong Kong	**–**	229,500
Unlisted associate in the PRC	**31,460**	52,794
Share of post-acquisition results and other comprehensive income, net of dividends received	**6,502**	(887)
	37,962	281,407
Fair value of listed investments	**–**	216,551

22. INTEREST IN ASSOCIATES *(Continued)*

As at 31 December 2011 and 2010, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of establishment	Class of shares held	Proportion of equity interests held by the Group 2011	2010	Principal activity
Yu Jiang Hui Min Small-Sum Loan Company Limited ("Yu Jiang Hui Min") 余江惠民小額貸款股份有限公司 ("余江惠民")	Incorporated	PRC	Contributed capital	**10%**	–	Money lending business
Jinan Hongquan Water Production Co., Limited ("Jinan Hongquan") 濟南泓泉制水有限公司	Incorporated	PRC	Contributed capital	**35%**	35%	Provision of water supply
iMerchants	Incorporated	Hong Kong	Ordinary	**–**	36.57%	Investment in financial and investment products and technology investment

On 21 December 2011, the Group acquired 10% equity interest in Yu Jiang Hui Min at a consideration of approximately HK$12,206,000. The Group has the right to nominate only 1 out of 3 of the directors of Yu Jiang Hui Min. The directors of the Company consider that the Group does exercise significant influence over Yu Jiang Hui Min and it is therefore classified as an associate of the Group.

22. INTEREST IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates as at the end of the reporting period is set out below:

	2011 **HK$'000**	2010 *HK$'000*
Total assets	**649,315**	1,223,616
Total liabilities	**(357,384)**	(415,948)
Net assets	**291,931**	807,668
Group's share of net assets of associates	**71,502**	292,694
Revenue	**410,984**	280,547
Loss for the year	**(87,747)**	(22,246)
Other comprehensive income	**55,801**	6,180
Group's share of results of associates for the period / year	**(22,066)**	(8,109)
Group's share of other comprehensive income of associate for the year	**20,561**	2,163

As disclosed in note 12 to the consolidated financial statements, iMerchants became an associate of the Group in October 2010.

In October 2010, the holders of 1,691,000,000 Convertible Preference Shares exercised their rights to convert the Convertible Preference Shares into fully paid ordinary shares of iMerchants. After this deemed disposal, the equity interest of iMerchants owned by the Group has reduced further from 49.23% to 36.57%. The loss of approximately HK$79,449,000 being the decrease in the interest in associate of approximately HK$79,449,000, was recognised in the statement of consolidated comprehensive income.

During the period from January to September 2011, the holders of the 14,692,390 Convertible Preference shares and 50,000,000 Convertible Bond exercised their rights to further convert the Convertible Preference Shares and Convertible Bond into fully paid ordinary shares of iMerchants. After this deemed disposal, the equity interest of iMerchants owned by the Group has reduced further from 36.57% to 12.61%. The loss of approximately HK$146,295,000 being the decrease in the interest in associate of approximately HK$146,295,000, was recognised in the statement of consolidated comprehensive income.

The directors of the Company consider that the Group has lost the significant influence on iMerchants since 16 September 2011. Due to certain directors of iMerchants, who are also the directors of the Company, resigned and retired on or before 16 September 2011. After the loss of significant influence, the directors of the Company consider that the equity interest of iMerchants held by the Group has to be reclassified as available-for-sales investments. The loss of approximately HK$32,649,000 being the reclassification was recognised in the statement of consolidated comprehensive income.

The directors reviewed the carrying amount in the equity interest of associates whose business activity is water supply service as at 31 December 2011. In view of the continuing losses during the year ended 31 December 2011 and 2010, the directors of the Company were of the opinion that the recoverable amount is less than its respective carrying amount as at 31 December 2011, accordingly an impairment loss of approximately HK$33,540,000 (2010: Nil) was recognised.

23. INVENTORIES

	2011 HK$'000	2010 HK$'000
Raw materials	**1,445**	772
Finished goods	**44,157**	25,976
	45,602	26,748

24. TRADE AND OTHER RECEIVABLES

	2011 HK$'000	2010 HK$'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

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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 Limited* ("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.

25. CASH HELD AT FINANCIAL INSTITUTIONS/BANK BALANCES AND CASH

Cash held at financial institutions represents amounts of approximately HK$3,533,000 (2010: HK$37,724,000) deposited in financial institutions carry interest rate ranging from 0.001% to 0.5% (2010: 0% to 0.001%) per annum.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rates.

26. TRADE AND OTHER PAYABLES

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

	2011 HK$'000	2010 HK$'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.

27. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORKS

	2011 HK$'000	2010 HK$'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits to date	**64,117**	45,674
Less: progress billings	**(41,144)**	(27,402)
	22,973	18,272
Analysed for reporting purposes as:		
Amounts due from contract customers	**27,225**	18,864
Amounts due to contract customers	**(4,252)**	(592)
	22,973	18,272

As at 31 December 2011, there were no retentions held by customers for contract work (2010: Nil).

28. BANK BORROWINGS

	2011 HK$'000	2010 HK$'000
Secured loans	**53,706**	55,493
Carrying amount repayable:		
On demand overdue balances *(note ii)*	**31,735**	30,698
On demand or within one year	**3,662**	3,542
More than one year but not exceeding two years	**3,662**	3,542
More than two years but not more than five years	**10,985**	10,246
More than five years	**3,662**	7,465
	53,706	55,493
Less: Amount due within one year shown under current liabilities	**(35,397)**	(34,240)
Amount due after one year	**18,309**	21,253

Notes:

(i) As at 31 December 2011, included in bank borrowings of approximately RMB18,000,000 (equivalent to HK$21,971,000) (2010: RMB21,000,000 (equivalent to HK$24,795,000)) which carries interest ranging from 6.6% to 8.2% per annum and the whole amount is secured by a contractual right to receive the revenue generated by Yichun Fangke Sewage Treatment Company Limited ("Yichun Fangke") a non-wholly owned subsidiary of the Company.

(ii) As at 31 December 2011, in respect of bank borrowings with carrying amounts of approximately RMB26,000,000 (equivalent to HK$31,735,000) (2010: RMB26,000,000, equivalent to HK$30,698,000) borrowed from Agricultural Bank of China, Danzhou Branch, are overdue and are classified as current liabilities (the "Overdue Loans"). The Overdue Loans were arisen from the acquisition of a business on 31 March 2008. The Overdue Loans are secured floating-rate borrowings which carry interest at the People's Bank of China Base Lending Rate. Pursuant to the respective loan agreements, the Group is subject to additional interests for the overdue amounts which are calculated based on the overdue interest rate published by the People's Bank of China. On 26 June 2008, Agricultural Bank of China, Danzhou Branch had filed a claim against the Group for the repayment of the Overdue Loans together with the interests thereon. On 13 November 2009, a verdict was issued by the Intermediate People's Court of Hainan (the "Court"), the Group is ordered to fully repay the said bank borrowings together with the interests thereon. Details of the litigation are set out in note 46.

29. OTHER LOANS

	2011 HK$'000	2010 HK$'000
Other loans comprises of:		
Government loans *(note i)*	**84,910**	80,825
Loans from independent companies and non-bank institutions *(note ii)*	**43,963**	1,824
Overdue loans *(notes ii and iii)*	**4,882**	4,723
Loan from employees *(note iv)*	**6,614**	–
	140,369	87,372
Analysed as:		
Secured	**46,760**	4,723
Unsecured	**93,609**	82,649
	140,369	87,372
Carrying amount repayable:		
On demand overdue loans	**4,882**	4,723
Within one year	**64,801**	35,162
More than one year but not exceeding two years	**13,094**	7,943
More than two years but not more than five years	**42,433**	26,340
More than five years	**15,159**	13,204
	140,369	87,372
Less: Amount due within one year shown under current liabilities	**(69,683)**	(39,885)
Amount due after one year	**70,686**	47,487

29. OTHER LOANS *(Continued)*

Notes:

(i) As at 31 December 2011, government loans of approximately HK$62,960,000 (2010: HK$60,903,000), HK$17,562,000 (2010: HK$17,923,000) and HK$4,388,000 (2010: HK$1,999,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 2.55% to 5% (2010: 2.28% to 5%) per annum and the floating-rate borrowings carry interest at fixed deposit rate as stipulated by the People's Bank of China plus 0.3% per annum for the two years ended 31 December 2011. The government loans are repayable ranging from within one year to twelve years.

(ii) At 31 December 2011, loans from independent companies and non-bank institutions and overdue loans with an aggregate amount of approximately HK$48,845,000 (2010: HK$6,547,000) are fixed-rate borrowings carry interest ranging from 5% to 21.97% (2010: 6% to 21.97%) per annum.

Included in the other loan of approximately HK$4,638,000 was secured by the entire equity interest in the wholly-owned subsidiaries of the Company including Billion City Investments Limited, Nourish Gain Investments Limited, Smart Giant Group Limited and China Ace Investment Limited (the "Shares Charge").

(iii) At 31 December 2011, overdue loans with carrying amounts of approximately RMB4,000,000 (equivalent to HK$4,882,000) (2010: RMB4,000,000, equivalent to HKD4,723,000) and interest payable (included in other payables) of approximately RMB12,421,000 (equivalent to HK$15,161,000) (2010: RMB11,542,000, equivalent to HK$13,628,000) are overdue and are classified as current liabilities (the "Overdue Other Loans"). According to the legal advice from an independent legal adviser of the Company, the original lender had disposed of the rights of the Overdue Other Loans through an auction in the PRC during the year ended 31 December 2010. Up to the date of approval of this consolidated financial statements, the new owner of the Overdue Other Loans has not communicated with the Group on the settlement arrangement.

(iv) At 31 December 2011, loans from employee are fixed-rate borrowings carry interest ranging from 13.8% to 15.8% per annum.

30. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

At 31 December 2011, the amounts are unsecured, interest-free and repayable on demand. At 31 December 2010, the amounts were unsecured, other than an amount of approximately HK$2,587,000 which carried interest at 11.68% per annum, the remaining amounts were interest-free and repayable on demand.

31. LOAN FROM AN ASSOCIATE

As at 31 December 2011, the amount of approximately HK$2,757,000 (2010: HK$2,419,000) represented the loan from an associate and carried interest at 6.10% (2010: 4.86%) per annum and repayable within a year.

32. CONVERTIBLE BONDS

On 3 August 2007, the Company issued a redeemable convertible bonds ("CB1") in an aggregate principal amounts of HK$385,000,000. CB1 bears interest at the rate of 0.25% per annum, starting from 3 August 2007, payable semi-annually in arrear on 3 February and August each year. CB1 may be converted at the option of CB1 holders at a conversion price of HK$1.42 per ordinary share at any time on or after 13 September 2007 and up to 27 July 2012.

The conversion price was subsequently adjusted to HK$1.136 on 3 February 2008 in accordance with the terms and conditions stated in the bond purchase agreement dated 30 July 2007.

On 3 August 2010 (the "Put Option Date"), all holders of CB1 exercised their rights to request the Company to redeem all of CB1 at 132.21% of the principal amount together with interest accrued. Subsequently, the Company reached consensual agreements with all CB1 holders to restructure the Company's rights and obligation under the CB1 in the following manners:

Issue of new convertible bonds

On 13 August 2010, the Company entered into a definitive agreement (the "Definitive Agreement 1") with investors who collectively holding approximately 79% of CB1 (the "Majority Investors"). New convertible bonds due 2012 in the aggregate principal amount of HK$337,000,000 ("CB2") were issued as a consideration of settling the Majority Investors' interests in CB1. In relation to the aggregate principal amount of CB2, a portion of HK$175,000,000 ("Repurchase Bonds") cannot be converted into ordinary share of the Company, redeemed or disposed of, which will be repurchased by the Company in instalments. This part is included in the liability portion of CB2.

The remaining portion of CB2 with principal amount of HK$162,000,000 may be converted at the option of the CB2 holders at a conversion price of HK$0.15 per ordinary share at any time on or after 15 October 2011 and up to the close of business on 9 August 2012.

Unless previously redeemed, converted or purchased, the Company will redeem CB2 (excluding the Repurchasing Bonds), at 121.0119% of its principal amount on 16 August 2012 plus interest accrued.

The holder of each CB2 will have the right at such holder's option, to require the Company to redeem all or some only of CB2 (excluding the Repurchase Bonds) on 16 August 2011 at 109.9938% of their principal amount together with accrued interest.

The Company has an early redemption option to redeem all or some only of the CB2 (excluding the Repurchase Bonds) on or at any time prior to 16 August 2012 by serving a 15 days' prior written notice at a redemption price equal to, in the case of the redemption date falls before 16 August 2011, 133% of the principal amount of CB2 together with accrued interest up to the redemption date or, in the case where the redemption date falls after 16 August 2011, 166% of the principal amount of CB2 together with accrued interest up to the redemption date. The fair values of such early redemption option at the date of recognition and at 31 December 2010 of CB2 were approximately HK$14,374,000 and HK$10,239,000 respectively.

32. CONVERTIBLE BONDS *(Continued)*

Restructuring of the CB1

On 24 September 2010, the Company entered into another definitive agreement (the "Definitive Agreement 2") with investors who collectively holding the remaining approximately 21% of CB1 (the "Minority Investors"). Pursuant to the Definitive Agreement 2, the terms and conditions of the CB1 will be restructured with the following key terms:

1. Redemptions by instalments: The CB1 held by the Minority Investors will be redeemed for a total consideration of approximately HK$128,000,000 in cash (excluding interest costs and discounts for early repayment), payable in a series of instalments commencing from October 2010 and ending in July 2012.

2. Revised maturity date: The original maturity date, being 3 August 2011, has been brought forward to 31 July 2012.

3. Removal of the Company Sweep-up call option: The Company's sweep-up call option to early redeem CB1 if and when at least 90% of the CB1 had already been converted, redeemed or purchased and cancelled has be removed.

4. Revised further indebtedness covenant: The original limitation on further indebtedness has been revised so that as long as the CB2 is outstanding, the Group should not incur any further debts for which there is any recourse to the Company without the prior written consent of the holders representing over 50% in principal amount of the CB1 then outstanding.

Save for abovementioned key terms, CB1 will substantially have the same terms and conditions stated in the bond purchase agreement dated 30 July 2007 and in particular, the prevailing conversion price for CB1 remains at HK$1.136 and the existing conversion price adjustments have been preserved.

Further details of the Definitive Agreement 1 and Definitive Agreement 2 are set out in the circular and the announcement of the Company dated 3 September 2010 and 24 September 2010 respectively.

Redemption of the Repurchase Bond of CB2

In April 2011, in relation to the Repurchase Bond of CB2 with the principal amount of HK$56,000,000 have been redeemed at the consideration of approximately HK$60,659,000.

Repurchase of remaining portion of CB1 and CB2

In July 2011, the Company entered into repurchase agreements with holders of CB1 and CB2 to repurchase the outstanding amount of CB1 and CB2. The total consideration paid for settlement of CB1 and CB2 were approximately HK$73,096,000 and HK$205,000,000 respectively. On 28 July 2011 and 4 August 2011, the Company raised two short term loans with 12% interest per annum from two independent third parties (the "Short Term Borrowers") of HK$80,000,000, which is unsecured and repaid on or before 30 September 2011, and HK$205,000,000, which is pledged by the Share Charges and the maturity date is 1 February 2012, in which HK$73,096,000 and HK$205,000,000 was used for settlement of CB1 and CB2 respectively.

32. CONVERTIBLE BONDS *(Continued)*

Issue of new convertible bonds

On 26 August 2011, the Company issued convertible bonds ("CB3") with principal amount of HK$80,000,000 in order to settle the loan from one of the Short Term Borrowers. CB3 can be converted up to 800,000,000 ordinary shares at HK$0.1 each. CB3 entitled CB3 holders to convert them into ordinary shares of the Company at any time from the date of the issue up to and including the date which 7 days prior to the maturity date of CB3. CB3 cannot be early redeemed by CB3 holders or the Company. None of CB3 was converted into ordinary shares of the Company during the year ended 31 December 2011. If CB3 has not been converted at any time before the due date, it would be repaid by the Company on 25 August 2012.

On 30 September 2011, the conversion price of the convertible bonds was adjusted from HK$0.1 per share to HK$1 per share as a result of the share consolidation.

On 30 September 2011, the Company issued convertible bonds ("CB4") with principal amount of HK$200,000,000 in order to settle the loan from another party of the Short Term Borrowers. CB4 can be converted up to 200,000,000 ordinary shares at HK$1.0 each. CB4 entitled the CB4 holders to convert them into ordinary shares of the Company at any time from the date of the issue up to and including the date which 7 days prior to the maturity date of CB4. CB4 cannot be early redeemed by CB4 holders or the Company. None of CB4 was converted into ordinary shares of the Company during the year ended 31 December 2011. If CB4 has not been converted at any time before the due date, it would be repaid by the Company on 29 September 2014.

CB1

Since the conversion price for CB1 is subject to change in accordance with the terms and condition, the conversion will not result in settlement by the exchange of a fixed number of equity instruments. CB1 was designated as "financial liabilities at fair value through profit or loss" which requires that CB1 to be carried at fair value at the end of the reporting period and the changes in fair values are recognised in the consolidated statement of comprehensive income.

During the year ended 31 December 2011, the Company paid approximately HK$18,000,000 in cash for early extinguishment of CB1.

During the year ended 31 December 2010, the Company paid approximately HK$64,060,000 in cash and issued CB2 of approximately HK$337,000,000 for extinguishment of CB1.

32. CONVERTIBLE BONDS *(Continued)*

CB1 *(Continued)*

Movement of CB1 is as follows:

	2011 HK$'000	2010 HK$'000
At the beginning of the year	**95,526**	–
Issue of convertible loan notes during the year	**–**	466,739
Extinguishment (gain) loss of CB1	**(11,303)**	1,521
Cash paid for early redemption	**(18,000)**	–
Repayment	**–**	(64,060)
Extinguishment of partial of CB1 and recognition of CB2	**–**	(337,000)
Change in fair value	**6,873**	28,326
Offset by the other loan	**(73,096)**	–
At the end of the year	**–**	95,526

The fair values of approximately HK$85,715,000 and HK$95,526,000 of CB1 as at 2 August 2011 and 31 December 2010 respectively, was determined by taking into account the valuations carried out by Asset Appraisal, using Monte Carlo Simulation Model.

CB2

CB2 contained the following components that are required to be separately accounted for:

(i) Liability component for CB2 represents the present value of the contractually determined stream of future cash flows discounted at the rate interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of CB2, but without the conversion portion. The effect interest rate of the liability component is 1% per annum.

(ii) Embedded derivative comprises of the fair value of redemption option represents the Company's option to early redeem all or part of CB2 (excluding the Repurchase Bonds).

(iii) The equity component represents the difference between the gross proceeds of the issue of CB2 and the fair value assigned to the liability and early redemption option components respectively.

32. CONVERTIBLE BONDS *(Continued)*

CB2 *(Continued)*

Movement of CB2 is as follows:

	Equity component HK$'000	Liability component HK$'000	Early redemption option HK$'000	Total HK$'000
Extinguishment of CB1 and recognition of CB2	15,914	335,460	(14,374)	337,000
Imputed interest charged	–	201	–	201
Interest expense	–	241	–	241
Interest paid	–	(241)	–	(241)
Change in fair value	–	–	4,135	4,135
Cash paid for redemption	–	(41,542)	–	(41,542)
Loss on redemption	–	10,542	–	10,542
At 31 December 2010 and 1 January 2011	15,914	304,661	(10,239)	310,336
Cash paid for redemption	–	(60,659)	–	(60,659)
Loss on redemption of convertible bonds	–	4,659	–	4,659
Change in fair value	–	–	6,582	6,582
Conversion to ordinary shares *(note 33 – iii, iv, v)*	(3,045)	(29,914)	1,959	(31,000)
Extinguishment gain of CB2 – liability portion	–	(23,832)	483	(23,349)
Extinguishment gain of CB2 – equity portion	(4,875)	–	–	(4,875)
Interest expense	–	8,193	–	8,193
Interest paid	–	(4,887)	–	(4,887)
Extinguishment of CB2	(7,994)	(198,221)	1,215	(205,000)
As at 31 December 2011	**–**	**–**	**–**	**–**

32. CONVERTIBLE BONDS *(Continued)*

CB3 and CB4

CB3 and CB4 are bifurcated into a liability component and an equity component. The equity component is presented in equity heading "Convertible bonds equity reserve".

Movement of CB3 and CB4 are as follows:

	CB3	CB4	Total
	HK$'000	*HK$'000*	*HK$'000*
Liability component			
Issuance of CB3 and CB4	70,855	134,064	204,919
Imputed interest charges	3,490	4,840	8,330
Transaction costs	(886)	(336)	(1,222)
	73,459	138,568	212,027
Equity component			
Issuance of convertible bonds	9,145	65,936	75,081
Transaction costs	(114)	(164)	(278)
At the end of the year	82,490	204,340	286,830

The fair value of CB1 as at the end of the reporting period and each of the date of extinguishment were calculated using the Monte Carlo Simulation Model. Major parameters adopted in the calculation of the fair value are recognised below:

	31 December 2010	16 March 2011	15 April 2011	15 June 2011	30 June 2011	2 August 2011
Stock price	HK$0.136	HK$0.144	HK$0.131	HK$0.097	HK$0.086	HK$0.117
Exercise price	Subject to adjustment but not less than 80% of HK$1.42	Subject to adjustment but not less than 80% of HK$1.42	Subject to adjustment but not less than 80% of HK$1.42	Subject to adjustment but not less than 80% of HK$1.42	Subject to adjustment but not less than 80% of HK$1.42	Subject to adjustment but not less than 80% of HK$1.42
Expected volatility	52.42%	55.72%	55.86%	58.77%	50.62%	55.73%
Risk-free rate	0.49%	0.43%	0.38%	0.20%	0.15%	0.14%
Option life	1.59 years	1.38 years	1.30 years	1.13 years	1.09 years	1.00 years

32. CONVERTIBLE BONDS *(Continued)*

The fair values of the early redemption option derivative component of CB2 at the end of the reporting period and the date of extinguishment were calculated using market value basis. Major parameters adopted in the calculation of the fair value are recognised below:

	29 July 2011	31 December 2010
Stock price	HK$0.118	HK$0.136
Exercise price	HK$0.15	HK$0.15
Expected volatility	55.39%	56.351%
Risk-free rate	0.25%	0.49%
Option life	0.67 year	1.63 years

32. CONVERTIBLE BONDS *(Continued)*

CB3 and CB4 *(Continued)*

The liability components of CB3 and CB4 were initially recognised as the present value of the stream of future cash flows. The effective interest rate of the liability component is 8.708% and 18.61% per annum respectively.

The following is the analysis of CB1, CB2, CB3 and CB4 for financial reporting purposes:

	2011	2010
	HK$'000	*HK$'000*
Financial liabilities at fair value through profit or loss		
CB1	**–**	95,526
Financial liabilities at amortised cost		
Liability component of CB2	**–**	304,661
Liability component of CB3	**73,459**	–
Liability component of CB4	**138,568**	–
	212,027	304,661
Analysed as:		
Current liabilities	**73,459**	397,187
Non-current liabilities	**138,568**	3,000
	212,027	400,187
Derivative financial instruments		
Early redemption option of CB2	**–**	10,239
Equity element		
Convertible bond equity reserve of CB2	**–**	15,914
Convertible bond equity reserve of CB3	**9,030**	–
Convertible bond equity reserve of CB4	**65,772**	–
	74,802	15,914

33. SHARE CAPITAL

	2011 Number of shares	2011 Amount HK$'000	2010 Number of shares	2010 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each				
At the beginning of the year	**8,000,000,000**	**800,000**	8,000,000,000	800,000
Consolidation of ten shares of HK$0.10 each into one share of HK$1.00 each *(note viii)*	**(7,200,000,000)**	**–**	–	–
Increase on 27 September 2011 *(note viii)*	**1,200,000,000**	**1,200,000**	–	–
At the end of the year	**2,000,000,000**	**2,000,000**	8,000,000,000	800,000
Convertible preference shares of HK$0.1 each				
At the beginning and the end of the year	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.1 each				
At the beginning of the year	**3,247,651,000**	**324,765**	2,706,379,000	270,638
Issue of shares upon top-up placing *(note i)*	**–**	**–**	265,476,000	26,547
Issue of shares upon placing *(note ii)*	**–**	**–**	275,796,000	27,580
Conversion of convertible bonds *(note iii)*	**106,666,666**	**10,667**	–	–
Conversion of convertible bonds *(note iv)*	**33,333,332**	**3,333**	–	–
Conversion of convertible bonds *(note v)*	**66,666,666**	**6,667**	–	–
Issue of shares upon placing *(note vi)*	**324,000,000**	**32,400**	–	–
Issue of shares upon placing *(note vii)*	**325,000,000**	**32,500**	–	–
Consolidation of ten shares of HK$0.10 each into one share of HK$1.00 each *(note viii)*	**(3,692,985,898)**	**–**	–	–
At the end of the year	**410,331,766**	**410,332**	3,247,651,000	324,765

33. SHARE CAPITAL *(Continued)*

Notes:

i. On 9 August 2010, pursuant to a placing and subscription agreement entered into with existing shareholders, the Company placed out 265,476,000 new ordinary share of HK$0.1 each in the Company at a price of HK$0.108 per share. A sum of net amount approximately HK$27,851,000 after deducting related expenses of approximately HK$820,000, was raised and used as working capital of the Group.

ii. On 9 August 2010, pursuant to a placing and subscription agreement entered into with existing shareholders, the Company placed out 275,796,000 new ordinary share of HK$0.1 each in the Company at a price of HK$0.108 per share. A sum of net amount approximately HK$29,041,000 after deducting related expenses of approximately HK$745,000, was raised and used as working capital of the Group.

iii. On 3 March 2011, a Convertible Bonds holder converted Convertible Bonds with nominal value of HK$16,000,000 into 106,666,666 ordinary shares of HK$0.1 each of the Company.

iv. On 15 March 2011, a Convertible Bonds holder converted Convertible Bonds with nominal value of HK$5,000,000 into 33,333,332 ordinary shares of HK$0.1 each of the Company.

v. On 28 March 2011, a Convertible Bonds holder converted Convertible Bonds with nominal value of HK$10,000,000 into 66,666,666 ordinary shares of HK$0.1 each of the Company.

vi. On 6 April 2011, pursuant to a placing and subscription agreement entered into with existing shareholders, the Company placed out 324,000,000 new ordinary share of HK$0.1 each in the Company at a price of HK$0.128 per share. A sum of net amount approximately HK$40,187,000 after deducting related expenses of approximately HK$1,285,000, was raised and used as working capital of the Group.

vii. On 8 April 2011, pursuant to a placing and subscription agreement entered into with existing shareholders, the Company placed out 325,000,000 new ordinary share of HK$0.1 each in the Company at a price of HK$0.123 per share. A sum of net amount approximately HK$38,752,000 after deducting related expenses of approximately HK$1,223,000, was raised and used as working capital of the Group.

viii. Pursuant to a special resolution passed by the Company's shareholders at a extraordinary general meeting held on 26 September 2011, every ten shares of HK$0.10 each in the issued and unissued share capital of the Company was consolidated into 1 share of HK$1.00 (the "Share Consolidation") with effect from 27 September 2011. Immediately upon the Share Consolidation becoming effective, the authorised share capital of the Company was increased to HK$2,000,000,000 divided into 2,000,000,000 ordinary shares of HK$1.00 each.

All new shares issued during the year ended 31 December 2011 rank pari passu in all respects with other shares in issue.

34. GOVERNMENT GRANTS

	HK$'000
At 1 January 2010	60,040
Addition	3,285
Exchange realignment	749
At 31 December 2010 and 1 January 2011	64,074
Addition	5,096
Exchange realignment	2,175
At 31 December 2011	**71,345**

Yichun Water has been granted by the local government of the PRC for the expansion and construction of water plants and pipelines. As at 31 December 2011 and 2010, the construction of water plants and pipelines was in progress.

35. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Withholding tax on undistributed profits HK$'000	Service concession arrangement HK$'000	Total HK$'000
At 1 January 2010	1,894	3,503	5,397
Charge to consolidated statement of comprehensive income for the year	1,141	1,743	2,884
At 31 December 2010 and 1 January 2011	3,035	5,246	8,281
Acquisition of a subsidiary *(note 36)*	–	1,194	1,194
Charge to consolidated statement of comprehensive income for the year	1,184	1,816	3,000
At 31 December 2011	**4,219**	**8,256**	**12,475**

35. DEFERRED TAX LIABILITIES *(Continued)*

At 31 December 2011, the Group had unused tax losses of HK$89,342,000 (2010: HK$82,732,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

At 31 December 2011, the Group also has other deductible temporary differences of approximately HK$152,620,000 (2010: HK$21,651,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be recognised.

Under the EIT law of PRC, withholding tax is imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary difference attributable to such profits amounting to approximately HK$84,380,000 (2010: HK$60,700,000). The Group has applied the preferential rate of 5% as all the Group's subsidiaries and an associate in the PRC are directly held by an investment holding company incorporated in Hong Kong. No deferred tax liability has been provided for the remaining of such profits of approximately HK$875,000 (2010: HK$875,000) as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

36. ACQUISITION OF A SUBSIDIARY

On 30 September 2011, the Group acquired 70% equity interest in Gaoming Huaxin from Top Vision Management Limited ("Top Vision"), an independent third party for consideration of HK$15,500,000. The acquisition has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition was HK$13,525,000. Gaoming Huaxin is engaged in sewage treatment business. Gaoming Huaxin was acquired so as to continue the expansion of the Group's sewage treatment business.

As at 31 December 2009, the Group has paid HK$50,901,000 as a deposit for the acquisition and the remaining amount will be paid upon the completion of the transaction. On 29 November 2010, Swift Surplus entered into an agreement with Top Vision and the deposit paid of HK$50,901,000 was assigned as a loan to Top Vision. The amount was then reclassified to loan receivable as at 31 December 2010. The consideration of acquisition of Gaoming Huaxin at HK$15,500,000 was settled by netting off the loan receivable.

Acquisition-related costs amounting to HK$50,000 have been excluded from the consideration transferred and have been recognised as an expense for the year ended 31 December 2011, within the "administrative expenses" line item in the consolidated statement of comprehensive income.

36. ACQUISITION OF A SUBSIDIARY *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Fair value
	HK$'000
Concession intangible assets	50,923
Trade and other receivables	4,759
Bank balances and cash	166
Trade and other payables	(20,062)
Other loan	(31,777)
Deferred tax liability	(1,194)
Net assets	2,815

The fair value of trade and other receivables at the date of acquisition of HK$4,759,000 which are the same with the contractual amounts.

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	15,500
Plus: non-controlling interest (30% of Gaoming Huaxin)	840
Less: net assets acquired	(2,815)
	13,525

The non-controlling interest (30%) in Gaoming Huaxin recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Gaoming Huaxin and amounted to HK$2,815,000.

Goodwill arose in the acquisition of Gaoming Huaxin because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Gaoming Huaxin. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the acquisition is expected to be deductible for the tax purpose.

36. ACQUISITION OF A SUBSIDIARY *(Continued)*

Net cash inflow arising on acquisition:

	HK$'000
Cash consideration paid	–
Bank balances and cash acquired	166
	166

Included in the loss for the year is HK$107,000 attributable to the additional business generated by Gaoming Huaxin. Revenue for the year includes HK$1,459,000 generated from Gaoming Huaxin.

Had the acquisition been completed on 1 January 2011, total group revenue for the year would have been HK$290,660,000, loss for the year would have been HK$525,691,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Gaoming Huaxin been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes various types of borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the raise of bank and other borrowings, issuance of convertible bonds and new shares.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2011 HK$'000	2010 HK$'000
Financial assets		
– Financial assets through profit or loss	–	10,239
– Loans and receivables (including cash and cash equivalents)	**186,323**	286,599
– Available-for-sale investments	**53,959**	29,898
Financial liabilities		
– At amortised cost	**585,501**	577,577
– At fair value through profit and loss	–	95,526

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash held at financial institutions, bank balances and cash, trade and other payables, amount due to non-controlling shareholders of subsidiaries, bank borrowings, other loans, loans from an associate, convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Other than the subsidiaries established in the PRC whose functional currency is RMB, the Company and subsidiaries' functional currency is HK$. However, certain bank balances, cash held in financial institutions and other receivables are denominated in currencies other than HK$. Foreign currencies are also used to settle expenses for overseas operations.

	As at 31 December 2011		As at 31 December 2010	
	United States dollar ("USD") '000	RMB'000	USD'000	RMB'000
Assets	**280**	**14,556**	95	16,250

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Currency risk (Continued)

The Group currently does not have a foreign currency hedging policy but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of HK$ against each foreign currency while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% (2010: 5%) change in foreign currency rates.

	USD		RMB	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Increase (decrease) in loss for the year, net of tax effect				
– if HK$ weakens against foreign currencies	**(90)**	(31)	**(742)**	(801)
– if HK$ strengthens against foreign currencies	**90**	31	**742**	801

A change of 5% (2010: 5%) in exchange rate of HK$ against each foreign currency does not affect other components of equity.

In management's opinion, the sensitivity analysis is not necessarily of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan receivables, other loans, amounts due to non-controlling shareholders of subsidiaries, loan from an associate and convertible bonds (see notes 24, 29, 30, 31 and 32 for details) for the years ended 31 December 2011 and 2010. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

The Group was exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and other loans (see notes 28 and 29 for details) for the years ended 31 December 2011 and 2010. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group was also exposed to cash flow interest rate risk relates to bank balances and cash held at financial institutions carried at prevailing market rate. However, such exposure is minimal to the Group as the bank balance and cash held at financial institutions are all short-term in nature.

The Group's exposure to interest rate risk on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the fixed deposit rate as stipulated by the People's Bank of China arising from the Group's RMB borrowings.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings and other loans, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 50 basis points (2011: 50 basis points) higher / lower and all other variables were held constant, the Group's loss after tax for the year ended 31 December 2011 would increase / decrease by approximately HK$267,000 (2010: HK$275,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and other loans.

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The managements manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the needs arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% (2010: 5%) higher / lower, the investment revaluation reserve would increase / decrease by HK$2,698,000 (2010: HK$1,495,000) for the Group as a result of the changes in fair value of available-for-sale investments.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Interest rate risk *(Continued)*

Equity price risk on convertible note

The Group was required to estimate the fair value of the conversion option component of the convertible bond at each end of the reporting period which therefore exposed the Group to equity security price risk.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting dates.

If the stock price inputted to the valuation model had been 5% (2011: Nil) higher / lower while all other variables were held constant, the loss for the year ended 31 December 2010 and would increase / decrease by approximately HK$592,000/HK$2,586,000 (2011: Nil) for the Group, principally as a result of the changes in fair value of the convertible bond.

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations at end of the financial year in relation to each class of recognised financial assets in the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group has no significant credit risks on trade receivables as the Group has adopted a policy of only dealing with creditworthy counterparties. The Group only transacts with entities with good repayment history.

The Group's concentration of credit risk by geographical locations is wholly in the PRC, accounted for the entire of the total trade receivables as at 31 December 2011 and 2010.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

As at 31 December 2011, the Group had credit risk arising from available-for-sale investments as 55% (2010: Nil) of the listed securities cannot be traded in the Stock Exchange.

As at 31 December 2011, the Group had credit risk on loan receivables. The carrying amount of the loan receivables are approximately HK$70,972,000 (2010: HK$123,760,000) (net of accumulated impairment losses of HK$81,939,000 (2010: HK$5,720,000).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

For other financial assets, such as cash held at financial institutions and available-for-sale investments except for the listed securities cannot be traded in the Stock Exchange as aforementioned, the Group limited its exposure to credit risk by transacting the majority of its securities with broker-dealers and regulated exchanges with high credit rating of which the Group considered to be well established. All transactions in listed securities are settled / paid for upon delivery using approved and reputable brokers.

Liquidity risk

The Group is exposed to liquidity risk as at 31 December 2011 as its financial assets due within one year was less than its financial liabilities due within one year. The Group had net current liabilities of approximately HK$147,888,000 (2010: HK$303,574,000) as at 31 December 2011.

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 net twelve months from 31 December 2011 given that the directors of the Company will consider different sources of financing being available.

The following table details the Group's remaining contractual maturities for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is calculated by interest rate curve at the end of the reporting period.

	Overdue	On demand or within one year	More than one year but less than two years	More than two years but less than five years	More than five years	Total undiscounted cash flows	Carrying amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011							
Non-derivatives financial liabilities							
Trade and other payables	–	173,583	–	–	–	173,583	173,583
Bank borrowings and other loans	36,617	78,441	21,190	61,295	18,925	216,468	194,075
Amounts due to non-controlling shareholders of a subsidiary	–	3,059	–	–	-	3,059	3,059
Loan from an associate	–	2,757	–	–	–	2,757	2,757
Convertible bonds	–	93,410	22,699	163,891	–	280,000	212,027
	36,617	351,250	43,889	225,186	18,925	675,867	585,501

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Overdue	On demand or within one year	More than one year but less than two years	More than two years but less than five years	More than Five years	Total undiscounted cash flows	Carrying amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010							
Non-derivatives financial liabilities							
Trade and other payables	–	121,416	–	–	–	121,416	121,416
Bank borrowings and other loans	35,421	40,778	12,873	44,291	28,055	161,418	142,865
Amounts due to non-controlling shareholders of subsidiaries	–	6,216	–	–	–	6,216	6,216
Loan from an associate	–	2,419	–	–	–	2,419	2,419
Convertible bonds	–	303,104	5,251	–	–	308,355	304,661
	35,421	473,933	18,124	44,291	28,055	599,824	577,577

(c) Fair values

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions and dealer quotes for similar instruments; and

- the fair value of derivative instruments is calculated using quoted prices.

The directors of the Company consider that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.

The directors of the Company also consider that the fair value of the long-term portion of liabilities approximates to their carrying amount as the impact of discounting is not significant.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Fair value measurement recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale financial assets				
Listed equity securities	**53,959**	**–**	**–**	**53,959**

	31 December 2010			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial asset through profit and loss				
Derivative financial instruments	–	10,239	–	10,239
Available-for-sale financial assets				
Listed equity securities	29,898	–	–	29,898
Financial liabilities at FVTPL				
Convertible bonds	–	95,526	–	95,526

There was no transfers between Level 1 and 2 in current year and prior years.

39. DEEMED DISPOSAL OF A SUBSIDIARY

As disclosed in note 12, the equity interest of iMerchants owned by the Group was diluted on 4 October 2010.

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	6,871
Prepaid lease payments	2,720
Intangible assets	623,383
Inventories	328
Trade and other receivables	162,600
Bank balances and cash	2,528
Cash held at financial institutions	593
Trade and other payables	(2,293)
Tax payables	(34,200)
Other loans	(4,132)
Amount due to non-controlling shareholders of a subsidiary	(2,204)
Convertible bonds of a subsidiary	(128,631)
Net assets disposed of	627,563
Gain on deemed disposal of a subsidiary:	
Fair value of interest retained in interests in associates	308,949
Exchange reserve realised on deemed disposal	42
Net assets disposal of	(627,563)
Release of goodwill upon deemed disposal	(68,364)
Non-redeemable convertible preference shares of a subsidiary	570,096
Equity component of convertible bonds of a subsidiary	84,045
Non-controlling interests	(8,976)
Gain on deemed disposal	258,229
Net cash outflow arising on disposal:	
Cash held at financial institutions	(593)
Bank balances and cash disposed of	(2,528)
	(3,121)

The financial impact of the results and cash flow of iMerchants to the Group's turnover, loss for the year and cash flows during the year is disclosed in note 12.

40. PLEDGED OF ASSETS

(a) Assets with the following carrying amounts have been pledged to secure bank borrowings and other loans of the Group (notes 28 and 29):

	2011 HK$'000	2010 HK$'000
Prepaid lease payments	**10,473**	10,284
Property, plant and equipment	**2,156**	2,195
Concession intangible assets	**19,157**	19,240
	31,786	31,719

b) The equity interest in the wholly-owned subsidiaries of the Company including Billion City Investments Limited, Nourish Gain Investments Limited, Smart Giant Group Limited and China Ace Investment Limited were pledged for the other loan as set out in note 29.

41. CAPITAL COMMITMENT

	2011 HK$'000	2010 HK$'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

42. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years. Rental was fixed at the inception of the lease. No provision for contingent rent and terms of renewal were established in the leases.

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011 HK$'000	2010 HK$'000
Within one year	**1,442**	2,033
In the second to fifth year, inclusive	**158**	1,069
	1,600	3,102

43. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme"), became effective on 17 January 2002 for the primary purpose of providing incentives to directors and eligible employees or persons and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 8,000,000, representing 0.25% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000, within one year, must be approved in advance by the Company's shareholders.

Options granted must be taken up within twelve months of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 3 June 2011, the Company has adopted new share option scheme to replace the old share option scheme adopted on 17 January 2002. During the year ended 31 December 2011, there are no option has been granted since its adoption.

43. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

The following table discloses movements of the Company's share options held by directors and other eligible persons as below:

31 December 2011

Name or category of participant	Date of grant	Outstanding at 1 January 2011	Granted during the year	Exercised during the year	Lapsed/ Cancelled during the year	Outstanding at 31 December 2011	Exercisable period	Exercise Price per share of the Company *HK$*
Directors								
Chu Yin Yin, Georgiana	11 January 2007	**3,000,000**	**–**	**–**	**(3,000,000)**	**–**	11 January 2007 to 10 January 2017	0.335
Liu Bai Yue	17 January 2007	**5,000,000**	**–**	**–**	**(5,000,000)**	**–**	17 January 2007 to 16 January 2017	0.420
Total as at 31 December 2011		**8,000,000**	**–**	**–**	**(8,000,000)**	**–**		
Exercisable at the end of the year						**–**		
Weighted average exercise price		**0.388**	**–**	**–**	**0.388**	**–**		

43. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme *(Continued)*

31 December 2010

Name or category of participant	Date of grant	Outstanding at 1 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2010	Exercisable period	Exercise Price per share of the Company
								HK$
Directors								
Chu Yin Yin, Georgiana	11 January 2007	3,000,000	–	–	–	3,000,000	11 January 2007 to 10 January 2017	0.335
Liu Bai Yue	17 January 2007	5,000,000	–	–	–	5,000,000	17 January 2007 to 16 January 2017	0.420
		8,000,000	–	–	–	8,000,000		
Other eligible person	11 January 2007	10,000,000	–	–	(10,000,000)	–	11 January 2007 to 10 January 2017	0.35
Total as at 31 December 2010		18,000,000	–	–	(10,000,000)	8,000,000		
Exercisable at the ended of the year						8,000,000		
Weighted average exercise price		0.359	–	–	0.335	0.388		

44. MAJOR NON-CASH TRANSACTIONS

Settlement of the convertible bonds by CB1 and CB2

On 28 July 2011 and 4 August 2011, the directors of Company has instructed two Short Term Borrowers to fully settle the outstanding amount of CB1 and CB2 of HK$73,096,000 and HK$205,000,000 respectively.

Settlement of loan from short term borrowers

On 26 August 2011 and 30 September 2011, CB3 and CB4 of approximately HK$80,000,000 and HK$200,000,000 were issued to settle the loans of HK$80,000,000 and HK$200,000,000 from the Short Term Borrowers respectively.

Set off the consideration of acquisition of a subsidiary with a loan receivable

On 30 September 2011, Top Vision has disposed of 70% equity interest in Gaoming Huaxin to the Company to set off the loan receivables of approximately HK$15,500,000.

45. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries which operates in the PRC are required to participate in the CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the CPS. The contributions are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the CPS.

The total cost charged to statement of comprehensive income of approximately HK$7,777,000 (2010: HK$7,385,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

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

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.

46. LITIGATION *(Continued)*

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

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 to 14 December 2012.

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

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

47. RELATED PARTY TRANSACTIONS

The balance with related parties at the end of the reporting period is disclosed elsewhere in the consolidated financial statements.

Compensation of key management personnel

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

	2011 *HK$'000*	2010 *HK$'000*
Short-term benefits	**4,623**	3,744
Post-employment benefits	**88**	84
	4,711	3,828

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

48. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2011 and 2010, are as follows:

Name of company	Place of incorporation/ operations	Particulars of issued and paid up share capital/ registered capital	Proportion of equity interest held by the Group 2011	2010	Principal activities
Billion City Investments Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1 each	**100%**	100%	Investment holding
Super Sino Investment Limited	Hong Kong	1 ordinary share of HK$1 each	**100%**	100%	Investment holding
Danzhou Qingyuan Water Industry Company Limited*	PRC	Registered capital of HK$30,000,000	**100%**	100%	Provision of water supply
Danzhou Lian Shun Tong Water Pipe Company Limited*	PRC	Registered capital of RMB1,000,000	**100%**	100%	Provision of water supply
Onfar International Limited	BVI	100 ordinary shares of US$1 each	**100%**	100%	Investment holding
Yichun Water Industry Co., Limited*	PRC	Registered capital of RMB45,500,000	**51%**	51%	Provision of water supply
Yichun Fangke Sewage Treatment Company Limited*	PRC	Registered capital of RMB20,000,000	**51%**	51%	Sewage treatment
Yichun City Water Supply Engineering Limited*	PRC	Registered capital of RMB5,000,000	**100%**	100%	Provision of water supply
Bloom Profit Investment Limited	Hong Kong	1 ordinary share of HK$1 each	**100%**	100%	Investment holding
Anhui Dang Shan Water Industry Company Limited ("Dang Shan")*	PRC	Registered capital of RMB7,500,000	**100%**	100%	Provision of water supply
Victory Strategy Investment Limited	Hong Kong	1 ordinary share of HK$1 each	**100%**	100%	Not yet commenced business

48. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operations	Particulars of issued and paid up share capital/ registered capital	Proportion of equity interest held by the Group 2011	2010	Principal activities
Nourish Gain Investments Limited	BVI	1 ordinary share of US$1 each	**100%**	100%	Investment holding
China Ace Investment Limited	Hong Kong	1 ordinary share of HK$1 each	**100%**	100%	Investment holding
Jining City Haiyuan Water Treatment Company Limited*	PRC	Registered capital of RMB40,000,000	**70%**	70%	Sewage treatment
China Water Industry (HK) Ltd	Hong Kong	1 ordinary share of HK$1 each	**100%**	100%	Investment holding
Linyi Fenghuang Water Industry Co., Ltd*	PRC	Registered capital of RMB30,000,000	**60%**	60%	Provision of water supply
Yingtan Water Supply Co., Ltd*	PRC	Registered capital of RMB66,008,000	**51%**	51%	Provision of water supply
Jiangxi Shunda Construction Engineering Limited*	PRC	Registered capital of RMB20,500,000	**100%**	100%	Installation of water supply facilities
Smart Giant Group Limited	BVI	1 ordinary share of US$1 each	**100%**	100%	Investment holding
Blue Mountain Hong Kong Group Limited	Hong Kong	HK$1	**100%**	100%	Investment holding
Bonus Raider Investments Limited	BVI	1 ordinary share of US$1 each	**100%**	100%	Investment holding
Swift Surplus Holdings Limited	BVI	100 ordinary shares of US$1 each	**100%**	100%	Investment holding
Mark Profit Group Holdings Limited	Hong Kong	1 ordinary share of HK$1 each	**100%**	100%	Investment holding

48. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operations	Particulars of issued and paid up share capital/ registered capital	Proportion of equity interest held by the Group 2011	2010	Principal activities
Guangzhou Hyde Environmental Protection Technology Co., Ltd*	PRC	RMB10,000,000	**100%**	100%	Investment holding
Foshan City Gaoming Huaxin Sewage Treatment Company Ltd*	PRC	RMB10,000,000	**70%**	N/A	Sewage treatment
Happy Hour Limited	BVI	1 ordinary share of US$1 each	**100%**	100%	Investment holding
Mascot Industries Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Inactive
South Top Investment Limited	Hong Kong	1 ordinary share of HK$1 each	**100%**	100%	Inactive
Neutral Crown Holdings Limited	BVI	100 ordinary shares of US$1 each	**100%**	100%	Not yet commenced business

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries has issued any debt securities subsisting at the end of 2011 and 2010 or at any time during the year ended 31 December 2011 and 2010.

* The English names are for identification purpose only.

49. EVENTS AFTER THE REPORTING PERIOD

(a) Lapse of placing agreement

On 15 August 2011, the Company entered into a placing agreement (the "Placing Agreement") with Kingston Securities Limited ("Kingston Securities"), the independent third parties, pursuant to which Kingston Securities agreed amongst other things to procure not less than six placees to subscribe for up to HK$200,000,000 of the convertible bonds (the "CB 5") on a best endeavours basis by a maximum of four tranches. Assuming the CB 5 are fully placed, upon full conversion of the CB 5 at the conversion price but assuming that the capital reorganisation is not completed, a total of 2,000,000,000 shares will be issued. Details have been set out in the Company's announcement dated 18 August 2011.

On 12 January 2012, the Company confirms that the Placing Agreement will not proceed and will lapse after discussion with Kingston Securities. Details of which have been set out in the Company's announcement dated 12 January 2012.

(b) Deemed disposal of 40% interest in a subsidiary

On 10 February 2012, Super Sino and the Water Affairs Bureau of Dang Shan Country, Anhui Province, the PRC (the "Dang Shan Country Water Bureau") entered into an agreement in relation to the capital injection by Dang Shan Country Water Bureau in the amount of RMB10,000,000 to Dang Shan as its registered capital. After the deemed disposal, Dang Shan will become a non-wholly owned subsidiary of the Group with only 60% equity interest. Dang Shan will continue to be consolidated into the financial results of the Group.

Details of which have been set out in the Company's announcement dated 10 February 2012.

(c) Capital reduction

As detailed in the Company's circular made on 31 August 2011, the board of directors propose to effect the capital reduction (the "Capital Reduction") pursuant to which the par value of each of the issued ordinary shares will be reduced from HK$1.00 to HK$0.50 each by cancelling paid-up capital to the extend of HK$0.50 per issued share. The Company announced that the order confirming the Capital Reduction was granted by the Court on 6 March 2012 and the Capital Reduction became effective on 7 March 2012.

Details of which have been set out in the Company's announcement dated 7 March 2012.

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Investments in subsidiaries		**2**	2
Available-for-sale investments		**29,898**	29,898
		29,900	29,900
Current assets			
Other receivables		**100**	427
Loan receivables		**31,911**	118,399
Amounts due from subsidiaries	(a)	**856,194**	827,127
Derivative financial instruments		**–**	10,239
Cash held at financial institutions		**99**	37,724
Bank balances and cash		**6,110**	4,844
		894,414	998,760
Current liabilities			
Other payables		**1,258**	1,803
Other loan		**4,638**	–
Convertible bonds		**73,459**	397,187
		79,355	398,990
Net current assets		**815,059**	599,770
		844,959	629,670
Capital and reserves			
Share capital		**410,332**	324,765
Reserves	(b)	**296,059**	301,905
Total equity		**706,391**	626,670
Non-current liability			
Convertible bonds		**138,568**	3,000
		844,959	629,670

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(a) Amounts due from subsidiaries

The amounts are unsecured, interest-free and repayable on demand.

(b) Reserves

	Share premium HK$'000	Share options reserve HK$'000	Convertible bonds equity reserve HK$'000	Investment revaluation reserves HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010	582,441	727	–	(1,510)	(217,064)	364,594
Loss for the year	–	–	–	–	(82,878)	(82,878)
Other comprehensive expense for the year	–	–	–	(28,992)	–	(28,992)
Impairment loss recognised on available-for-sale investment	–	–	–	30,502	–	30,502
Placing of new shares *(note 33)*	4,330	–	–	–	–	4,330
Transaction cost attributable to issue of share *(note 33)*	(1,565)	–	–	–	–	(1,565)
Lapse of share option	–	(404)	–	–	404	–
Recognition of equity component of convertible bonds	–	–	15,914	–	–	15,914
At 31 December 2010 and 1 January 2011	585,206	323	15,914	–	(299,538)	301,905
Loss for the year	–	–	–	–	(93,981)	(93,981)
Placing of new shares *(note 33)*	16,547	–	–	–	–	16,547
Transaction cost attributable to issue of share *(note 33)*	(2,508)	–	–	–	–	(2,508)
Shares issued upon conversion of Convertible Bonds *(note 33)*	10,333	–	(3,045)	–	–	7,288
Effect of extinguishment of convertible bonds *(note 32)*	–	–	(12,869)	–	4,875	(7,994)
Issuance of convertible bonds *(note 32)*	–	–	75,081	–	–	75,081
Transaction cost attributable to issue of convertible bonds *(note 33)*	–	–	(279)	–	–	(279)
Lapse of share option	–	(121)	–	–	121	–
Cancellation of share option	–	(202)	–	–	202	–
At 31 December 2011	**609,578**	**–**	**74,802**	**–**	**(388,321)**	**296,059**

FIVE YEARS FINANCIAL SUMMARY

	2007 HK$'000 (restated)	2008 HK$'000	2009 HK$'000 (restated)	2010 HK$'000 (restated)	**2011** ***HK$'000***
Results					
Turnover	124,363	289,875	202,108	238,771	**284,954**
Finance costs	(2,612)	(10,280)	(11,993)	9,534	**31,948**
(Loss) profit before tax	(6,909)	65,746	(300,227)	(166,667)	**502,388**
Income tax expense	(1,414)	(6,937)	(8,448)	(10,813)	**13,425**
(Loss) profit for the year (including discontinued operations)	(11,431)	58,809	(342,485)	(149,796)	**515,813**
Discontinued operations					
(Loss) profit for the year from discontinued operations	(3,108)	–	(33,810)	27,684	**–**
Assets and liabilities					
Property, plant & equipment	54,852	129,947	103,164	97,598	**97,250**
Prepaid lease payments	10,143	76,443	42,854	40,621	**43,002**
Concession intangible assets	191,354	608,726	416,718	483,829	**520,477**
Intangible asset	–	–	915,301	–	**–**
Goodwill	77,333	383,347	250,995	142,373	**10,292**
Available-for-sale investments	–	59,519	65,040	29,898	**53,959**
Interest in associates	7,617	55,783	57,853	281,407	**37,962**
Deposits paid for acquisition of subsidiaries	567,990	–	50,901	–	**–**
Net current assets (liabilities)	132,884	(122,535)	(306,617)	(303,574)	**(147,888)**
	1,042,173	1,191,230	1,596,209	772,152	**615,054**
Share capital	189,090	189,090	270,638	324,765	**410,332**
Reserves	342,781	326,989	190,659	124,128	**(307,016)**
Non-redeemable convertible preference shares of a subsidiary	–	–	587,696	–	**–**
Equity component of convertible bonds of a subsidiary	–	–	84,045	–	**–**
Non-controlling interests	86,536	194,862	210,496	179,164	**200,355**
Bank borrowing due after one year	32,017	27,076	23,909	21,253	**18,309**
Other loans – due after one year	938	45,940	44,902	47,487	**70,686**
Loans from a minority shareholder	11,738	3,384	–	–	**–**
Amount due to minority shareholder of subsidiaries	–	81,427	–	–	**–**
Convertible bonds	326,872	262,335	–	3,000	**138,568**
Convertible bonds of a subsidiary	–	–	118,427	–	**–**
Government grants	50,787	55,763	60,040	64,074	**71,345**
Deferred tax liabilities	1,414	4,364	5,397	8,281	**12,475**
	1,042,173	1,191,230	1,596,209	772,152	**615,054**
Earnings (loss) per share					
Basic	(1.26 cents)	(2.32 cents)	(15.68 cents)	(32.72 cents)	**(136.64 cents)**
Diluted	(4.17 cents)	(0.91 cents)	(15.68 cents)	(32.72 cents)	**(136.64 cents)**