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

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

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007 together with comparative figures for year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	2007 HK$'000	2006 HK$'000
Continuing operations			
Turnover	4	**74,287**	39,552
Cost of sales		**(53,640)**	(25,580)
Gross profit		**20,647**	13,972
Other operating income		**24,085**	541
Change in fair value of convertible bonds		**58,128**	–
Selling and distribution costs		**(3,491)**	(2,829)
Administrative expenses		**(46,195)**	(29,861)
Convertible bonds issue expense		**(13,520)**	–
Share based payments expense		**(40,433)**	(7,365)
Impairment loss on trade receivables		**(1,098)**	–
Share of results of associates		**(1,834)**	338
Finance costs	6	**(2,612)**	(48)
Loss before tax	7	**(6,323)**	(25,252)
Income tax expense	8	**–**	(336)
Loss for the year from continuing operations		**(6,323)**	(25,588)
Discontinued operations			
Loss for the year from discontinued operations		**(9,349)**	(70,154)
Loss for the year		**(15,672)**	(95,742)
Attributable to:			
Equity holders of the Company		**(24,344)**	(95,452)
Minority interests		**8,672**	(290)
		(15,672)	(95,742)

	Notes	**2007** **HK$'000**	2006 HK$'000
Dividend	9	**–**	–
Loss per share	10		
For the continuing and discontinued operations			
Basic		**(1.4) cents**	(9.6) cents
Diluted		**N/A**	N/A
From continuing operations			
Basic		**(0.9) cents**	(2.5) cents
Diluted		**N/A**	N/A
From discontinued operations			
Basic		**(0.5) cents**	(7.1) cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment		**240,551**	64,628
Intangible assets		**–**	–
Prepaid lease payments		**10,143**	–
Goodwill		**77,333**	1,361
Interests in associates		**7,617**	36,477
Deposits paid for acquisition of subsidiaries		**567,990**	–
		903,634	102,466
Current assets			
Inventories		**4,116**	18,783
Trade and other receivables	*11*	**58,514**	33,781
Amount due from a related party		**213**	–
Amount due from a minority shareholder of subsidiaries		**946**	–
Prepaid lease payments		**221**	–
Pledged bank deposits		**–**	2,061
Cash held at a financial institution		**30,000**	–
Bank balances and cash		**78,839**	5,045
		172,849	59,670
Current liabilities			
Trade and other payables	*12*	**29,770**	78,340
Obligations under finance leases		**–**	140
Bank borrowings – repayable within one year		**–**	6,442
Amounts due to related parties		**204**	5,274
Amounts due to directors		**223**	2,834
Tax payables		**281**	10,213
Other loans		**9,487**	–
		39,965	103,243
Net current assets (liabilities)		**132,884**	(43,573)
		1,036,518	58,893
Capital and reserves			
Share capital		**189,090**	116,450
Reserves		**340,601**	(64,722)
Equity attributable to equity holders of the Company		**529,691**	51,728
Minority interests		**84,475**	6,063
Total equity		**614,166**	57,791
Non-current liabilities			
Obligations under finance leases		**–**	245
Long-term bank and other borrowings		**32,955**	857
Loans from a minority shareholder		**11,738**	–
Convertible bonds		**326,872**	–
Government grants		**50,787**	–
		422,352	1,102
		1,036,518	58,893

Notes

1. GENERAL

The Company is 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").

During the year, the Group is principally engaged in provision of water supply and sewage treatment in the People's Republic of China (the "PRC"), production and sales of computer peripherals and trading of watches and accessories. Most of the business operation in relation to the production and sales of computer peripherals has been ceased during the year. The financial results of the computer peripherals segments have been presented under discontinued operation in the consolidated income statement. For details, please refer to the basis of preparation below.

The consolidated financial statements are presented in Hong Kong dollars while the functional currency is Renminbi ("RMB"). The reason for selecting Hong Kong dollars as its presentation currency is because the Company is a public company with the shares listed on the Stock Exchange.

Other than those operating subsidiaries incorporated in the PRC for the provision of water supply and sewage treatment services, which functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries is Hong Kong dollars. The consolidated financial statements are presented in Hong Kong dollars.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

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

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

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("New HKFRSs") issued by the HKICPA which are effective for accounting periods beginning on 1 January 2007. The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised Hong Kong Accounting Standards ("HKASs"), HKFRSs and interpretations ("HK(IFRIC)-INTs") that have been issued but are not yet effective for accounting period beginning on 1 January 2007. The directors of the Company anticipate that the application of these HKASs, HKFRSs and HK(IFRIC)-INTs will have no material impact on the results and the financial position of the Group are prepared and presented.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combination[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC) – INT 12	Service Concession Arrangements[4]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[5]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 March 2007.
[4] Effective for annual periods beginning on or after 1 January 2008.
[5] Effective for annual periods beginning on or after 1 July 2008.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers, less returns and discounts.

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

	2007	2006
	HK$'000	*HK$'000*
Continuing operations		
Trading of watches and accessories	**14,601**	39,552
Provision of water supply	**24,430**	–
Water supply related installation and construction revenue	**28,424**	–
Sewage treatment	**6,832**	–
	74,287	39,552
Discontinued operations		
Sales of computer peripherals	**20,576**	30,582
	94,863	70,134

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is organised into three operating divisions – production and sale of computer peripherals, trading of watches and accessories and provision of water supply and sewage treatment during the year. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

(a) Production and sale of computer peripherals;

(b) Trading of watches and accessories to customers in Hong Kong; and

(c) Provision of water supply and sewage treatment business in the PRC.

Segment information about these businesses is presented below:

For the year ended 31 December

	Continuing operations				Discontinued operations			
	Trading of watches and accessories		Provision of water supply and sewage treatment		Production and sale of computer peripherals		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER								
External sales	**14,601**	39,552	**59,686**	–	**20,576**	30,582	**94,863**	70,134
RESULTS								
Segment results	**(18,949)**	(14,793)	**7,900**	(268)	**(6,775)**	(57,342)	**(17,824)**	(72,403)
Unallocated corporate income							**17,976**	2,898
Unallocated corporate expenses							**(17,990)**	(3,388)
Gain on disposal of subsidiaries							**7,020**	148
Change in fair value of convertible bonds							**58,128**	–
Convertible bonds issue expense							**(13,520)**	–
Impairment loss on trade receivables	**(755)**	–	**(343)**	–	**(3,226)**	(14,870)	**(4,324)**	(14,870)
Share based payment expense							**(40,433)**	(7,635)
Share of results of associates							**(1,834)**	338
Finance costs	**–**	(48)	**(2,612)**	–	**(215)**	(446)	**(2,827)**	(494)
Loss before tax							**(15,628)**	(95,406)
Income tax expense	**–**	(336)	**–**	–	**(44)**	–	**(44)**	(336)
Loss for the year							**(15,672)**	(95,742)
OTHER INFORMATION								
Depreciation of property, plant and equipment	**62**	188	**5,817**	–	**3,220**	4,570	**9,099**	4,758
Amortisation of prepaid lease payments	**–**	–	**132**	–	**–**	–	**132**	–
Impairment loss for trade receivables	**755**	–	**343**	–	**3,226**	14,870	**4,324**	14,870
Impairment loss on intangible assets	**–**	–	**–**	–	**–**	2,160	**–**	2,160
Allowance for inventories (Included in costs of sales)	**3,144**	–	**–**	–	**5,208**	11,601	**8,352**	11,601
Written off of inventories (Included in administrative expenses)	**–**	143	**–**	–	**–**	35,134	**–**	35,277
Loss on disposal of property, plant and equipment	**544**	–	**49**	–	**472**	74	**1,065**	74
Loss on disposal of investment held for trading	**–**	–	**–**	–	**–**	1,200	**–**	1,200
Loss on deconsolidation of a subsidiary	**98**	–	**–**	–	**–**	–	**98**	–
Capital expenditure:								
Property, plant and equipment, through acquisition of subsidiaries	**–**	–	**95,046**	45,468	**–**	–	**95,046**	45,468
Property, plant and equipment by the group itself	**–**	–	**96,418**	–	**–**	2,853	**96,418**	2,853

Geographical segments

The Group's operations are located in the PRC and Hong Kong. The Group's trading of watches and accessories division is located in Hong Kong. Production and sale of computer peripherals, provision of water supply and sewage treatment are carried out in the PRC.

6. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
– Bank borrowings wholly repayable within five years	**207**	442
– Finance leases	**8**	52
– Interest on convertible bonds	**393**	–
– Other loans	**2,198**	–
– Imputed interest expenses on unsecured borrowing repayable over five years	**21**	–
	2,827	494
Attributable to:		
Continuing operations	**2,612**	48
Discontinued operations	**215**	446
	2,827	494

7. LOSS BEFORE TAX

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Loss before tax has been arrived at after charging:						
Amortisation of prepaid lease payments	**132**	–	**–**	–	**132**	–
Auditors' remuneration	**600**	566	**–**	14	**600**	580
Impairment loss on trade receivables	**1,098**	–	**3,226**	14,870	**4,324**	14,870
Allowance for inventories (included in cost of sales)	**3,144**	–	**5,208**	11,601	**8,352**	11,601
Written off of inventories (included in administrative expense)	**–**	143	**–**	35,134	**–**	35,277
Impairment loss on intangible assets	**–**	–	**–**	2,160	**–**	2,160
Share-based payment *(Note)*	**39,381**	7,365	**–**	–	**39,381**	7,365
Convertible bonds issue expense	**13,520**	–	**–**	–	**13,520**	–
Cost of inventories recognised as expenses	**27,909**	25,365	**7,901**	9,618	**35,810**	34,983
Depreciation of property, plant and equipment	**5,879**	188	**3,220**	4,570	**9,099**	4,758
Loss on disposal of property, plant and equipment	**593**	–	**472**	74	**1,065**	74
Loss on disposal of investment held for trading	**–**	–	**–**	1,200	**–**	1,200
Loss on deconsolidation of a subsidiary	**98**	–	**–**	–	**98**	–
Minimum lease payment under operating leases	**1,427**	3,408	**1,459**	1,695	**2,886**	5,103
Staff costs excluding directors' emoluments						
– Salaries, wages and other benefits	**13,144**	4,241	**4,466**	4,979	**17,610**	9,220
– Retirement benefits scheme benefits	**940**	123	**291**	474	**1,231**	597
Total staff costs	**14,084**	4,364	**4,757**	5,453	**18,841**	9,817

Note: The amounts represent the fair value of consultancy services provided to the Group in the current year in relation to identifying potential water projects in the PRC. The consultancy service fees are settled through the issue of 456,000,000 share options in the current year.

8. INCOME TAX EXPENSE

	2007	2006
	HK$'000	*HK$'000*
Current tax:		
– Hong Kong	**44**	336
Attributable to:		
Continuing operations	**–**	336
Discontinued operations	**44**	–
	44	336

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

9. DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2006 and 2007, nor has any dividend been proposed since the balance sheet date.

10. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

Loss

	2007	2006
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share (Loss for the year attributable to equity holders of the Company)	**24,344**	95,452
Loss for the year attributable to equity holders of the Company	**24,344**	95,452
Less: Loss for the year from discontinued operations attributable to equity holders of the Company used in the calculation of basic loss per share from discontinued operations	**(9,349)**	(70,154)
Loss used in the calculation of basic loss per share from continuing operations	**14,995**	25,298

Number of shares

	2007	2006
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,754,342**	989,705
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**47,794**	98,400
Conversion of convertible bonds	**112,165**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**1,914,301**	1,088,105

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share from continuing operations for the year ended 31 December 2007.

No diluted loss per share is presented for the years ended 31 December 2006 and 2007 as the effect of the conversion of the Company's outstanding share options and convertible bonds since their exercise was anti-dilutive from both continuing operations and discontinued operations.

11. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**10,114**	49,916
Less: Allowance for bad and doubtful debts	**(2,093)**	(21,135)
	8,021	28,781
Other receivables	**15,912**	2,752
Deposits and prepayments	**34,581**	2,248
	58,514	33,781

An aged analysis of the trade receivable as at the balance sheet date, based on invoice date, and net of impairment losses is as follows:

	2007	2006
	HK$'000	*HK$'000*
Current to 90 days	**3,564**	14,729
91 to 180 days	**4,046**	8,742
181 to 365 days	**344**	5,310
Over 1 year	**67**	–
	8,021	28,781

12. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	*HK$'000*
Current to 30 days	**1,489**	6,615
31 to 90 days	**585**	5,283
91 to 180 days	**741**	1,849
181 to 365 days	**1,559**	1,024
Over 1 year	**868**	2,474
	5,242	17,245
Other payables	**24,528**	61,095
	29,770	78,340

13. CAPITAL COMMITMENT

	2007	2006
	HK$'000	*HK$'000*
Capital commitments contracted but not provided for, in respect of acquisition of property, plant and equipment	**25,561**	1,265

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Turnover and Gross Profit

The Group's turnover and gross profit for the year 2007 was HK$74.29 million and HK$20.65 million respectively, which represented a robust growth of 87.82 % in turnover and 47.78% in gross profit as compared with those in last year. This was contributed by the numerous acquisitions of water supply plants and sewage treatment facilities completed in the period. During the year under review, the new business segment of water supply and sewage treatment services has contributed HK$59.69 million in turnover and HK$25.59 million in gross profit. This proved the achievement and insight of the Group's strategic change to diversify its business in the water industry sector in the PRC. The Group's computer peripherals and watch retail businesses had been facing with an adverse operating environments as previous years. Revenue contribution by these two business units have dropped significantly by 32.72 % and 63.08 % respectively. During the year, to stop bleeding and avoid further erosion on the Company's financial position, the Company has disposed of its entire interest in the computer peripherals segment in November and has closed the image shop of TechnoMarine in Hong Kong. Following the closure of the image shop, the business operation of the trading of watch and accessories segment has been substantially scaled-down. Sufficient provision has been made on assets including inventory and receivables for the watch business segment. It is believed that both the computer peripherals and watch business segments will not have any material financial impact on the Group's financial statements in the forthcoming financial periods.

Financial Results

Net loss attributable to shareholders for the year amounts to HK$15.67 million, which represents a significant decrease of HK$80.07 million compare to the net loss of HK$95.74 million in 2006. The significant drop in loss was due to the fact that water and sewage treatment operations acquired have been contributing positively to the Group's overall financial results. During the year 2007, the Company has issued convertible bonds for fund raising purpose. The Company has accounted for the change in fair value of the convertible bonds in accordance with the Hong Kong Financial Reporting Standard 7. At the balance sheet date, as a result of the decrease in the share price of the Company comparing with that at the date of issuing the convertible bonds, the fair value of the derivative component of the convertible bonds has decreased accordingly. A fair value gain of approximately HK$58.13 million has been recognized in the income statement. In addition, the Group ceased the operation of computer peripherals business in October 2007 in order to cut loss, it made the loss recorded in this segment substantially decreased by HK$60.81 million to HK$9.35 million comparing with last year. On the other hand, the net loss for the year was mainly attributable to the recognition of the share-based payment expenses accounted for in accordance with the Hong Kong Financial Reporting Standard 2 in relation to the fair value of share options granted to eligible participants pursuant to the Company's share option scheme. The fair value of share options granted during the year amounted to HK$40.43 million and has been charged to administrative expenses with a corresponding credit to the share option reserve. The management believes that granting of share option is an effective way to expedite business development of the Group, especially in the PRC water supply and sewage treatment sector, without incurring any outflow of cash or financial resources.

If excluding the loss from discontinued operations, as well as those fair value adjustments and charges made in accordance with respective accounting standards like share-based payment expenses for share options, and net positive effect arising from gain from derivative component of convertible bonds, the consolidated losses of the Group for the year ended 31 December 2007 would have been HK$10.50 million, that was a decreased by HK$7.73 million as comparing with last year.

Other Operating Income

Other operating income has increased by HK$23.54 million to HK$24.09 million. This comprised mainly of bank interest income of HK$10.34 million and profit on disposal of a subsidiary of HK$7.02 million. The guaranteed profit of HK$5.40 million represented warranty and undertaking provided by the respective vendors of the respective water plants and sewage treatment plants acquired by the Group during the year. These profits are contributed by Anhui Dang Shan Water Industry Company* (安徽省碭山水業有限公司), Jining City Haiyuan Water Treatment Company Limited* (濟寧市海源水務有限公司) and Linyi Fenghuang Water Industry Company Limited which amounts to HK$1.86 million, HK$0.57 million and HK$2.97 million respectively. The actual accounting profit for these newly acquired subsidiaries fell below the guaranteed level. The vendor is obliged to replenish and to pay the shortfall to the Group in accordance with the sales and purchase contracts.

Operating Expenses

The Group's administrative expenses amounted to HK$46.20 million (31 December 2006: HK$29.86 million). This mainly consisted of preliminary operating costs of newly established plants, legal and professional fees, staff costs and impairment loss of fixed assets. Selling and distribution costs increased by 23.40 % to HK$3.49 million. The increase in both administrative expenses and selling and distribution costs were due to several water plants and sewage treatment plants being acquired and commenced operation in 2007. In addition, for prudent sake, the Group has made prudent to made an impairment loss for trade receivable of HK$1.1 million.

BUSINESS SEGMENTS REVIEW

Water Supply and Sewage Treatment business in China

In last year, the Group has decided to diversify its business to the PRC water supply and related industries. At present, the Group has already acquired 7 water supply plants and 4 sewage treatment facilities in the PRC. The aggregate water supply capacity is expected to reach 2.3 million tonnes per day, and the aggregate sewage treatment capacity is expected to be 100,000 tonnes per day. Meanwhile, the Group also signed MOU with total daily water supply capacity and sewage treatment capacity reached 2.4 million and 740,000 respectively. The Group's footprints in water supply and sewage treatment industries is extended to cover Yichun County of Jiangxi Province, Yingtan City of Jiangxi Province, Dangshan County of Anhui Province, Jinan City of Shandong Province, Jinxiang County in Jining city of Shandong Province, Linyi City of Shandong Province, Shangqiu City of Henan Province and Danzhou City of Hainan Province.

During the year, total revenue contributed from water related business reached HK$59.69 million, already taken up 80.35% of the Group's turnover in 2007.

Computer Peripherals business – Discontinued Operation

The Group has faced cut throat competition from competitors who are persistent in their strategy of price-cutting measures to maintain market shares. In addition, the soaring prices of raw materials and labor costs imposed significant additional burden on the Group but only part of the rising operation costs can be built into the price of the goods to remain competitive. In response to such competition and in light of the customary narrow profit margin in the manufacturing industries, the Group had determined to discontinue the operation of production plant in October 2007 so as to mitigate the effect of further operating losses. Seeking to relieve the effect of the drop in business and to secure an immediate financial return for the purpose of obtaining additional resources, the Company has disposed 100% of its interest in the non-performing Pablo Enterprises Limited (the "Pablo Group") in order to focus the Group's resources in the development of its core business in the water industry.

Turnover of the computer peripherals business in 2007 has decreased by HK$10.00 million to HK$20.58 million (compare with HK$30.58 million on 31 December 2006) and the record segment loss is HK$6.78 million (compare with HK$57.34 million on 31 December 2006). Following the completion of disposal, the Company will not suffer from further losses.

Trading of watches and accessories business

Turnover of the watch segment has dropped by HK$24.95 million to HK$14.60 million and a gross loss of HK$4.90 million is recorded. In recent years, many watches of similar style as "TechnoMarine" have flooded into the market. In the absence of a solid customer loyalty base, the effort in the market development of "TechnoMarine" is futile. Expansion in the retail markets in the Asia Pacific region is slowed down, and the management is very cautious in introducing new models and product lines. To stimulate sales, the Group is forced to adopt an aggressive pricing strategy to offer a relative big discount even on new products. All of these have seriously affected the revenue contribution of the segment to the Group. Moreover, in view of the escalating shop rental and staff costs, and declining sales, the management is coerced to close the image shop located in the Festival Walk in August 2007. During the year under review, the segment has suffered from a loss of HK$18.95 million (compare with a loss of HK$14.79 million on 31 December 2006).

The management thought that the scale of the TechnoMarine watch business is downsizing and has decided not to inject further resources to the segment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group continues to be in a healthy financial position with cash and cash equivalents amount to HK$108.84 million (compare with HK$5.05 million on 31 December 2006). During the year, the Group has carried out three fund raising exercises through two times of top-up placing and subscription of shares and the issuance of convertible bonds ("CB") respectively, which are well received by the market towards the Group's business diversification into the PRC water supply industry. Net proceeds from these fund raising activities amount to HK$788.12 million. These capital resources provide a substantial support for the Group to explore investment opportunities in the China Mainland's waterworks market. With the steady cash flows that are generated from the water supply segment and the existing available financial resources, the Group is in a very strong position to expand further in the PRC water supply industry.

Total borrowings of the Group as at 31 December 2007 are HK$431.84 million (compare with HK$7.68 million on 31 December 2006) comprising of the issuance of CB of HK$326.87 million, Long-term borrowings HK$44.69, interest free government loans of HK$50.79 million (compare with nil on 31 December 2006). The CB is denominated in HK dollars and loans are mainly denominated in Renminbi and the interest rates of which were fixed.

The Group's gearing ratio as at 31 December 2007 is 42.95% (compare with 64.36% on 31 December 2006), which is calculated by dividing total liabilities of HK$462.32 million over total assets of the Group of HK$1,076.48 million.

At the year end, the net current assets of the Group is HK$132.88 million (compare with the net current liabilities of HK$43.57 million on 31 December 2006) and the current ratio of the Group was approximately 4.49 times (compare with 0.58 times on 31 December 2006).

CAPITAL RAISING AND USE OF PROCEEDS

There are 230,000,000 new shares placed on 2 February 2007. This first placement of new shares in 2007 were allotted and issued under a top-up placing (the "First Top-up Placing") at a placing price of HK$0.49 per share to third parties independent of the Group. These new shares represent approximately 19.75% of the then existing issued share capital of the Company. The net proceeds of the First Top-up Placing are estimated to be HK$109.3 million and approximately HK$95 million of the net proceeds are intended for further expansion of its business in water supply and water-related industries in Mainland China. The balance is for general working capital of the Group.

Another 300,000,000 new shares are placed on 29 March 2007. These new shares were allotted and issued under a top-up placing (the "Second Top-up Placing") at a placing price of HK$1.06 per share to third parties independent of the Group. These new shares represent approximately 21.51% of the then existing issued share capital of the Company. The net proceeds of the Second Top-up Placing are estimated to be HK$308.4 million and approximately HK$262 million of the net proceeds are intended for further expansion of its business in water supply and water-related industries in Mainland China. The balance is for general working capital of the Group.

There is a Bond Purchase Agreement (the "Agreement") entered amongst the Company as the issuer, Abax Lotus Limited and UBS AG as the Subscribers, and UBS AG as the placing agent on 3 August 2007. The Agreement is for a 5-year term due in 2012 at an interest rate of 0.25% per annum in relation to the subscription by the subscribers for the convertible bonds issued by the Company in an aggregate principal amount of up to HK$385 million. The initial conversion price is HK$1.42 per Share, for a total of 271,126,760 conversion shares, representing 14.42% of the issued shares capital of the Company as at 30 June 2007. The net proceed of HK$370.42 million from the issue of the Convertible Bonds will be wholly used by way of capital expenditure and working capital. The share price of the Company on 3 February 2008 has triggered the provisions set out in the Agreement on adjustment to the conversion price. The Board has decided to make a downward adjustment to the conversion price from HK$1.420 to HK$1.136 per share. Up to date, none of the bond is converted into shares by the bondholders.

As of the balance sheet date, the Group's capital expenditure amounted to HK$677.70 million (compare with HK$27.5 million on 31 December 2006). The expenditure is mainly on the strategic acquisitions, including HK$116.50 million for investing in water supply and water related business projects in the PRC and HK$541.20 million as a deposit paid for purchasing 67.32% equity interest in iMerchants Limited from controlling shareholder and for acquiring the Blue Mountain Hong Kong Group Limited ("Blue Mountain") respectively, the remaining balance of HK$108.84 million being placed in bank and at financial institution. The unutilized amounts will continue to be invested in the committed projects.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Acquisition of subsidiaries

On 12 March 2007, the Billion City Investments Limited, a wholly-owned subsidiary of the Company entered into the Sales and Purchase Agreement with Boost Skill Investments Limited to acquire the remaining 60% equity interest of Onfar International Limited which directly holds 51% of equity interest in Yichun Water Industry Company Limited (the "Yichun Water") at a total cash consideration of RMB30 million. Yichun has been engaging in the supply of water and provision of sewage treatment service in Yichun city;

On 11 April 2007, the China Water Industry (Hong Kong) Limited ("China Water (HK)"), an indirectly wholly-owned subsidiary of the Company entered into a Joint Venture Agreement with the People's Government of Hedong District in Linyi City* (臨沂市河東區人民政府) (the "JV Partner") and Linyi City Hedong District Water Supply Company Limited* (臨沂市河東區自來水有限公司) ("Linyi Water Supply Limited"). China Water (HK) and the JV Partner have established a joint venture company named Linyi Fenghuang Water Industry Company Limited in Linyi City, Shandong Province, the PRC (the "JV Company") which is principally engaged in water supply business in Linyi City, Hedong District, Shandong Province, the PRC. The Company holds 60% equity shares in this JV Company at a total consideration of RMB18 million.

On 3 July 2007, the China Water (HK) entered into an agreement with Huge Summit Management Limited, pursuant to which China Water (HK) and Huge Summit have agreed to sell and purchase the entire issued share capital of Longwide Investment Limited ("Longwide") at a consideration of RMB67.5 million which will be paid in cash. Longwide is an investment holding company holding 51% equity interests in each of Shangqiu Zhengyuan Water Industry Co. Limited* (商丘市正源水務有限公司) and Linyi Ganghua Water Industry Company Limited* (臨沂港華水務有限公司);

On 19 July 2007, the China Ace Investment Limited ("China Ace"), an indirectly wholly-owned subsidiary of the Company entered into an agreement with Jinan Hong Quan Water Company Limited* (濟南泓泉制水有限公司)("JHQ Water"), pursuant to which China Ace and JHQ Water have agreed to provide additional capital contributions to an existing subsidiary, Jining City Haiyuan Water Treatment Company Limited* (濟寧市海源水務有限公司). Accordingly to the terms as set out in the agreement, China Ace and JHQ Water shall make additional capital contribution of RMB21,000,000 and RMB9,000,000 in form of cash respectively, representing their respective equity interest in Jining City Haiyuan Water Treatment Company Limited*.

Disposal of subsidiaries

On 13 November 2007, the Company and Mega Glory International Company Limited, an independent (the "Acquirer") entered into the Disposal Agreement to dispose of its entire interest in Pablo Enterprises Limited and its subsidiaries (the "Pablo Group") to the Acquirer at a cash consideration of HK$1. Approval from independent shareholders of the Company regarding the disposal transaction was obtained on 24 December 2007 and the disposal transaction was completed on 28 December 2007. Pablo Group are principally engaged in the production and sales of computer peripherals. The Group no longer holds any interest in Pablo Group thereafter.

Litigation involving Technostore Limited, a subsidiary of the Company

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

On 3 August 2007, the Petitioner applied to join the Company as a respondent to the Petition and to amend the Petition accordingly. After changing solicitors, and upon taking legal advice, it was decided by the Board that an opposition to that application would not be in the Company's best interests as the application will likely be granted and in such situation, if opposed, the Company will be responsible to pay costs of the application. Accordingly, the Company consented to the application and the costs of that application was borne by the Petitioner.

Following this, and in light of the cessation of Technostore Limited's business, under the sole Directorship of the Petitioner, it was decided by the Board that it would not be practical to oppose the winding-up of Technostore Limited. With a view to avoid wasting costs and time, the Board came to an agreement with the Petitioner that the Company would not oppose the Petition provided that each party to the Petition bears its own costs.

On 7 November 2007, an Order was made by the High Court to wind-up Technostore Limited with no order as to costs. On 7 March 2008, the adjourned creditors' meeting approved to appoint a provisional liquidator and formed a Committee of Inspection. The matter is still in the liquidation process and is handled by Official Receiver's Office. The directors of the Company believed that no material future outflow of resources from the Group is expected and sufficient provisions have been provided on assets related to Technostore, therefore it is unlikely to have material adverse financial impact on the Group. Save and except for this, the Company is not aware of any other significant proceedings instituted against any member of the Group.

MAJOR EVENTS SUBSEQUENT TO THE YEAR

Acquisition of Subsidiaries

On 6 November 2007, the Super Sino Investment Limited ("Super Sino"), an indirectly wholly-owned subsidiary of the Company entered into a share transfer agreement with Hainan Nanshenghe Company Limited* (海南南聖河實業有限公司) to purchase 51% equity interest in the shareholder's loan due by Danzhou Lian Shun Tong Water Pipe Company Limited* ("Danzhou Water Pipe") (儋州聯順通自來水管網有限公司) for a consideration of RMB8.68 million which will be satisfied in cash. The transaction has been completed on 22 April 2008.

On 6 November 2007, the Super Sino entered into a net asset transfer agreement with the People's Government of Danzhou City, Hainan Province to purchase 49% equity interest in Danzhou Water Pipe and other assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) for a consideration of RMB25.3 million which will be satisfied in cash. The transaction has been completed on 21 February 2008.

On 26 November 2007, the Smart Giant Group Limited, a direct wholly-owned subsidiary of the Company entered into an agreement to acquire the entire share capital and a shareholder's loan of Blue Mountain for an aggregate consideration of HK$230 million. Blue Mountain is an investment holding company of which its major associates are engaged in the water supply business and engineering construction work in Jinan City, Shandong Province, the PRC. The transaction has not been completed as of 31 December 2007. An amount of approximately HK$246,361,000 has been paid as a deposit for the acquisition as of 31 December 2007. The transaction has been completed on 18 January 2008.

On 1 December 2007, the Bonus Raider Investments Limited ("Bonus Raider"), a direct wholly-owned subsidiary of the Company entered into an agreement to acquire approximately 67.32% equity interest of iMerchants Limited ("iMerchant") at an aggregate consideration of approximately HK$198 million. iMerchants is a company incorporated in Hong Kong with limited liability whose issued shares are listed on the Growth Enterprise Market of the Stock Exchange. The transaction has not been completed as of 31 December 2007. An amount of approximately HK$294,842,000 has been paid as a deposit for the acquisition as of 31 December 2007. The transaction has been completed on 14 February 2008.

On 4 February 2008, the China Water (HK) entered into a joint venture agreement with the Construction Bureau of Yingtan City (the "JV Partner") to establish a joint venture company in Yingtan City in Jiangxi Province of the PRC. The joint venture company will be principally engaged in the provision of water supply and related services in Yingtan City, Jiangxi Province, the PRC. The registered capital of the joint venture company will be approximately RMB82.4 million which will be contributed as to 51% by China Water (HK) in cash and 49% by the JV Partner by way of injection of net assets. The transaction has not been completed as of the report date. Details of which are set out in the Company's announcement dated 22 February 2008.

PROSPECTS

During the year under review, the Group completed initial realignment of its business. After offloading the computer peripherals and the TechnoMarine watch businesses and making the associated financial provisions, the core business of the Group can be more effectively redirected to the water-related industries in the PRC that includes water supply and sewage treatment.

There is an enormous demand for urban water supply and sewage treatment services due to shortage of water resources in the PRC and rapid urbanization in recent years. The PRC government has adopted a number of measures, including raising water fares, imposing sewage treatment fees, tax concessions, etc., to encourage and attract foreign and private enterprises to increase their investments in the water industry. It is expected that water fares in urban areas will continue to rise in the PRC and preferential policies adopted for related industries will continue to be sustained or strengthened.

The directors of the Group believe that water-related industries, including urban water supply and sewage treatment industries, being regional monopoly public utilities with sufficient cash flow and less economic cycle fluctuation, will bring substantial and steady investment returns for the Group in the future.

During the year under review, the Group successfully acquired or established 4 water supply enterprises and 4 sewage treatment enterprises. These enterprises are operating in a mature market with reasonable water fares. They have strengthened their cost control and performance evaluation by reforming their operating mechanisms, and have closed self-supply wells to reduce loss rate. Performance on their various water projects have achieved remarkable progress after expansion of auxiliary water business, such as installation of water meters and construction of pipe systems, bringing higher revenue to the Group. It is expected that these enterprises will bring more profits to the Group in the new financial year.

Looking ahead, with the strong support of the relevant authorities and local governments, the Group will continue to follow the investment strategy of acquiring well-developed water supply enterprises in large and medium-sized cities, as well as developing sewage treatment business in urban areas in the coming year. Moreover, reserved projects of the Company with cooperation intention will become concrete investment operation projects. It is expected that the scale of the Group's water business will achieve multiple growth on the existing foundation and bring substantial streams of revenue for the Company in the next one to two years.

The Group is a foreign enterprise in the PRC, which has entered into the water industry at an early stage. After active expansion, our water business has achieved sizeable scale, and we have accumulated broad experience in water enterprise investments and operations. Together with our strong management team, we enjoy a privileged position to achieve sustainable development in the industry. The Board believes that it is a right strategy to focus on a single business. Concentrated investment will enable the Company to expand its scale of business in the water industry, and sound operation will empower the Company to obtain long term and stable return. The Group will certainly become a star enterprise in the water industry of the PRC.

FOREIGN EXCHANGE RISK

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi. The Group's exposure to United States dollars currency risk is minimal as Hong Kong dollars is pegged to United States dollars. Nevertheless, as Renminbi becomes more volatile, the Group's operations and performances might thus be affected. Presently, the Group does not have any currency hedging policy but will closely monitor the fluctuation of Renminbi exchange rate and take appropriate measures to minimize any adverse impact that may be caused by such fluctuation.

CAPITAL COMMITMENTS

As at 31 December 2007, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment of approximately HK$25.56 million (compared with HK$1.27 million in 2006).

EMPLOYEES AND REMUNERATION POLICES

As at 31 December 2007, the Group has 2,200 full-time employees (compare with 435 full-time employees in 2006) between Hong Kong and PRC, with the majority stationed in the PRC. The remuneration package of the employees is determined by various factors including the employees' experience and performance, market condition, industry practice and applicable employment law.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the relevant periods neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's list securities.

FINAL DIVIDEND

The Board did not recommend any payment of final dividend for the year ended 31 December 2007 (2006: Nil).

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in fulfilling its responsibilities to the shareholders.

The Stock Exchange has promulgated the Code on Corporate Governance Practices (the "Code"), which came into effect in January 2005. During the year, the Company has complied itself with all the code provision of the Code through the financial year except the following:

1. Pursuant to A.4.1 of the CG Code, Non-executive Directors should be appointed for a specific term, subject to retirement by rotation at least once every three years. Under the year of review, Non-executive Directors of the Company are not appointed for a specific term but they are subject to retirement by rotation and eligible for re-election at the annual general meeting of the Company in line with the Company's Articles of Association.

2. Code provision E1.2 stipulates that the chairman of the board (the "Chairman") should attend the annual general meeting (the "AGM"). The Chairman was unable to attend the AGM on 31 May 2007 due to his personal reasons but he has designated the Managing Director of the Company to answer questions raised at the AGM.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company has established with written terms of reference in accordance with the requirements of the Code of Corporate Governance Practices ("CG Code"). The audit committee has three members, including the Company's three Independent Non-Executive Directors, namely Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Gu Wen Xuan. Mr. Chang Kin Man is the chairman of the committee. The audit committee acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. The Committee discusses regularly with the management, the external auditors on the accounting principles and practices adopted by the Group, internal control and financial reporting matters. The audit committee had reviewed the financial statement for the year ended 31 December 2007.

REMUNERATION COMMITTEE

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

By Order Of The Board
Li Yu Gui
Chairman

Hong Kong, 23 April 2008

As at the date of this announcement, the Board comprises Mr. Wang Chia Chin, Mr. Sze Chun Ning, Vincent, Mr. Shi De Mao, Ms. Chu Yin Yin, Georgiana, Mr. Zhong Wen Sheng, Mr. Liu Bai Yue, Mr. Liu Peng Cheng and Mr. Li Yu Gui, all being the executive Directors, Mr. Huang Yuan Wen and Mr. Pan Shi Ying, all being the non-executive Directors and Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Gu Wen Xuan, all being the independent non-executive Directors.

* *for identification only*