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 2008

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 2008 together with comparative figures for year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2008** *HK$'000*	2007 *HK$'000* (restated)
Continuing operations			
Turnover	*4*	**289,875**	124,363
Revenue		**194,926**	124,363
Cost of sales		**(118,131)**	(98,061)
Gross profit		**76,795**	26,302
Other operating income		**9,461**	17,844
Change in fair value of convertible bonds		**64,537**	58,128
Selling and distribution costs		**(7,963)**	(3,491)
Administrative expenses		**(69,127)**	(45,111)
Convertible bonds issue expense		**–**	(13,520)
Share-based payment expense		**–**	(40,433)
Discount on acquisition of a business		**12,443**	–
Net fair value gain on disposal of debt securities		**1,142**	–
Net fair value gain on disposal of listed trading securities		**5,531**	–
Increase in fair values of financial assets at fair value through profit or loss		**2,620**	–
Impairment loss recognised in respect of trade and other receivables		**(8,311)**	(2,182)
Impairment loss recognised in respect of goodwill		**(7,837)**	–
Share of results of associates		**(3,265)**	(1,834)
Finance costs	*6*	**(10,280)**	(2,612)
Profit (loss) before tax	*7*	**65,746**	(6,909)
Income tax expense	*8*	**(6,937)**	(1,414)
Profit (loss) for the year from continuing operations		**58,809**	(8,323)
Discontinued operations			
Loss for the year from discontinued operations		**–**	(3,108)
Profit (loss) for the year		**58,809**	(11,431)

	Notes	**2008**	2007
		HK$'000	*HK$'000*
Attributable to:			
Equity holders of the Company		**43,942**	(22,164)
Minority interests		**14,867**	10,733
		58,809	(11,431)
Dividend	*9*	**–**	–
Earnings (loss) per share (HK cents)			
For the continuing and discontinued operations	*10*		
Basic		**2.32**	(1.26)
Diluted		**(0.91)**	(4.17)
From continuing operations			
Basic		**2.32**	(1.09)
Diluted		**(0.91)**	(4.01)
From discontinued operations			
Basic		**N/A**	(0.17)
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	Notes	2008 HK$'000	2007 HK$'000 (restated)
Non-current assets			
Property, plant and equipment		**129,947**	54,852
Prepaid lease payments		**76,443**	10,143
Intangible assets		**608,726**	191,354
Goodwill		**383,347**	77,333
Available-for-sale investments		**59,519**	–
Interest in an associate		**55,783**	7,617
Deposits paid for acquisition of subsidiaries		**–**	567,990
		1,313,765	909,289
Current assets			
Inventories		**12,882**	4,116
Trade and other receivables	*11*	**105,910**	58,514
Amount due from a related party		**–**	213
Amount due from a minority shareholder of a subsidiary		**1,952**	946
Prepaid lease payments		**1,794**	221
Cash held at financial institutions		**13,170**	30,000
Bank balances and cash		**135,472**	78,839
		271,180	172,849
Current liabilities			
Trade and other payables	*12*	**209,215**	29,770
Bank borrowings – repayable within one year		**32,716**	–
Other loans – repayable within one year		**42,395**	9,487
Amounts due to related parties		**–**	204
Amounts due to directors		**–**	223
Amounts due to minority shareholders of subsidiaries		**105,802**	–
Tax payables		**3,587**	281
		393,715	39,965
Net current (liabilities) assets		**(122,535)**	132,884
		1,191,230	1,042,173
Capital and reserves			
Share capital		**189,090**	189,090
Reserves		**326,989**	342,781
Equity attributable to equity holders of the Company		**516,079**	531,871
Minority interests		**194,862**	86,536
Total equity		**710,941**	618,407
Non-current liabilities			
Bank borrowings – due after one year		**27,076**	32,017
Other loans – due after one year		**45,940**	938
Loans from an associate/a minority shareholder of subsidiaries		**3,384**	11,738
Amount due to minority shareholders of subsidiaries		**81,427**	–
Convertible bonds		**262,335**	326,872
Government grants		**55,763**	50,787
Deferred tax liabilities		**4,364**	1,414
		480,289	423,766
		1,191,230	1,042,173

Notes

1. GENERAL

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

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis notwithstanding the consolidated net current liabilities of approximately HK$122,535,000 as at 31 December 2008. In the opinion of the directors of the Company, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration that the Group's net current liabilities as at 31 December 2008 are mainly contributed by Longwide Investment Limited and its subsidiaries (the "Longwide Group"), which amounted to approximately HK$134,175,000 as at 31 December 2008. On 26 March 2009, the Group entered into a sale and purchase agreement with Bright Blue Investments Limited (皓藍投資有限公司) ("Bright Blue"), an independent acquirer, for the disposal of the Group's entire interest in Longwide Group and a shareholder loan amounted to approximately HK$57,000 at a consideration of HK$50,000,000. Details of this transaction had been set out in the Company's announcement dated 27 March 2009. This transaction was completed on 2 April 2009.

On the basis that after disposal of Longwide Group, the Group's financial position will be improved and the directors of the Company consider that the Group will have sufficient working capital to meet its financial obligation as and when they fall due for the twelve months from 31 December 2008. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

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

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Interpretation ("INT") 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-INT 12	Service Concession Arrangements
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs interpretations, other than HK(IFRIC)-INT 12, which are detailed as below, had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

Service concession arrangements

In the current year, the Group has applied HK(IFRIC)-INT 12 "Service Concession Arrangements" which is effective for annual periods beginning on or after 1 January 2008.

The Group as a water supply and sewage treatment operator has access to operate the water supply and sewage treatment infrastructures to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement contract.

HK(IFRIC)-INT 12 provides guidance on the accounting by the operator of a service concession arrangement which involved the provision of public sector services.

In prior years, the construction costs incurred on the water supply and sewage treatment infrastructures, which the Group is entitled to operate for the specified concession period, was recorded as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. Depreciation of the water supply and sewage treatment infrastructures was calculated to write off their costs, over their expected useful life or the remaining concession period, whichever was shorter, commencing from the date of commencement of commercial operation of the water supply and sewage treatment, on a straight-line basis.

In accordance with HK(IFRIC)-INT 12, infrastructure within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. If the operator provides construction and upgrade services of the infrastructure, this interpretation require the operator to account for its revenue and costs in accordance with HKAS 11 "Construction Contracts" for the construction and upgrade services of the infrastructure and to account for the fair value of the consideration received and receivable for the construction and upgrade services as an intangible asset in accordance with HKAS 38 "Intangible Assets" to the extent that the operator receives a right (a licence) to charge users of the public service, which amounts are contingent on the extent that the public uses the service. In addition, the operator accounts for the services in relation to the operation of the water supply and sewage treatment infrastructures in accordance with HKAS 18 "Revenue".

For the annual period beginning 1 January 2008, the Group has applied this interpretation retrospectively and the financial impact on acquisition of this interpretation is summarised below.

Summary of the effects of the changes in accounting policies

The effect of changes in accounting policies resulted from adoption of HK(IFRIC)-INT 12 for the current and prior year by line items are as follows:

	2008	2007
	HK$'000	*HK$'000*
Increase in revenue on construction	**23,744**	50,076
Increase in construction cost	**(22,137)**	(44,883)
Decrease in depreciation expense	**21,533**	3,938
Increase in amortisation expense	**(16,625)**	(3,476)
Increase in deferred tax expense	**(1,629)**	(1,414)
Increase in profit for the year	**4,886**	4,241

The effect of the application of the new interpretation as at 31 December 2007 is summarised below:

	As at 31 December 2007 (originally stated) *HK$'000*	Adjustments *HK$'000*	As at 31 December 2007 (restated) *HK$'000*
Balance sheet items			
Property, plant and equipment	240,551	(185,699)	54,852
Intangible assets	–	191,354	191,354
Total effects on assets	240,551	5,655	246,206
Deferred tax liabilities and total effects on liabilities	–	1,414	1,414
Accumulated losses	(89,299)	2,180	(87,119)
Minority interests	84,475	2,061	86,536
Total effects on accumulated losses and equity	(4,824)	4,241	(583)

The effects of the application of the new interpretation on the Group's basic loss per share for the current and prior year:

Impact on basic loss per share

	2008 ***HK cents***	2007 *HK cents*
For the continuing and discontinued operations		
Reported figures before adjustments	**2.16**	(1.39)
Adjustments arising from changes in accounting policies	**0.16**	0.13
Restated	**2.32**	(1.26)

For continuing operations

	2008 ***HK cents***	2007 *HK cents*
Reported figures before adjustments	**2.16**	(1.22)
Adjustments arising from changes in accounting policies	**0.16**	0.13
Restated	**2.32**	(1.09)

For discontinued operations

	2008	2007
	HK cents	*HK cents*
Reported figures before adjustments	**–**	(0.17)
Adjustments arising from changes in accounting policies	**–**	–
Restated	**–**	(0.17)

Impact on diluted earnings per share

	2008	2007
	HK cents	*HK cents*
Reported figures before adjustments	**(1.05)**	(4.29)
Adjustments arising from changes in accounting policies	**0.14**	0.12
Restated	**(0.91)**	(4.17)

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial Instrument Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded Derivatives[6]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[4]
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC)-INT 18	Transfers of Assets from Customers[7]

1 Effective for annual periods on or after 1 January 2009, except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 October 2008.
6 Effective for annual periods ending on or after 30 June 2009.
7 Effective for transfers of assets from customers received on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. TURNOVER

Turnover represents revenue arising from sales of watches, water supply, sewage treatment, and water supply related installation and construction as well as revenue from investments.

An analysis of the Group's turnover for the year, for both continuing and discontinued operations, is as follows:

	2008	2007
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Trading of watches and accessories	**–**	14,601
Provision of water supply	**78,547**	24,430
Water supply related installation and construction revenue	**65,942**	28,424
Sewage treatment	**25,285**	6,832
Water supply and sewage treatment infrastructure construction income	**23,744**	50,076
Interest income from debt securities	**47**	–
Dividends from listed securities	**527**	–
Proceeds from debt securities	**19,132**	–
Proceeds from held-for-trading investments	**61,535**	–
Proceeds from financial assets at fair value through profit or loss	**14,282**	–
Others	**834**	–
	289,875	124,363
Discontinued operations		
Sales of computer peripherals	**–**	20,576
	289,875	144,939

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is organised into four operating divisions – provision of water supply and sewage treatment in the PRC, investment in financial and investment products, construction of water supply and sewage treatment infrastructures, trading of watches and accessories and others during the year. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

(a) provision of water supply and sewage treatment;

(b) construction of water supply and sewage treatment infrastructures;

(c) investment in financial and investment products;

(d) trading of watches and accessories; and

(e) others.

The Group was also involved in the production and sale of computer peripherals during the year ended 31 December 2007. That operation was discontinued on 28 December 2007.

Segment information about these businesses is presented below:

For the year ended 31 December

	Continuing operations												Discontinued operations			
	Provision of water supply and sewage treatment		Construction of water supply and sewage treatment infrastructure		Investment in financial and investment products		Trading of watches and accessories		Others		Sub-total		Production and sale of computer peripherals		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
SEGMENT REVENUE																
Sales to external customers	**169,774**	59,686	**23,744**	50,076	**574**	–	**–**	14,601	**834**	–	**194,926**	124,363	**–**	20,576	**194,926**	144,939
SEGMENT RESULTS	**25,538**	8,362	**1,607**	5,193	**11,278**	–	**–**	(18,949)	**286**	–	**38,709**	(5,394)	**–**	(6,775)	**38,709**	(12,169)
Unallocated corporate income											**2,550**	17,065	**–**	911	**2,550**	17,976
Unallocated corporate expenses											**(22,800)**	(16,906)	**–**	–	**(22,800)**	(16,906)
Gain on disposal of subsidiaries											**–**	779	**–**	6,241	**–**	7,020
Change in fair value of convertible bonds											**64,537**	58,128	**–**	–	**64,537**	58,128
Discount on acquisition of a business	**12,443**	–	**–**	–	**–**	–	**–**	–	**–**	–	**12,443**	–	**–**	–	**12,443**	–
Convertible bonds issue expense	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(13,520)	**–**	–	**–**	(13,520)
Impairment loss recognised in respect of trade and other receivables	**(8,311)**	(1,427)	**–**	–	**–**	–	**–**	(755)	**–**	–	**(8,311)**	(2,182)	**–**	(3,226)	**(8,311)**	(5,408)
Impairment loss recognised in respect of goodwill	**(7,837)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(7,837)**	–	**–**	–	**(7,837)**	–
Share-based payment expense											**–**	(40,433)	**–**	–	**–**	(40,433)
Share of results of associates	**(3,265)**	(1,834)	**–**	–	**–**	–	**–**	–	**–**	–	**(3,265)**	(1,834)	**–**	–	**(3,265)**	(1,834)
Finance costs											**(10,280)**	(2,612)	**–**	(215)	**(10,280)**	(2,827)
Profit (loss) before tax											**65,746**	(6,909)	**–**	(3,064)	**65,746**	(9,973)
Income tax expense											**(6,937)**	(1,414)	**–**	(44)	**(6,937)**	(1,458)
Profit (loss) before tax											**58,809**	(8,323)	**–**	(3,108)	**58,809**	(11,431)

	Continuing operations												Discontinued operations			
	Provision of water supply and sewage treatment		Construction of water supply and sewage treatment infrastructure		Investment in financial and investment products		Trading of watches and accessories		Others		Sub-total		Production and sale of computer peripherals		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)								(restated)		(restated)		(restated)
OTHER INFORMATION:																
Unallocated depreciation of property, plant and equipment											**709**	8	**–**	–	**709**	8
Depreciation of property, plant and equipment	**3,350**	2,017	**–**	–	**73**	–	**–**	62	**98**	–	**3,521**	2,079	**–**	3,220	**3,521**	5,299
Total depreciation of property, plant and equipment											**4,230**	2,087	**–**	**3,220**	4,230	**5,307**
Amortisation of prepaid lease payments	**1,164**	132	**–**	–	**–**	–	**–**	–	**–**	–	**1,164**	132	**–**	–	**1,164**	132
Amortisation of intangible assets	**16,625**	3,476	**–**	–	**–**	–	**–**	–	**–**	–	**16,625**	3,476	**–**	–	**16,625**	3,476
Bad debt directly written off on trade receivables	**101**	–	**–**	–	**–**	–	**–**	–	**–**	–	**101**	–	**–**	–	**101**	–
Write down of inventories	**1,800**	–	**–**	–	**–**	–	**–**	3,144	**–**	–	**1,800**	3,144	**–**	5,208	**1,800**	8,352
Unallocated loss on partial disposal/ deconsolidation of a subsidiary											**140**	98	**–**	–	**140**	98
Loss on disposal of property, plant and equipment	**–**	49	**–**	–	**–**	–	**–**	544	**–**	–	**–**	593	**–**	472	**–**	1,065
Gain on disposal of property, plant and equipment	**(57)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(57)**	–	**–**	–	**(57)**	–
Capital expenditures	**108,527**	101,611	**–**	–	**141**	–	**–**	–	**2,056**	–	**110,724**	101,611	**–**	–	**110,724**	101,611
Unallocated capital expenditures											**1,650**	–	**–**	–	**1,650**	–
Total capital expenditures											**112,374**	101,611	**–**	–	**112,374**	101,611
Assets																
Segment assets	**899,277**	278,613	**–**	–	**108,319**	–	**–**	1,211	**10,491**	–	**1,018,087**	279,824	**–**	–	**1,018,087**	279,824
Interest in an associate	**55,783**	7,617	**–**	–	**–**	–	**–**	–	**–**	–	**55,783**	7,617	**–**	–	**55,783**	7,617
Unallocated segment asset											**511,075**	794,697	**–**	–	**511,075**	794,697
											1,584,945	1,082,138	**–**	–	**1,584,945**	1,082,138
Liabilities																
Segment liabilities	**205,602**	26,139	**–**	–	**–**	–	**–**	1,152	**898**	–	**206,500**	27,291	**–**	–	**206,500**	27,291
Unallocated segment liabilities											**667,504**	436,440	**–**	–	**667,504**	436,440
											874,004	463,731	**–**	–	**874,004**	463,731

Geographical segments

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

	2008	2007
	HK$'000	*HK$'000*
		(restated)
Europe	**15,078**	2,465
The PRC, Hong Kong and Taiwan	**193,599**	142,118
North America	**48,579**	356
Australia	**10,729**	–
Japan	**10,269**	–
Asia Pacific (other than Japan)	**8,263**	–
Others	**3,358**	–
	289,875	144,939

Revenue from the Group's discontinued production and sale of computer peripherals was derived principally from the PRC, Hong Kong and Taiwan.

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

6. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on:		
– Interest on convertible bonds	**963**	393
– Bank borrowings wholly repayable within five years	**2,470**	207
– Bank borrowings wholly repayable more than five years	**2,770**	–
– Other loans wholly repayable within five years	**2,130**	1,171
– Other loans wholly repayable more than five years	**1,298**	21
– Amounts due to minority shareholders of subsidiaries	**361**	673
– Loan from an associate/a minority shareholder of subsidiaries	**288**	354
– Others	**–**	8
	10,280	2,827
Attributable to:		
Continuing operations	**10,280**	2,612
Discontinued operations	**–**	215
	10,280	2,827

7. PROFIT (LOSS) BEFORE TAX

	Continuing operations		Discontinued operations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)				(restated)
Profit (loss) before tax has been arrived at after charging:						
Amortisation of prepaid lease payments	**1,164**	132	**–**	–	**1,164**	132
Amortisation of intangible assets (included in cost of sales)	**16,625**	3,476	**–**	–	**16,625**	3,476
Auditors' remuneration	**930**	600	**–**	–	**930**	600
Bad debts directly written off on trade receivables	**101**	–	**–**	–	**101**	–
Convertible bonds issue expense	**–**	13,520	**–**	–	**–**	13,520
Cost of inventories recognised as expenses	**20,187**	27,909	**–**	7,901	**20,187**	35,810
Depreciation of property, plant and equipment	**4,230**	2,087	**–**	3,220	**4,230**	5,307
Loss on partial disposal/deconsolidation of a subsidiary	**140**	98	**–**	–	**140**	98
Loss on disposal of property, plant and equipment	**–**	593	**–**	472	**–**	1,065
Minimum lease payment under operating leases	**3,020**	1,427	**–**	1,459	**3,020**	2,886
Net exchange loss	**953**	–	**–**	–	**953**	–
Share-based payment *(Note)*	**–**	39,381	**–**	–	**–**	39,381
Staff costs excluding directors' emoluments						
– Salaries, wages and other benefits	**33,211**	13,144	**–**	4,466	**33,211**	17,610
– Retirement benefits scheme contributions	**4,270**	940	**–**	291	**4,270**	1,231
Total staff costs	**37,481**	14,084	**–**	4,757	**37,481**	18,841
Write down of inventories (included in cost of sales)	**1,800**	3,144	**–**	5,208	**1,800**	8,352

Note: The amounts represented the fair value of consultancy services provided to the Group during the year ended 31 December 2007 in relation to identifying potential water projects in the PRC. The consultancy service fees were settled through the issue of 427,800,000 share options for the year ended 31 December 2007.

8. INCOME TAX EXPENSE

	2008	2007
	HK$'000	*HK$'000*
		(restated)
Current tax:		
– Hong Kong	**–**	44
– PRC Enterprise Income Tax ("EIT")	**3,987**	–
	3,987	44
Deferred tax	**2,950**	1,414
	6,937	1,458
Attributable to:		
Continuing operations	**6,937**	1,414
Discontinued operations	**–**	44
	6,937	1,458

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% and 16.5% effective from the year of assessment 2008/2009. Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there was no estimated assessable profit derived for the year ended 31 December 2008.

Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for the year ended 31 December 2007.

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

On 16 March 2007, the PRC promulgated the Law of the PRC on EIT (the "New Law") by Order No.63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the EIT rate of the Group's subsidiaries in the PRC reduced from 33% to 25% from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 15% to 25% (2007: 15% and 33%).

9. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

10. EARNINGS (LOSS) PER SHARE

From continuing operations

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

	2008 *HK$'000*	2007 *HK$'000* (restated)
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share earnings (loss) for the year attributable to equity holders of the Company)	**43,942**	(22,164)
Effect of dilutive potential shares:		
– interest on convertible bonds	**963**	393
– change in fair value of convertible bonds	**(64,537)**	(58,128)
Loss for the purposes of diluted earnings (loss) per share	**(19,632)**	(79,899)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,890,900**	1,754,342
Effect of dilutive potential shares:		
– share options issued by the Company *(Note)*	**–**	47,794
– conversion of convertible bonds	**271,127**	112,165
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**2,162,027**	1,914,301

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

From continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to equity holders of the Company is based on the following data:

	2008 *HK$'000*	2007 *HK$'000* (Restated)
Earnings (loss) for the year attributable to equity holders of the Company	**43,942**	(22,164)
Less: Loss for the year from discontinued operations attributable to equity holders of the Company	**–**	(3,108)
Earnings (loss) for the purpose of basic earnings (loss) per share from continuing operations	**43,942**	(19,056)
Effect of dilutive potential shares:		
– interest on convertible bonds	**963**	393
– change in fair value of convertible bonds	**(64,537)**	(58,128)
Loss for the purposes of diluted earnings (loss) per share from continuing operations	**(19,632)**	(76,791)

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share.

From discontinued operations

Basic loss per share for discontinued operations was HK0.18 cents for the year ended 31 December 2007 based on the loss for the year from the discontinued operations of approximately HK$3,108,000 and the denominators detailed above for basic loss per share for the year ended 31 December 2007.

No diluted loss per share for the year ended 31 December 2007 had been presented as the effect of the conversion of the Company's outstanding share options and conversion of convertible bonds was anti-dilutive from both continuing and discontinued operations was anti-dilutive.

11. TRADE AND OTHER RECEIVABLES

	2008	2007
	HK$'000	*HK$'000*
Trade receivables	**21,341**	10,114
Less: Impairment loss recognised	**(4,754)**	(2,093)
	16,587	8,021
Other receivables	**93,035**	16,996
Less: Impairment loss recognised	**(6,931)**	(1,084)
Deposits and prepayments	**3,219**	34,581
	105,910	58,514

The Group allows an average credit period of 90 days to 180 days given to its customers.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, and net of impairment loss recognised was as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 90 days	**10,760**	3,564
91 to 180 days	**5,192**	4,046
181 to 365 days	**511**	344
Over 1 year	**124**	67
	16,587	8,021

12. TRADE AND OTHER PAYABLES

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**3,110**	1,489
31 to 90 days	**1,232**	585
91 to 180 days	**1,946**	741
181 to 365 days	**1,050**	1,559
Over 1 year	**21,912**	868
	29,250	5,242
Other payables	**179,965**	24,528
	209,215	29,770

13. CAPITAL COMMITMENT

	2008 HK$'000	2007 HK$'000
Capital commitments contracted but not provided for, in respect of acquisition of intangible assets and property, plant and equipment	**5,388**	25,561

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Financial Results

With the management's dedicated efforts to streamline the Group's businesses and to focus on the development of water supply and sewage treatment operations, the Group's annual results achieved a remarkable turnaround from a loss of approximately HK$11.43 million in 2007 to a profit of approximately HK$58.81 million in 2008. This represented a satisfactory growth by HK$70.24 million as compared with last year. The improvement was attributable to many factors. Amongst them, the contribution from water supply and sewage treatment segment made an eloquent appeal for the Group's strategic business development over the past two years. During the year, the water supply and sewage treatment business remains the major source of our profit. The business segment contributed a profit of HK$25.54 million, which represented an increase of 205.41% comparing to the profit of HK$8.36 million last year. Besides, iMerchants Limited ("iMerchants") (Stock Code: 8009), which the Group has acquired 84.98% equity interests during the year, has contributed HK$11.28 million to the Group's consolidated results. In the 2008 operating results of the Group, there were a discount on acquisition of a subsidiary of HK$12.44 million and a gain from the change in fair value of convertible bonds of HK$64.54 million. During the year, no share-based payment expenses was recognised as no share option was granted. Also there was no loss from discontinued operation as the loss-making business of production and sales of computer peripherals had been disposed of in last year. The operating results well demonstrated the achievement and insight of the Group's strategy to diversify its business in the water supply and sewage treatment industry sector in the PRC.

Revenue and Gross Profit

The Group's revenue and gross profit for the year 2008 was HK$194.93 million and HK$76.80 million respectively, which represented a robust growth of 56.74% in turnover and 191.97% in gross profit as compared with the last year. The revenue and gross profit were mainly contributed by water companies named Yichun Water Industry Co. Limited ("Yichun Water") and Yingtan Water Company Limited ("Yingtan Water"), which collectively accounted for 58.27% of the total turnover and 84% of gross profit. Following the disposal of computer peripherals business and cessation of watch retail and wholesales businesses in last year, no turnover and gross profit have been recognised in these two business segments in this year financial statements.

Other Operating Income

Other operating incomes have decreased by HK$8.38 million to HK$9.46 million due to bank interest income reduced and no guaranteed profit compensated by the respective vendors for the respective acquired water plants. They were mainly bank interest income of HK$2.41 million, gain on disposal of convertible bond receivables of HK$1.33 million and HK$1.91 million subsidy granted by PRC government for repairing and maintenance of the underground water pipelines due to snow disaster.

Discount on acquisition of Danzhou Qingyuan Water Industry Company Limited* ("Danzhou Qingyuan") (儋州清源水務有限公司) has been recognised in accordance with the Hong Kong Financial Reporting Standard 3. The acquisition cost of Danzhou Qingyuan was lower than the net fair value of the identifiable assets acquired. The discount of HK$12.44 million was recognised in the income statement.

The operating income of iMerchants consisted of a net gain on disposal of debt securities of HK$1.14 million, net fair value change on listed trading securities amounted to HK$5.53 million, as well as an increase in fair values of financial assets of HK$2.62 million.

Other expenses

Selling and distribution costs increased by 128.10% to HK$7.96 million (2007: HK$3.49million). This was due to the fact that several water plants and commenced operation.

Administrative expenses has increased substantially from HK$45.11 million in 2007 to HK$69.13 million in 2008 due to several water plants being acquired during the year and commenced operation.

Impairment loss recognized in respect of trade and other receivables

The impairment loss of HK$8.31 million was mainly provided for guaranteed profits of HK$5.79 million compensated by the respective vendors of the respective acquired water plants and sewage treatment plants.

Impairment loss recognised in respect of goodwill

During the year ended, the Group recognized impairment losses of approximately HK$7.84 million resulting of disposal the Longwide Investment Limited and its subsidiaries ("Longwide Group"). The impairment loss is arising from the attributable net assets value of HK$21.91 million and the carrying value of goodwill of HK$35.93 million from acquisition of Longwide Group which exceeded the sales proceed of HK$50 million.

Finance cost increased sharply by 293.57% to HK$10.28 million as compared with last year. The increase was mainly attributable to the interest expenses on convertible bonds which amounted to HK$0.96 million and loan interests of HK$9.32 million.

Share of profit/(losses) from associates

For the year under review, the Group's acquired 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("Jinan Hongquan") (濟南泓泉制水有限公司) through the acquisition of Blue Mountain Hong Kong Group Limited. Share of post acquisition results of Jinan Hongquan of HK$0.8 million has been taken up in this annual financial statements.

The Group has also shared a post-acquisition loss of HK$4.06 million from another associated company, namely Shangqiu Zhengyuan Water Industry Company Limited* ("Shangqiu Zhengyuan") (商丘市正源水務有限公司). During the year, the Group has acquired the remaining equity interest of Shangqiu Zhengyuan. It is now a subsidiary of the Group. It's financial results were fully consolidated into the Group's financial statement since 22 April 2008.

BUSINESS SEGMENTS REVIEW

Water Supply and Sewage Treatment Business in China

For Water Supply Business and Related Installation and Construction Works

In the year 2008, the Group's revenue and profit from water supply business have grown steadily and continuously. The revenue from the segment amounted to approximately HK$144.49 million, representing 173.37% increase as compared with last year. The major contributors are Yichun Water of HK$73.17 million and Yingtan Water of HK$31.87 million respectively, representing 53.88% of the total revenue. Gross profit from water supply business and construction works was approximately HK$59.11 million.

For Sewage Treatment Business

During the year, turnover from sewage treatment business amounted to approximately HK$25.29 (2007: HK$6.83 million). Gross profit from sewage treatment business was approximately HK$13.3 million. The Group's sewage treatment plants are located at Yichun City in Jiangxi Province, Jinxiang County and Linyi City in Shandong Province. All these plants are operated under concession agreements granted by the relevant city or municipal government for a term of not less than 25 years under build-operate-transfer basis.

At present, the Group has already acquired 7 water supply plants and 3 sewage treatment facilities in the PRC. The aggregate water supply capacity of these water supply plants reaches 2,300,000 tonnes per day, while the 3 sewage treatment facilities are capable of disposing 130,000 tonnes sewage water per day. The Group's footprints in water supply and sewage treatment can be found in Jiangxi Province, Anhui Province, Shandong Province, Henan Province and Hainan Province.

For construction of water supply and sewage treatment infrastructure

In 2008, revenue and profit from construction works and infrastructure projects amounted to approximately HK$23.74 million (2007: HK$50.08 million) and HK$1.6 million (2007: HK$5.19 million).

On top of its solid foundation in water business industry, subsequent to the year ended, the Group has further expansion its network to western and northern of the PRC, to acquire 8 sewage treatment plants in Guangdong Province and 1 water supply plant in Hebei Province, with the aggregate sewage treatment capacity of 260,000 tonnes per day and the aggregate water supply capacity of 274,000 tonnes per day respectively. This acquisition is a very important milestone for the Company as this raised the Group's water supply and sewage treatment capacity to 2,574,000 tonnes per day and 390,000 tonnes per day respectively. If the above capacity is added to projects with Letters of Intend, the total water supply capacity and sewage treatment capacity of the Group will reach daily 5,624,000 tonnes and 1,225,000 tonnes respectively. The Group is getting more closer to its goal of attaining water supply capacity of 10,000,000 tonnes per day and sewage treatment capacity of 2,000,000 tonnes per day within 3 years.

Investment in financial and investment products and ceramic sewage material business

iMerchants Limited ("iMerchants") (Stock Code: 8009), a company listed on the GEM board which the Group has acquired 84.98% equity interest during the year, has contributed HK$0.57 million and HK$11.28 million to the Group's consolidated turnover and results. Operating profit of iMerchants was mainly derived from the disposal and redemption of the treasury investments. On the verge of financial tsunami, pricing and liquidity of financial and securities product was highly volatile and uncertain. The management of iMerchants has diversified iMerchants' business into the selling and manufacturing of ceramic sewage material, in 2008 amounted HK$0.83 million and HK$0.29 million of turnover and profit contributed by the newly acquired ceramic sewage material business in order to reduce the risk of relying solely on the investment in financial and securities products. Most of the financial investments in iMerchants would be held for long-term purpose. iMerchants' management believes that the fair value of these investments would recover gradually in the long run despite the recent bearish stock market. The sewage material sales and manufacturing business was also believed to have a bright future since demand for cleaner environment and water still has been growing steadily and continuously.

Trading of watches and accessories business

Following the closure of image shop last year, the management has decided not to invest further resources to the trading of watches and accessories business. Full provision has been made on this business segment.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the management has been endeavour to keep the Group in a healthy financial position. As at 31 December 2008, the Group maintained a cash and cash equivalents amounted to HK$148.64 million (compare with HK$108.84 million on 31 December 2007). The Group has steady cash flows generating from the water supply and sewage treatment business segment. The Group has been well positioned to expand further in the PRC water industry and to take on other potential investment opportunity.

Total borrowings of the Group as at 31 December 2008 were HK$656.84 million (compare with HK$431.84 million on 31 December 2007). They comprised of the Convertible Bonds ("CB") of HK$262.34 million (2007: HK$326.87 million), long-term borrowings of HK$157.83 million (2007: HK$44.69 million), and interest free government loans of HK$55.76 million (2007: HK$50.79 million). The CB was denominated in HK dollars while others were mainly denominated in Renminbi and the interest rates of which were fixed.

The Group's gearing ratio as at 31 December 2008 was 55.14% (compare with 42.85% on 31 December 2007), which was calculated by dividing total liabilities of HK$874 million over total assets of the Group of HK$1,584.95 million.

At the year end, the Group had a net current liabilities of HK$122.54 million (2007: net current assets of HK$132.88 million). Amongst the Group's consolidated total current liabilities, the Longwide Group including the Longwide Investment Limited ("Longwide") (遠耀投資有限公司) and its subsidiaries accounted for HK$167.58 million, which represented 42.56% of the Group's total current liabilities. Subsequent to the year end, the Company has disposed of the Longwide Group to an independent third party at a consideration of HK$50 million. For details, please also refer to the Company's announcement dated 26 March 2009. After the de-consolidation of the Longwide Group upon disposal, the Group would be able to turnaround the net current liabilities and reinstate to a strong net current assets position. The board believed that the Group's liquidity risk was not significant.

CAPITAL RAISING

The Company had not conducted any fund raising activities during the year. On 21 August 2008, the Company and Pacific Foundation Securities Limited ("Placing Agent") entered into a placing agreement to place a maximum of 378,180,000 shares at a price of HK$0.182 per share on a best effort basis (the "Placement"). Due to the global downturn in the securities market, the Placement had not been successfully completed and was terminated on 30 September 2008.

During the year, the Group had incurred capital expenditures amounted to HK$183.57 million (2007: HK$677.70 million). They were mainly spent on strategic acquisitions during the year. HK$114.71 million had been used for acquisitions of water supply and related business projects in the PRC. HK$68.86 million had been spent to settle the acceptance received from the unconditional mandatory general offer of iMerchants shares pursuant to the relevant regulations after the Group has acquired the controlling stake of iMerchants from its former major shareholder.

MAJOR EVENTS DURING THE YEAR UNDER REVIEW

Acquisition of subsidiaries

On 3 July 2007, the China Water Industry (HK) Limited ("China Water (HK)"), an indirect wholly-owned subsidiary of the Company 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. Longwide is an investment holding company holding 51% equity interests in each of Shangqiu Zhengyuan Water Industry Company Limited* ("Shangqiu Zhengyuan") (商丘市正源水務有限公司) and Linyi Ganghua Water Industry Co., Ltd ("Linyi Ganghua") (臨沂港華水務有限公司). The acquisition of Linyi Ganghua and Shangqiu Zhengyuan was completed on 3 July 2007 and 22 April 2008 respectively.

On 6 November 2007, Super Sino Investment Limited ("Super Sino"), an indirect wholly-owned subsidiary of the Company entered into assets and liabilities 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 31 March 2008.

On 6 November 2007, Super Sino 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. The transaction has been completed on 30 November 2008.

On 26 November 2007, Smart Giant Group Limited, a direct wholly-owned subsidiary of the Company entered into an agreement with Mega Mount Group Limited, to acquire the entire share capital and a shareholder's loan of Blue Mountain Hong Kong Group Limited ("Blue Mountain") for an aggregate consideration of HK$230 million. Blue Mountain is an investment holding company and its sole asset is the 35% equity interests in Jinan Hongquan Water Production Co., Ltd ("Jinan Hongquan") (濟南泓泉制水有限公司). The transaction was 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 interests of iMerchants Limited ("iMerchants") at an aggregate consideration of approximately HK$198 million. The transaction was completed on 14 February 2008. Owing to the acquisition triggered the Takeover Code, the Group is required to make an unconditional mandatory general cash offer for all the issued shares of iMerchants. On 13 March 2008, the Group held approximately 90.68% of iMerchants shares which was exceeding the minimum 15% of public float requirement under the GEM rules. On 14 April 2008, the Group entered into placing agreement to dispose 6.28% interest in iMerchants. As at year ended, the Group held approximately 84.98% of interest in iMerchants.

On 4 February 2008, the China Water (HK) entered into a JV Agreement with Yingtan Water Supply Company* (鷹潭市供水公司) (the "JV Partner"), a state-owned enterprise incorporated in the PRC and subordinated to Construction Bureau of Yingtan City* (鷹潭市建設局), to establish the JV Company named Yingtan Water Company Limited* (鷹潭市水業有限公司) with the JV Partner to principally engage in water supply plants to urban areas in Yingtan City in Jiangxi Province of the PRC. The aggregate water supply capacities of JV Company are 100,000 tonnes per day. The acquisition has been completed on 20 March 2008.

On 20 May 2008, iMerchants through its wholly-owned subsidiary of Shine Gain Holdings Limited entered into the agreement with Da Luz, Sergio Augusto Josue Junior, an independent party (the "Vendor") to acquire the entire issued share capital of Plenty One Limited at a consideration of HK$55 million which directly holds 80% equity interest in Ping Xiang City San He Lian Chuang Water Technology Limited* ("Ping Xiang San He") (萍鄉市三和聯創水務科技有限公司). San He is a company established in the PRC which principally engaged in manufacturing and trading ceramic sewage material. The acquisition has been completed on 12 August 2008.

On 20 August 2008, Swift Surplus Holdings Limited ("Swift Surplus"), a direct wholly-owned subsidiary of the Company entered into an agreement with Ms. Yuen Tak Chun, an independent party (the "Vendor") to acquire 100% issued share capital in Affluent Boom Enterprises Limited ("Affluent Boom") at a consideration of HK$700 million. Affluent Boom is an investment holdings company, and its subsidiaries are mainly involved in sewage treatment and water supply businesses in China. In light of the deteriorating world economy caused by the financial crisis, the Swift Surplus and Vendor entered into the Deed of Termination on 31 Oct 2008 to suspend the acquisition of Affluent Boom. The Directors are of view that the termination will not cause any material adverse impact on the existing business of the Group.

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 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 preceding year, on 29th August 2008, the court has made an order to appoint Kenny Tam & Company, Certified Public Accountant as an liquidator of Technostore and Happy Hours Limited and Mao Chi Fai become members in the committee of inspection. The matter is still in the liquidation process and is handled by Official Receiver's Office. The directors of Technostore 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 to have material adverse financial impact on the Group.

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

On 6 November 2007, the People's Government of Danzhou City and Super Sino entered into assets and liabilities transfer agreement, pursuant to which all assets and liabilities of Danzhou City Water Company* (儋州市自來水公司) are transferred to Super Sino. On 26 June 2008, Super Sino notified that Agricultural Bank of China, Danzhou Branch filed a claim regarding the liabilities transferred by Danzhou City Water Company* with the Intermediate People's Court of Hainan against Danzhou City Water Company*, Super Sino and the third party of the People's

Government of Danzhou City for the repayment of the loan principal of RMB26 million and the interests arising from the defendants of Danzhou City Water Company* and Super Sino to the plaintiff. As advised by the Company's solicitor, the borrowing contract lawsuit is under friendly out-of-court negotiation and is expected to reach a settlement agreement to reduce loan interests and extend the repayment period. This respective loan principal and interests were booked in the Group's financial statement. The director of the Company believed that the lawsuit 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 the Company.

MAJOR EVENTS SUBSEQUENT TO THE YEAR

Disposal of subsidiary and branch office

On 26 March 2009, China Water (HK) entered into the Agreement with Bright Blue Investments Limited (皓藍投資有限公司), an independent acquirer, to dispose the sale loan of and the entire issued share capital in Longwide Investment Limited and its subsidiaries ("Longwide Group"), at a consideration of HK$50 million. Longwide Group is engaged in provision of water supply and sewage treatment business in the PRC. This transaction was completed on 2 April 2009. The impairment loss of HK$7.84 million has been recognised in the annual results due to the sales proceed less than attributable net assets value and the carrying value of goodwill.

On 27 March 2009, Jining City Haiyuan Water Treatment Company Limited* ("Jining Haiyuan") (濟寧市海源水務有限公司), an indirect owned subsidiary of the Company, disposed all assets and liabilities in branch office of Liang Shan County, Jining City, the PRC to Liu Qing Chen, an independent acquirer, at a consideration of HK$10 million.

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

Acquisition of subsidiaries and associate

On 27 April 2009, Swift Surplus Holdings Limited ("Swift Surplus") 迅盈控股有限公司, a direct wholly-owned subsidiary of the Company entered into the agreement with independent third parties, Top Vision Management Limited (達信管理有限公司) and Shenzhen City South China Waterworks Group Co., Ltd.* (深圳市華南水務集團有限公司), pursuant to which the Swift Surplus has conditionally agreed to acquire 8 sewage treatment plants in Guangdong Province and 1 water supply plant in Hebei Province, at a consideration of HK$660 million.

PROSPECTS

After the successful transformation into a water investment corporation last year, the Group continued to allocate resources on expanding the investment and operation of the PRC water business during the year under review. While striving to enlarge its market share in the PRC water market, the Group also strengthened the operation and management on the investee corporations and achieved successful results.

Currently, the global financial crisis brought unprecedented challenges for the international economy, yet China's economy was less vulnerable towards the crisis. In particular, the water industry, which is a public utilities industry, maintained its stability and was less affected by the fluctuation of the economic cycle. The directors of the Group believed that the operating risk of water industry is the least during economic downturn and recession. Particularly, the lack of water resources and progress of urbanisation will ensure a huge demand and continuous growth of the water industry. The importance of water supply and sewage treatment for people's livelihood will also ensure a long term and effective support from the government. Since the Group only focuses on water business, the Group is confident that the continuous and steady development of the major business can be maintained.

For water supply business, by leveraging on the extensive experience in water business of the management team, the Group will continue to strengthen the operation and management of the investee corporations, expand income sources, reduce cost and increase efficiency to greatly enlarge the profitability of existing water projects. It will also reinforce crisis awareness and further regulate and implement strictly the regulatory framework of the enterprises to ensure the safety and hygiene of water supply in terms of quality and quantity.

For sewage treatment business, the Group will grasp the good opportunities brought about the support measures implemented by the PRC government to create a green society that conserves energy and reduces emissions, while continually expand the sewage treatment and reclaimed water reuse businesses actively and steadily to acquire substantial economic benefits.

Meanwhile, the Group has signed letters of intent regarding numerous water investment projects with certain large and medium cities and will continue to explore and actively seek for water projects with attractive returns and growth potential. Mergers and acquisitions or investment will be achieved by financings through various channels or joining hands with strategic partners. The Group will actively seek to cooperate with water investment corporations in the mainland to establish strategic partnerships and rapidly enlarge the scale and profitability of the water investment business of the Group.

Looking into the future, the Group is confident on the water industry in China. The Group will take the economic crisis as an opportunity and accelerate the pace and put greater efforts in investing PRC water projects to further optimise the investment portfolio and business structure of the Group. The Group will surely become a large and influential water enterprise in China in the foreseeable future and generate attractive returns to its shareholders and general investors.

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 transactions, assets and liabilities are denominated in Renminbi. Accordingly, the Group does not have derivative financial instruments to hedge its foreign currency risks

EMPLOYEES AND REMUNERATION POLICES

As at 31 December 2008, the Group has employed approximately 2,662 full-time employees (2007: 2,200 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.

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 2008 (2007: Nil).

CORPORATE GOVERNANCE

The Company has complied with the Code throughout the financial year ended 31st December 2008 except for deviation from the code provision A4.1 below:

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company has established with written terms of reference in accordance with the requirements of the Code of Corporate Governance Practices ("CG Code"). The audit committee has 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 2008.

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).

INVESTMENT COMMITTEE

The Investment Committee of the Company was established since 18 December 2008, consisted of 5 directors, namely Mr. Li Yu Gui (Committee Chairman), Mr. Zhong Wen Sheng, Mr. Liu Bai Yue, Mr. Yang Bin and Mr. Chang Kin Man. The role of Investment Committee is to oversee the Company's strategic and investment policy on a regular basis and to advise the Board on the investment of the Company including asset allocation and new investment proposal.

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, 27 April 2009

As at the date of this announcement, the Board comprises Mr. Shi De Mao, Ms. Chu Yin Yin, Georgiana, Mr. Zhong Wen Sheng, Mr. Liu Bai Yue, Mr. Liu Peng Cheng, Mr. Li Yu Gui and Mr. Yang Bin, 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*