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

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 2012 together with comparative figures for the year ended 31 December 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	3	**327,885**	284,954
Cost of sales		**(197,898)**	(175,158)
Gross profit		**129,987**	109,796
Other operating income		**80,749**	5,795
Reversal of impairment loss recognised on trade and other receivables		**16,810**	–
Change in fair value of investment property		**504**	–
Selling and distribution expenses		**(12,857)**	(10,651)
Administrative expenses		**(81,912)**	(72,934)
Other operating expenses		**(2,668)**	–
Finance costs	5	**(31,744)**	(31,948)
Change in fair value of convertible bonds		**–**	(6,873)
Change in fair value of derivative financial instruments		**–**	(6,582)
Extinguishment gain of convertible bonds		**–**	34,652
Loss on redemption of convertible bonds		**–**	(4,659)
Loss on deemed partial disposal of an associate		**–**	(146,295)
Loss on reclassification from an associate to available-for-sale investments		**–**	(32,649)
Impairment loss recognised on prepaid lease payments		**(584)**	(2,135)
Impairment loss recognised on trade and other receivables	10	**(4,361)**	(79,284)
Impairment loss recognised on concession intangible assets		**(6,118)**	(36,988)
Impairment loss recognised on property, plant and equipment		**(35)**	(20,421)
Impairment loss recognised on an associate		**–**	(33,540)
Impairment loss recognised on goodwill		**–**	(145,606)
Share of losses of associates		**(5,851)**	(22,066)
Profit (loss) before tax		**81,920**	(502,388)
Income tax expense	6	**(35,998)**	(13,425)

	Notes	**2012**	2011
		HK$'000	*HK$'000*
Profit (loss) for the year	*7*	**45,922**	(515,813)
Other comprehensive income (expense) for the year			
Gain on revaluation of investment property upon transfers from property, plant and equipment		**9,290**	–
Deferred tax arising from revaluation on investment property		**(2,323)**	–
Exchange difference arising on translation		**5,023**	13,925
Share of other comprehensive income of associates		**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)	*9*		
Basis and diluted		**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		**111,733**	97,250
Prepaid lease payments		**41,629**	43,002
Concession intangible assets		**530,591**	520,477
Investment property		**17,390**	–
Goodwill		**10,292**	10,292
Available-for-sale investments		**68,439**	53,959
Interest in associates		**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		**57,946**	45,602
Trade and other receivables	*10*	**89,113**	96,391
Prepaid lease payments		**1,252**	1,231
Amounts due from customers for contract works		**29,713**	27,225
Cash held at financial institutions		**38,045**	3,533
Bank balances and cash		**201,204**	88,301
		417,273	262,283
Current liabilities			
Trade and other payables	*11*	**206,991**	215,643
Amounts due to customers for contract works		**18,158**	4,252
Bank borrowings		**45,953**	35,397
Other loans		**54,473**	69,683
Amounts due to non-controlling shareholders of subsidiaries		**4,108**	3,059
Loan from an associate		**2,931**	2,757
Convertible bonds		**–**	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

	2012	2011
	HK$'000	*HK$'000*
Capital and reserves		
Share capital	**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	**34,532**	18,309
Other loans	**34,572**	70,686
Convertible bonds	**–**	138,568
Government grants	**90,319**	71,345
Deferred tax liabilities	**18,757**	12,475
	178,180	311,383
	882,732	615,054

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

2. 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.

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 Loan[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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

[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.

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.

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.

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.

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

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 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.

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 on 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. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joints arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

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

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

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

These five standards, together with the amendment 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 five 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.

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 additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments 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 the future accounting periods.

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

3. **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

4. **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.

5. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on:		
– Convertible bonds	**–**	8,748
– Imputed interest charged on convertible bonds	**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

6. INCOME TAX EXPENSE

	2012	2011
	HK$'000	*HK$'000*
PRC Enterprise Income Tax ("EIT") for the current year	**32,039**	10,425
Deferred tax	**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 Limited ("Jining Haiyuan") and Yichun Water Supply Company Limited ("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.

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.

7. 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

8. 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).

9. EARNINGS (LOSS) PER SHARE

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

	2012	2011
	HK$'000	*HK$'000*
Earnings (loss) for the purposes of basic and diluted earnings (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 earnings (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 earnings (loss) per share was same as the basic earnings (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.

10. TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'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) were the tender deposits paid to two independent third parties for bidding the construction project. The amounts are unsecured, interest-free and repayable within one year.

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

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

	2012	2011
	HK$'000	*HK$'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. Ageing of trade receivables which are past due but not impaired:

	2012	2011
	HK$'000	*HK$'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

10. TRADE AND OTHER RECEIVABLES *(continued)*

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

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

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

	2012	2011
	HK$'000	*HK$'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	2011
	HK$'000	*HK$'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.

Movements in impairment loss of loan receivables were as follows:

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

10. TRADE AND OTHER RECEIVABLES *(continued)*

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 carry interest at 5% per annum.

In the opinion of the directors of the Company, the possibility of the recovery of these four loan receivables 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, carrying 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, carrying 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.

11. TRADE AND OTHER PAYABLES

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

	2012	2011
	HK$'000	*HK$'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.

12. 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

13. 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 the Agricultural Bank of China, Danzhou Branch (the "Plaintiff") filed a claim regarding the liabilities transferred by Danzhou City Water with the Court against Danzhou City Water, Super Sino, Danzhou Urban Development Corporation and the People's Government of Danzhou City for the repayment of the loan principal of approximately RMB26,000,000 (equivalent to HK$32,067,000) (2011: RMB26,000,000, equivalent to HK$31,735,000) and the accrued interests payable 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 [海南一中執字第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 [海南一中執字第124-7號], pursuant to which the frozen period has 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.

INFORMATION FROM INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION

During the course of our audit of the Group for the year ended 31 December 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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$20.19million 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,
    - 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 (2011:31.95 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 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 43.88% (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: 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, Auhui 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 11th August 2012, the Liquidator also advised that they are in the course of preparing the application of the validation order. As at 11th August 2012, the Liquidator advised that the amount of the said validation order should be within HKD0.4 million. On 9th 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 reason:

(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$74.76million), 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 ("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 was 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 interested in any 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.

PROSPECTS

In 2013, the Company will officially expand into the solid waste processing industry and be engaged in the waste power generation business. Waster 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 waster 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 prices for many years, our water supply companies will expect to raise water prices in 2013. Given the fixed costs of water supply, there will be an increase in profits directly after the raise in water prices. 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 treatment and water reuse) 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.

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 2012 (2011: Nil).

COMPLIANCE WITH THE CODE PROVISIONS OF CORPORATE GOVERNANCE CODE

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 following deviations of Code A.2.1, A4.1, and A.5.5.

- 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 independent non-executive directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in line with the Company's A. A.

- 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 ("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. 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.

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 1008 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintain the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules for the year ended 31 December 2012.

AUDIT COMMITTEE

The Audit Committee of the Company was established since 29 June 2005 with written terms of reference. The Audit Committee comprises 3 independent non-executive Directors, namely Mr. Wong Siu Keung, Joe (Committee Chairman), Mr. Li Jian Jun and Mr. Guo Chao Tian. Mr. Wong is certified public accountants. The Audit Committee acts as an important link between the Board and the Company's auditors in matter within the scope of the group audit. The duties of Audit Committee are to review the Group's interim and annual reports and accounts, to oversight the internal control system and to provide advices to the Board. The Committee discusses regularly with the management and the external auditors on the accounting principles and practices adopted by the Group. The Audit Committee has discussed the internal controls and financial reporting matters with management of the Company and reviewed the results announcement and the audited financial statements of the Group for the year ended 31 December 2012. The Company has received from each of the independent non-executive Director, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Director to be independent.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee since 29 June 2005 with written terms of reference. The members of Remuneration Committee comprised Mr. Wong Siu Keung, Joe (independent non-executive Director) who acts as Committee Chairman, Mr. Li Jian Jun (independent non-executive Director) and Mr. Liu Feng (executive Director). The Remuneration Committee is mainly responsible for making recommendation to the Board on the Company's policy and structure for all remuneration of directors and senior management and ensuring the remuneration offered is appropriate for the duties in line with market practice.

NOMINATION COMMITTEE

The Nomination Committee was established on 19 January 2012 with term of reference and comprising a majority of independent non-executive Directors. The Nomination Committee currently comprises an executive Director, namely Mr. Wang De Yin (Committee Chairman), two independent non-executive Directors, namely Mr. Wong Siu Keung, Joe and Mr. Li Jian Jun. The Nomination Committee is mainly responsible for reviewing the Board composition, advising the Board on the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

INVESTMENT COMMITTEE

The Investment Committee of the Company was established since 18 December 2008 with specific terms of reference. The Committee members currently consist of three executive Directors, namely Mr. Wang De Yin (Committee Chairman), Mr. Lin Yue Hui, Mr. Liu Feng and two Deputy General Managers, namely Mr. Tang Hui Ping and Mr. Liu Hui Quan. The role of Investment Committee is to oversee the Company's strategic and investment policy on a regular basis and to advise the Board on the investment of the Company including asset allocation and new investment proposal.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the Preliminary Announcement have been agreed by the Group's auditors, Messrs. SHINEWING (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. SHINEWING (HK) CPA Limited on the preliminary announcement.

By Order Of The Board
China Water Industry Group Limited
Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 27 March 2013

As at the date of this announcement, the Board comprises Mr. Wang De Yin, Mr. Liu Feng, Mr. Lin Yue Hui, Ms. Chu Yin Yin, Georgiana and Ms. Deng Xiao Ting, all being executive Directors, and Mr. Guo Chao Tian, Mr. Li Jian Jun and Mr. Wong Siu Keung, Joe, all being independent non-executive Directors.

* *for identification purpose only*