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

Annual Report 2012

* *For identification purpose only*

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang De Yin *(Chairman and Chief Executive Officer)*
Mr. Lin Yue Hui
Mr. Liu Feng
Ms. Chu Yin Yin, Georgiana
Ms. Deng Xiao Ting (Appointed on 19 July 2012)
Mr. Tang Hui Ping, Paul (Resigned on 19 July 2012)
Mr. Yang Bin (Resigned on 23 April 2012)

Independent Non-Executive Directors

Mr. Guo Chao Tian (Appointed on 15 June 2012)
Mr. Li Jian Jun (Appointed on 28 September 2012)
Mr. Wong Siu Keung, Joe
(Appointed on 10 October 2012)
Mr. Chang Kin Man (Resigned on 10 October 2012)
Mr. Wu Tak Lung (Resigned on 28 September 2012)
Mr. Gu Wen Xuan (Resigned on 15 June 2012)

AUDIT COMMITTEE

Mr. Wong Siu Keung, Joe *(Chairman)*
(Appointed on 10 October 2012)
Mr. Li Jian Jun (Appointed on 28 September 2012)
Mr. Guo Chao Tian (Appointed on 15 June 2012)
Mr. Chang Kin Man (Resigned on 10 October 2012)
Mr. Wu Tak Lung (Resigned on 28 September 2012)
Mr. Gu Wen Xuan (Resigned on 15 June 2012)

REMUNERATION COMMITTEE

Mr. Wong Siu Keung, Joe *(Chairman)*
(Appointed on 10 October 2012)
Mr. Li Jian Jun (Appointed on 28 September 2012)
Mr. Liu Feng
Mr. Chang Kin Man (Resigned on 10 October 2012)
Mr. Wu Tak Lung (Resigned on 28 September 2012)

NOMINATION COMMITTEE

Mr. Wang De Yin *(Chairman)*
Mr. Wong Siu Keung, Joe
(Appointed on 10 October 2012)
Mr. Li Jian Jun (Appointed on 28 September 2012)
Mr. Chang Kin Man (Resigned on 10 October 2012)
Mr. Wu Tak Lung (Resigned on 28 September 2012)

INVESTMENT COMMITTEE

Mr. Wang De Yin *(Chairman)*
Mr. Liu Feng
Mr. Tang Hui Ping, Paul
Mr. Lin Yue Hui (Appointed on 23 April 2012)
Mr. Liu Hui Quan (Appointed on 18 September 2012)
Mr. Yang Bin (Resigned on 23 April 2012)
Mr. Chang Kin Man (Resigned on 13 April 2012)
Mr. Liu Peng Cheng (Appointed on 13 April 2012)
(Resigned on 18 September 2012)

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
Reed Smith Richards Butler
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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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
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STOCK CODE

1129

The year 2012 was not only a crucial year to the Group, but also a year of remarkable achievements. Over the past year, we successfully tackled a number of issues in the past and achieved profitability of the Group as a whole, accomplishing the turnaround objective set at the beginning of the year.

In 2012, we fully settled the historical debts of Danzhou Qingyuan Water Industry Company Limited* ("Danzhou Qingyuan"). While improving the water supply service in Danzhou, our Group successfully entered into repayment agreements with creditors including the Agricultural Bank of China. Not only did we enjoy greater debt reductions, the key financials of Danzhou Qingyuan were significantly improved with the strong support from the government of Danzhou. In 2012, Danzhou Qingyuan was granted to have government loans reductions of HK$30 million.

In 2012, we successfully restructured Anhui Dang Shan Water Industry Company Limited* ("Dang Shan") from a wholly owned subsidiary to a joint venture through introducing the state-owned company under the county government of Danshan. With the government support, our operating conditions were greatly improved.

In 2012, the Company completed the conversion of convertible bonds into shares and the placing of 220 million new shares for cash and the quality of the Company's assets was significantly enhanced.

In addition to strengthening our principal businesses, we also actively expanded into new businesses. We successfully entered into a number of water investment framework agreements. In particular, in 2013, the Company will officially expand into the solid waste processing industry and be engaged in the waste power generation business. Waste power generation is beneficial to both the nation and its people and accordingly receives great support from the PRC government. Not only can we enjoy the power grid subsidy for clean energy from the PRC government, we can also sell our carbon credits to the European Union. Accordingly, our waste power generation segment may be a new profit growth point for the Company.

Our three-year growth plans formulated by our new management at the end of 2011 are:

2012 Restructuring and consolidation to strengthen management and maintain profitability

2013 Expansion in terms of size and reach to increase effectiveness and maintain growth

2014 Innovation and synergy for brand building and sustainability

In 2012, we successfully accomplished our stated objectives and solved a lot of issues to improve the Group's management system and achieve a business turnaround. In 2013, our objective is to maintain profitability and achieve considerable growth. To us, the year 2013 is a year of investment. We have to invest in a number of new sizable water companies and waste power generation companies to expand our current operation scale.

As our subsidiaries have not adjusted water rates for many years, our water supply companies will raise water rates in 2013. Given the fixed costs of water supply, there will be an increase in profits directly after the raise in water rates. Accordingly, profitability from water supply companies is expected to increase in 2013.

After more than a year's restructuring, the Board has decided to remain its focus on investing in water affairs (city water supply and sewage processing and sewage) for future development. We will actively explore our new business in the solid waste industry (being waste power generation and sludge processing). Given the BOT operating model of the industry, it has very promising prospects.

The scarcity in water resources and people's higher demands for environmental protection both present new opportunities for our future development. Our future development is also driven by the PRC government's stringent water resources management policies and its strong support for clean energy. Accordingly, we have strong confidence in the future growth of our Company.

Lastly, on behalf of the Board of Directors and management, I wish to express my gratitude to all shareholders, investors, and business partners for their continued trust and support. I would also like to thank the local government for its support to our subsidiaries, as well as the staff members of the Group for their valuable contributions. I look forward to continuing working hand-in-hand with all of us for mutual advancement.

Our mission is to gain the trust from government, confidence from the public, recognition from shareholders and dedication from staff.

Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 27 March 2013

FINANCIAL REVIEW

Financial Results

The Group recorded a consolidated net profit of HK$45.92 million for the year ended 31 December 2012 as compared to a consolidated net loss of HK$515.81 million recorded in the year of 2011. The board of directors ("Board") considered that the turnaround of the Group's result was mainly attributable to the following factors:

- improvement of gross profit by HK$20.19 million mainly from construction services for water supply,
- recovery of impairment loss of HK$16.81 million on loan receivables,
- waiver of loan interests of HK$4.22 million by lender,
- waiver of the government loan and underlying interest in the aggregate amount of HK$37.77 million granted by Hainan Finance Bureau and Danzhou Finance Bureau in PRC (collectively referred to as the "Finance Bureau"),
- loan interest income of HK$19.76 million received from loan receivables,
- the following major non-recurrence losses and impairment losses in the aggregate amount of HK$358.10 million recognized in 2011 which were not provided in 2012:
  - HK$146.30 million on the loss on deemed partial disposal of an associate,
  - HK$145.61 million on impairment loss recognized on goodwill,
  - HK$33.54 million on impairment loss recognized on an associate,
  - HK$32.65 million on the loss on reclassification from an associate to available-for-sale investments,
- substantial decrease in the following impairment losses by HK$126.19 million:
  - HK$74.93 million on recognized on trade and other receivables,
  - HK$30.87 million on recognized on concession intangible assets,
  - HK$20.39 million on recognized on property, plant and equipment.

Revenue and Gross Profit

For the year ended 31 December 2012, the Group achieved a continuing growth in revenue and gross profit, which amounted to HK$327.89 million and HK$129.99 million respectively. This represented a growth of 15.07% in revenue and 18.39% 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 71.94% of the consolidated revenue and 80.38% of gross profit respectively. The financial analysis of revenue and gross profit is as follows:

	Revenue				**Gross Profit**			
	2012		2011		**2012**		2011	
	HK$'M	***%***	*HK$'M*	*%*	***HK$'M***	***%***	*HK$'M*	*%*
Water supply services	**118.90**	**36.26%**	103.75	36.41%	**43.71**	**33.63%**	37.42	34.08%
Sewage treatment services	**38.00**	**11.59%**	27.37	9.61%	**14.68**	**11.29%**	10.56	9.62%
Construction services	**170.98**	**52.15%**	153.83	53.98%	**71.59**	**55.08%**	61.81	56.30%
Total	**327.88**		284.95		**129.98**		109.79	

Other Operating Income

Other operating income increased by HK$74.95 million to HK$80.75 million (2011: HK$5.80 million). The increase was mainly due to:

(i) Waiver of the government loan and underlying interest of HK$37.77 million granted by the Finance Bureau

In accordance with the official documents issued by the Finance Bureau on 5 May 2011 and 21 December 2012, it was confirmed to waive the loan principal of approximately RMB29.24 million (HK$36.06 million) and accrued interest of approximately RMB1.40 million (HK$1.71 million) during the year ended 31 December 2012 for the purposes of building the water supply facilities. Waiver of the aforesaid government loan and underlying interest were recognized as other income for the year ended 31 December 2012.

(ii) Loan interest income of HK$19.76 million from loan receivables

In 2011, 江西省順大建築安裝工程有限公司 ("Jiangxi Shunda"), an indirect non-wholly owned subsidiary of the Company, entered into 3 agreements: (i) a loan agreement for RMB20 million, (ii) an investment agreement for RMB12 million and (iii) an investment agreement for RMB13 million with 貴溪市恒大房地產開發有限公司 ("Guixi Hengda"), 江西建工第一建築有限責任公司 ("Jiangxi Jiangong") and 鷹潭市綠城房地產開發公司 – 184項目 ("Green Town China") respectively. The interest rates for the loan and two investment agreements were at 20%, 25% and 25% per annum respectively. During the year, Guixi Hengda, Jiangxi Jiangong and Green Town China had fully settled the loan receivables and interest accrued thereon.

(iii) Waiver of loan interests of HK$4.22 million by Mr. Tan Chin Ang ("Mr. Tan")

On 29 June 2012, the Group entered into a settlement agreement with Mr. Tan, pursuant to which, the Group settled the principal during the year ended 31 December 2012. According to the settlement agreement, Mr. Tan agreed to waive the accrued interest of RMB3.42 million (HK$4.22 million) and the relevant pledged assets were then released.

(iv) Consultancy fee of HK$7.38 million received from a project developer

(v) Miscellaneous items of HK$5.82 million

Reversal of impairment loss recognized on trade and other receivables

The reversal of impairment losses of HK$16.81 million comprised HK$14.39 million on loan receivables and HK$2.42 million on trade receivables (2011: Nil). In 2011, the Group had issued several legal demand letters for the collection of debts from the respective borrowers. Despite the Group several requests and demands, borrowers defaulted in the repayment of loans as and when they fell due. Impairment loss in respect of loan receivables had been provided in 2011. During the year, the respective borrowers had repaid in total of HK$14.39 million to settle the outstanding amounts together with the accrued interest thereon. In addition, the Group had chased back HK$2.42 million from trade receivables which had been provided impairment loss in previous years. Accordingly, the relevant impairment losses were recovered and recorded as an income in 2012.

Selling and Distribution Costs and Administrative Expenses

Selling and distribution costs together with administrative expenses were collectively increased by HK$11.22 million to HK$94.80 million (2011: HK$83.58 million). The increase was mainly due to increment of PRC staff salaries and related benefits, the newly established branch office in Shenzhen and loss on disposal of shares of China Energy Holdings Limited ("China Energy") (Stock Code: 8009) which shares are listed on the Growth Enterprise Market of the Stock Exchange. These expenses mainly consisted of staff cost of HK$49.94 million, legal and professional fee of HK$3.79 million, repair and maintenance of HK$3.91 million and depreciation of HK$5.26 million.

Finance Costs

Finance costs of the Group were HK$31.74 million (2011: HK$31.95 million), which was at similar level comparing with the year of 2011. The finance costs were mainly contributed by the imputed interest charged on convertible notes of HK$20.90 million, the bank interest of HK$7.47 million and the interest of HK$3.23 million on other loans. The imputed interest charged on convertible notes issued by the Company in 2011 was an accounting treatment which did not affect the actual cashflow of the Group.

Impairment loss recognized on other receivables

Impairment loss of HK$4.36 million was mainly provided for (i) unutilized cash coupons of HK$1.71 million issued by Sing Pao Daily Newspaper Company Limited for the settlement of loan borrowed by SMI Publishing Group Limited which will be expired in March 2013; (ii) loan receivables of HK$2.65 million advanced to independent third parties. The Board had assessed the loan receivables of HK$2.65 million and believed that the Company will have difficulties in recovering the loans and thus the associated impairment loss was provided.

Impairment loss recognized on concession intangible assets

The impairment loss of HK$6.12 million was provided for Yichun Fangke Sewage Treatment Company Limited*. 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 amount in using the concession intangible assets less than its respective carrying amount.

Share of results from associates

The Group had two associated companies, which held 35% equity interests in Jinan Hongquan Water Production Co. Ltd. ("Jinan Hongquan") and 10% equity interests in Yu Jiang Hui Min Small Sum Loan Company Limited* ("Yu Jiang Hui Min"). As at 31 December 2012, the Group shared the loss of HK$6.05 million from Jinan Hongquan and the profit of HK$0.19 million from Yu Jiang Hui Min (2011: loss of HK$22.07 million).

Income tax

The income tax had increased substantially by HK$22.57 million to HK$36 million (2011: HK$13.43 million). Certain subsidiaries in the PRC enjoyed the tax concession benefits for the exemption to pay PRC income tax for two years from the first profit making year, followed by a 50% reduction for next three years. During the year, the PRC standard income tax rate was at 25%. The increase in income tax was due to the expiration of the full tax exemption and as a result, certain subsidiaries in PRC had started to pay the PRC income tax and the loan interests received from loan receivables are also subject to PRC income tax.

Profit attributable to Equity Holders

For the year ended 31 December 2012, profit attributable to equity holders of the Company was approximately HK$22.02 million (2011: loss approximately HK$531.53 million.), an increase of HK$553.55 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy liquidity position during the year. As at 31 December 2012, the Group recorded cash and bank balance including cash held at financial institutions of HK$239.25 million (compared with HK$91.83 million on 31 December 2011). The increase was mainly due to (i) fund raising through two placing activities amount to HK$108 million and (ii) loan and loan interest in aggregate amount of HK$96.46 million received from borrowers. Also, 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 2012 were HK$534.88 million (compared with HK$721.55 million on 31 December 2011). The decrease was mainly due to CB holders being converted HK$280 million of CB into shares. Total liabilities mainly comprised of bank and other borrowings of HK$169.53 million (2011: HK$194.08 million), government grants of HK$90.32 million (2011: HK$71.35 million) and trade and other payable of HK$206.99 million (2011: HK$215.64 million). Total liabilities were mainly denominated in Renminbi and the interest rates of which were fixed.

The Group's gearing ratio as at 31 December 2012 was 43.16% (2011: 70.38%). The ratio was calculated by dividing total liabilities of HK$534.88 million over total assets of the Group of HK$1,239.43 million.

At as 31 December 2012, the Group had net current assets of HK$60.58 million (2011: net current liabilities of HK$147.89 million). Improved of the current liquidity position of the Company was mainly attributable to the whole CB amounts being converted into shares which was lessen liabilities pressure of the Group.

TRADE AND OTHER RECEIVABLES

As at 31 December 2012, the Group's trade and other receivables were approximately HK$89.11 million (31 December 2011: HK$96.39 million). Included in the trade and other receivables comprised: (i) trade receivables of HK$21.71 million, (ii) other receivables of HK$4.20 million, (iii) loan receivables of HK$28 million, and (iv) deposits and prepayments of HK$35.20 million. During the year, the trade receivables increased by HK$9.16 million to HK$21.71 million (2011: HK$12.56 million). This increase was mainly due to the increase of operating activities in the construction services business. The average trade receivables turnover days as at 31 December 2012 totaled 32 days (2011: 27 days). The Group allows an average credit period of 30 days to 180 days to its customers. The average trade receivables days was within the credit periods of the Group grants to its customers. The deposits and prepayments increased by HK$33.30 million to HK$35.20 million (2011:HK$1.90 million), which was mainly contributed by the tender deposit of approximately HK$29.60 million paid by Jiangxi Shunda. The loan receivables decreased substantially by HK$42.97 million to HK$28 million (2011: HK$70.97 million) due to the certain loans being settled by respective borrowers.

TRADE AND OTHER PAYABLES

As at 31 December 2012, the Group's trade and other payables were approximately HK$206.99 million (31 December 2011: HK$215.64 million). The credit terms of trade payables vary according to the terms agreed with different suppliers.

SHARE CAPITAL

As at 31 December 2012, Company's share capital amounted to approximately HK$555.17 million (31 December 2011: HK$410.33 million). On 6 March 2012, the Grand Court of Cayman Islands approved the par value of every issued share of the Company to be reduced from HK$1.00 to HK$0.50 (the "Capital Reduction"). Immediately following the effective of the Capital Reduction, the value of the total issued share capital of the Company reduced from HK$410.33 million to HK$205.17 million. Subsequent to the interim period, the holders of the Convertible Notes I and Convertible Notes II exercised their rights to convert HK$80 million and HK$200 million of convertible notes into 480,000,000 conversion shares at HK$0.50 per shares. On 27 July 2012 and on 14 December 2012, the Company had through two placing activities issued 82,000,000 new shares and 138,000,000 new shares to independent third parties respectively. Since the event of the Capital Reduction, the Company had issued in total 700,00,000 new shares and resulted in an additional HK$350 million of new issued share capital to the Share Capital of the Company.

SHARE PREMIUM AND RESERVES

The Company's share premium and reserves amounted to approximately HK$80.17 million (31 December 2011: HK$307.02 million). The significant decrease was mainly due to the accumulated loss of the Company being set off by: (i) the Capital Reduction of HK$205.17 million and, (ii) the share premium reduction of HK$191.52 million. The treatment of the share premium reduction was to utilize the share premium account to set off the accumulated losses of the Company, which was approved by the shareholders of the Company at the annual general meeting ("AGM") on 15 June 2012.

CAPITAL RAISING AND USE OF PROCEEDS

On 27 July 2012, the Company entered into a placing agreement with Kingston Securities Limited ("Placing Agent"), pursuant to which, the Company had through Placing Agent to place out 82,000,000 new ordinary share at placing price of HK$0.50 each to independent third parties. The placing of new shares was completed on 14 August 2012. The net proceed of HK$39.50 million was raised and used as working capital of the Group.

On 14 December 2012, the Company entered into the top-up placing and subscription agreement with existing shareholder and Placing Agent, pursuant to which, the Company had through Placing Agent to place out 138,000,000 new ordinary shares at placing price of HK$0.51 each to independent third parties. The transactions for top-up placing and placing of new shares were completed on 19 December 2012 and 27 December 2012 respectively. The net proceed of HK$68.50 million was raised. Approximate 80% and 20% will be used for future business development and general working capital of the Group respectively.

During the year, the Group incurred capital expenditures amounting to HK$31.01 million (2011: HK$54.27 million) for acquisition of concession intangible assets.

BUSINESS SEGMENTS REVIEW

Water supply business

Group's water supply business consisted of 6 water supply plants which are 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$118.90 million, representing 36.26% of the Group's total revenue. The price of water supply ranged from HK$1.55 to HK$2.36 per tonne.

Sewage treatment business

Sewage treatment business consisted of 3 sewage treatment plants which are located in Jiangxi Province, Shandong Province and Foshan City, Guangdong Province. The daily disposal sewage capacities were approximately 130,000 tonnes per day contributing revenue of HK$38 million, representing 11.59% of the Group's total revenue. The price of sewage treatment ranged from HK$0.68 to HK$1.60 per tonne. The new sewage treatment plant located in Gaoming, Foshan City, Guangdong Province, the PRC contributed revenue of HK$8.77 million and gross profit HK$6.07 million to the Group for the year under review.

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$170.98 million during the year, representing 52.15% of the Group's total revenue.

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 ("Liquidator"), 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. On 11 August 2012, the Liquidator also advised that they are in the course of preparing the application of the validation order. As at 11 August 2012, the Liquidator advised that the amount of the said validation order should be within HK$0.4 million. On 9 March 2013, the Liquidator advised that the said application of the validation order will not be pursued as there is no benefit to the creditors for taking further action on the same. The Liquidator also advised that, as a consequence, there will be no further outstanding assets to be handled and the Liquidator will proceed to make an application to the court for his release. 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 of the Group.

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

On 6 November 2007, the People's Government of Danzhou and Super Sino Investment Limited ("Super Sino") entered into an assets and liabilities transfer agreement, pursuant to which the assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) ("Danzhou City Water") were transferred to Super Sino. On 26 June 2008, Agricultural Bank of China Danzhou Branch ("ABC Bank") instituted proceedings with the First Intermediate People's Court of Hainan Province against Danzhou City Water, 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 underlying interest thereon repayable by Danzhou City Water and Super Sino. 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 ABC Bank 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 ("Court") issued verdict, pursuant to which all the shares of Danzhou Qingyuan (formerly known as Danzhou City Water) owned by Super Sino (the "Shares") have been frozen from 15 December 2010 to 14 December 2012. On 6 December 2012, the court issued another verdict, pursuant to which the frozen period has been further extended to 14 December 2013. 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 Qingyuan due to the following reasons:

(1) Super Sino is still the legal owner of Danzhou Qingyuan during the period ended 30 June 2012 and up to 14 December 2012.

(2) As Danzhou Qingyuan 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.

On 28 December 2012, the Group entered into a settlement agreement ("Settlement Agreement 1") with ABC Bank, pursuant to which, ABC Bank conditionally agreed to waive interest payment of approximately RMB60.62 million (HK$74.76 million) and release the pledged assets if the Group could fulfilled the following conditions:

(1) the Group has to settle the principal of RMB15 million (HK$18.5 million) and the litigation costs of RMB0.49 million (HK$0.61 million) on or before 31 December 2012; and

(2) the Group has to settle the principal of RMB11 million (HK$13.57 million) and interest payables of RMB4,890,000 (HK$6.03 million) on or before 31 December 2013.

On 28 January 2013, the Group further entered into a supplemental settlement agreement ("Settlement Agreement 2") with ABC Bank, pursuant to which, it abolished the conditions stated in Settlement Agreement 1. According to Settlement Agreement 2, ABC Bank agreed to waive interest payment and release the pledged assets once the Group settle the aggregate amount of principal and interest payable of approximately RMB31.38 million (HK$38,702,000) on or before 30 June 2013. On 31 January 2013, the Company had followed the instruction of ABC Bank to transmit the aforesaid amount to the designed account for the settlement of all outstanding debts. Upon the effective of the waiver of interest payment of RMB60.62 (equivalent to amount of HK$74.76 million), the Company is expected to record an income from this extraordinary item and have positive impacts to the financial position of the Company in 2013.

The directors of the Company are of the view that the aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

(iii) Guangzhou Hyde Environmental Protection Technology Co., Ltd., an indirect wholly-owned subsidiary of the Company

Guangzhou Hyde Environmental Protection Technology Co. Ltd* (廣州市海德環保科技有限公司) ("Guangzhou Hyde") (an indirect wholly-owned subsidiary of the Company) and Yunnan Chaoyue Gas Company Limited (雲南超越燃氣有限公司) ("Yunnan Chaoyue Gas") entered into the cooperation contract dated 13 October 2010, pursuant to which Guangzhou Hyde shall paid a refundable deposit of HK$10 million ("Deposit") to Yunnan Chaoyue Gas for the purpose of obtaining the operation and management right of the Yunnan Dian Lake project ("Project"). Pursuant to the cooperation contract, Yunnan Chaoyue Gas shall refund the Deposit to Guangzhou Hyde within nine months once it was unsuccessfully to obtain the Project. Yunnan Chaoyue Gas has failed to repay the aforesaid Deposit to Guangzhou Hyde when it fell due despite Guangzhou Hyde's repeated requests and demands. The Deposit was classified as loan receivable and fully impaired in 2011.

The dispute over cooperative contract between Guangzhou Hyde and Yunnan Chaoyue Gas was applied to Guangzhou Arbitration Commission ("Commission") for arbitration on 24 February 2012. The Commission accepted the case and started a trail on 5 June 2012. After the trail, arbitration tribunal ruled an award on 12 June 2012, adjudging that:

(1) Yunnan Chaoyue Gas should pay Guangzhou Hyde the principal of RMB8.56 million and overdue interests thereon.

(2) The arbitration fees of RMB75,347 for this case should be borne by Yunnan Chaoyue Gas.

The above award confirmed the amount to be paid by Yunnan Chaoyue Gas to Guangzhou Hyde should be settled in one-off manner within 10 days from the date on which this award is served. Late payment will result in proceedings set out in article 229 of Civil Procedure Laws of the People's Republic of China. As Yunnan Chaoyue Gas has not performed repayment obligation under the award on time, Guangzhou Hyde applied to Kunming Intermediate People's Court for civil enforcement on 21 July 2012, and Kunming Intermediate People's Court has accepted such application. At present, this case is in the process of execution by Kunming Intermediate People's Court. The aforesaid litigation is unlikely to have any significant material adverse financial impact on the Group.

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

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Lapse of placing of convertible notes

On 15 August 2011, the Company entered into the Placing Agreement ("Placing") with 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 endeavors basis. 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. The directors of the Company are of the view that the lapse of the Placing Agreement would not cause any negative impact to the operation and financial position of the Company.

Deemed disposal of 40% interest in a subsidiary

On 10 February 2012, Super Sino 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 Ltd* (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 become a non-wholly owned subsidiary of the Group with only 60% equity interest. The financial results of Dang Shan will still continue to be consolidated into the financial results of the Group. Up to the report date, the transaction has not been completed.

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 on 6 March 2012 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 total authorized share capital 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. After the effective of Capital Reduction, the conversion price of HK$80 million ("Convertible Notes I") was remain unchanged at HK$1.00 per conversion share whereas the conversion price of HK$200 million zero interest Convertible Notes due 2014 ("Convertible Notes II") was adjusted from HK$1.00 per conversion share to HK$0.50 per conversion share, pursuant to the Subscription Agreement I in respect of Convertible Notes I and the Subscription Agreement II in respect of Convertible Notes II respectively.

Conversion of Convertible Notes I and II into Shares

On 29 June 2012, Honghu Capital Co. Ltd. ("Honghu") had converted HK$80,000,000 of Convertible Notes I into 80,000,000 Shares at the conversion price of HK$1.00 per conversion share, representing approximately 16.32% of its enlarged issued share capital of Company. Following such conversion, Honghu becomes a substantial shareholder of the Company.

On 16 October 2012, Honghu had converted HK$60,000,000 of Convertible Notes II into 120,000,000 Shares at the conversion price of HK$0.50, which shall be the par value of the Shares pursuant to the Subscription Agreement II. Following such conversion and the conversion of Convertible Notes I on 29 June 2012, Honghu is interested in 200,000,000 Shares, representing approximately 28.89% of the enlarged issued share capital of the Company.

On 6 November 2012, Honghu had converted its remaining HK$40,000,000 of Convertible Notes II (the "Remaining CN II") into 80,000,000 Shares at the conversion price of HK$0.50. Following previous conversion of Convertible Notes I on 29 June 2012, partial conversion of Convertible Notes II on 16 October 2012 and the conversion of the Remaining CN II, Honghu is interested in 280,000,000 Shares, representing approximately 28.80% of the enlarged issued share capital of the Company.

On the other hand, on 30 October 2012, the Board was notified by Honghu that it had sold HK$100,000,000 of Convertible Notes II (the "Transferred CN II") to seven Independent Third Parties. The Transferred CN II were fully converted into 200,000,000 Shares at the conversion price of HK$0.50 on 2 November 2012.

Following the Convertible Notes I and Convertible Notes II being fully converted into shares, the Company did not have any outstanding of CB.

Termination of acquisition of the Sale Interests

Pursuant to Sales and Purchase Agreement dated 1 December 2010 and the supplemental agreement dated 7 December 2011, the acquisition of the Sale Interests relating to 70% of the registered capital of 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"), 100% of the registered capital of Sihui City South China Waterworks Development Co., Ltd.* (四會市華南水務發展有限公司) ("Sihui South China"), and 100% interest of Boluo Da Xin Sewage Treatment Company Ltd.* (博羅達信污水處理有限公司) ("Boluo Da Xin"), is subject to the fulfillment of the conditions precedent on or before 30 June 2012. The acquisition of 70% of the entire equity interests in Gaoming Huaxin had been completed on 30 September 2011. Based on the recent due diligence findings by the Company's PRC legal adviser, it revealed that there are contingent encumbrances on the equity interests in Sihui South China and the operation right of Boluo Da Xin. On the advice of the PRC legal adviser, the Company determined not to proceed the acquisition of Sihui South China and Boluo Da Xin (the "Remaining Acquisition") and to demand repayment of the outstanding amount owing from Top Vision Management Limited ("Top Vision"). On 21 August, 2012, Mark Profit Group Holdings Limited ("Mark Profit"), an indirect wholly-owned subsidiary of the Company ("Purchaser") entered into the Deed of Termination relating to the termination of the Remaining Acquisition with Top Vision ("Vendor A"), Da Xin Waterworks Management (Huizhou) Co., Ltd. ("Vendor B") and Mr. Yang Wei Hua. The directors of the Company are of view that the termination will not cause any material adverse impact on the existing business of the Group.

Repayment of payment in advance

Pursuant to a deed dated 31 March 2011, the Vendor A and owner of 30% of Gaoming Huaxin undertaken and warranted to Purchaser the compensation of payment in advance of RMB8 million (the "Payment in Advance"). The Payment in Advance had been stated as a bad debt in the Gaoming Huaxin management accounts. On 21 August 2012, Vendor A and Purchaser entered into a supplemental deed and agreed the Payment in Advance to be repaid to the Purchaser on or before 30 December 2013. Upon the repayment of aforesaid Payment in Advance, the bad debts would be recovered. This recovery would be brought a positive financial impact to the Group.

MAJOR EVENTS SUBSEQUENT TO THE YEAR UNDER REVIEW

Repayment agreement and supplemental deeds relating to loan receivables

On 21 August 2012, the Company and its subsidiary of Swift Surplus Holdings Limited ("Swift Surplus") (collectively as the "Lenders") entered into repayment agreements (the "Repayment Agreements") with the Sihui Sewage Treatment Co. Ltd.* (四會市城市污水處理有限公司) and Vendor A (collectively as the "Borrowers") together with their respective guarantors, pursuant to which, the Borrowers shall repay to the Lenders the loan receivables of approximately HK$58.43 million together with interest accrued thereon (the "Loan Receivables"). HK$5 million of the Loan Receivables will be repaid on or before 30 September 2012 and the remaining Loan Receivables shall be repaid on or before 31 December 2012. On 29 August 2012, the Company only received HK$5 million of the Loan Receivables. However, the Remaining Loan Receivables of HK$53.43 and underlying interests were not yet received on 31 December 2012. On 22 March 2013, the Lenders have entered into supplemental deeds with the Borrowers together with their respective guarantors, pursuant to which, approximately HK$18.03 million of the Remaining Loan Receivables and underlying interests shall be repaid to the Company or Purchaser on or before 21 March 2014 (the "Partial Payment of the Remaining Loan Receivables"). Nevertheless, the Company and Vendor A and its guarantors could not reach an agreement in respect of the terms and date of the repayment of the outstanding balance of HK$35.40 million of the Remaining Loan Receivables and underlying interests (the "Outstanding Balance"). For the financial year ended 31 December 2010 and 31 December 2011, impairment loss of approximately HK$21.32 million regarding the Loan Receivables have been provided. The Board does not consider to provide a further impairment loss regarding to the Outstanding Balance for the financial year ended 31 December 2012 as the Board believes that the Outstanding Balance could be received through legal actions to or/and further negotiations with Vendor A and therefore no material adverse financial impact to the Group is expected.

Issued a statutory demand against BIHL

On 20 August 2012, the Company instructed its legal counsel to issue a statutory demand letter ("Demand Letter 1") to the borrower, Birmingham International Holdings Limited ("BIHL") whose shares with the stock code 2309 are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). After various rounds of negotiations, an in-principle agreement was reached on 11 September 2012 on the terms and conditions of the CB (subject to the parties' execution of formal documentation). As part of the parties' agreement, the Company withdrew the Demand Letter 1 on the same day. In December 2012, BIHL informed the Company that it was in discussions with various buyers for the Birmingham City Football Club plc, ("Intended Sales") and proposed that upon completion of the said Intended Sale, BIHL would repay the loan due to the Company. In light of this, the Company agreed to consider withholding steps to enforce its claim whilst BIHL is in discussions for the Intended Sale, but in any event the said to withhold action would only be until 14 March 2013. As the debt remains outstanding after 14 March 2013, the Company instructed its legal counsel to issue a fresh Demand Letter ("Demand Letter 2") to BIHL on 25 March 2013. The updated outstanding indebtedness up to the date of Demand Letter 2, BIHL owes the Company in the aggregate amount of approximately HK$50.69 million ("Loans"). If BIHL fails to make the repayment of the Loans to the Company within 21 days from the date of receipt of this Demand Letter 2, the Company would consider to petition for the winding up of BIHL. Up to the report date, there is neither legal proceedings initiated against BIHL nor settlement proposal for repayment of loans reached between the Company and BIHL. The directors of the Company believe that there is no material adverse financial impact to the Group as approximately HK$40.75 million of the BIHL Loans was impaired in 2011.

Disposal of shares of Chinese Energy Holdings Limited

On 18 December 2012 and 30 January 2013, Bonus Raider Investments Limited ("Bonus Raider"), a wholly owned subsidiary of the Company, had through Astrum Capital Management Limited ("Agent") to sell 96,244,700 Shares in total of Chinese Energy to 4 independent third parties at cash consideration of HK$21.41 million. This proceed of the disposal was intended to be applied as general working capital and business developments of the Group. Immediately after the completion of the Disposals, the Group was not have any interests in Chinese Energy Shares.

Acquisition of subsidiary

On 21 February 2013, the Company entered into a framework agreement with 廣東新科迪環保科技有限公司 (Guangdong Sincody Science Technology Co. Ltd*) ("Vendor") for the purpose of acquiring 51% of the entire equity interest of 東莞市科迪環保科技有限公司 (Dongguan Kedi Environment Protection Science and Technology Co., Ltd*) ("Target Company") at a consideration not more than RMB40.80 million. The acquisition will be proceeded once the Vendor injects all assets and liabilities of the power plant into the Target Company and have satisfied the requirement of due diligence investigation. The power plant generates power by burning biogas from garbage landfill and has been planned to commence power generation in February 2013. Up to the report date, the power plant has not been injected into the Target Company and no formal agreement for acquisition has been signed by the relevant parties.

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.

CAPITAL COMMITMENTS

As at 31 December 2012, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK$5.7 million (2011: HK$19.90 million).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: Nil).

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$86.65 million in total as at 31 December 2012 (2011: HK$100.47 million) were secured by:

i. Charges over property, plant and equipment in which their carrying amount was HK$2.15 million (2011: HK$2.20 million);

ii. Charges over prepaid lease payments in relation to land use right in which their aggregate carrying amount was HK$10.42 million (2011: HK$10.47 million); and

iii. Charges over concession intangible assets in relation to exclusive operating rights for provision of water supply and sewage treatment service to the public users in which their aggregate carrying amount was HK$18.44 million (2011: HK$19.16 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group has employed approximately 1,008 full-time employees (2011: 972 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 50, was appointed as an executive Director of the Company and the Chairman in August 2011. He also was appointed as a Chief Executive Officer ("CEO") of the Company in 19 July 2012. Mr. Wang graduated from Xidian University with a bachelor's degree in Computer Engineering. 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. Lin Yue Hui ("Mr. Lin"), aged 42, was appointed as an executive Director of the Company in August 2011.He is currently a partner of Guanghe Law Firm. Mr. Lin 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.

Mr. Liu Feng ("Mr. Liu"), aged 51, was appointed as an executive Director of the Company in August 2011. 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.

Ms. Deng Xiao Ting ("Ms. Deng"), aged 39, was appointed as an executive Director of the Company on 19 July 2012. Mr Deng is currently the chairman of Huizhou Honghu Industrial Development Co., Ltd.*(惠州市鴻鵠實業發展有限公司). She has once served as a national civil servant at Huizhou Public Security Bureau. Ms. Deng graduated from Jinan University, majoring in Accounting and subsequently graduated from the Party School of the Central Committee of C.P.C. with a major in law. Ms. Deng is the sister of Mr. Deng Jun Jie who is the beneficial owner of Honghu Capital Co. Ltd. ("Honghu Capital"). Honghu Capital is the substantial shareholder of the Company.

Ms. Chu Yin Yin, Georgiana ("Ms. Chu"), aged 42, was appointed as an 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. Guo Chao Tian ("Mr. Guo"), aged 67, was appointed as an independent non-executive Director of the Company on 15 June 2012. Mr. Guo is currently the chairman and general manager of Shenzhen Jianling Investment and Development Co., Ltd(深圳市建瓴投資發展有限公司). He is also an independent director of China Jingu International Trust Co., Ltd(中國金穀國際信託有限責任公司). Mr. Guo holds a bachelor degree and a master degree of Economics from Peking University. Before joining the Company, Mr. Guo had more than 28 years of experience in economic analysis and investment. He was the deputy head of the Administrative Department of the Institute of Economics Chinese Academy of Social Science and the head of the Real Estate Department of the Academy. He was accredited as a senior economist by China Rural Trust and Investment Corporation(中國農村信託投資有限公司) and he was a general manager of the Real Estate Department and a general manager of Urban Property Management of the Corporation.

Mr. Li Jian Jun ("Mr. Li"), aged 35, was appointed as an independent non-executive Director of the Company on 28 September 2012. Mr. Li is currently a director of Will State Limited (邦志有限公司). Mr. Li holds a Bachelor Degree in Physics from the South China Normal University. Before joining the Company, Mr. Li had almost 10 years of experience in the development of electroacoustic products and several years of experience in corporate management. Since July 2000, Mr. Li was an engineer and the head of product development department and deputy manager of project department in GP Electronics (Huizhou) Co., Ltd. (金山電子有限公司) in Hong Kong and Foryou General Electronics Co., Ltd. (華陽通用電子有限公司). From 2006 to 2007, Mr. Li had conducted new product research and technical communication in product R&D centres of Celestion International Limited and KEF International Limited in the United Kingdom, as a senior engineer and an electroacoustic researcher respectively.

Mr. Wong Siu Keung, Joe ("Mr. Wong"), aged 48, was appointed as an independent non-executive Director of the Company on 10 October 2012. Mr. Wong is currently an independent non-executive Director of Computech Holdings Limited which is listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8081). Mr. Wong holds a Degree of Master of Arts in International Accounting from City University of Hong Kong and a Master's Degree of Corporate Governance from the Hong Kong Polytechnic University. He is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Wong has extensive experience in taxation, accounting, financing, audit field and public listed companies for many years.

SENIOR MANAGEMENT OF THE GROUP

Mr. Tang Hui Ping, Paul ("Mr. Tang"), aged 58, resigned as an executive Director on 19 July 2012 but remain serves as a Chief Internal Auditor and Deputy General Manager. 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.

Mr. Liu Hui Quan ("Mr. Liu"), aged 51, joined the Company as a Deputy General Manager in January 2012. Mr. Liu holds a Master's Degree in Business Administration from Honolulu University, United States of America. Before joining Company, Mr. Liu has over 10 years extensive experience in the human resource management in the PRC.

Mr. Zhang Yan Qing ("Mr. Zhang"), aged 44, 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.

OVERVIEW

The board (the "Board") of directors 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.

The Company is committed to achieving high standards of corporate governance. An internal corporate governance policy was adopted by the Board aiming at providing greater transparency, quality of disclosure as well as more effective risk and internal control. The execution and enforcement of the Company's corporate governance system is monitored by the Board with regular assessments. The Company believes that its commitment to high-standard practices will translate into long-term value and ultimately maximize returns to shareholders. The Board continues to monitor and review the Company's corporate governance practices to ensure compliance.

For the year ended 31 December 2012, the Board is of the view that, for the period from 1 January 2012 to 31 March 2012, the Company has complied with the code provisions on the Code on Corporate Governance Practices (the "Old Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and for the period from 1 April 2012 till 31 December 2012, the Company has complied with the code provisions included in the amendments made to the Old Code which took effect since 1 April 2012 (the "Code"), save for the deviations of Code A.2.1, A.4.1 and A.5.5.

A. Directors

A.1 The Board

- 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 47 Board meetings in the year of 2012. Directors have been consulted to advice the agenda of the Board meeting. Sufficient notice of the Board meeting has 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 individual attendance records of each Director including independent non-executive Directors ("INEDs") at the meetings of the Board, Remuneration Committee, Audit Committee, Nomination Committee, Investment Committee and general meetings during the year ended 31 December 2012 are set out below:

	Number of meetings attended/held						
Name of Directors	Board	Remuneration Committee	Audit Committee	Nomination Committee	Investment Committee	Annual General Meeting	Extraordinary General Meeting
Executives Directors:							
Mr. Wang De Yin (Chairman and Chief Executive Officer)	47	N/A	N/A	4	2	1	2
Mr. Lin Yue Hui	43	N/A	N/A	N/A	2	1	2
Mr. Liu Feng	47	3	N/A	N/A	2	1	2
Ms. Deng Xiao Ting (appointed on 19 July 2012)	20	N/A	N/A	N/A	N/A	N/A	N/A
Ms. Chu Yin Yin, Georgiana	44	N/A	N/A	N/A	N/A	1	2
Mr. Tang Hui Pang (resigned on 19 July 2012)	23	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-Executive Directors:							
Mr. Guo Chao Tian (appointed on 15 June 2012)	24	N/A	1	N/A	N/A	N/A	N/A
Mr. Li Jian Jun (appointed on 28 September 2012)	12	N/A	N/A	1	N/A	N/A	N/A
Mr. Wong Siu Keung, Joe (appointed on 10 October 2012)	9	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Chang Kin Man (resigned on 10 October 2012)	18	3	3	3	N/A	1	N/A
Mr. Wu Tak Lung (resigned on 28 September 2012)	6	2	2	3	N/A	1	N/A
Mr. Gu Wen Xuan (resigned on 15 June 2012)	8	N/A	1	N/A	N/A	N/A	N/A

N/A: not applicable

A.2 Chairman and Chief Executive Officer

- On 19 July 2012, Mr. Wang De Yin ("Mr. Wang"), currently is the Chairman of the Company, was appointed as a CEO of the Company ("CEO"). This deviates from the code provision A.2.1, the roles of the chairman and CEO of the Company should be separate and should not be performed by the same individual. The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Wang, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

- When compiling board papers, the Chairman works closely with the Company Secretary to ensure that comprehensive, adequate, complete, reliable and timely information are presently to the Board to enable them to set strategy, monitor progress towards meeting the Group's objectives and to conduct regular reviews of financial performance, risk management and other business issues.

- The executive Directors and Management also work closely with the Company Secretary to ensure that information necessary to keep Directors updated of the latest situation of the Company and for them to make informed decisions are presented to the Board in a timely manner.

- 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 with the assistance of the Company Secretary and other relevant departmental heads, reviews from time to time various procedural aspects of the Company in order to ensure that good corporate governance practices and procedures are well in place.

- The Chairman believes that it is in the Directors' own best interest to voice whatever concerns they may have as each Director has the same general legal responsibilities to the Company as any other Director, regardless of whether they are executive or non-executive. As such, in each Board meeting, the Chairman nurtures an open and uninhibited environment where other Directors with different views are free to express their own opinions.

- The Chairman has held one private meeting with INEDs to discuss key audit issues which incurred in 2012 and the Company's business plan to be developed in 2013. The Board believed that INEDs could through this private meeting to voice out their concerns on financial aspects after discussing audit issues and provide constructive advice on the direction of Company's future development.

- On the other hand, 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 20 of this report. The Board comprises a total of 8 members including 5 executive Directors and 3 INEDs. 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 of 3.13 relating to having at least 3 INEDs.

- The Company has received written confirmation from each independent non-executive Director of their independence to the Group. The Group considered all of INEDs 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 18 to 19 of this annual report and update to the Company'.

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. All Directors including INEDs have signed letter of appointments with the Company. In addition, the shareholders have right to nominate any person to become a director of the Company in accordance with the Articles of Association ("A.A") of the Company, the procedure for election of directors was published on the Company's website.

- 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 Nomination Committee has considered 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.

- The Company's A.A requires for those Directors appointed to fill a casual vacancy to hold office only until the first general meeting after their appointment and be subject to re-election at such meeting. The Company's A.A. also requires 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 INEDs 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. This deviates from Code Provision of A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election.

- Any appointment of an INED who has served on the Board for more than nine years will be subject to a separate resolution to be approved by shareholders. Up to the report date, no INED had been appointed by the Company for over nine years.

A.5 Nomination Committee

- The Nomination Committee currently comprises an Executive Director, namely Mr. Wang De Yin (Committee Chairman), two INEDs, namely Mr. Wong Siu Keung, Joe and Mr. Li Jian Jun. 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.

- The Nomination Committee is required to report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- The Nomination Committee takes the responsibility to review the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of INEDs. During the year, the Nomination Committee held 4 meetings and the attendance of each member is set out in the section headed "The Board" of this report.

For the election of Mr. Guo Chao Tian ("Mr. Guo") as an INED at the AGM, the Company did not include the explanatory statement in the AGM circular relating to the independence of INED. This deviates from the code provision of A.5.5 that the Board should set out in the circular why they believe an INED should be elected and the reason why they considered him to be independent. During the AGM meeting, the Chairman had explained and confirmed with shareholders that the Board had considered the independence of INED in accordance with the independence guidelines set out in the Listing Rules.

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.

- All Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In 2012, the Company has arranged a training to all Directors which was provided by the accredited service provider.

During the year ended 31 December 2012, the Directors participated in the following trainings:

	Type of Continuous Professional Development		
	Training on regulatory development, directors' duties or other relevant topics	Reading on regulatory updates or information relevant to directors' duties and the Company	Courses relating to Corporate Governance/ Accounting/ Financial or other professional skills
Mr. Wang De Yin	X		
Mr. Lin Yue Hui	X		
Mr. Liu Feng	X		
Mr. Tang Hui Pang	X		
Ms. Deng Xiao Ting		X	
Ms. Chu Yin Yin, Georgiana	X		X
Mr. Guo Chao Tian		X	
Mr. Li Jian Jun		X	
Mr. Wong Siu Keung, Joe		X	X
Mr. Chang Kin Man	X		
Mr. Wu Tak Lung	X		
Mr. Gu Wen Xuan		X	

- INEDs 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.

- INEDs are also members of the Audit, Remuneration and Nomination 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 is INEDs. The Remuneration Committee currently comprises two INEDs, namely Mr. Wong Siu Keung, Joe (Committee Chairman), Mr. Li Jian Jun 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;

  iv. To report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- 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.

- The details of the remuneration of the Directors are set out in the page 93 to 95 of this annual report. During the year ended 31 December 2012, the Remuneration Committee determined the remuneration packages of the executive Directors including INEDs and senior management members of the Company, and reviewed the collective performance and individual performance.

- The Group's stock option scheme as described on page 133 to 135 of this annual report is adopted as the Group's long-term incentive scheme.

- The Remuneration Committee held 3 meetings 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 in the section headed "The Board" of this report.

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 2012. The Board must ensure that the financial statements of the Group are prepared so as to give a true and fair view of the financial status of the Group.

- 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 44 to 46 of this annual report.

- A separate statement in the Annual Report on page 4 to 17 containing a discussion and analysis of the group's performance.

- Executive Directors are provided with a wide range of reports on monthly intervals and are fully aware of the Company's latest performance, position and prospects.

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.

- To reinforce and stringent control on the Listing Rules compliance and internal control system, the Company has undertaken steps including: (i) appointed an independent internal control auditor to conduct a thorough review of and make recommendations to improve the Company's internal controls for compliance with the disclosure requirements under The Listing Rules; (ii) proposed to engage a compliance advisor for consultation matters for a period of two years so as to improve the internal controls for procuring the compliance of the Listing Rules; (iii) revised its internal control system relating to the finance management to enhance management control and introduced more stringent procedures to improve the existing internal control system; and (vi) provided internal training to the accounting staff of Group's PRC operating subsidiaries to reinforce their understanding of the Group's internal control requirements.

- 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 2012. The Chief Internal Auditor reported the review result to the Audit Committee. 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 INEDs, namely Wong Siu Keung, Joe (Committee Chairman), Mr. Li Jian Jun and Mr. Guo Chao Tian. Mr. Wong is a certified public accountant for many years. The term 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, Listing Rules, 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;

(i) to report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

For the year under review, the Audit Committee held 3 meetings included the review of the final results for the year ended 31 December 2012 and interim accounts for 30 June 2012. The Group's annual report for the year ended 31 December 2012 has been reviewed by the Audit Committee. The attendance record of individual members is set out in the section headed "The Board" of this report.

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;

– 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.

- Each Director including INED was appointed by formal letter of appointment with the Company upon appointment. Such letter of appointment sets out key terms and condition, the time commitment expected, the roles and functions and amount of remuneration.

D.2 Board Committees

The Company has set up four committees including an Audit Committee, a Remuneration Committee, 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 Corporate Governance Functions

The Board as a whole is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

E. Communication with shareholders and investors

E.1 Effective communication

- The Annual General Meetings ("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 Company serves notice to shareholders in writing of not less than twenty-one (21) clear days and not less than twenty (20) clear business days before the AGM. Any extraordinary general meeting at which the passing of a Special Resolution may be called by notice in writing of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by notice in writing of not less than fourteen (14) clear days and not less than ten (10) clear business days.

- 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.

- The Board has adopted a Shareholders' Communication Policy reflecting mostly the current practices of the Company for communication with its Shareholders. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. The Policy will be reviewed regularly to ensure effectiveness and compliance with the prevailing regulatory and other requirements.

E1.1 SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an EGM

Pursuant to the A.A of the Company, the Directors may, whenever they think fit, convene an Extraordinary General Meeting ("EGM"). EGMs shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Secretary for the purpose of requiring an EGM to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Proposing a Person for Election as a Director

As regards the procedure for proposing a person for election as a Director, please refer to the procedures made available under the "Corporate Governance" section ("Procedure for shareholders to propose a person for election of Directors" sub-section) of the Company's' website at www.chinawaterind.com

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the Company Secretary whose contact details are set out in the "Contact Us" section of the Company's website at www.chinawaterind.com

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 A.A. 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.

F. Company Secretary

The Company Secretary has been a full time employee who has knowledge of the Company's affairs. The appointment of the current Company Secretary was approved by the Board in November 2006. The Company Secretary reports to the Chairman and CEO and is responsible for advising the Board on corporate governance matters. For the year under review, the Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training.

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 three executive Directors, namely Mr. Wang De Yin (Committee Chairman), Mr. Lin Yue Hui, Mr. Liu Feng and two Deputy General Managers of the Company, namely Mr. Liu Hui Quan and Mr. Tang Hui Ping. 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 major duties of the Investment Committee include:

  (a) Analysis and evaluation of the Company's long-term planning and major investment plans;

  (b) Review the investment policies and strategy;

  (c) Review and analysis of the actual progress of the Company's major strategies plans;

  (d) Review the annual investment proposal of the Company; and

  (e) Report back to the Board on their decision or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

- The Investment Committee held 2 meetings during the year. The attendance record of individual members is set out in the section headed "The Board" of this report.

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$900,000 and for non-audit service provided is approximately HK$252,000 mainly for the purpose of reviewing internal control system and performing due diligence for the acquisition transaction. 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 THE CORPORATE GOVERNANCE CODE

The Company has complied with the Code throughout the financial year ended 31st December 2012 except for deviations from the code provision A.2.1, A.4.1 and A.5.5 as below:

- Pursuant to the Code Provision of A.2.1, the roles of the chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. On 19 July 2012, Mr. Wang De Yin ("Mr. Wang"), currently is the Chairman of the Company, was appointed as a Chief Executive Officer of the Company ("CEO"). The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Wang, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

- Pursuant to the Code Provision of A.4.1 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 INEDs 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.

- Pursuant to the Code Provision of A.5.5, the Board should set out in the circular why they believe an INED should be elected and the reason why they considered him to be independent. For the election of Mr. Guo Chao Tian as an INED at the AGM, the Company did not include the explanatory statement in the AGM circular relating to the independence of INED. During the AGM meeting, the Chairman had explained and confirmed with shareholders that the Board had considered the independence of INED in accordance with the independence guidelines set out in the Listing Rules.

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 Board 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 2012.

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 the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 47 to page 48.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2012. (2011: Nil)

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, 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, 40, 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 51 to page 52.

BANK BORROWINGS AND BANKING FACILITIES

Particulars of bank loans of the Group as at 31 December 2012 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 144.

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 and Chief Executive Officer)*	
Mr. Liu Feng	
Mr. Lin Yue Hui	
Ms. Chu Yin Yin, Georgiana	
Ms. Deng Xiao Ting	(Appointed on 19 July 2012)
Mr. Tang Hui Ping, Paul	(Resigned on 19 July 2012)
Mr. Yang Bin *(Chief Executive Officer)*	(Resigned on 23 April 2012)

Independent Non-Executive Directors

Mr. Guo Chao Tian	(Appointed on 15 June 2012)
Mr. Li Jian Jun	(Appointed on 28 September 2012)
Mr. Wong Siu Keung, Joe	(Appointed on 10 October 2012)
Mr. Chang Kin Man	(Resigned on 10 October 2012)
Mr. Wu Tak Lung	(Resigned on 28 September 2012)
Mr. Gu Wen Xuan	(Resigned on 15 June 2012)

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, Mr. Lin Yue Hui and Mr. Liu Feng 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. Ms. Deng Xiao Ting, Mr. Guo Chao Tian, Mr. Li Jian Jun and Mr. Wong Siu Keung, Joe 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 18 to 19 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 2012, 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 2012, 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)	0.05%

For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,110,331,766 Shares in issue as at 31 December 2012.

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

Save as disclosed above, as at 31 December 2012, 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 2012, the following persons and entities, other than a Director or chief executive of the Company disclosed under the section "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	Interest of controlled corporation	–	280,000,000(L) *(Note 1)*	25.22%
Honghu Capital Co. Ltd	Beneficial owner	–	280,000,000(L) *(Note 1)*	25.22%

Note 1: These shares are held by Honghu which Mr. Deng Jun Jie ("Mr. Deng") is the beneficial owner. Mr. Deng is deemed to be interested in Shares by virtues of the SFO.

Note 2: The shareholding percentage in China Water is calculated on the basis of 1,110,331,766 China Water Shares in issue as at 31 December 2012.

Note 3: The letter "L" denotes a long 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 44 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

On 3 June 2011, the Company had adopted the New Share Option Scheme ("Scheme") for the purpose of providing incentives or rewards to selected eligible participants for their contributions to the Group. The scheme is valid and effective for ten years and will expire on 2 June 2022. From the date of the Scheme being adopted up to 31 December 2012, no option has been granted, for which the details are set out in note 40 to the consolidated financial statements. Save for the Scheme, the Company did not have any other Share Option Scheme as at 31 December 2012.

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 46 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

In accordance with the requirements of the Listing Rules, the Group established an audit committee comprising three Independent Non-executive Directors of the Company. The Audit Committee of the Company has reviewed the audited consolidated financial statements for the year ended 31 December 2012. Information on the work of Audit Committee and its composition are set out in the Report of the corporate Governance on pages 30 of this Annual Report.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2012 Interim Report are set out below:

Name of Directors	Details of changes
Mr. Liu Feng	Resigned as an independent non-executive Director, the member of Audit Committee, the member of Nomination Committee and the chairman of Remuneration Committee of L'Sea Resources International Holdings Limited (stock code: 195) with effective 5 September 2012, which is listed on the Main Board of the Stock Exchange;
Mr. Chang Kin Man	Resigned as an independent non-executive Director, Chairman of Audit Committee, a chairman of Remuneration Committee and a member of Nomination Committee of the Company with effect from 10 October 2012;
Mr. Wong Siu Keung, Joe	Appointed as an independent non-executive Director, Chairman of Audit Committee, a chairman of Remuneration Committee and a member of Nomination Committee of the Company with effect from 10 October 2012;
Mr. Wu Tak Lung	Resigned as an independent non-executive Director, a member of Audit Committee, a member of Nomination Committee and a member of Remuneration Committee of the Company with effect from 28 September 2012;
Mr. Li Jian Jun	Appointed as an Independent Non-executive Director, a member of Audit Committee, a member of Nomination Committee and a member of Remuneration Committee of the Company with effect from 28 September 2012.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on page 20 to 35 of this Annual Report.

REMUNERATIONS OF THE DIRECTORS AND SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors of the Company and the five highest paid individuals of the Group are set out in note 13 of the consolidated financial statements in this annual report. The band of the remuneration of senior management personal and related number of members of senior management personnel are as follows:

Remuneration band (HK$)	**2012** ***Number of individuals***	2011 *Number of individuals*
Nil to 500,000	**3**	3

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 Directors 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 annual general meeting.

By order of the Board
Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 27 March 2013

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 were 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 47 to 143, which comprise the consolidated statement of financial position as at 31 December 2012, 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 of the Company 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. Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, 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 2012, we encountered significant of limitation of audit scope in respect of various areas as set out below:

1. Impairment assessment of loan receivables

As previously explained in our report dated 29 March 2012 on the Group's consolidated financial statements for the year ended 31 December 2011, we were not provided with sufficient audit evidence to satisfy ourselves as to whether the loan receivables advanced to three independent third parties of approximately HK$28,000,000 (net of accumulated impairment loss of HK$15,398,000), HK$24,412,000 and HK$14,647,000 respectively, would be recoverable in full or in part. We disclaimed our opinion on the consolidated financial statements for the year ended 31 December 2011. During the year ended 31 December 2012, the aforesaid loan receivables of approximately HK$24,412,000 and HK$14,647,000 were fully recovered, details are explained in note 24 to the consolidated financial statements.

In relation to the remaining loan receivable as at 31 December 2012 of approximately HK$43,598,000, before the provision of impairment losses of approximately of HK$15,598,000, we have not been provided with sufficient evidence to satisfy ourselves as to the recoverability of the loan receivable 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 receivable as at 31 December 2012 being fairly stated in the consolidated financial statements.

Any adjustments in connection with the loan receivable and impairment loss would have a consequential effect on the net assets of the Group as at 31 December 2012 and 2011 and on the Group's results for the year ended 31 December 2012 and 2011 and the related disclosures in the consolidated financial statements.

2. Available-for-sale investments

As previously explained in our report dated 29 March 2012 in the Group's consolidated financial statements for the year ended 31 December 2011, 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 was suspended during the year ended 31 December 2011 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 2012.

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 2012 and 2011 and on the Group's results and/or equity for the year ended 31 December 2012 and 2011 and the related disclosures in the consolidated financial statements.

DISCLAIMER OF OPINION

Because of the significance 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. Accordingly, we do not express an opinion on the consolidated financial statement. 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
27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	7	**327,885**	284,954
Cost of sales		**(197,898)**	(175,158)
Gross profit		**129,987**	109,796
Other operating income	9	**80,749**	5,795
Reversal of impairment loss recognised on trade and other receivables	24	**16,810**	–
Change in fair value of investment property	19	**504**	–
Selling and distribution expenses		**(12,857)**	(10,651)
Administrative expenses		**(81,912)**	(72,934)
Other operating expenses		**(2,668)**	–
Finance costs	10	**(31,744)**	(31,948)
Change in fair value of convertible bonds	32	**–**	(6,873)
Change in fair value of derivative financial instruments	32	**–**	(6,582)
Extinguishment gain of convertible bonds	32	**–**	34,652
Loss on redemption of convertible bonds	32	**–**	(4,659)
Loss on deemed partial disposal of an associate	22	**–**	(146,295)
Loss on reclassification from an associate to available-for-sale investments	22	**–**	(32,649)
Impairment loss recognised on prepaid lease payments	17	**(584)**	(2,135)
Impairment loss recognised on trade and other receivables	24	**(4,361)**	(79,284)
Impairment loss recognised on concession intangible assets	18	**(6,118)**	(36,988)
Impairment loss recognised on property, plant and equipment	16	**(35)**	(20,421)
Impairment loss recognised on an associate	22	**–**	(33,540)
Impairment loss recognised on goodwill	20	**–**	(145,606)
Share of losses of associates	22	**(5,851)**	(22,066)
Profit (loss) before tax		**81,920**	(502,388)
Income tax expense	11	**(35,998)**	(13,425)
Profit (loss) for the year	12	**45,922**	(515,813)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Other comprehensive income (expense) for the year			
Gain on revaluation of investment property upon transfers from property, plant and equipment	19	**9,290**	–
Deferred tax arising from revaluation on investment property	35	**(2,323)**	–
Exchange difference arising on translation		**5,023**	13,925
Share of other comprehensive income of associates	22	**720**	20,561
Fair value loss on available-for-sale investments		**(4)**	–
Impairment loss recognised on available-for-sale investments		**1,114**	–
Exchange reserve realised upon disposal of an associate		**–**	(17,601)
Other comprehensive income for the year, net of income tax		**13,820**	16,885
Total comprehensive income (expense) for the year		**59,742**	(498,928)
Profit (loss) for the year attributable to:			
Owners of the Company		**22,016**	(531,534)
Non-controlling interests		**23,906**	15,721
		45,922	(515,813)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**30,538**	(519,279)
Non-controlling interests		**29,204**	20,351
		59,742	(498,928)
Earnings (loss) per share (HK cents)			
Basis and diluted	15	**3.96**	(136.64)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	**111,733**	97,250
Prepaid lease payments	17	**41,629**	43,002
Concession intangible assets	18	**530,591**	520,477
Investment property	19	**17,390**	–
Goodwill	20	**10,292**	10,292
Available-for-sale investments	21	**68,439**	53,959
Interest in associates	22	**32,831**	37,962
Deposit paid for acquisition of plant and equipment		**5,663**	–
Deposit paid for acquisition of additional interest of a subsidiary		**3,589**	–
		822,157	762,942
Current assets			
Inventories	23	**57,946**	45,602
Trade and other receivables	24	**89,113**	96,391
Prepaid lease payments	17	**1,252**	1,231
Amounts due from customers for contract works	27	**29,713**	27,225
Cash held at financial institutions	25	**38,045**	3,533
Bank balances and cash	25	**201,204**	88,301
		417,273	262,283
Current liabilities			
Trade and other payables	26	**206,991**	215,643
Amounts due to customers for contract works	27	**18,158**	4,252
Bank borrowings	28	**45,953**	35,397
Other loans	29	**54,473**	69,683
Amounts due to non-controlling shareholders of subsidiaries	30	**4,108**	3,059
Loan from an associate	31	**2,931**	2,757
Convertible bonds	32	**–**	73,459
Tax payables		**24,084**	5,921
		356,698	410,171
Net current assets (liabilities)		**60,575**	(147,888)
Total assets less current liabilities		**882,732**	615,054

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	33	**555,166**	410,332
Share premium and reserves		**(80,173)**	(307,016)
Equity attributable to owners of the Company		**474,993**	103,316
Non-controlling interests		**229,559**	200,355
Total equity		**704,552**	303,671
Non-current liabilities			
Bank borrowings	28	**34,532**	18,309
Other loans	29	**34,572**	70,686
Convertible bonds	32	**–**	138,568
Government grants	34	**90,319**	71,345
Deferred tax liabilities	35	**18,757**	12,475
		178,180	311,383
		882,732	615,054

The consolidated financial statements on pages 47 to 143 were approved and authorised for issue by the board of directors on 27 March 2013 and are signed on its behalf by:

Wang De Yin
Chairman and Chief Executive Officer

Liu Feng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	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 a)*	**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:										
Exchange difference arising from translation	–	–	–	–	9,295	–	–	9,295	4,630	13,925
Share of other comprehensive income of associates	–	–	–	–	20,561	–	–	20,561	–	20,561
Exchange reserve realised on disposal of an associate	–	–	–	–	(17,601)	–	–	(17,601)	–	(17,601)
Total comprehensive income (expenses) for the year	–	–	–	–	12,255	–	(531,534)	(519,279)	20,351	(498,928)
Acquisition of a subsidiary *(note 36)*	–	–	–	–	–	–	–	–	840	840
Placing of new shares *(note 33)*	64,900	16,547	–	–	–	–	–	81,447	–	81,447
Transaction costs 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 option	–	–	(202)	–	–	–	202	–	–	–
Transfers to reserve funds	–	–	–	–	–	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Convertible bond equity reserve HK$'000	Revaluation reserve HK$'000	Translation reserve HK$'000	Reserve funds HK$'000 (note a)	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012	410,332	609,578	74,802	–	42,698	10,517	–	(1,044,611)	103,316	200,355	303,671
Profit for the year:	–	–	–	–	–	–	–	22,016	22,016	23,906	45,922
Other comprehensive income (expense) for the year:											
Share of other comprehensive income of associates	–	–	–	–	720	–	–	–	720	–	720
Fair value loss on available-for-sale investments	–	–	–	–	–	–	(4)	–	(4)	–	(4)
Impairment loss recognised on available-for-sale investments	–	–	–	–	–	–	1,114	–	1,114	–	1,114
Gain on revaluation of investment property upon transfer of property, plant and equipment	–	–	–	4,738	–	–	–	–	4,738	4,552	9,290
Deferred tax arising from revaluation on investment property	–	–	–	(1,185)	–	–	–	–	(1,185)	(1,138)	(2,323)
Exchange difference arising from translation	–	–	–	–	3,139	–	–	–	3,139	1,884	5,023
Total comprehensive income for the year	–	–	–	3,553	3,859	–	1,110	22,016	30,538	29,204	59,742
Placing of new shares *(note 33)*	110,000	1,380	–	–	–	–	–	–	111,380	–	111,380
Transaction costs attributable to issue of share	–	(3,167)	–	–	–	–	–	–	(3,167)	–	(3,167)
Share issued upon conversion of convertible bonds	240,000	67,728	(74,802)	–	–	–	–	–	232,926	–	232,926
Capital reduction *(note 33)*	(205,166)	205,166	–	–	–	–	–	–	–	–	–
Transfer *(note b)*	–	(396,683)	–	–	–	–	–	396,683	–	–	–
Transfers to reverse funds	–	–	–	–	–	3,928	–	(3,928)	–	–	–
At 31 December 2012	555,166	484,002	–	3,553	46,557	14,445	1,110	(629,840)	474,993	229,559	704,552

Notes:

a) 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.

b) On 15 June 2012, the shareholders of the Company approved to reduce the share premium account of the Company by an amount of approximately HK$396,683,000 and the aforesaid amount has been credited to accumulated losses.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit (loss) before taxation	**81,920**	(502,388)
Amortisation of concession intangible assets	**23,562**	19,618
Amortisation of prepaid lease payments	**1,247**	1,210
Change in fair value of investment property	**(504)**	–
Change in fair value of convertible bonds	**–**	6,873
Change in fair value of financial derivative instruments	**–**	6,582
Concession intangible assets written off	**155**	951
Depreciation of property, plant and equipment	**6,845**	6,399
Extinguishment gain of convertible bonds	**–**	(34,652)
Finance costs	**31,744**	31,948
Government grant income	**(39,993)**	–
Impairment loss recognised on trade and other receivables	**4,361**	79,284
Impairment loss recognised on goodwill	**–**	145,606
Impairment loss recognised on concession intangible assets	**6,118**	36,988
Impairment loss recognised on an associate	**–**	33,540
Impairment loss recognised on property, plant and equipment	**35**	20,421
Impairment loss recognised on prepaid lease payments	**584**	2,135
Impairment loss recognised on available-for-sale investments	**1,114**	–
Interest income	**(20,420)**	(1,079)
Interest waived on loan payable	**(4,219)**	–
Loss on deemed partial disposal of an associate	**–**	146,295
Loss on disposal of property, plant and equipment	**44**	19
Loss on disposal of available-for-sale investments	**1,554**	–
Loss on redemption of convertible bonds	**–**	4,659
Loss on reclassification from an associate to available-for-sale investments	**–**	32,649
Share of losses of associates	**5,851**	22,066
Reversal of impairment loss recognised in trade and other receivables	**(16,810)**	–
Operating cash flows before movements in working capital	**83,188**	59,124
Increase in inventories	**(12,344)**	(18,854)
Increase (decrease) in trade and other receivables	**(35,722)**	1,415
Increase in amounts due from customers for contract works	**(2,488)**	(8,361)
Decrease (increase) in trade and other payables	**(5,450)**	32,009
Increase in amounts due to customers for contract works	**13,906**	3,660
Cash generated from operations	**41,090**	68,993
Income taxes paid	**(13,876)**	(7,883)
NET CASH FROM OPERATING ACTIVITIES	**27,214**	61,110

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Acquisition of concession intangible assets		**(31,011)**	(32,311)
Repayment from (loan to) borrowers		**55,449**	(38,931)
Deposit paid for acquisition of plant and machinery		**(5,663)**	–
Interest received		**20,420**	1,079
Investment in an associate		**–**	(12,206)
Purchase of available-for-sale investment		**(19,983)**	–
Proceeds of disposal of available-for-sale investment		**3,945**	–
Proceeds of disposals of property, plant and equipment		**466**	424
Purchase of property, plant and equipment		**(28,470)**	(21,963)
Purchase of prepaid lease payment		**–**	(4,396)
Purchase of equity interest in a subsidiary	36	**–**	166
NET CASH USED IN INVESTING ACTIVITIES		**(4,847)**	(108,138)
FINANCING ACTIVITIES			
Issue of new shares		**111,380**	81,447
Advance from (repayment to) non-controlling shareholders of a subsidiary		**1,049**	(3,157)
Advance from an associate		**174**	–
Government grants received		**20,392**	5,096
Deposit paid for acquisition of additional interest of a subsidiary		**(3,589)**	–
Interest paid		**(10,845)**	(20,312)
New bank and other loans raised		**34,625**	18,762
Redemption of convertible bonds		**–**	(78,659)
Repayment of bank borrowings and other loans		**(26,326)**	(3,239)
Transaction cost attributable to issue of shares		**(3,167)**	(2,508)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**123,693**	(2,570)
NET INCREASE (DECREASE) IN CASH AND CASH AND CASH EQUIVALENTS		**146,060**	(49,598)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**91,834**	138,015
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**1,355**	3,417
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash and cash held at financial institutions		**239,249**	91,834

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 45.

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

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

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfer of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The application of the amendments to 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.

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

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

Amendments to HKFRSs	Annual improvements 2009 – 2011 Cycle[2]
Amendments to HKFRS 1	Government Loans[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangments[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
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 Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK (International Financial Reporting Interpretation Committee) – Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 1 Presentation of Financial Statements, the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

HKAS 1 requires an entity that changes in accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

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 offset of financial assets and financial liabilities 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 amendments to HKFRS 7 are effective 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.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

– All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are 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.

– With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that 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. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

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

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

Key requirements of these fives standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK(SIC) – Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures will be withdrawn upon the effective date of HKFRS 11. 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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application is permitted provided that all of these standards are applied at the same time.

The directors of the Company anticipate that the application of the above standards will have no significant impact on the amounts reported in the consolidated financial statements.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

HKFRS 13 Fair Value Measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

Amendment to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'.

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 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 do not change the option to the present items of other comprehensive income either before tax or net of tax.

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 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.

3. 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 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 properties and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Income and expenses 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.

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 assets or liabilities 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.

3. 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 accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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, 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. 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.

3. 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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are carried 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.

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 an 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 (including goodwill) 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 amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that 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's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. 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.

Properties in the course of 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.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment property

Investment property is property held to earn rentals and/or for capital appreciation. Investment property includes land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at its fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 balances 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).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group has designated the listed equity securities as an available-for-sale investment in initial recognition of those items.

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

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
- 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, in addition, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt 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 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 are 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 financial liabilities

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

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 the 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

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

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.

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 collateralised 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.

The Group derecognises financial liabilities when and only when, the obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received 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).

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks, financial institutions 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 with finite useful lives 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, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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).

Consultancy fee income is recognised when services are provided.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 before tax' 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.

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 recognised for taxable temporary differences associated with 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

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 current and 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.

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$") using exchange rate prevailing at the end of the reporting period. 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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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.

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, 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.

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

Critical judgments in applying the entity's accounting policies

The following are the critical judgments, 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.

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.

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

As detailed in note 43, 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 (the "Court Order") to 14 December 2013. 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 for the year ended 31 December 2012 and 2011.

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

As at 31 December 2012, the carrying amount of plant and equipment was approximately HK$111,733,000 (net of accumulated impairment loss of approximately HK$20,456,000) (2011: the carrying amount of plant and equipment was approximately HK$97,250,000 (net of accumulated impairment loss of approximately HK$20,421,000)). 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.

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

Key sources of estimation uncertainty *(Continued)*

Impairment loss recognised in respect of prepaid lease payments

As at 31 December 2012, the carrying amount of prepaid lease payments was approximately HK$42,881,000 (net of accumulated impairment loss of approximately HK$2,719,000) (2011: the carrying amount of prepaid lease payments was approximately HK$44,233,000 (net of accumulated impairment loss of approximately HK$2,135,000)). 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.

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 2012, the carrying amount of trade receivables was approximately HK$21,712,000 (2011: HK$12,556,000) (net of accumulated impairment losses of approximately HK$6,733,000 (2011: HK$8,531,000)).

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 2012, the carrying amounts of other receivables and loans receivables are HK$4,204,000 (2011:HK$10,961,000) and HK$28,000,000 (2011: HK$70,972,000) respectively (net of accumulated impairment losses of HK$9,453,000 (2011: HK$5,595,000) and HK$67,549,000 (2011: HK$81,939,000) 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. As at 31 December 2012, the carrying amounts of concession intangible assets are HK$530,591,000 (2011: HK$520,477,000) (net of accumulated impairment losses of HK$45,328,000 (2011: HK$39,210,000)).

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

Key sources of estimation uncertainty *(Continued)*

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 2012, the carrying amounts of available-for-sales investments was approximately HK$68,439,000 (2011: HK$53,959,000).

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 2012, the carrying amounts of goodwill was HK$10,292,000 (2011: HK$10,292,000) (net of accumulated impairment losses of HK$251,933,000 (2011: HK$251,933,000)). Details of impairment testing on goodwill are set out in note 20.

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.

5. 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 of the Company, the Group will balance its overall capital structure through the raise of various types of borrowings, issuance of convertible bonds and new shares.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
– Loans and receivables (including cash and cash equivalents)	**324,440**	186,323
– Available-for-sale investments	**68,439**	53,959
Financial liabilities		
– At amortised cost	**330,368**	585,501

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, 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, loan from an associate and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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$. However, certain bank balances and other receivables are denominated in currencies other than HK$ held by the Company and its subsidiaries established in Hong Kong. Foreign currencies are also used to settle expenses for overseas operations.

	As at 31 December 2012		As at 31 December 2011	
	United States dollar ("USD") '000	***RMB'000***	*USD'000*	*RMB'000*
Assets	**17**	**8,740**	280	14,556

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.

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

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

Market risk *(Continued)*

Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of the functional currency of relevant group entities 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% (2011: 5%) change in foreign currency rates.

	USD	
	2012	2011
	HK$'000	*HK$'000*
Increase (decrease) in profit for the year, net of tax effect		
– if HK$ weakens against foreign currencies	**5**	90
– if HK$ strengthens against foreign currencies	**(5)**	(90)

	RMB	
	2012	2011
	HK$'000	*HK$'000*
Increase (decrease) in loss for the year, net of tax effect		
– if HK$ weakens against foreign currencies	**(450)**	(742)
– if HK$ strengthens against foreign currencies	**450**	742

In management's opinion, the sensitivity analysis is not unrepresentative 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, bank borrowings, other loans, amounts due to non-controlling shareholders of subsidiaries and loan from an associate (see notes 24, 28, 29 and 30 for details) for the years ended 31 December 2012 and 2011. 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.

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

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

Market risk *(Continued)*

Interest rate risk (Continued)

The Group is 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 year ended 31 December 2012 and 2011. 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 is 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 balances and cash held at financial institutions are all short-term in nature.

Sensitivity analysis

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.

The sensitivity analyses 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 for the year ended 31 December 2012 would increase/decrease by approximately HK$442,000 (2011: HK$267,000). 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% (2011: 5%) higher/lower, the investment revaluation reserve would increase/decrease by HK$3,422,000 (2011: HK$2,698,000) for the Group as a result of the changes in fair value of available-for-sale investments.

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

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

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has no significant credit risks on trade receivables as it has policies in place to ensure that sales of products and services are made to customers with appropriate credit history, and trade receivables consist of a large number of customers, spread across diverse industries. 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 total trade receivables as at 31 December 2012 and 2011.

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 2012, the Group had credit risk arising from available-for-sale investments as 43% (2011: 55%) of the listed securities cannot be traded in the Stock Exchange.

As at 31 December 2012, the Group had credit risk on loan receivables. The carrying amount of the loan receivables are approximately HK$28,000,000 (2011: HK$70,972,000) (net of accumulated impairment losses of HK$67,549,000 (2011: HK$81,939,000)).

For other financial assets, such as cash held at financial institutions and available-for-sale investments, 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

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

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.

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

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

Liquidity risk *(Continued)*

	Overdue *HK$'000*	On demand or within one year *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*	More than five years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amounts *HK$'000*
2012							
Non-derivatives financial liabilities							
Trade and other payables	–	153,799	–	–	–	153,799	153,799
Bank borrowings and other loans	40,489	68,638	16,509	34,861	25,787	186,284	169,530
Amounts due to non-controlling shareholders of subsidiaries	–	4,108	–	–	–	4,108	4,108
Loan from associates	–	3,102	–	–	–	3,102	2,931
	40,489	229,647	16,509	34,861	25,787	347,293	330,368

	Overdue *HK$'000*	On demand or within one year *HK$'000*	More than one year but less than two years *HK$'000*	More than two years but less than five years *HK$'000*	More than five years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying Amounts *HK$'000*
2011							
Non-derivatives financial liabilities							
Trade and other payables	–	160,572	–	–	–	160,572	160,572
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 subsidiaries	–	3,059	–	–	–	3,059	3,059
Loan from associates	–	2,925	–	–	–	2,925	2,757
Convertible bonds	–	80,000	–	200,000	–	280,000	212,027
	36,617	324,997	21,190	261,295	18,925	663,024	572,490

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

(c) Fair values

The fair value of financial assets are determined as follows:

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

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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.

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 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale financial assets				
Listed equity securities	**68,439**	–	–	**68,439**

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

(c) Fair value *(Continued)*

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

	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

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

7. 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:

	2012	2011
	HK$'000	*HK$'000*
Water supply services	**118,903**	103,749
Sewage treatment services	**38,006**	27,369
Water supply related installation and construction income	**144,817**	121,355
Water supply and sewage treatment infrastructure construction income	**26,159**	32,481
	327,885	284,954

8. 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 resources allocation and assessment of the performance of the Group's various lines of business and geographical locations. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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 2012 and 2011, the Group does not have any single significant customer with the transaction value over 10% of the turnover.

9. OTHER OPERATING INCOME

	2012 ***HK$'000***	2011 *HK$'000*
Government grant *(notes 29 (i) and 34)*	**39,993**	–
Loan interest income	**19,756**	395
Consultancy fee income	**7,374**	–
Waiver of other loans and interest payables *(note 29 (iii))*	**4,219**	–
Handling charges	**1,835**	1,533
Cleaning income	**1,636**	615
Repair services income	**1,530**	685
Gross rentals from investment property (Outgoing: HK$187,000 (2011:nil) included in administrative expenses)	**617**	–
Bank interest income	**664**	684
Late surcharge income	**288**	273
Others	**2,837**	1,610
	80,749	5,795

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest on:		
– Convertible bonds	–	8,748
– Imputed interest charged on convertible bonds *(note 32)*	**20,899**	8,330
– Bank borrowings wholly repayable within five years	**7,470**	3,831
– Bank borrowings not wholly repayable within five years	–	2,246
– Other loans wholly repayable within five years	**2,327**	6,736
– Other loans not wholly repayable within five years	**904**	1,512
– Amounts due to non-controlling shareholders of subsidiaries	–	426
– Loan from an associate	**144**	119
	31,744	31,948

11. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
PRC Enterprise Income Tax ("EIT") for the current year	**32,039**	10,425
Deferred tax *(note 35)*	**3,959**	3,000
	35,998	13,425

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 years, except disclosed as follows:

Jining City Haiyuan Water Treatment Company Ltd* ("Jining Haiyuan") and Yichun Water Industry Co., Ltd ("Yichun Water") are foreign investment enterprises and are entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempted from EIT and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate. The first profit-making year of Jining Haiyuan and Yichun Water were 2007. Accordingly, Jining Haiyuan and Yichun Water are exempted from PRC income tax from 1 January 2007 to 31 December 2008 and are entitled to a 50% exemption of income tax from 1 January 2009 to 31 December 2011. Jining Haiyuan and Yichun Water are entitled to the applicable tax rate at 25% since after.

11. INCOME TAX EXPENSE *(Continued)*

Foshan City Gaoming Huaxin Sewage Treatment Company Limited ("Gaoming Huaxin") is engaged in sewage treatment and is entitled to tax concessions whereby the profit for the first three financial years beginning with the first profit-making year is exempted from EIT and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate. The first profit-making year of Gaoming Huaxin was 2011. Accordingly, Gaoming Huaxin is exempted from PRC income tax from 1 January 2011 to 31 December 2013 and is entitled to a 50% exemption of income tax from 1 January 2014 to 31 December 2016.

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

	2012	2011
	HK$'000	*HK$'000*
Profit (loss) before tax	**81,920**	(502,388)
Tax at the domestic income tax rate of 25% (2011: 25%)	**20,480**	(125,597)
Tax effect of share of results of associates	**1,463**	5,517
Tax effect of expenses not deductible for tax purpose	**10,201**	70,230
Tax effect of income not taxable for tax purpose	**(6,553)**	(5,815)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,330**	36,602
Effect of tax exemption granted to PRC subsidiaries	**(104)**	(3,091)
Tax effect of tax losses and deductible temporary differences not recognised	**7,199**	34,395
Deferred tax liabilities arising on undistributed profit of PRC subsidiaries from 1 January 2008 onwards	**1,982**	1,184
Income tax expense for the year	**35,998**	13,425

Details of deferred tax are set out in note 35.

12. PROFIT (LOSS) FOR THE YEAR

Profit (loss) for the year has been arrived at after charging:

	2012	2011
	HK$'000	*HK$'000*
Staff costs excluding directors' and chief executive's emoluments		
– Salaries, wages and other benefits	**41,404**	39,481
– Retirement benefits scheme contributions	**5,133**	4,538
Total staff costs	**46,537**	44,019
Amortisation of prepaid lease payments	**1,247**	1,210
Amortisation of concession intangible assets (included in cost of sales)	**23,562**	19,618
Auditors' remuneration	**900**	1,000
Cost of inventories recognised as expenses	**57,617**	42,754
Depreciation of property, plant and equipment	**6,847**	6,399
Loss on disposal of property, plant and equipment	**44**	19
Impairment loss recognised in available-for-sale investments	**1,114**	–
Loss on disposal of available-for-sale investments	**1,554**	–
Concession intangible assets written off	**155**	951
Minimum lease payment under operating leases	**2,880**	2,034

13. EMOLUMENTS FOR DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES

(a) Directors' and chief executive's emoluments

The emolument paid or payable to each of the 13 (2011: 13) directors and chief executive were as follows:

For the year ended 31 December 2012

Name	Fees	Salaries, allowance and benefits in kind	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors:				
Wang De Yin	–	921	3	924
Chu Yin Yin, Georgiana	–	585	14	599
Lin Yue Hui	–	325	1	326
Liu Feng	–	325	1	326
Tang Hui Ping, Paul[3]	–	265	8	273
Yang Bin[1]	–	185	4	189
Deng Xiao Ting[7]	–	148	–	148
	–	2,754	31	2,785
Independent Non-Executive Directors:				
Guo Chao Tian[6]	71	–	–	71
Li Jian Jun[8]	34	–	–	34
Wong Siu Keung, Joe[9]	29	–	–	29
Chang Kin Man[5]	93	–	–	93
Wu Tak Lung[4]	120	–	–	120
Gu Wen Xuan[2]	55	–	–	55
	402	–	–	402
Total	402	2,754	31	3,187

1. Resigned on 23 April 2012
2. Resigned on 15 June 2012
3. Resigned on 19 July 2012
4. Resigned on 28 September 2012
5. Resigned on 10 October 2012
6. Appointed on 15 June 2012
7. Appointed on 19 July 2012
8. Appointed on 28 September 2012
9. Appointed on 10 October 2012

Mr. Wang De Yin is appointed as the chief executive of the Company on 19 July 2012 and his emoluments disclosed above include those for services rendered by him as the chief executive.

13. EMOLUMENTS FOR DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

For the year ended 31 December 2011

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[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

Mr. Yang Bin, who resigned on 23 April 2012, was also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive up to the date of his resignation.

There was no arrangement under which directors and chief executive waived or agreed to waive any emoluments during the two years ended 31 December 2012 and 2011.

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

13. EMOLUMENTS FOR DIRECTORS, CHIEF EXECUTIVE AND EMPLOYEES *(Continued)*

(b) Employees' emoluments

The five individuals included with the highest emoluments in the Group, two (2011: two) were directors and chief executive whose emoluments are set out in (a) above. The emolument of the remaining three (2011: three) highest paid individual was as follow:

	2012 ***HK$'000***	2011 *HK$'000*
Salaries, allowance and benefits in kind	**1,151**	1,306
Retirement benefits scheme contributions	**41**	36
	1,192	1,342

Their emoluments were within the following bands:

	2012 **No. of employees** ***HK$'000***	2011 No. of employees *HK$'000*
Nil to HK$1,000,000	**3**	3

No emolument was paid to the directors and the chief executive 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 2012 and 2011.

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: nil).

15. EARNING (LOSS) PER SHARE

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

	2012	2011
	HK$'000	*HK$'000*
Profit (loss) for the purposes of basic and diluted earning (loss) per share	**22,016**	(531,534)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted earning (loss) per share	**556,123**	389,007

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.

Diluted earning (loss) per share was same as the basic earning (loss) per share for the year ended 31 December 2012 and 2011, as the effect of the conversion of the Company's outstanding convertible bonds would result in an increase in earnings per share and a decrease in loss per share for the year ended 31 December 2012 and 2011 respectively.

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 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 and 1 January 2012	44,685	1,891	9,155	11,907	51,895	19,486	139,019
Additions	465	1,689	1,589	3,279	1,000	20,448	28,470
Transfer	7,913	–	–	–	–	(7,913)	–
Transfer to investment property	(7,578)	–	–	–	–	–	(7,578)
Disposal	(24)	(164)	(176)	(1,623)	–	–	(1,987)
Exchange realignment	395	25	67	103	596	206	1,392
At 31 December 2012	**45,856**	**3,441**	**10,635**	**13,666**	**53,491**	**32,227**	**159,316**
ACCUMULATED DEPRECIATION							
At 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 and 1 January 2012	5,763	738	1,627	3,546	29,717	378	41,769
Provided for the year	1,221	273	777	1,744	2,830	–	6,845
Impairment loss for the year	–	–	–	–	35	–	35
Eliminated on disposals	(7)	(132)	(130)	(1,208)	–	–	(1,477)
Exchange realignment	58	8	16	33	292	4	411
At 31 December 2012	**7,035**	**887**	**2,290**	**4,115**	**32,874**	**382**	**47,583**
CARRYING VALUES							
At 31 December 2012	**38,821**	**2,554**	**8,345**	**9,551**	**20,617**	**31,845**	**111,733**
At 31 December 2011	38,922	1,153	7,528	8,361	22,178	19,108	97,250

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

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

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 2012, the property usage permits of certain buildings have not been granted by relevant government authorities with the aggregate carrying values of approximately HK$2,815,000 (2011: HK$3,133,000). Based on the legal advice from the Company's lawyers, the absence of property usage permits to these buildings does not impair the value of the relevant buildings to the Group.

The Group has pledged buildings with carrying amount of approximately HK$2,147,000 (2011: HK$2,199,000) 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"), a qualified valuer not connected with the Group 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, impairment loss of approximately HK$35,000 (2011: HK$20,421,000) was made to the carrying amounts of the property, plant and equipment for the year ended 31 December 2012. 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 ranged from 12% to 14% (2011: 13%).

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:

	2012 *HK$'000*	2011 *HK$'000*
CARRYING VALUES:		
At 1 January	**44,233**	41,771
Additions	**–**	4,396
Amortisation for the year	**(1,247)**	(1,210)
Impairment loss for the year	**(584)**	(2,135)
Exchange realignment	**479**	1,411
At 31 December	**42,881**	44,233
Current assets	**1,252**	1,231
Non-current assets	**41,629**	43,002
	42,881	44,233

At 31 December 2012, legal titles to land use rights with carrying values of approximately HK$14,955,000 (2011: HK$15,028,000) has not been granted by the relevant government authorities. Based on the legal advice from the Company's lawyers, the absence of land use rights certificate does not impair the value of the relevant land use rights to the Group.

As at 31 December 2012, the Group had pledged prepaid lease payments with carrying amount of approximately HK$10,422,000 (2011: HK$10,473,000) 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, approximately impairment loss of HK$584,000 (2011: HK$2,135,000) was made to the carrying amounts of the prepaid lease payments for the year ended 31 December 2012. 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 12 % (2011: 13%).

18. CONCESSION INTANGIBLE ASSETS

	Total
	HK$'000
COST	
At 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 and 1 January 2012	624,181
Additions	31,011
Written off	(183)
Exchange realignment	9,608
At 31 December 2012	**664,617**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2011	45,483
Provided for the year	19,618
Eliminated on written off	(138)
Impairment loss for the year	36,988
Exchange realignment	1,753
At 31 December 2011 and 1 January 2012	103,704
Provided for the year	23,562
Eliminated on written off	(28)
Impairment loss for the year	6,118
Exchange realignment	670
At 31 December 2012	**134,026**
CARRYING VALUES	
At 31 December 2012	**530,591**
At 31 December 2011	520,477

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 Haiyuan and 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 2012, the Group had pledged concession intangible assets with carrying amount of approximately HK$18,442,000 (2011: HK$19,157,000) 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. The calculation uses cash flow projections based on financial budgets approved by management covering a 5 year period, and pre-tax discount rate of 12% (2011: 13%). Cash flows beyond the 5 year period have been extrapolated using a steady 2% (2011: 2%) 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 2012, accordingly an impairment loss of approximately HK$6,118,000 (2011: HK$36,988,000) was recognised.

19. INVESTMENT PROPERTY

	Total
	HK$'000
FAIR VALUE	
Transfers of leasehold land and buildings to investment property	16,868
Fair value gain recognised in the consolidated income statement	504
Exchange realignment	18
At 31 December 2012	17,390

The Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

There was a fair value gain of approximately HK$9,290,000 upon the transfer of leasehold land and buildings to investment property. The amount has been recognised in other comprehensive income during the year ended 31 December 2012.

At 31 December 2012, the property usage permit of the carrying values of approximately HK$17,390,000 has not been granted by the relevant government authorities. The Group is in process to obtain the property usage permit and in the opinion of the directors of the Company, the formal title of the property will be granted to the Group in due course.

On 2 May 2012, the Group transferred a building held as an owner-occupied property to investment property. The fair value of the Group's investment property has been determined by using income approach method with reference to the valuation performed by AVISTA.

The above investment property is located in PRC and held under medium-term lease.

20. GOODWILL

	Provision of water supply and sewage treatment HK$'000
COST	
At 1 January 2011	248,700
Acquisition of a subsidiary	13,525
At 31 December 2011 and 2012	262,225
IMPAIRMENT	
At 1 January 2011	106,327
Impairment loss recognised during the year	145,606
At 31 December 2011 and 2012	251,933
CARRYING VALUES	
At 31 December 2012	10,292
At 31 December 2011	10,292

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 2012 and 2011 allocated to these units are as follows:

	2012 HK$'000	2011 HK$'000
Blue Mountain Hong Kong Group Limited ("Blue Mountain")	–	–
Danzhou Lian Shun Tong Water Pipe Company Limited	–	–
Onfar International Limited ("Onfar")	–	–
Jining Haiyuan	–	–
Anhui Dang Shan Water Industry Company Limited ("Anhui Dang Shan")	–	–
Gaoming Huaxin	10,292	10,292
	10,292	10,292

20. GOODWILL *(Continued)*

Impairment test on goodwill *(Continued)*

During the year ended 31 December 2011, impairment loss of approximately HK$127,360,000 had 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 the year ended 31 December 2011 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. No impairment loss was made during the year ended 31 December 2012.

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 CGU 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$251,933,000 (2011: HK$251,933,000) in relation to goodwill arising on acquisition of Gaoming Huaxin (2011: Blue Mountain, Onfar, Anhui Dang Shan and Gaoming Huaxin).

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 the 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 period, and discount rate of 12% (2011: 13%). Cash flows beyond the 5 year period have been extrapolated using a steady 2% (2011: 2%) 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

	2012	2011
	HK$'000	*HK$'000*
Available-for-sale investments comprise:		
– Equity securities listed in Hong Kong	**68,439**	53,959

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 both years.

22. INTEREST IN ASSOCIATES

	2012 HK$'000	2011 HK$'000
Cost of investment in associates, net of impairment		
Unlisted associates in the PRC	**31,460**	31,460
Share of post-acquisition results and other comprehensive income	**1,371**	6,502
	32,831	37,962

As at 31 December 2012 and 2011, 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 2012	2011	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%**	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

22. INTEREST IN ASSOCIATES *(Continued)*

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 two out of five (2011: one out of three) 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.

The summarised financial information in respect of the Group's associates is set out below:

	2012 **HK$'000**	2011 HK$'000
Total assets	**686,058**	649,315
Total liabilities	**(406,978)**	(357,384)
Net assets	**279,080**	291,931
Group's share of net assets of associates	**32,831**	37,962
Total revenue	**326,666**	410,984
Total loss for the year	**(15,336)**	(87,747)
Total other comprehensive income	**2,958**	55,801
Group's share of losses of associates for the year	**(5,851)**	(22,066)
Group's share of other comprehensive income of associate for the year	**720**	20,561

As disclosed in note 12 to consolidated financial statements of 2011, iMerchants Limited ("iMerchants") became an associate of the Group in 2010.

During the period from January to September 2011, the holders of the 14,692,390 convertible preference shares (the "Convertible Preference Shares") and 50,000,000 convertible bond (the "Convertible Bond") of iMerchants, a former associate of the Group had exercised their rights to convert the Convertible Preference Shares and Convertible Bond into fully paid ordinary shares of iMerchants. After the aforesaid conversion, the equity interest of iMerchants owned by the Group had reduced from 36.57% to 12.61%. The loss of approximately HK$146,295,000 being the decrease in the interest in associate was recognised in the statement of consolidated comprehensive income.

22. INTEREST IN ASSOCIATES *(Continued)*

The directors of the Company considered that the Group had lost the significant influence on iMerchants since 16 September 2011. Due to certain directors of iMerchants, who were also the directors of the Company, had resigned and retired on or before 16 September 2011. After the loss of significant influence, the directors of the Company considered that the equity interest of iMerchants held by the Group had 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 during the year 31 December 2011.

The directors of the Company 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, the directors of the Company were of the opinion that the recoverable amount was less than its respective carrying amount as at 31 December 2011, accordingly an impairment loss of approximately HK$33,540,000 was recognised.

During the year ended 31 December 2012, the directors of the Company were of the opinion that the recoverable amount is higher than its respective carrying amount as at 31 December 2012, accordingly, no impairment loss was made.

23. INVENTORIES

	2012	2011
	HK$'000	*HK$'000*
Raw materials	**2,151**	1,445
Finished goods	**55,795**	44,157
	57,946	45,602

24. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**28,445**	21,087
Less: impairment loss recognised	**(6,733)**	(8,531)
	21,712	12,556
Other receivables	**13,657**	16,556
Less: impairment loss recognised	**(9,453)**	(5,595)
	4,204	10,961
Loans receivables	**95,549**	152,911
Less: impairment loss recognised	**(67,549)**	(81,939)
	28,000	70,972
Deposits and prepayments *(Note)*	**35,197**	1,902
	89,113	96,391

Note:

Included in deposits and prepayments of approximately HK$29,599,000 (2011: Nil) was the tender deposits paid to two independent third parties for bidding the construction project. The amount is unsecured, interest-free and repayable within one year.

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

24. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2012 HK$'000	2011 HK$'000
Within 90 days	**15,738**	5,399
91 to 180 days	**4,192**	4,636
181 to 365 days	**1,189**	2,278
Over 1 year	**593**	243
	21,712	12,556

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$1,782,000 (2011: HK$2,521,000) which were past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. Ageing of trade receivables which are past due but not impaired:

	2012 HK$'000	2011 HK$'000
Within 90 days	**1,391**	1,718
91 to 180 days	**302**	558
181 to 365 days	**89**	245
Total	**1,782**	2,521

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:

	2012 HK$'000	2011 HK$'000
1 January	**8,531**	5,246
Impairment loss recognised	**540**	3,062
Impairment loss reversed during the year	**(2,420)**	–
Exchange realignment	**82**	223
31 December	**6,733**	8,531

Included in the impairment loss are individually impaired trade receivables with an aggregate balance of HK$6,733,000 (2011: HK$8,531,000) which are long outstanding. The Group does not hold any collateral over these balances.

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

	2012 HK$'000	2011 HK$'000
1 January	**5,595**	8,903
Impairment loss recognised	**3,821**	3
Amounts written off as uncollectible	**–**	(3,471)
Exchange realignment	**37**	160
31 December	**9,453**	5,595

Included in the impairment loss are individually impaired other receivables with an aggregate balance of HK$9,453,000 (2011: HK$5,595,000) which are long outstanding. The Group does not hold any collateral over these balances.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Movements in impairment loss of loan receivables were as follows:

	2012 HK$'000	2011 HK$'000
1 January	**81,939**	5,720
Impairment loss recognised	**–**	76,219
Impairment losses reversed during the year	**(14,390)**	–
31 December	**67,549**	81,939

Included in the impairment loss are individually impaired loan receivables with an aggregate balance of HK$67,549,000 (2011: HK$81,939,000) which are long outstanding. The Group does not hold any collateral over theses balances.

As at 31 December 2010, loans 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 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 was remote and impossible, impairment loss of approximately HK$15,598,000 in respect of the loan receivable was made in the year ended 31 December 2011. On 21 August 2012, the Group entered into another supplementary agreement with Top Vision, pursuant to which the outstanding balance carried interest rate of 4% per annum plus Hong Kong Interbank Offered Rate ("HIBOR"), repayable on or before 31 December 2012 and the settlement was guaranteed by 5 independent third parties. As at 31 December 2012, the amount have not yet been settled.

As at 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 (the "Borrower A" and "Borrower B"), 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 (the "Borrower C" and the "Borrower D"), which were secured by personal guarantee from an independent third party, repayable within one year and carried interest at 5% per annum.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

In the opinion of the directors of the Company, the possibility of the recovery of these four loan receivables were remote and impossible, impairment losses of approximately HK$10,000,000, HK$600,000, HK$40,746,000, HK$9,575,000 in respect of the loan receivable had been made in the year ended 31 December 2011. During the year ended 31 December 2012, part of the balance due from Borrower B, HK$1,700,000 from Borrower C and the entire balance due from Borrower D were recovered. Thus, reversal of impairment loss of approximately of HK$115,000 and HK$9,575,000, respectively, was recognised in the year ended 31 December 2012 respectively.

As at 31 December 2011, included in loan receivables were amounts advanced to two independent third parties amounting to HK$24,412,000 and HK$14,647,000 respectively. No impairment loss was recognised during the year ended 31 December 2011, the amounts were unsecured, carried 25% and 20% interest rate per annum respectively and were fully settled during the year.

During the year ended 31 December 2009, the Group granted a loan of approximately HK$5,720,000 to an independent third party ("Borrower E"), which was unsecured, carried 4% interest rate plus HIBOR per annum and repayable in one year. Impairment loss amounting to approximately HK$5,720,000 was made during the year ended 31 December 2009. In the opinion of the directors of the Company, the possibility of the recovery is remote and impossible.

On 21 August 2012, the Group entered a supplementary settlement agreement with Borrower E and extended the settlement date to 31 December 2012. On 29 August 2012, HK$5,000,000 was received from Borrower E and impairment loss of HK$5,000,000 was reversed during the year ended 31 December 2012 accordingly.

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

Cash held at financial institutions represents amounts of approximately HK$38,045,000 (2011: HK$3,533,000) deposited in financial institutions in Hong Kong carry interest rate ranging from 0% to 0.001% (2011: 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.

The Group's bank balance and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	2012 ***HK$'000***	2011 *HK$'000*
US$	**129**	280
RMB	**10,680**	22,519

26. TRADE AND OTHER PAYABLES

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

	2012 HK$'000	2011 HK$'000
Within 30 days	**1,618**	11,757
31 to 90 days	**3,531**	1,090
91 to 180 days	**196**	411
181 to 365 days	**3,469**	776
Over 1 year	**4,887**	2,027
	13,701	16,061
Other tax payables	**3,219**	1,766
Receipt in advance	**49,973**	53,305
Construction payables	**39,828**	36,193
Interest payables	**84,224**	84,482
Other payables	**16,046**	23,836
	206,991	215,643

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

	2012 HK$'000	2011 HK$'000
Contracts in progress at the end of reporting period:		
Contract costs incurred plus recognised profits	**61,867**	64,117
Less: progress billings	**(50,312)**	(41,144)
	11,555	22,973
Analysed for reporting purposes as:		
Amounts due from contract customers	**29,713**	27,225
Amounts due to contract customers	**(18,158)**	(4,252)
	11,555	22,973

At 31 December 2012 and 2011, there were no retentions held by customers for contract work. Advance received from customers for contract work amounted to HK$69,057,000 (2011: HK$53,306,000) included in other payables.

28. BANK BORROWINGS

	2012 HK$'000	2011 HK$'000
Secured loans	**80,485**	53,706
Carrying amount repayable:		
On demand overdue balances *(notes ii and iii)*	**37,319**	31,735
On demand or within one year	**8,634**	3,662
More than one year but not more than two years	**8,633**	3,662
More than two years but not more than five years	**25,899**	10,985
More than five years	**–**	3,662
	80,485	53,706
Less: Amount due within one year shown under current liabilities	**(45,953)**	(35,397)
Amount due after one year	**34,532**	18,309

The exposure of the Group's loans is as follows:

	2012 HK$'000	2011 HK$'000
Fixed-rate loans	**29,918**	31,735
Variable-rate loans	**50,567**	21,971
	80,485	53,706

Notes:

(i) As at 31 December 2012, included in bank borrowings of approximately RMB15,000,000 (equivalent to HK$18,500,000) (2011: RMB18,000,000 (equivalent to HK$21,971,000)) which carries interest ranging from 6.6% to 7.8% per annum and the whole amount is secured by a contractual right to receive the revenue generated by Yichun Fangke, a non-wholly owned subsidiary of the Company.

(ii) As at 31 December 2012, in respect of bank borrowings with carrying amounts of approximately RMB26,000,000 (equivalent to HK$32,067,000) (2011: RMB26,000,000, equivalent to HK$31,735,000) borrowed from Agricultural Bank of China, Danzhou Branch ("ABC Bank"), are overdue and are classified as current liabilities (the "Overdue Loans") and accrued interest payables of approximately RMB48,114,000 (equivalent to HK$59,339,000) (2011: RMB45,560,000, equivalent to HK$55,610,000).

28. BANK BORROWINGS *(Continued)*

Notes: (Continued)

(ii) *(Continued)*

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, ABC Bank 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 43.

Certain of the Group's prepaid lease payments, property, plant and equipment and concession intangible assets with a carrying value of approximately HK$10,422,000 (2011: HK$10,473,000), HK$2,147,000 (2011:HK$2,156,000) and HK$18,442,000 (2011: HK$19,157,000) respectively were pledged to secure the respective bank borrowings as at 31 December 2012.

On 28 December 2012, the Group entered into a settlement agreement ("Settlement Agreement 1") with ABC Bank, pursuant to which, ABC Bank conditionally agreed to waive interest payment of approximately RMB60,615,000 (equivalent to amount of HK$74,756,000) and release the pledged assets if the Group could fulfilled the following conditions:

(1) the Group has to settle the principal of RMB15,000,000 (equivalent to HK$18,500,000) and the litigation costs of RMB491,000 (equivalent to HK$606,000) on or before 31 December 2012; and

(2) the Group has to settle the principal of RMB11,000,000 (equivalent to HK$13,567,000) and interest payables of RMB4,890,000 (equivalent to HK$6,031,000) on or before 31 December 2013.

However, the Group is not able to satisfy the condition (1).

On 28 January 2013, the Group further entered into a supplemental settlement agreement ("Settlement Agreement 2") with ABC Bank, pursuant to which, it abolished the conditions stated in Settlement Agreement 1. According to Settlement Agreement 2, ABC Bank agreed to waive interest payment and release the pledged assets once the Group settle the aggregate amount of principal and interest payable of approximately RMB31,381,000 (equivalent to HK$38,702,000) on or before 30 June 2013.

(iii) As at 31 December 2012, included in bank borrowings of approximately RMB24,260,000 (equivalent to HK$29,918,000) (2011: nil) which is secured by a contractual right to receive the revenue generated by Gaoming Huaxin, a non-wholly owned subsidiary of the Company, and carries fixed interest rate of 5.94% per annum. The loan of approximately RMB25,900,000 (HK$31,833,000) was transferred from other loan due to the financial institution has been upgraded to bank sector during the year ended 31 December 2012. As at 31 December 2012, there was an amount of approximately HK$5,252,000 has been past due.

29. OTHER LOANS

	2012	2011
	HK$'000	*HK$'000*
Other loans comprises of:		
Government loans *(note i)*	**81,362**	84,910
Loans from non-bank institutions *(note ii)*	**3,700**	43,963
Overdue loans *(notes ii and iii)*	**–**	4,882
Loan from employees *(note iv)*	**3,983**	6,614
	89,045	140,369
Analysed as:		
Secured	**6,167**	46,760
Unsecured	**82,878**	93,609
	89,045	140,369
Carrying amount repayable:		
On demand overdue loans	**–**	4,882
On demand or within one year	**54,473**	64,801
More than one year but not more than two years	**5,120**	13,094
More than two years but not more than five years	**4,036**	42,433
More than five years	**25,416**	15,159
	89,045	140,369
Less: Amount due within one year shown under current liabilities	**(54,473)**	(69,683)
Amount due after one year	**34,572**	70,686

29. OTHER LOANS *(Continued)*

Notes:

(i) As at 31 December 2012, government loans of approximately HK$19,733,000 (2011: HK$7,324,000), HK$37,930,000 (2011: HK$73,198,000) and HK$23,699,000 (2011: HK$4,388,000) are fixed-rate borrowings, floating-rate borrowings and interest-free borrowings, respectively. The fixed-rate borrowings carry interest ranging from 2.33% to 5% (2011: 2.55% 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 2012. The government loans are repayable ranging from within one year to eleven years.

According to the 琼財建[2011]670號 dated 5 May 2011 and 儋財建[2012]963號 dated 21 December 2012 issued by Hainan Province Finance Bureau and Danzhou Province Finance Bureau (collectively refer to as the "Finance Bureau") respectively, Finance Bureaus have agreed to waive the loan principal of approximately RMB29,236,000 (equivalent to HK$36,057,000) and accrued interest of approximately RMB1,396,000 (equivalent to HK$1,716,000) unconditionally during the year ended 31 December 2012 for building the water supply facilities. Waiver of other loan and interest payables of approximately RMB30,632,000 (equivalent to approximately HK$37,773,000) was recognised in other income for the year ended 31 December 2012.

(ii) At 31 December 2012, loans from non-bank institutions, and overdue loan with an aggregate amount of approximately HK$3,700,000 (2011: HK$43,963,000) are fixed-rate borrowings carry interest ranging from 5% to 12.3% (2011: 5% to 21.97%) per annum.

Included in the other loans of approximately HK$4,638,000 as at 31 December 2011 was secured by the entire equity interests in wholly-owned subsidiaries of the Company including Billion City Investments Limited ("Billion City"), Nourish Gain Investments Limited ("Nourish Gain"), Smart Giant Group Limited ("Smart Giant") and China Ace Investment Limited ("China Ace") (collectively refer to as the "Shares Charges"). The Shares Charges were released upon the settlement made by the Group during the year ended 31 December 2012.

(iii) At 31 December 2011, the overdue loans with carrying amount of approximately RMB4,000,000 (equivalent to HK$4,882,000) and interest payable (included in other payables) of approximately RMB12,421,000 (equivalent to HK$15,161,000) were overdue and were classified as current liabilities. According to the legal advice from an independent legal adviser of the Company, the original lender has disposed of the rights of the overdue loan through an auction in the PRC to a new owner in the year ended 2010.

On 29 June 2012, the Group entered into a settlement agreement with the new owner, pursuant to which, the Group has to settle the principal during the year ended 31 December 2012. According to the aforesaid settlement agreement, the new owner agreed to waive the accrued interest of RMB3,421,000 (equivalent to HK$4,219,000) and the relevant pledged assets has been released.

29. OTHER LOANS *(Continued)*

Notes: (Continued)

(iii) *(Continued)*

Details of repayment schedule agreed are set out below:

(1) Waiver of the accrued interest payable of approximately in RMB3,421,000 (equivalent to HK$4,220,000) in aggregate and release of pledged assets; and

(2) Revised the repayment schedule as follow:

(i) RMB1,500,000 (on or before 8 August 2012)

(ii) RMB500,000 (on or before 30 September 2012)

(iii) RMB2,000,000 (on or before 30 December 2012)

(iv) RMB4,000,000 (on or before 30 June 2013)

(v) RMB5,000,000 (on or before 30 December 2013)

The Group followed the repayment schedule and has repaid RMB4,000,000 during the year ended 31 December 2012. According to the aforesaid settlement agreement, the new owner has the right to charge addition 0.3% interest based on the newly agreed interest payables of RMB9,000,000, if any default payment.

(iv) At 31 December 2012, loans from employees of approximately RMB3,230,000 (equivalent to HK$3,983,000) (2011: RMB5,419,000 (equivalent to HK$6,614,000)) are fixed-rate borrowings carry interest of 12% to 20% (2011: 13.8% to 15.8%) per annum.

30. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand as at 31 December 2012. Included in the amount of approximately HK$2,587,000 as at 1 January 2011 was carried interest at 11.68% per annum and fully settled during the year ended 31 December 2011.

31. LOAN FROM AN ASSOCIATE

As at 31 December 2012, the amount is unsecured, carried interest at 5.83% (2011: 6.10%) per annum and repayable within a year.

32. CONVERTIBLE BONDS

Issue of new convertible bonds (CB1")

On 3 August 2007, the Company issued a redeemable CB1 in 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 ("CB2")

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"). CB2 due in 2012 with the aggregate principal amount of HK$337,000,000 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 installments. 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.

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 ended 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 was approximately HK$73,096,000 and HK$205,000,000 respectively. On 28 July 2011 and 2 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 unsecured 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)*

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.

Movement of CB1 is as follows:

	2011 *HK$'000*
At the beginning of the year	95,526
Extinguishment gain of CB1	(11,303)
Cash paid for early redemption	(18,000)
Interest expense	555
Interest paid	(555)
Change in fair value	6,873
Redemption by the other loan	(73,096)
At the end of the year	–

The fair value of approximately HK$85,715,000 of CB1 as at 2 August 2011 were determined by taking into account the valuations carried out by Asset Appraisal Limited ("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*
At 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 share *(note 33 – i)*	(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	–	–	–	–

Issue of new convertible bonds ("CB3")

On 26 August 2011, the Company issued CB3 with principal amount of HK$40,000,000 in order to settle the loan from one of the Short Term Borrowers. CB3 can be converted up to 80,000,000 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 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 redeemed 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.

Conversion for convertible bonds of CB3

On 29 June 2012, all of the CB3 with principal amount of HK$40,000,000 was converted to ordinary shares of the Company at conversion price of HK$0.5 each.

32. CONVERTIBLE BONDS *(Continued)*

Issue of new convertible bonds ("CB4")

On 30 September 2011, the Company issued CB4 with principal amount of HK$200,000,000 in order to settle the loan from independent third party. CB4 can be converted up to 200,000,000 ordinary shares at HK$1 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.

Conversion for convertible bonds of CB4

On 16 October 2012, CB4 holder converted CB4 with principal amount of HK$60,000,000 into 120,000,000 ordinary shares at conversion price of HK$0.5 each. On 30 October 2012, CB4 holder sold HK$100,000,000 of CB4 to several independent third parties which were then fully converted into 200,000,000 ordinary shares at conversion price of HK$0.50. On 1 November 2012, CB4 holder further converted its remaining HK$40,000,000 of CB4 into 80,000,000 ordinary shares at the conversion price of HK$0.50.

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 *HK$'000*	CB4 *HK$'000*	Total *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)
As at 31 December 2011	73,459	138,568	212,027
Imputed interest charge	4,974	15,925	20,899
Converted during the year *(note 33-(vi))*	(78,433)	(154,493)	(232,926)
As at 31 December 2012	–	–	–
Equity component			
Issuance of convertible bonds	9,145	65,936	75,081
Transaction costs	(115)	(164)	(279)
As at 31 December 2011	9,030	65,772	74,802
Converted during the year *(note 33-(vi))*	(9,030)	(65,772)	(74,802)
As at 31 December 2012	–	–	–

32. CONVERTIBLE BONDS *(Continued)*

CB3 and CB4 *(Continued)*

The liabilities 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 CB3 and CB4 for financial reporting purposes:

	2012	2011
	HK$'000	*HK$'000*
Financial liabilities at amortised cost		
Liability component of CB3	–	73,459
Liability component of CB4	–	138,568
	–	212,027
Analysed as:		
Current liabilities	–	73,459
Non-current liabilities	–	138,568
	–	212,027
Equity element		
Convertible bond equity reserve of CB3	–	9,030
Convertible bond equity reserve of CB4	–	65,772
	–	74,802

33. SHARE CAPITAL

	2012 Number of shares	2012 Amount HK$'000	2011 Number of shares	2011 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.5 (2011: HK$1) each				
At the beginning of the year	**2,000,000,000**	**2,000,000**	8,000,000,000	800,000
Capital reorganisation *(note v)*	**2,000,000,000**	**–**	–	–
Consolidation of ten shares of HK$0.10 each into one share of HK$1.00 each *(note iv)*	**–**	**–**	(7,200,000,000)	–
Increase on 27 September 2011 *(note iv)*	**–**	**–**	1,200,000,000	1,200,000
At the end of the year	**4,000,000,000**	**2,000,000**	2,000,000,000	2,000,000
Convertible preference shares of HK$0.1 (2011: HK$0.1 each) 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$0.5 (2011: HK$1) each				
At the beginning of the year	**410,331,766**	**410,332**	3,247,651,000	324,765
Capital reorganisation *(note v)*	**–**	**(205,166)**	–	–
Issue of shares upon top-up subscription *(note vii)*	**82,000,000**	**41,000**	–	–
Issue of shares upon placing *(note vii)*	**138,000,000**	**69,000**	–	–
Conversion of convertible bond *(note vi)*	**480,000,000**	**240,000**	–	–
Conversion of convertible bonds *(note i)*	**–**	**–**	206,666,664	20,667
Issue of shares upon placing *(note ii)*	**–**	**–**	324,000,000	32,400
Issue of shares upon placing *(note iii)*	**–**	**–**	325,000,000	32,500
Consolidation of ten shares of HK$0.10 each into one share of HK$1.00 each *(note iv)*	**–**	**–**	(3,692,985,898)	–
At the end of the year	**1,110,331,766**	**555,166**	410,331,766	410,332

33. SHARE CAPITAL *(Continued)*

Notes:

(i) On 3 March 2011, a CB2 holder converted CB2 with nominal value of HK$16,000,000 into 106,666,666 ordinary shares of HK$0.1 each of the Company.

On 15 March 2011, a CB2 holder converted CB2 with nominal value of HK$5,000,000 into 33,333,332 ordinary shares of HK$0.1 each of the Company.

On 28 March 2011, a CB2 holder converted CB2 with nominal value of HK$10,000,000 into 66,666,666 ordinary shares of HK$0.1 each of the Company.

(ii) 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.

(iii) 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.

(iv) Pursuant to a special resolution passed by the Company's shareholders at the 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 by the creation of an additional 1,200,000,000 ordinary shares with a par value of HK$1.00 each.

(v) Pursuant to a special resolution passed by the Company's shareholders at an extraordinary general meeting held on 26 September 2011 and the approval granted by the Grand Court of the Cayman Islands on 6 March 2012, the par value of every issued share of the Company was reduced from HK$1.00 to HK$0.50 by the reduction of HK$0.50 on each issued share of par value of HK$1.00 each (the "Capital Reduction"), with each such reduced share being treated as one fully paid up new share of par value HK$0.50 each (the "New Shares").

Pursuant to an ordinary resolution passed by the Company's shareholders at an extraordinary general meeting held on 26 September 2011, immediately upon the Capital Reduction becoming effective, each authorised but un-issued share with a par value of HK$1.00 each shall be sub-divided into 2 New Shares with a par value of HK$0.50 each (the "Sub-division"). Immediately upon the Sub-division becoming effective, the number of authorised share capital of the Company was increased to 4,000,000,000 ordinary shares of HK$0.50 each.

33. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(vi) On 29 June 2012, a CB3 holder converted CB3 with nominal value of HK$40,000,000 into 80,000,000 ordinary shares of HK$0.5 each of the Company.

On 16 October 2012, the CB4 holder converted CB4 with nominal value of HK$60,000,000 into 120,000,000 ordinary shares of HK$0.5 each of the Company.

On 30 October 2012, the CB4 holder sold CB4 with nominal value of HK$100,000,000 to several independent third parties which were then fully converted into 200,000,000 ordinary shares of HK$0.50 each of the Company.

On 1 November 2012, the CB4 holder further converted CB4 with nominal value of HK$40,000,000 into 80,000,000 ordinary shares of HK$0.50 each of the Company.

(vii) On 27 July 2012, pursuant to a placing and subscription agreement entered into with independent third parties, the Company placed out 82,000,000 new ordinary share of HK$0.5 each. The aforesaid placing of shares was completed on 14 August 2012. A sum of net amount approximately HK$39,925,000 after deducting related expenses of approximately HK$1,075,000 was raised and used as working capital of the Group.

On 14 December 2012, pursuant to a placing and subscription agreement entered into with a placing agent, 138,000,000 existing ordinary share will be placed out to independent third parties of HK$0.51 each. The aforesaid placing of shares was completed on 27 December 2012. A sum of net amount approximately HK$68,288,000 after deducting related expenses of approximately HK$2,092,000, was raised. Approximate 80% and 20% will be used for future business development and general working capital of the Group respectively.

All new shares issued during the year ended 31 December 2012 rank pari passu in all respects with other shares in issue.

34. GOVERNMENT GRANTS

	HK$'000
At 1 January 2011	64,074
Addition	5,096
Exchange realignment	2,175
At 31 December 2011 and 1 January 2012	71,345
Addition	20,392
Recognised as profit this year	(2,220)
Exchange realignment	802
At 31 December 2012	**90,319**

Certain subsidiaries of the Group received government grants subsidising construction of water supply facilities. There are no unfulfilled conditions and other contingencies attaching to the government grants. The government grants were accounted for as deferred income and amortised over the useful lives of the relevant assets. During the year, certain projects related to the construction of water pipeline network has been completed and being used in the year. Deferred income of approximately HK$2,220,000 (2011: nil) was amortised and recognised in the consolidated statement of comprehensive income.

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*	Revaluation of investment property *HK$'000*	Total *HK$'000*
At 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 and 1 January 2012	4,219	8,256	–	12,475
Charge to other comprehensive income during the year	–	–	2,323	2,323
Charge to consolidated statement of comprehensive income for the year	1,982	1,851	126	3,959
At 31 December 2012	**6,201**	**10,107**	**2,449**	**18,757**

At 31 December 2012, the Group had unused tax losses of HK$102,598,000 (2011: HK$89,342,000) 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 2012, the Group also has other deductible temporary differences of approximately HK$168,160,000 (2011: HK$152,620,000). 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$124,020,000 (2011: HK$84,380,000). 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$29,136,000 (2011: 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 had 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 Holdings Limited entered into an agreement with Top Vision and the deposit paid of HK$50,901,000 was assigned as a loan to the holding company of the Vendors, 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 had 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.

The net assets acquired in the transaction, and the goodwill arising 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 were 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

36. ACQUISITION OF A SUBSIDIARY *(Continued)*

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 were 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.

	HK$'000
Net cash outflow arising on acquisition:	
Cash consideration paid	–
Bank balances and cash acquired	166
	166

Included in the loss for the year ended 31 December 2011 was HK$107,000 attributable to the additional business generated by Gaoming Huaxin. Revenue for the year ended 31 December 2011 included HK$1,459,000 generated from Gaoming Huaxin.

Had the acquisition been completed on 1 January 2011, total group revenue for the year would had been HK$290,660,000, loss for the year ended 31 December 2011 would had 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 2011, the directors 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. 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):

	2012	2011
	HK$'000	*HK$'000*
Prepaid lease payments	**10,422**	10,473
Property, plant and equipment	**2,147**	2,156
Concession intangible assets	**18,442**	19,157
	31,011	31,786

b) As set out in note 29, the equity interest in several wholly-owned subsidiaries of the Company had been pledged for the other loan. The relevant shares charge were discharged upon the settlement made during the year ended 31 December 2012.

38. CAPITAL COMMITMENT

	2012	2011
	HK$'000	*HK$'000*
Capital commitments contracted but not provided for:		
– acquisition concession intangible assets, plant and equipment	**5,681**	19,899

39. OPERATING LEASE

The Group as lessee

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 commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012	2011
	HK$'000	*HK$'000*
Within one year	**2,282**	1,442
In the second to fifth year, inclusive	**2,243**	158
More than 5 years	**259**	–
	4,784	1,600

The Group as lessor

Property rental income earned during the year was approximately HK$617,000 (2011: nil). The property are expected to generate rental yields of 6% on an ongoing basis. The property have committed tenant for that the next 20 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012	2011
	HK$'000	*HK$'000*
Within one year	**1,088**	–
In the second to fifth year, inclusive	**4,880**	–
More than 5 years	**24,598**	–
	30,566	–

40. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme

The 2011 Scheme

On 3 June 2011, the Company has adopted new share option scheme (the "2011 Scheme") to replace the 2002 Scheme.

Further details are set out in the announcement of the Company dated 29 April 2011. The 2011 Scheme is valid and effective for a period of 10 years after the date of adoption.

Under the terms of the 2011 Scheme, the Directors of the Company may, at their discretion, grant options to the employees, executive or non-executive Directors, business associate, person or entity that provides research, development or other technological support to any shareholder of any member of the Group or any invested entity, any adviser or consultant to any owner of business or business development of any member of the group or any invested entity (the "Eligible Participants").

A nominal consideration of HK$1 is payable on acceptance of the grant of an option which will entitle the holders to subscribe for shares of the Company during a period of 10 years commencing on the date of acceptance of the option at a price at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares of the Company on the Stock Exchange on the date of grant; and (iii) the average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option.

Share options granted to connected person and its associates is subject to the approval of the Independent Non-Executive Directors ("INEDs"). In addition, any grant of share options to a substantial shareholder or an INED or any if their respective associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the approval of the shareholders of the Company in a general meeting.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2011 Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time. Subject to the shareholders' approval, the maximum number of shares in respect of which options may be granted under the 2011 Scheme shall not exceed 10% of the shares in issue as at the date of the approval, or the maximum number of shares in respect of which options may be granted to any Eligible Participants may not exceed 1% of the shares in issue from time to time in a 12-month period. Except for the entitlements of dividends, bonus, rights declared before the exercise of options, any shares allotted and issued on the exercise of an option will rank pari passu with the other shares in issue at the date of exercise of the relevant option.

At 31 December 2012 and 2011, no options had been granted and remained outstanding under the 2011 Scheme of the Company.

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

Equity-settled share option scheme *(Continued)*

The 2002 Scheme

The Company's share option scheme (the "2002 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 2002 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.

The total number of shares in respect of which options may be granted under the 2002 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.

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

Equity-settled share option scheme *(Continued)*

The 2002 Scheme (Continued)

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

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 and 2012	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 ended of the year						–		
Weighted average exercise price		0.388	–	–	0.388	–		

41. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2012

Conversion of convertible bonds

On 29 June, 16 October, 30 October and 1 November 2012, CB3 and CB4 with principal amounts of HK$240,000,000 in aggregate were converted into 480,000,000 ordinary shares at the specific conversion price. Details are set out in notes 33(vi) to the consolidated financial statements.

Capital reduction

On 6 March 2012, share capitals of HK$205,166,000 were reduced and net off with share premium. Details are set out in notes 33(v) to the consolidated financial statements.

Offsetting of share premium and accumulated losses

On 15 June 2012, share premium of HK$396,683,000 has been credited to accumulated losses.

Transfer between loan receivables and prepayment

During the year ended 31 December 2012, the outstanding balance of HK$1,913,000 to Borrower B has been assigned to prepayment for advertising expenses.

For the year ended 31 December 2011

Settlement of the convertible bonds

On 28 July and 4 August 2011, the directors of Company have 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 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. Details are set out in note 32 to the consolidated financial statements.

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

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

42. 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$5,164,000 (2011: HK$4,601,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

43. 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 ABC Bank (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$32,067,000) (2011: RMB26,000,000, equivalent to HK$31,735,000) and the accrued interests of approximately RMB48,114,000 (equivalent to HK$59,339,000) (2011: RMB45,560,000, equivalent to HK$55,610,000).

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

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

On 15 December 2010, Higher People's Court of Hainan Province issued verdict [海南-中執字第124號], 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. On 6 December 2012, Higher People's Court of Hainan Province issued another verdict [海南-中執字第124-7號], pursuant to which the frozen period have been further extended to 14 December 2013. 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 2013.

(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.

The Group entered into Settlement Agreement 1 and Settlement Agreement 2 with the Plaintiff on 28 December 2012 and 28 January 2013 respectively, the details are set out in note 28 to the consolidated financial statement.

44. 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 was as follows:

	2012	2011
	HK$'000	*HK$'000*
Short-term benefits	**4,331**	4,623
Post-employment benefits	**68**	88
	4,399	4,711

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

45. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2012 and 2011, 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 2012	2011	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
Anhui Dang Shan Water Industry Company Limited ("Dang Shan")*	PRC	Paid up capital of RMB7,500,000	**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	Paid up capital of RMB45,500,000	**51%**	51%	Provision of water supply
Yichun Fangke Sewage Treatment Company Limited*	PRC	Paid up capital of RMB20,000,000	**51%**	51%	Sewage treatment
Yichun City Water Supply Engineering Limited*	PRC	Paid up capital of RMB5,000,000	**100%**	100%	Provision of water supply
Danzhou Qingyuan Water Industry Company Limited*	PRC	Paid up capital of HK$30,000,000	**100%**	100%	Provision of water supply
Danzhou Lian Shun Tong Water Pipe Company Limited*	PRC	Paid up capital of RMB1,000,000	**100%**	100%	Provision of water supply
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

45. 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 2012	2011	Principal activities
Jining City Haiyuan Water Treatment Company Limited*	PRC	Paid up 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	Paid up capital of RMB30,000,000	**60%**	60%	Provision of water supply
Yingtan Water Supply Co., Ltd*	PRC	Paid up capital of RMB66,008,000	**51%**	51%	Provision of water supply
Jiangxi Shunda Construction Engineering Limited*	PRC	Paid up capital of RMB20,500,000	**51%**	51%	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	1 ordinary share of HK$1 each	**100%**	100%	Investment holding
Bonus Raider Investments Limited	BVI	1 ordinary share of US$1 each	**100%**	100%	Investment holding
Bloom Profit Investment Limited	Hong Kong	1 ordinary share of HK$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
Happy Hour Limited	BVI	1 ordinary share of US$1 each	**100%**	100%	Investment holding
Guangzhou Hyde Environmental Protection Technology Co., Ltd*	PRC	Paid up capital of RMB10,000,000	**100%**	100%	Investment holding

45. 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 2012	2011	Principal activities
Foshan City Gaoming Huaxin Sewage Treatment Company Limited*	PRC	Paid up capital of RMB10,000,000	**70%**	70%	Sewage treatment
Yingtan Xinjiang Water Treatment Engineering Limited*	PRC	Paid up capital of RMB500,000	**51%**	–	Installation of water supply facilities
Shenzhen Haisheng Environmental Sci-Tech Company Limited*	PRC	Paid up capital of RMB160,400	**100%**	–	Investment holding

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 2012 and 2011 or at any time during the year ended 31 December 2012 and 2011.

* The English names are for identification purpose only.

46. EVENTS AFTER THE REPORTING PERIOD

(a) On 30 January 2013, the Group disposed of certain available-for-sale investments with the carrying amounts of approximately HK$17,447,000 to an independent third party. The cash consideration is same as the carrying amount of the available-for-sale investments.

(b) On 21 February 2013, the Company entered into a framework agreement (the "Framework Agreement") with an independent third party in connection to acquire 51% equity interest of a company (the "Target Company"). The Target Company was established in the PRC with limited liability and is engaged in investment holding company to hold assets and bear liabilities of a power plant in Humen. Pursuant to the Framework Agreement, the consideration will not be more than RMB40,800,000 (equivalent to HK$50,319,000). Up to date of this report, no definition agreement in relation to the aforesaid transaction has been reached.

(c) On 28 September 2012, Yichun Water entered into an agreement with a non-controlling shareholder of Yichun Fangke, pursuant to which Yichun Water will acquire additional 3.33% equity interest of Yichun Fangke at a cash consideration of approximately RMB2,910,000 (equivalent to HK$3,589,000). The transaction was completed on 1 March 2013.

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Investments in subsidiaries		**2**	2
Available-for-sale investments		**50,991**	29,898
		50,993	29,900
Current assets			
Other receivables		**2,005**	100
Loan receivables		**28,000**	31,911
Amounts due from subsidiaries	*(a)*	**419,639**	856,194
Cash held at financial institutions		**34,097**	99
Bank balances and cash		**24,515**	6,110
		508,256	894,414
Current liabilities			
Other payables		**500**	1,258
Other loan		**–**	4,638
Convertible bonds		**–**	73,459
		500	79,355
Net current assets		**507,756**	815,059
		558,749	844,959
Capital and reserves			
Share capital		**555,166**	410,332
Reserves	*(b)*	**3,583**	296,059
Total equity		**558,749**	706,391
Non-current liability			
Convertible bonds		**–**	138,568
		558,749	844,959

47. 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	Share options reserve	Convertible bonds equity reserve	Investment revaluation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 32)*	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 32)*	–	–	(279)	–	–	(279)
Lapse of share option	–	(121)	–	–	121	–
Cancellation of share option	–	(202)	–	–	202	–
At 31 December 2011 and 1 January 2012	609,578	–	74,802	–	(388,321)	296,059
Loss for the year	–	–	–	–	(489,891)	(489,891)
Fair value gain on available-for-sale investments	–	–	–	1,110	–	1,110
Placing of new shares *(note 33)*	1,380	–	–	–	–	1,380
Transaction cost attributable to issue of share	(3,167)	–	–	–	–	(3,167)
Share issued upon conversion of convertible bonds	67,728	–	(74,802)	–	–	(7,074)
Capital reduction *(note 33)*	205,166	–	–	–	–	205,166
Transfer	(396,683)	–	–	–	396,683	–
At 31 December 2012	**484,002**	**–**	**–**	**1,110**	**(481,529)**	**3,583**

FIVE YEARS FINANCIAL SUMMARY

	2008 HK$'000	2009 HK$'000 (restated)	2010 HK$'000 (restated)	2011 HK$'000	**2012 HK$'000**
Results					
Turnover	289,875	202,108	238,771	284,954	**327,885**
Finance costs	(10,280)	(11,993)	9,534	31,948	**31,744**
(Loss) profit before tax	65,746	(300,227)	(166,667)	(502,388)	**81,920**
Income tax expense	(6,937)	(8,448)	(10,813)	(13,425)	**(35,998)**
(Loss) profit for the year (including discontinued operations)	58,809	(342,485)	(149,796)	(515,813)	**45,922**
Discontinued operations					
(Loss) profit for the year from discontinued operations	–	(33,810)	27,684	–	**–**
Assets and liabilities					
Property, plant & equipment	129,947	103,164	97,598	97,250	**111,733**
Prepaid lease payments	76,443	42,854	40,621	43,002	**41,629**
Concession intangible assets	608,726	416,718	483,829	520,477	**530,591**
Investment property	–	–	–	–	**17,390**
Intangible asset	–	915,301	–	–	**–**
Goodwill	383,347	250,995	142,373	10,292	**10,292**
Available-for-sale investments	59,519	65,040	29,898	53,959	**68,439**
Interest in associates	55,783	57,853	281,407	37,962	**32,831**
Deposit paid for acquisition of plant and equipment	–	–	–	–	**5,663**
Deposits paid for acquisition of subsidiaries	–	50,901	–	–	**3,589**
Net current assets (liabilities)	(122,535)	(306,617)	(303,574)	(147,888)	**60,575**
	1,191,230	1,596,209	772,152	615,054	**882,732**
Share capital	189,090	270,638	324,765	410,332	**555,166**
Reserves	326,989	190,659	124,128	(307,016)	**(80,173)**
Non-redeemable convertible preference shares of a subsidiary	–	587,696	–	–	**–**
Equity component of convertible bonds of a subsidiary	–	84,045	–	–	**–**
Non-controlling interests	194,862	210,496	179,164	200,355	**229,559**
Bank borrowing due after one year	27,076	23,909	21,253	18,309	**34,532**
Other loans – due after one year	45,940	44,902	47,487	70,686	**34,572**
Loans from a minority shareholder	3,384	–	–	–	**–**
Amount due to minority shareholder of subsidiaries	81,427	–	–	–	**–**
Convertible bonds	262,335	–	3,000	138,568	**–**
Convertible bonds of a subsidiary	–	118,427	–	–	**–**
Government grants	55,763	60,040	64,074	71,345	**90,319**
Deferred tax liabilities	4,364	5,397	8,281	12,475	**18,757**
	1,191,230	1,596,209	772,152	615,054	**882,732**
Earnings (loss) per share					
Basic	(2.32 cents)	(15.68 cents)	(32.72 cents)	(136.64 cents)	**3.96 cents**
Diluted	(0.91 cents)	(15.68 cents)	(32.72 cents)	(136.64 cents)	**3.96 cents**