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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1129)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The Board of Directors (the "Board") of China Water Industry Group Limited (the "Company") hereby announces that the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009 together with comparative figures for the year ended 31 December 2008 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2009** **HK$'000**	*2008* *HK$'000*
Turnover	*4*	**335,834**	289,875
Revenue		**211,046**	194,926
Cost of sales		**(133,362)**	(118,131)
Gross profit		**77,684**	76,795
Other operating income		**5,385**	9,461
Change in fair value of convertible bonds		**(204,404)**	64,537
Selling and distribution costs		**(11,196)**	(7,963)
Administrative expenses		**(84,818)**	(69,127)
Discount on acquisition of a business		**–**	12,443
Gain on disposal of subsidiaries		**7,504**	–
Loss on disposal of a business		**(4,760)**	–
Gain on deemed partial disposal of a subsidiary		**21,323**	–
Net loss on disposal of available-for-sale investments		**(22,721)**	–
Net gain on disposal of debt securities		**–**	1,142
Net gain on disposal of listed trading securities		**1,729**	5,531
Increase in fair values of financial assets at fair value through profit or loss		**–**	2,620
Impairment loss recognised on trade and other receivables		**(8,444)**	(8,311)
Impairment loss recognised on goodwill		**(98,685)**	(7,837)
Share of results of an associate		**2,183**	(3,265)
Finance costs	*6*	**(14,930)**	(10,280)
(Loss) profit before tax	*7*	**(334,150)**	65,746
Income tax expense	*8*	**(8,335)**	(6,937)
(Loss) profit for the year		**(342,485)**	58,809

	Notes	2009 HK$'000	2008 HK$'000
Other comprehensive income (expense) for the year, net of tax			
Exchange difference arising on translation		**3,057**	15,317
Exchange reserve released upon disposal of a subsidiary		**(5,028)**	–
Change in fair value of available-for-sale investments		**10,265**	(78,394)
Release of investment revaluation reserve upon disposal of available-for-sale investment		**70,520**	(771)
Share of exchange reserve of an associate		**681**	2,189
Total comprehensive expense for the year, net of tax		**(262,990)**	(2,850)
(Loss) profit for the year attributable to:			
Owners of the Company		**(354,239)**	43,942
Minority interests		**11,754**	14,867
		(342,485)	58,809
Total comprehensive expense attributable to:			
Owners of the Company		**(284,909)**	(15,792)
Minority interests		**21,919**	12,942
		(262,990)	(2,850)
(Loss) earnings per share (HK cents)	*10*		
Basic		**(15.68)**	2.32
Diluted		**(15.68)**	(0.91)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2009** **HK$'000**	*2008* *HK$'000*
Non-current assets			
Property, plant and equipment		**103,164**	129,947
Prepaid lease payments		**42,854**	76,443
Concession intangible assets		**416,718**	608,726
Intangible asset		**915,301**	–
Goodwill		**250,995**	383,347
Available-for-sale investments		**65,040**	59,519
Interest in an associate		**57,853**	55,783
Deposit paid for acquisition of subsidiaries		**50,901**	–
		1,902,826	1,313,765
Current assets			
Inventories		**13,304**	12,882
Trade and other receivables	*11*	**74,600**	105,910
Amounts due from customers for contract works		**10,884**	–
Amount due from a minority shareholder of a subsidiary		**–**	1,952
Prepaid lease payments		**1,181**	1,794
Cash held at financial institutions		**212,474**	13,170
Bank balances and cash		**65,383**	135,472
		377,826	271,180
Current liabilities			
Trade and other payables	*12*	**138,959**	209,215
Amounts due to customers for contract works		**657**	–
Bank borrowings – repayable within one year		**33,017**	32,716
Other loans – repayable within one year		**33,813**	42,395
Amounts due to minority shareholders of subsidiaries		**8,258**	105,802
Convertible bonds		**466,739**	–
Tax payables		**3,000**	3,587
		684,443	393,715
Net current liabilities		**(306,617)**	(122,535)
		1,596,209	1,191,230
Capital and reserves			
Share capital		**270,638**	189,090
Reserves		**190,659**	326,989
Equity attributable to owners of the Company		**461,297**	516,079
Non-redeemable convertible preference shares of a subsidiary		**587,696**	–
Equity component of convertible bonds of a subsidiary		**84,045**	–
Minority interests		**210,496**	194,862
Total equity		**1,343,534**	710,941
Non-current liabilities			
Bank borrowings – due after one year		**23,909**	27,076
Other loans – due after one year		**44,902**	45,940
Loan from an associate		**–**	3,384
Amounts due to minority shareholders of subsidiaries		**–**	81,427
Convertible bonds		**–**	262,335
Convertible bonds of a subsidiary		**118,427**	–
Government grants		**60,040**	55,763
Deferred tax liabilities		**5,397**	4,364
		252,675	480,289
		1,596,209	1,191,230

Notes

1. GENERAL

China Water Industry Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. BASIS OF PREPARATION

As at 31 December 2009, the Group reported a consolidated loss attributable to owners of the Company of approximately HK$354,239,000 for the year ended 31 December 2009 and had a consolidated net current liabilities of approximately HK$306,617,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liability in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2009 giving that the directors of the Company will consider different sources of financing being available.

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

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

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – INT 13	Customer Loyalty Programmes
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) – INT 16	Hedges of a Net investment in a Foreign Operation
HK(IFRIC) – INT 18	Transfers of Assets from Customers

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

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) – Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 7 – Improving Disclosures about Financial Instruments

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKFRS 8 – Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 5) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKIFRS 1 (Revised)	First time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments those are effective for annual periods beginning on or after 1 July 2009 and 1 January, 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of *HKAS 39 Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of *HKFRS 9* might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs (2009)*, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to *HKAS 17*, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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

4. TURNOVER

Turnover represents revenue arising from water supply, sewage treatment, and water supply related installation and construction, turnover from investments as well as revenue from manufacturing and trading of ceramic sewage materials.

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

	2009	2008
	HK$'000	*HK$'000*
Provision of water supply	**84,201**	78,547
Water supply related installation and construction revenue	**85,536**	65,942
Sewage treatment	**18,543**	25,285
Water supply and sewage treatment infrastructure construction income	**13,828**	23,744
Interest income from debt securities	**–**	47
Dividends from listed securities	**–**	527
Proceeds from disposal of available-for-sale investments	**113,014**	–
Proceeds from trading of securities *(note)*	**–**	19,132
Proceeds from trading of held-for-trading investments	**–**	61,535
Proceeds from trading of financial assets at fair value through profit or loss	**11,774**	14,282
Revenue from manufacturing and trading of ceramic sewage materials	**8,938**	834
	335,834	289,875

Note:

The amount represented the proceeds from disposal of securities, including unlisted equity securities and unlisted debt securities.

The unlisted equity securities were issued by a private entity incorporated in Japan. During the year ended 31 December 2008, the Group disposed of unlisted equity securities with carrying amount of HK$10,500,000, which had been carried at cost less impairment before the disposal. No gain or loss arised from the disposal.

The unlisted debt securities, with fixed interest of 5.4% and maturity date on 20 June 2008, are measured at fair value which determined by reference to the quoted prices provided by the financial institutions. During the year ended 31 December 2008, the Group disposed of unlisted debt securities at considerations of approximately HK$8,632,000 of which the net gain on disposal of debt securities amounted to HK$1,142,000.

5. SEGMENT INFORMATION

The Group has adopted *HKFRS 8 Operating Segments* with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker who are directors of the Company, for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (*HKAS 14 Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions (i.e. (a) provision of water supply and sewage treatment; (b) construction of water supply and sewage treatment infrastructure; (c) investment in financial and investment products; (d) trading of watches and accessories; and (e) Others). However, information reported to the chief operating decision maker is more specifically focused on the category of customer for each type of goods and services. The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

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

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

Segment information about these businesses is presented below:

Segment Revenue and Results
For the year ended 31 December

	Provision of water supply and sewage treatment as well as construction services		Investments in financial products		All others		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
SEGMENT REVENUE								
Sales to external customers	**202,108**	193,518	**–**	574	**8,938**	834	**211,046**	194,926
SEGMENT RESULTS	**(31,739)**	34,019	**(10,126)**	10,238	**(34,241)**	(331)	**(76,106)**	43,926
Unallocated corporate income and expenses							**(258,044)**	21,820
(Loss) profit before tax							**(334,150)**	65,746

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by/loss from each segment without allocation of central administration costs, changes in fair value of convertible bonds, directors' and supervisors' salaries, interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

For the year ended 31 December

	Provision of water supply and sewage treatment as well as construction services		Investments in financial products		All others		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
OTHER SEGMENT INFORMATION:								
Amounts included in the measure of segment profit or loss or segment asset:								
Addition to non-current assets *(note)*	**60,011**	127,211	**4**	141	**1,442**	2,056	**61,457**	129,408
Interests in an associate	**57,853**	55,783	**–**	–	**–**	–	**57,853**	55,783
Share of results of an associate	**(2,183)**	3,265	**–**	–	**–**	–	**(2,183)**	3,265
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	**6,883**	5,223	**37**	73	**314**	98	**7,234**	5,394
Amortisation of concession intangible assets	**14,864**	16,625	**–**	–	**–**	–	**14,864**	16,625
Amortisation of intangible asset	**–**	–	**10,283**	–	**–**	–	**10,283**	–
Bad debt directly written off on trade and other receivables	**2,807**	101	**–**	–	**–**	–	**2,807**	101
Write down of inventories (included in cost of sales)	**1,682**	1,800	**–**	–	**–**	–	**1,682**	1,800
Gain on disposal of subsidiaries	**(7,504)**	–	**–**	–	**–**	–	**(7,504)**	–
Loss on disposal of a business	**4,760**	–	**–**	–	**–**	–	**4,760**	–
Net loss on disposal of available-for-sale investments	**–**	–	**22,721**	–	**–**	–	**22,721**	–
Net gain on disposal of debt securities	**–**	–	**–**	(1,142)	**–**	–	**–**	(1,142)
Net gain on disposal of listed trading securities	**–**	–	**(1,729)**	(5,531)	**–**	–	**(1,729)**	(5,531)
Increase in fair values of financial assets at fair value through profit or loss	**–**	–	**–**	(2,620)	**–**	–	**–**	(2,620)
Impairment loss on trade and other receivables	**1,952**	8,311	**–**	–	**772**	–	**2,724**	8,311
Loss (gain) on disposal of property, plant and equipment	**54**	(57)	**–**	–	**–**	–	**54**	(57)
Impairment loss on goodwill	**66,069**	7,837	**–**	–	**32,616**	–	**98,685**	7,837
Loss on partial disposal of a subsidiary	**–**	–	**–**	140	**–**	–	**–**	140
Discount on acquisition of a business	**–**	(12,443)	**–**	–	**–**	–	**–**	(12,443)
Gain on deemed partial disposal of a subsidiary	**–**	–	**(21,323)**	–	**–**	–	**(21,323)**	–
Impairment loss recognised on concession intangible assets	**2,222**	–	**–**	–	**–**	–	**2,222**	–
Amounts regularly provided to the chief operation decision maker but not included in measure of segment profit or loss or segment assets:								
Interest income	**(218)**	(1,266)	**(9)**	(1,145)	**(2)**	(3)	**(229)**	(2,414)
Finance costs	**11,993**	9,260	**2,472**	963	**465**	57	**14,930**	10,280
Income tax expense	**8,222**	6,937	**–**	–	**113**	–	**8,335**	6,937
Change in fair value of convertible bonds	**–**	–	**204,404**	(64,537)	**–**	–	**204,404**	(64,537)
Impairment loss on other receivables	**5,720**	–	**–**	–	**–**	–	**5,720**	–

Note: Non-current assets exclude financial instruments, intangible asset, goodwill and deposit paid for acquisition of subsidiaries.

Segment Assets and Liabilities
As at 31 December

	Provision of water supply and sewage treatment as well as construction services		Investments in financial products		All others		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets								
Segment assets	**864,420**	1,231,849	**1,247,145**	134,002	**29,070**	60,058	**2,140,635**	1,425,909
Unallocated segment assets							**140,017**	159,036
Consolidated total assets							**2,280,652**	1,584,945
Liabilities								
Segment liabilities	**192,306**	261,365	**–**	–	**3,438**	898	**195,744**	262,263
Unallocated segment liabilities							**741,374**	611,741
Consolidated total liabilities							**937,118**	874,004

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments, other than deposit paid for acquisition of subsidiaries, amount due from a minority shareholder of a subsidiary, bank balances and cash and assets which are not able to allocate into reportable segments.

- all liabilities are allocated to reportable segments, other than bank borrowings, other loans, amounts due to minority shareholders of subsidiaries, tax payables, loan from an associate, convertible bonds, convertible bonds of a subsidiary, deferred tax liabilities, and liabilities which are not able to allocate into reportable segments.

Geographical information

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	2009	2008
	HK$'000	*HK$'000*
Europe	**–**	15,078
The PRC, Hong Kong and Taiwan	**335,834**	193,599
North America	**–**	48,579
Australia	**–**	10,729
Japan	**–**	10,269
Asia Pacific (other than Japan)	**–**	8,263
Others	**–**	3,358
	335,834	289,875

All segment assets and additions of property, plant and equipment and concession intangible assets are located in the PRC, Hong Kong and Taiwan.

Information about major customers

For the year ended 31 December 2009 and 2008, the Group does not have any single significant customer with the transaction value over 10% of the turnover.

6. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest on:		
– Interest on convertible bonds	**963**	963
– Imputed interest expenses on convertible bonds of a subsidiary	**2,472**	–
– Bank borrowings wholly repayable within five years	**2,628**	2,470
– Bank borrowings wholly repayable more than five years	**1,762**	2,770
– Other loans wholly repayable within five years	**5,214**	2,130
– Other loans wholly repayable more than five years	**1,394**	1,298
– Amounts due to minority shareholders of subsidiaries	**278**	361
– Loan from an associate	**219**	288
	14,930	10,280

7. (LOSS) PROFIT BEFORE TAX

	2009	2008
	HK$'000	*HK$'000*
(Loss) profit before tax has been arrived at after charging:		
Amortisation of prepaid lease payments	**1,362**	1,164
Amortisation of concession intangible assets (included in cost of sales)	**14,864**	16,625
Amortisation of an intangible asset	**10,283**	–
Auditors' remuneration	**960**	930
Bad debts directly written off on trade receivables	**–**	101
Bad debts directly written off on other receivables	**2,807**	–
Cost of inventories recognised as expenses	**25,026**	20,187
Depreciation of property, plant and equipment	**5,872**	4,230
Impairment loss on concession intangible assets	**2,222**	–
Write down of inventories (included in cost of sales)	**1,682**	1,800
Loss on partial disposal of a subsidiary	**–**	140
Loss on disposal of concession intangible assets	**309**	–
Loss on disposal of property, plant and equipment	**54**	–
Minimum lease payment under operating leases	**3,580**	3,020
Net exchange loss	**94**	953
Staff costs excluding directors' emoluments		
– Salaries, wages and other benefits	**37,085**	33,211
– Retirement benefits scheme contributions	**6,120**	5,308
Total staff costs	**43,205**	38,519

8. INCOME TAX EXPENSE

	2009	2008
	HK$'000	*HK$'000*
PRC Enterprise Income Tax ("EIT")		
– Current	**6,203**	3,987
– Under provision in prior years	**294**	–
	6,497	3,987
Deferred tax	**1,838**	2,950
	8,335	6,937

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. No tax is payable on the profit for the year ended 31 December 2009 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

Hong Kong Profits Tax has not been provided for in the consolidated financial statements for the year ended 31 December 2008 as there was no estimated assessable profit derived.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Group are exempted from PRC EIT for two years from the first profit making year, followed by a 50% reduction for the next three years.

Under the Law of the EIT and Implementation Regulation of the Law of the EIT, the tax rate of the other PRC subsidiaries is at 25% from 1 January 2008 onwards.

9. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

10. (LOSS) EARNINGS PER SHARE

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

	2009	2008
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share ((loss) earnings for the year attributable to owners of the Company)	**(354,239)**	43,942
Effect of dilutive potential shares:		
– interest on convertible bonds	**963**	963
– change in fair value of convertible bonds	**204,404**	(64,537)
(Loss) profit for the purposes of diluted (loss) earnings per share	**(148,872)**	(19,632)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,259,686**	1,890,900
Effect of dilutive potential shares:		
– share options issued by the Company *(note)*	**–**	–
– conversion of convertible bonds	**338,908**	338,908
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,598,594**	2,229,808

Note: The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as exercise price of those options is higher than the average market price of shares for the years ended 31 December 2009 and 2008.

Diluted loss per share was same as the basic loss per share for the year ended 31 December 2009, as the effect of the conversion of the Company's outstanding share options and convertible bonds as well as the outstanding convertible bonds and non-redeemable preference shares issued by iMerchants Limited ("iMerchants") was anti-dilutive for the year ended 31 December 2009.

11. TRADE AND OTHER RECEIVABLES

	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**14,983**	21,341
Less: impairment loss recognised	**(5,807)**	(4,754)
	9,176	16,587
Other receivables	**76,619**	93,035
Less: impairment loss recognised	**(14,400)**	(6,931)
Deposits and prepayments	**3,205**	3,219
	74,600	105,910

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

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

	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**3,537**	10,760
91 to 180 days	**4,889**	5,192
181 to 365 days	**710**	511
Over 1 year	**40**	124
	9,176	16,587

12. TRADE AND OTHER PAYABLES

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

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**5,067**	3,110
31 to 90 days	**1,907**	1,232
91 to 180 days	**555**	1,946
181 to 365 days	**587**	1,050
Over 1 year	**2,464**	21,912
	10,580	29,250
Other payables	**61,323**	118,221
Interest payables	**67,056**	61,744
	138,959	209,215

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

13. ACQUISITION OF AN INTANGIBLE ASSET THROUGH ACQUISITION OF A SUBSIDIARY

On 23 October 2009, iMerchants acquired the entire issued share capital of Supreme Luck International Limited ("Supreme Luck") from an independent third party for a total consideration of HK$925,572,000. The principal activity of Supreme Luck is an investment holding company and its major asset is an exclusive right to receive management fee from Shenzhen Careall Capital Investment Co. Ltd. ("Careall Capital"). Careall Capital is principally engaged in venture investment, venture investment advisory and management services. Careall Capital mainly invests in the equities of the new technology-based enterprises in the PRC. Accordingly, the transaction has been accounted for as the acquisition of an intangible asset through acquisition of a subsidiary.

The net assets acquired in the transaction are as follows:

	2009
	HK$'000
Net assets acquired:	
Intangible asset	**925,584**
Other payables	**(12)**
Net assets acquired	**925,572**
Total consideration satisfied by:	
Issue of ordinary shares *(Note)*	**58,446**
Issue of convertible bonds	**200,000**
Issue of non-redeemable convertible preference shares	**567,126**
Cash	**98,890**
Deferred consideration	**1,110**
	925,572
Net cash outflow arising on acquisition:	
Cash consideration paid	**98,890**

Note: As part of the consideration for the acquisition of Supreme Luck, 61,522,160 new ordinary shares of iMerchants with par value of HK$0.2 each were issued at the price of HK$0.95. The fair value of the ordinary shares issued was determined by reference to the published price available at the date of the acquisition.

14. CAPITAL COMMITMENT

	2009	2008
	HK$'000	*HK$'000*
Capital commitments contracted but not provided for, in respect of acquisition of concession intangible assets and property, plant and equipment	**7,514**	5,388

15. CONTINGENT LIABILITIES

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

In November 2007, the People's Government of Danzhou City and Super Sino entered into a net asset transfer agreement, pursuant to which all assets and liabilities of Danzhou City Water were transferred to Super Sino. On 26 June 2008, Super Sino was notified that Agricultural Bank of China, Danzhou Branch ("the Plaintiff") filed a claim regarding the liabilities transferred by Danzhou City Water with the Intermediate People's Court of Hainan ("Court") against Danzhou City Water, Super Sino, Danzhou Urban Development Corporation and the People's Government of Danzhou City for the repayment of the loan principal of approximately HK$29,601,000 (equivalent to RMB26,000,000) (2008: HK$29,332,000) and the interests of approximately HK$46,494,000 (equivalent to RMB40,838,000) (2008: HK$43,459,000) arising from the defendants of Danzhou City Water and Super Sino to the Plaintiff.

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

On 17 December 2009, the Plaintiff made on appeal to the Higher People's Court of Hainan Province court seeking the fulfilment of the guarantee responsibility of Danzhou Urban Development Corporation. Therefore, this litigation is still in the second instance for the final sentence to be made by the Higher People's Court of Hainan Province. As advised by the Company's legal counsel, the verdict issued by the Court is not legally binding before the sentence of the Higher People's Court of Hainan Province. Following the issue of the verdict, the Plaintiff and Super Sino agreed to resolve the issue by way of mediation, and reached a verbal agreement thereon. The relevant settlement agreement will be duly entered into after the review, report and approval procedures have been completed by the Plaintiff in accordance with its relevant procedures. As at the reporting date, the directors of the Company are discussing the settlement arrangement with the Plaintiff and there is no demand for settlement from the Plaintiff at the moment. The principal of the said loan and the interest thereon have been included in the consolidated financial statements of the Group. The directors of the Company are of the view that the aforesaid litigation is unlikely to have any significant material financial impact on the Group.

INFORMATION FROM INDEPENDENT AUDITOR'S REPORT

Basis for Disclaimer of Opinion

Fundamental uncertainty relating to the going concern basis

As explained in note 2 to the consolidated financial statements, which indicates that the Group incurred a consolidated loss attributable to owners of the Company of approximately HK$354,239,000 for the year ended 31 December 2009 and had a consolidated net current liabilities of approximately HK$306,617,000 as at 31 December 2009, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon future funding available.

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

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

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

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Financial results

The Group suffered a consolidated net loss for the year of HK$342.49 million. Comparing with the net profit in the previous year of HK$58.81 million, this represented a significant and unanticipated fall of HK$401.30 million. The net loss for the current year could be analyzed as follows:

– a loss of HK$204.40 million from the change in fair value of Convertible Bonds ("CB");

– an impairment loss on goodwill of HK$98.69 million; and

– net loss of HK$22.72 million from disposal of available-for-sale investments.

The loss of the Group before the accounting treatments regarding the fair value adjustment of CB and the impairment loss on goodwill for the year ended would be HK$39.40 million.

Revenue and gross profit

For the year ended 31 December 2009, the Group has achieved a continuing growth in revenue and gross profit, which amounted to HK$211.05 million and HK$77.68 million respectively. This represented a slight growth of 8.27% in revenue and 1.16% in gross profit as compared to the last year. Revenue and gross profit were mainly attributable from the water supply and related construction work. The main revenue contributors for the year were Yichun Water Industry Co., Ltd ("Yichun Water"), Danzhou Qingyuan Water Industry Company Limited* ("Danzhou Water") and Yingtan Water Supply Co., Ltd ("Yingtan Water"), which collectively accounted for 45.83% of consolidated revenue.

Other operating income

Other operating income mainly comprised of bank interest income of HK$0.23 million and other operating income recorded in certain water supply plants of HK$5.10 million. Other operating income has dropped by HK$4.08 million as bank interest income has reduced by HK$2.19 million and a one-off income including the disposal of convertible notes receivable of HK$1.33 million and government subsidiaries of HK$1.91 million for snow disaster had been recognized in the previous year.

Gain on disposal of subsidiary

During the year, the Group has disposed of its entire equity interest in Longwide Investment Limited and its subsidiaries ("Longwide Group") to independent third parties at the consideration of HK$50 million. A gain on disposal of HK$7.50 million has been recognized.

Gain on deemed partial disposal of a subsidiary

During the year, iMerchants has issued 61,522,160 Ordinary Shares as a partial consideration for the acquisition of Supreme Luck International Limited (the "Supreme Luck") (for details, please refer to the Company's announcement dated 23 October 2009). As a result, the Group's equity interest in iMerchants has been diluted from 84.98% to 76.66%. Pursuant to the Hong Kong Financial Reporting Standards ("HKFRS"), the Group was deemed of having disposed of 8.32% of iMerchants, and a gain thereon of approximately HK$21.32 million has been recognized.

Selling and distribution costs and administrative expenses

Selling and distribution costs and administrative expenses have collectively increased by HK$18.92 million which mainly resulted from the acquisition of exclusive right through newly acquired subsidiary of Supreme Luck and the increase in scale of operation. Pursuant to the HKFRS, the exclusive right deemed as an intangible asset which is amortized over its estimated useful lives, the amortization cost thereon of HK$10.28 million has been recognized. During the year, ceramic sewage material business and Yingtan Water have been commencing full operation.

Net loss on disposal of available-for-sale investments

Net loss of HK$22.72 million has been recognized from the disposal of available-for-sale investments, which was mainly held by the iMerchants, a subsidiary of the Group whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

Loss on disposal of a business

Loss of HK$4.76 million was resulting from the disposal of its assets and liabilities of a branch of Jining City Haiyuan Water Treatment Limited* ("Jining Haiyuan") in Liang Shan County.

Impairment loss recognised on trade and other receivables

The impairment loss of HK$8.44 million was provided for the long outstanding trade receivable of HK$2.72 million and the other receivable of HK$5.72 million regarding the financial assistance given to a sewage treatment plant.

Impairment loss recognized in respect of goodwill

During the year ended 31 December 2009, the Group recognised an impairment loss of goodwill with an aggregate amount of HK$98.69 million (2008: HK$7.84 million). The goodwill arose from acquisitions of Blue Mountain Hong Kong Group Ltd., Danzhou Lian Shun Tong Water Pipe Company Limited*, Onfar International Limited, Jining City Haiyuan Water Treatment Company Limited*, Anhui Dang Shan Water Industry Co. Ltd. and Plenty One Ltd. which has been allocated to different cash-generating units, namely provision of water supply, sewage treatment and others. The impairment loss has incurred as a result of the present value of estimated future cash flows expected to arise from these cash-generating units which is less than the respective carrying amount of the units. The carrying amount includes the carrying value of goodwill and the net asset value.

Finance costs

Finance costs mainly comprised of interest on bank and other borrowings of HK$11 million and convertible bond interest of HK$3.44 million. During the year, zero coupon convertible bonds of HK$200 million were issued by iMerchants as a partial consideration for the acquisition of Supreme Luck, which resulted in imputed interest expenses of HK$2.47 million. The imputed interest was resulted from accounting treatment and it did not affect the actual cashflow of the Group.

Share of profit from associate

The Group has acquired 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("Jinan Hongquan") in previous years. During the current year, the Group has shared a post-acquisition profit from Jinan Hongquan of HK$2.18 million.

BUSINESS REVIEW

Water supply business

In 2009, the Group's revenue and profit from the water supply business in China has grown steadily and continuously. Revenue from this segment amounted to approximately HK$84.20 million, representing an increase of 7.20% as compared with last year. A substantial portion of the revenue was attributable to the contributions from the water supply business of Yichun Water, Danzhou Water and Yingtan Water, representing 81.56% of the total water supply revenue.

In addition, during the year, the Group is proceeding with the acquisition of a water supply plant in Tangshan City, Hebei Province. It is expected that the daily water supply capacity of the Group will increase by 55,000 tonnes from its existing basis to 2,015,000 tonnes.

Sewage treatment business

During the year, revenue from the sewage treatment business of the Group amounted to approximately HK$18.54 million. The major contributors of revenue for this business segment are Yichun City in Jiangxi Province, and Jinxiang County, Jining City in Shandong Province.

In addition, following the construction of phase II of the sewage treatment project in Yichun City completed in this year and phase II of the sewage treatment project in Jinxiang County in Jining City planned to be completed in 2010, the Group's daily sewage treatment capacity has expected to enlarge by 40,000 tonnes and 20,000 tonnes respectively. Furthermore, the Group is proceeding with the acquisition of two sewage treatment plants in Guangdong Province, which are expected to increase the Group's daily sewage treatment capacity by 50,000 tonnes to 180,000 tonnes.

Construction of water supply and sewage treatment infrastructural facilities

In 2009, the revenue and gross profit from construction work and infrastructural projects amounted to approximately HK$101.74 million (2008: HK$89.69 million) and HK$49.92 million (2008: HK$46.98 million) respectively.

Management of investments in financial products and manufacturing and trading of ceramic sewage material business

iMerchants Limited (the "iMerchants") (stock code: 8009), a company listed on the Growth Enterprise Market in Hong Kong, is currently owned 76.66% equity interest by the Group. Adversely affected by the global financial crisis, 2009 was an extremely challenging year for iMerchants. The investments in financial products of iMerchants recorded a loss of HK$10.13 million for the year (2008: profit of HK$10.24 million). Despite the short-term loss recorded for its investments, the management of iMerchants believes that the fair value of its investments will bring about satisfactory returns in the long run as most of its investments are held for the long-term purpose.

To minimize the risk of fluctuation and uncertainties associated with financial and securities products, the management of iMerchants continued to shift its investment focus to China. On the one hand, iMerchants maintained its ceramic sewage materials business, which recorded a revenue of HK$8.94 million for the year (2008: HK$0.83 million). As the supply of sewage treatment materials falls short of the increasing demand in Mainland China, it is believed that the ceramic sewage materials business will have a huge development potential and a promising prospect.

On the other hand, during the year, iMerchants acquired Supreme Luck, which provides management service to Shenzhen Careall Capital Investment Co., Ltd. ("Careall Capital"). Careall Capital is principally engaged in venture capital investment related business in the PRC, with a view to making investment in various enterprises with earnings potential and a prospect of listing at home or abroad. The acquisition will provide a platform for iMerchants to participate in securities investment business in the PRC and abroad through cooperation with Careall Capital, so as to secure a sustainable source of earnings. The revenue to be delivered by Supreme Luck will be reflected in guaranteed profits from Careall Capital to iMerchants, thus bringing about a satisfactory profit for the Group.

Trading of watches and accessories business

Since the closure of the image shop, the management has discontinued investment in the watches and accessories business. Full provision has been made on this business segment.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group has maintained a healthy financial position. As at 31 December 2009, cash and bank balance as well as cash held at financial institutions increased to HK$277.86 million (compared with HK$148.64 million on 31 December 2008). The increase was mainly due to the realization of iMerchants's investment portfolio and two top-up placements completed. Furthermore, the Group has had steady cash flow generating from the water supply business segment.

Total liabilities of the Group as at 31 December 2009 were HK$937.12 million (compared with HK$874.00 million on 31 December 2008). They mainly comprised of the CB of HK$585.17 million (2008: HK$262.34 million), bank and other borrowings of HK$135.64 million (2008: HK$148.13 million), and government grants of HK$60.04 million (2008: HK$55.76 million). The CB was denominated in HK dollars, while others were denominated in Renminbi.

The Group's gearing ratio as at 31 December 2009 was 41.09% (compared with 55.14% on 31 December 2008). The ratio was calculated by dividing total liabilities of HK$937.12 million over total assets of the Group of HK$2,280.65 million.

At as 31 December 2009, the Group had net current liabilities of HK$306.62 million (2008: net current liabilities of HK$122.54 million). The non-current portion of CB amounting to HK$466.74 million has been reclassified to current liabilities, which represented 68.19% of the total current liabilities. Pursuant to the bond purchase agreement dated 30 July 2007, the holders of CB have the right to demand the Company to redeem all CB on 3 August 2010. The Company is currently in the process of negotiating with certain bondholders to restructure the CB. On the other hand, the board is also considering various fund raising alternatives to strengthen the capital base of the Company. The Board is confident that the Group will be able to meet its financial obligation as and when they fall due and has sufficient working capital to support future operational needs.

CAPITAL RAISING AND USE OF PROCEEDS

To further strengthen its financial base, the Company has made two top-up placements during the year, 365,000,000 new shares were placed on 8 June 2009 at HK$0.33 per placing share on a fully underwritten basis and approximately HK$116.91 million had been generated therefrom. Another 450,479,000 new shares were placed on 6 August 2009 at placing price of HK$0.295 per share on a best effort basis. The later one was completed on 14 August 2009 and approximately HK$128.99 million of net proceeds had been raised.

The proceeds from fund raising exercises were mainly spent on strategic acquisitions and investment on committed projects during the year. During the year ended 31 December 2009, the Group has incurred capital expenditures amounting to HK$207.21 million (2008: HK$183.57 million), of which HK$98.89 million had been used for acquisition of an intangible asset through the acquisition of subsidiary by iMerchants, while HK$50.90 million as a deposit was paid for acquiring the water supply and sewage treatment project in the PRC, and HK$57.42 million was spent mainly for construction of sewage treatment plants. The unutilized amounts will continue to be invested in the committed projects and general working capital of the Group.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Acquisition of subsidiaries

On 8 April 2009, iMerchants through its wholly-owned subsidiary of Growwise Holdings Limited, entered into a sale and purchase agreement with Rightshine Holdings Limited (the “Rightshine”), to acquire the entire issued share capital of Supreme Luck at a consideration of HK$900,000,000. The Consideration was satisfied by cash and/or the issuance of a promissory note and the allotment of consideration shares, convertible preference shares and convertible bonds. The acquisition was completed in October 2009. Upon completion of the acquisition, 61,522,160 Consideration Shares, the Convertible Bonds and 2,938,477,840 Convertible Preference Shares were allotted and issued to the Rightshine by the iMerchants on 23 October 2009.

On 27 April 2009, Swift Surplus Holdings Limited (“Swift Surplus”), a direct wholly-owned subsidiary of the Company entered into the agreement with independent third parties, Top Vision Management Limited (達信管理有限公司) and Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司), pursuant to which the Swift Surplus has conditionally agreed to acquire 8 sewage treatment plants in Guangdong Province and 1 water supply plant in Hebei Province, at a consideration of HK$660 million. Owing to the litigation and seizure of the certain target companies yet to be resolved, the Swift Surplus and Vendors entered into the Termination Agreement on 18 September 2009 to suspend the acquisition with immediate effect. The Directors are of view that the termination will not cause any material adverse impact on the existing business of the Group.

On 18 September 2009, Swift Surplus entered into the agreement with Sihui South China Waterworks Development Co., Ltd.* ("Sihui South China") (四會市華南水務發展有限公司), Shenzhen City South China Waterworks Group Co., Ltd.* ("Shenzhen City South China") (深圳市華南水務集團有限公司) and Da Xin Waterworks Management (Huizhou) Co., Ltd.* ("Da Xin Waterworks") (達信水務管理(惠州)有限公司), pursuant to which the Swift Surplus has conditionally agreed to acquire 70% of the registered capital of Foshan City Gaoming Huaxin Sewage Treatment Company Ltd.* ("Gaoming Huaxin") (佛山市高明區華信污水處理有限公司); 70% of the registered capital of Tangshan City Hongxiang Waterworks Limited* ("Hongxiang") (唐山市鴻翔水務有限公司); 100% interest of Boluo Phase II Project Company ("Boluo Phase II") (博羅二期項目公司) respectively, at a consideration of HK$170 million. The Group has paid HK$50.90 million as a deposit for the acquisition and the remaining amount will be paid upon the completion of the transaction. This acquisition has not been completed as of this report date. Subsequent to the year, the relevant parties for the aforementioned acquisition, entered into the Supplemental Agreement on 22 April 2010 to extend the long stop date of the acquisition of the Sale Interests to a date falling on or before 31 October 2010. Upon completion of the acquisition, there will be an additional 2 sewage treatment plants and one water supply plant added into the Group.

Disposal of a subsidiary and a branch

On 26 March 2009, China Water (HK) entered into the Agreement with Bright Blue Investments Limited (皓藍投資有限公司), an independent acquirer, to dispose the sale loan of and the entire issued share capital in Longwide Group, at a consideration of HK$50 million. Longwide Group is engaged in provision of the water supply and sewage treatment business in the PRC. This transaction was completed on 2 April 2009.

On 27 March 2009, Jining Haiyuan, an indirectly owned subsidiary of the Company, disposed of all its assets and liabilities in the branch of Liang Shan County, Jining City, the PRC to Liu Qing Chen, an independent acquirer, at a consideration of HK$10 million. This transaction was completed on 15 April 2009.

The Group no longer holds any interest in Longwide Group and the branch in Liang Shan County thereafter.

Disposal of assets in subsidiary

On 3 December 2007 and 28 January 2008, the iMerchants and iMerchants Hong Kong Limited entered into the disposal agreement and the supplemental agreement, respectively, pursuant to which the iMerchants conditionally agreed to sell and iMerchants Hong Kong Limited conditionally agreed to purchase the securities and assets at a total consideration of approximately HK$39.4 million. The Disposal was completed on 29 May 2009.

Letter of Intent

On 9 September 2009, the Mark Profit Group Holdings Limited, being a wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with the Shenzhen City South China in relation to a possible acquisition of 70% of the Hongxiang. Hongxiang has a project namely Tangshan City Harbourfront Industrial Estate Project* ("Tangshan project") (唐山市臨港工業園區供水項目). The annual aggregate water supply capacity of Tangshan project is approximately 20,000,000m^3, sterilization pools and water supply pipelines networks, etc. Tangshan project is still under construction and is expected to be completed on or before 31 December 2010. It is currently expected that the Tangshan project will commence operation by 30 June 2011. The agreement relating to the acquisition of Tangshan project was signed on 18 September 2009.

PENDING LITIGATION

(i) Technostore Limited, a subsidiary of the Company

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

Following court hearings regarding the winding-up proceeding in the preceding year, on 29 August 2008, the court made an order to appoint Kenny Tam & Company, Certified Public Accountant as a liquidator of Technostore. The Liquidator, Happy Hour Limited and Mr. Mao Chi Fai become members in the Committee of Inspection ("COI"). The matter is still in the liquidation process up to the report date and is being handled by the Official Receiver's Office. As of the report date, the latest development in the liquidation process reported by the Liquidator was that all stocks with costs of approximately HK$2.2 million handed over by the Official Receiver's Office were disposed at the consideration of HK$0.62 million by public tender in October 2009. The Liquidator is now arranging a meeting with the COI members for reporting of the progress of the liquidation including discussion on dividend distribution. The COI meeting is expected to be held in next few months. The dividend distribution will be confirmed or advised after the COI meeting. The directors of the Company believe that no material future outflows resources from the Group is expected and sufficient provision on assets related to Technostore have been provided. It is unlikely that there will be a material adverse financial impact on the Group.

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

On 6 November 2007, the People's Government of Danzhou and Super Sino Investment Limited ("Super Sino") entered into an assets and liabilities transfer agreement, pursuant to which the assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) were transferred to Super Sino. On 26 June 2008, Agricultural Bank of China Danzhou Branch instituted proceedings with Hainan Intermediate People's Court against Danzhou City Water Company, Super Sino and the People's Government of Danzhou (a third party) regarding the abovementioned transfer of the relevant liabilities, claiming for the principal of RMB26 million and the interest thereon of RMB40.84 million repayable by Danzhou City Water Company* and Super Sino (as defendants). On 13 November 2009, the First Intermediate People's Court of Hainan Province issued a civil verdict, pursuant to which Super Sino was ordered to fully repay the loan principal of RMB26 million together with the interest thereon. As Agricultural Bank of China Danzhou Branch as plaintiff appealed that it is improper to release the guarantee responsibility of Danzhou Urban Development Corporation under the first-instance sentence, therefore, the relevant disputes is still in the second instance for the final sentence to be made by the Higher People's Court of Hainan Province. Following the issue of the verdict, however, Agricultural Bank of China Danzhou Branch and Super Sino agreed to resolve the issue by way of mediation, and reached a verbal agreement thereon. The relevant settlement agreement will be duly entered into after the review, report and approval procedures have been completed by the plaintiff according to relevant procedures. It is expected that the settlement agreement will be reached, the interest of the said loan will be reduced and the repayment period will be extended. The principal of the said loan and the interest thereon have been included in the financial statements of the Group. The directors of the Company are of the view that the aforesaid litigation is unlikely to have any significant material financial impact on the Group.

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

FOREIGN EXCHANGE RISK

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

PLEDGE OF ASSETS

The Group's bank loans and other loans of HK$63.76 million in total as at 31 December 2009 (2008: HK$65.59 million) were secured by:

(i) charges over property, plant and equipment in which their aggregate carrying amount was HK$2.19 million (2008: HK$5.64 million);

(ii) charges over prepaid lease payments in relation to land use right in which their aggregate carrying amount was HK$12.88 million (2008: HK$10.91 million); and

(iii) charges over concession intangible assets in relation to exclusive operating rights for provision of water supply and sewage treatment service to the public users in which their aggregate carrying amount was HK$19.39 million (2008: HK$19.58 million).

CAPITAL COMMITMENTS

As at 31 December 2009, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK$7.51 million (2008: HK$5.39 million).

EMPLOYEES AND REMUNERATION POLICES

As at 31 December 2009, the Group has employed approximately 884 full-time employees (2008: 2,662 full-time employees). The substantial decreased in number of employees was due to disposal of Longwide Group during the year. Most of them stationed in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

PROSPECTS

Water is an indispensable resource for mankind. As a country with the largest population in the world, China has been striving to resolve the conflicts between supply and demand of water. The Chinese Government has never been so serious about saving and the protection of its water resources as it does today. In order to carry out the state policy of promoting energy efficiency and emission reduction and building a water-economic society, the Chinese Government continues to drive on the marketization reform in the water industry by advocating diversification of investment entities and raising water prices gradually and rationally. On the other hand, benefiting from the enormous economy-stimulating package adopted by the Chinese Government, China's economy has, ahead of other countries, begun to revive from the impact of the global financial tsunami. The infrastructure construction industry comprising of the water supply sector and the environment-protection industry comprising of the waste water processing sector were among those that benefited the most. The forementioned, plus the policy of encouraging the expansion of the urban population, has secured a continuously expanding marketplace with a booming demand for the water industry. Moreover, the importance of the water supply and waste water processing to people's livelihood and the economy of the country also secured the Chinese Government's long-lasting and practical encouragement and support for the industry. All this has offered excellent opportunities and conditions for the accelerated growth of our principal business.

After 3 years continuous development, our water supply volume and waste water processing volume in the Mainland have reached a reasonable scale with the operating income continuing to increase. During the year in particular, relying on the extensive experience of our management and the joint efforts of all our subsidiaries, we have been continuously reinforcing the operation management of our invested enterprises, especially the governance of those heavily-invested joint ventures, which resulted in further standardization and strict implementation of all the regulations and policies, expanded income sources and tightened expenditure control. We also keenly urged the Government to reasonably raise water prices, which helped boost the profitability of our water business. The Board believes that our operating results will turn over a new page and get to a higher level with the continuous promotion of our water business and spinning off those non-principal businesses.

Looking forward into 2010, we will continue to devote more resources in seeking and securing highly-potential water-related projects with satisfactory investment returns, obtain financing and introduce strategic investors in all possible ways, accelerate acquisition and increase investment in construction, so as to expand our income sources and achieve the expected investment scale in our water business and the expected level of profitability, and build the Group into a water business giant with a nation-wide influence in the shortest possible time and bring in favorable investment returns for our shareholders and investors

PURCHASES, REDEMPTIONS OR SALES OF COMPANY'S LISTED SECURITIES

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

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

CORPORATE GOVERNANCE

The Company has complied with the Code throughout the financial year ended 31st December 2009 except for deviation from the code provision A4.1 below:

- Pursuant to A4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years.

- All independent non-executive directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company has established with written terms of reference in accordance with the requirements of the Code of Corporate Governance Practices ("CG Code"). The audit committee has 3 members, including the Company's three Independent Non-Executive Directors, namely Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Gu Wen Xuan. Mr. Chang Kin Man is the chairman of the committee. The audit committee acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. The Committee discusses regularly with the management, the external auditors on the accounting principles and practices adopted by the Group, internal control and financial reporting matters. The audit committee had reviewed the financial statement for the year ended 31 December 2009.

REMUNERATION COMMITTEE

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

INVESTMENT COMMITTEE

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

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held at Concord Room III, 8/F., Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on 3 June 2010. The Circular and the Notice of the Annual General Meeting together with proxy form will be published and despatched to the shareholders of the Company in the manner as required by the Listing Rules.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

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

Hong Kong, 28 April 2010

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

* *for identification only*