

(Formerly known as Sky Hawk Computer Group Holdings Limited)  
(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 1129)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

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 2006 together with comparative figures for the corresponding year at 31 December 2005 as follows:

### CONSOLIDATED INCOME STATEMENT For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Turnover	4	70,134	61,220
Cost of sales		(58,514)	(53,238)
Gross profit		11,620	7,982
Other operating income		3,046	681
Selling and distribution costs		(4,919)	(10,794)
Administrative expenses		(54,850)	(27,435)
Allowance for bad and doubtful debts		(14,870)	(7,903)
Written off of inventories		(35,277)	(4,810)
Share of result of an associate		338	-
Finance costs	6	(494)	(262)
Loss before tax	7	(95,406)	(42,541)
Income tax expense	8	(336)	(1,718)
Loss for the year		(95,742)	(44,259)
Attributable to:			
Equity holders of the parent		(95,452)	(44,172)
Minority interests		(290)	(87)
		(95,742)	(44,259)
Loss per share			
Basic	10	(9.6) cents	(7.7) cents
Diluted		N/A	N/A

### CONSOLIDATED BALANCE SHEET At 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Property, plant and equipment		64,628	20,991
Intangible assets		-	2,160
Goodwill		1,361	-
Interest in an associate		36,477	-
		102,466	23,151
Current assets			
Inventories		18,783	43,979
Trade and other receivables	11	33,781	48,635
Tax recoverable		-	165
Pledged bank deposits		2,061	-
Bank balances and cash		5,045	4,491
		59,670	97,270
Current liabilities			
Trade and other payables	12	78,340	27,775
Tax payables		10,213	10,497
Obligations under finance leases		140	239
Bank borrowings		6,442	3,898
Amounts due to related parties		5,274	-
Amounts due to directors		2,834	-
		103,243	42,409
Net current (liabilities) assets		(43,573)	54,861
Assets classified as held for sale		-	1,081
		(43,573)	55,942
Total assets less current liabilities		58,893	79,093
Capital and reserves			
Share capital		116,450	73,450
Reserves		(64,722)	3,149
Equity attributable to equity holders of the parent		51,728	76,599
Minority interests		6,063	1,960
Total equity		57,791	78,559
Non-current liabilities			
Obligations under finance leases		245	534
Long-term borrowing		857	-
		1,102	534
		58,893	79,093

#### Notes:

#### 1. GENERAL

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 Group is principally engaged in production, sale of computer peripherals, trading of watches and accessories and provision of water supply and sewage treatment.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Group.

#### 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on historical cost basis and in accordance with Hong Kong Financial Reporting Standards ("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 on The Stock Exchange and by the Hong Kong Companies Ordinance.

#### Fundamental uncertainty

The consolidated financial statements have been prepared on a going concern basis notwithstanding the net current liabilities of approximately HK\$43,573,000 as at 31 December 2006. In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration the proposed arrangements which include, but are not limited to the following:

- subsequent to the balance sheet date, on 31 January 2007, the Company entered into a share placing agreement pursuant to which 230,000,000 shares of HK\$0.1 per share of the Company are placed at the price of HK\$0.49 per share;

- subsequent to the balance sheet date, on 23 March 2007 the Company entered into a share placing agreement pursuant to which 300,000,000 shares of HK\$0.1 per share of the Company are placed at the price of HK\$1.06 per share.

The directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from 31 December 2006. Accordingly, the directors 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.

The consolidated financial statements for the year ended 31 December 2006 comprised the Group and the Group's interest in an associate. The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that assets and liabilities in relation to derivative financial instruments are stated at their fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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 Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective as at 31 December 2006. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating segments <sup>2</sup>
HK(IFRIC)-Interpretation ("Int") 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC)-Int 9	Reassessment of embedded derivatives <sup>5</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>6</sup>
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1 November 2006.

<sup>7</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008.

#### 4. TURNOVER

Turnover represents the net amounts received and receivable for computer peripherals sold, trading of watches and accessories by the Group to outside customers, less returns and discounts.

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

	2006 HK\$'000	2005 HK\$'000 (Restated)
Sales of computer peripherals	30,582	56,724
Trading of watches and accessories	39,552	4,496
	70,134	61,220

#### 5. SEGMENT INFORMATION

##### Business segments

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

Principal activities are as follows:

- Production and sale of computer peripherals;
- Trading of watches and accessories to customers in Hong Kong; and
- Provision of water supply and sewage treatment in the People's Republic of China (the "PRC").

Segment information about these businesses is presented below:

##### For the year ended 31 December

	Production and sale of computer peripherals		Trading of watches and accessories		Provision of water supply and sewage treatment		Consolidated	
	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
TURNOVER								
External sales	30,582	56,724	39,552	4,496	-	-	70,134	61,220
RESULT								
Segment results	(67,810)	(39,512)	(26,059)	327	(297)	-	(94,166)	(39,185)
Unallocated corporate income								627
Unallocated corporate expenses							(1,084)	(3,721)
Share of profits of an associate							338	-
Finance costs							(494)	(262)
Loss before tax							(95,406)	(42,541)
Income tax expense							(336)	(1,718)
Loss for the year							(95,742)	(44,259)
OTHER INFORMATION								
Depreciation of property, plant and equipment	4,570	8,469	188	93	-	-	4,758	8,562
Amortisation of intangible assets	-	720	-	-	-	-	-	720
Allowance for bad and doubtful debts	14,870	7,903	-	-	-	-	14,870	7,903
Impairment loss on intangible asset	2,160	-	-	-	-	-	2,160	-
Allowance for inventories	11,601	-	-	-	-	-	11,601	-
Written off of inventories	35,134	4,810	143	-	-	-	35,277	4,810
Loss on disposal of property, plant and equipment	74	6,560	-	-	-	-	74	6,560
Capital expenditure	2,853	5,014	-	465	-	-	2,853	5,479

##### At 31 December

	2006 HK\$'000	2005 HK\$'000
ASSETS		
Segment assets	29,492	106,076
Interest in an associate	-	36,477
Unallocated segment assets	-	628
Consolidated total assets	162,136	121,502
LIABILITIES		
Segment liabilities	36,672	24,327
Unallocated segment liabilities	-	3,982
Consolidated total liabilities	104,345	42,943

## 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 and provision of water supply and sewage treatment are carried out in the PRC.

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

	Sales revenue by geographical market	
	2006 HK\$'000	2005 HK\$'000
Europe	4,621	5,812
Asia Pacific	40,572	22,071
North America	24,941	33,337
	<u>70,134</u>	<u>61,220</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The PRC	121,787	95,132	1,756	3,594
Hong Kong	31,660	19,386	1,097	1,885
Taiwan	8,689	6,984	-	-
	<u>162,136</u>	<u>121,502</u>	<u>2,853</u>	<u>5,479</u>

The PRC, Hong Kong and Taiwan are included in the Asia Pacific region.

## 6. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on:		
- Bank borrowings wholly repayable within five years	442	248
- Finance leases	52	14
	<u>494</u>	<u>262</u>

## 7. LOSS BEFORE TAX

	2006 HK\$'000	2005 HK\$'000
Loss before tax has been arrived at after charging:		
Amortisation of intangible assets	-	720
Auditors' remuneration	580	338
Allowance for bad and doubtful debts	14,870	7,903
Allowance for inventories (included in cost of sales)	11,601	-
Written off of inventories (included in administrative expenses)	35,277	4,810
Impairment loss on intangible assets	2,160	-
Share-based payment expenses (included in administrative expenses)	7,635	826
Cost of inventories recognised as expenses	34,983	31,293
Depreciation of property, plant and equipment	4,758	8,562
Loss on disposal of property, plant and equipment	74	6,560
Loss on disposal of investments held for trading	1,200	200
Minimum lease payments under operating leases:		
- factory premises, plant and staff quarters	5,103	4,669
Research and development costs	-	159
Staff costs excluding directors' emoluments:		
- Salaries, wages and other benefits	9,220	7,851
- Retirement benefits scheme contributions	597	785
Total staff costs	<u>9,817</u>	<u>8,636</u>
and after crediting:		
Interest income	115	9
Net foreign exchange gain (loss)	486	(678)
Gain on disposal of assets held for sale	1,013	-
Gain on disposal of a subsidiary	148	-
Release of negative goodwill included in other operating income	-	48

## 8. INCOME TAX EXPENSE

	2006 HK\$'000	2005 HK\$'000
Current tax:		
- Hong Kong	336	-
Deferred tax	-	1,718
	<u>336</u>	<u>1,718</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries which operate in Hong Kong have no assessable profits in 2005.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## 9. DIVIDENDS

No dividend was paid or proposed during 2006 and 2005, 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 parent is based on the following data:

	2006 HK\$'000	2005 HK\$'000
Loss		
Loss for the purpose of basic loss per share (Loss for the year attributable to equity holders of the parent)	<u>95,452</u>	<u>44,172</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	989,705	575,914
Effect of dilutive potential ordinary shares: Share options issued by the Company	98,400	-
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>1,088,105</u>	<u>575,914</u>

No diluted loss per share is presented for the year ended 31 December 2006 as the effect of conversion of the Company's outstanding share options was anti-dilutive since their exercise.

No diluted loss per share has been presented for the year ended 31 December 2006 as there was no dilutive event existed in 2005.

## 11. TRADE AND OTHER RECEIVABLES

	2006 HK\$'000	2005 HK\$'000
Trade receivables	49,916	36,666
Less: Accumulated impairment	(21,135)	(6,265)
	<u>28,781</u>	<u>30,401</u>
Other receivables	2,752	12,234
Deposit paid	2,248	6,000
	<u>33,781</u>	<u>48,635</u>

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

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:

	2006 HK\$'000	2005 HK\$'000
Current to 90 days	14,729	18,688
91 to 180 days	8,742	1,722
181 to 365 days	5,310	9,991
	<u>28,781</u>	<u>30,401</u>

The fair values of the Group's trade and other receivables at 31 December 2006 approximate to the corresponding carrying amounts due to their short-term maturities.

## 12. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date, based on payment due date:

	2006 HK\$'000	2005 HK\$'000
Current to 30 days	6,615	10,190
31 to 90 days	5,283	7,034
91 to 180 days	1,849	2,124
181 to 365 days	1,024	635
Over 1 year	2,474	165
	<u>17,245</u>	<u>20,148</u>
Other payables (Note)	<u>61,095</u>	<u>7,627</u>
	<u>78,340</u>	<u>27,775</u>

The fair values of the Group's trade and other payables at 31 December 2006 approximate to the corresponding carrying amounts.

Note: Included in amount was consideration payables to the former shareholders of two subsidiaries of approximately HK\$35,855,000, as considerations to acquire the two subsidiaries (2005: Nil), and payable for the purchase of sewage treatment system of HK\$9,387,000 (2005: Nil).

## 13. CAPITAL COMMITMENT

	2006 HK\$'000	2005 HK\$'000 (Restated)
Capital commitments contracted but not provided for, for acquisition of property, plant and equipment	<u>1,265</u>	<u>-</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Performance

For the year ended 31 December 2006, the Group made a loss for the year of HK\$95.7 million as compared with a loss of HK\$44.3 million recorded in 2005. Loss for the year increased by HK\$51.4 million was mainly due to inventories written off of HK\$35.3 million and further bad and doubtful debts provision of HK\$14.9 million being provided in computer peripherals business and HK\$14.0 million of development cost and advertising expenses spent in promotion of the TechnoMarine watch business. Whereas, the slightly increment in Gross Profit of HK\$3.6 million and increased in other operating income of HK\$2.4 million as well as the decrease in the selling and distribution costs by HK\$5.9 million were set off the negative impact of substantial cost.

Total turnover of the group amounted to HK\$70.1 million, an increase of 14.5% as compared with the turnover of HK\$61.2 million reported in last year. The increase in turnover was mainly attributable to the growth from trading of TechnoMarine watches and accessories business amounted to approximately HK\$35.1 million, however, the significant decrease of HK\$26.1 million in trading of computer peripherals was affected by rapidly down-sizing market of desktop DIY product.

Other operating income increased by HK\$2.4 million to HK\$3.01 million as compared to last year. The major contributions were generated from the disposal of assets held for sales amounted to HK\$1.0 million, unrealized exchange gain of HK\$0.5 million and gain from disposal of subsidiary amounted to HK\$0.1 million.

The selling and distribution costs reduced by 54.4% to HK\$4.9 million as compared to last year. The decrease in the selling and distribution costs was in line with the decrease in turnover of computer peripherals business.

The administrative expenses substantially increased by 100% to HK\$54.9 million as compared to last year. It was mainly due to mainly HK\$14.0 million of advertising expenses utilized in promotion of the TechnoMarine watch business and additional operating costs of HK\$7.0 million incurred which were affected by the escalating rental for shops and growing staff costs.

### Business Segments Review

#### Computer Peripherals Business

The computer peripherals business recorded a 46.1% decrease in revenue from HK\$56.7 million in 2005 to HK\$30.6 million in 2006. It was operated under tough conditions during the price erosion as in the intense competition in the personal computer peripherals market for the year. Raw material costs, in particular, the imported aluminum and plastic escalated to a record high, and the increase of oil price as well as commodities price were adding pressure to the costs of production. The labour costs continued to increase due to labour shortage in the Pearl River Delta region in China which the computer peripherals business faced to the difficult environment. In addition, the development of OEM/ODM was a failure to attract new clients in Europe and continued to face intense competition in the personal computer peripherals market. All these critical factors have severely affected the operating profit which in turn made the segment result recorded loss of HK\$67.8 million in this year, mainly due to written off of inventories of HK\$35.3 million and provision of doubtful debts HK\$14.9 million.

#### Trading of Watches and Accessories Business

In previous year, the Group has diversified into the trading of watches and accessories business to broaden its revenue and earning base. The Group has been working hard to promote "TechnoMarine" watches in Hong Kong and the Asia Pacific Market. The Group has put in substantial resources in expanding retail spots and conducting promotion campaigns to capture the growth in luxury and branded watches market. The segment was the biggest revenue contributor, which accounted for 56.4% of the total turnover for the year. The turnover of the segment amounted to HK\$39.6 million which represented an increase by 779.7%, as compared with the turnover of HK\$4.5 million in last year. However, the growth in turnover was not sufficient to offset the significant surge in operating expenses. During the year, the segment suffered from a loss of HK\$26.0 million. The result was disappointing especially when comparing with a marginal break-even in last year. The segment loss was attributable to HK\$14.0 million advertising expenses spent in promoting the TechnoMarine brand in the PRC, and an increase in operating costs by approximately HK\$7.0 million owing to the escalating shop rentals and growing staff costs.

#### Water Supply and Sewage Treatment Business in the PRC

In view of China's huge population and is one of the 13 countries with the most severe shortage of water resources. The Chinese Government has stated in the National 11th Five Year Development plan that water prices should be raised to a reasonable level to achieve a more conserving and efficient use of water. In addition, the Chinese Government allowed the investors in either local or foreign to participate the operation in water sector. All the investment projects of water supply will grant to the operating entity a monopolistic right by the local authorities, the length period of license is ranging from 25 to 30 years. The water supply industry in mainland China is characterized by its natural monopoly nature, the profit margin of water on average is fixed at 8%-12%. Accordingly, China's water sector created huge business opportunities and provided a steady with fair return on investment.

Under the new business direction of the Group, the Company, had, through its wholly-owned subsidiaries, to acquire equity interest in the three domestic companies in the PRC, which are principally engaged in water supply and sewage treatment businesses in the PRC. The following three acquisitions provide good opportunities for the Company to participate in the water service industry in the PRC which will further broaden the Group's revenue base and have a positive impact on the Company's profitability. At the year ended, the consolidated operating results were increased by sharing of profits from newly acquired associated company of Onfar International approximately HK\$0.34 million but Dang Shan and Haiyuan, newly acquired subsidiaries, did not contribute to the Group's turnover or loss for the year as they were acquired at the balance sheet date.

During the year, the Group acquired the equity interests in the following companies:

In October 2006, the Group acquired acquire 40% equity interest of Onfar International Limited (the "Onfar International") which indirectly hold 51% equity interest in Yi Chun Water Industry Co. Limited ("Yichun"). Yichun has been engaging in the water industry by supplying drinkable water and sewage water treatment to the residents in Yichun City. Yichun has been granted a 30 years' licence starting from 31 November 2004 till 20 November 2034 to supply drinkable water in Yichun City, Jiangxi Province. Onfar International is an associate of the Group after the completion. The acquisition was completed on 14 November 2006.

In December 2006, the Group acquired 100% equity interest in Anhui Dang Shan Water Industry Company Limited ("Dang Shan"), which has been engaging in the water supply industry by supplying drinkable water to the residents and enterprises in downtown area of Dang Shan County. Dang Shan has been granted a water supply licence from 30 years starting from November 2004 till November 2034 to supply drinkable water in Dang Shan County, Anhui Province. Dang Shan is a wholly-owned subsidiary of the Group after the completion. The acquisition was completed on 31 December 2006.

In December 2006, the Group acquired 70% equity interest in Jining City Haiyuan Water treatment Company Limited ("Haiyuan"), which has been engaging in sewage water and liquid waste treatment and water treatment related engineering and construction work in Jixiang County, Shandong Province. A license is granted to build and operate the sewage water plant for an operating period of 29 years commencing from the completion of the construction in May 2007. Haiyuan is a subsidiary of the Group after the completion. The acquisition was completed on 31 December 2006.

## Future Prospects

### Computer Peripherals Business

The business environment for the year will remain challenging in view of price compression in the down-sizing DIY desktop market, larger manufacturers launched cheaper-price desktop for increasing market share, and customers continued to shift from desktops to mobility products. In addition the surging price of materials and the appreciation of RMB will continue to be critical factors affecting the results of this segment. During the year, the Group has adopted various measures to improve cost control and production as well as operation efficiency. Nevertheless, the Group's computer peripheral business still could not generate a positive profit figure. In view of successive losses making records, the Directors decided not to inject further resources and would maintain the existing scale of operation but continue to seek for effective cost saving methods.

### Trading of Watches and Accessories Business

Pursuant to a distribution agreement with the TechnoMarine brand owner, the Group has granted the exclusive right to market, sell and distribute watches and watch related accessories in the territories covering in PRC, Malaysia, Vietnam, Singapore, Australia, Hong Kong, Taiwan and Korea for a term of 7 years commencing from 1 January 2006. However, expansion in retail spots in the Asia Pacific region was behind the management's expectation in its brand management and development strategic plan. In addition, customers could easily purchase same products via internet or in small watch shops. This has seriously affected sales growth and selling price. Moreover, escalating rental for shops, growing staff costs and increasing advertising and promotion expenses were adding pressure on operating costs. The management was considering focusing on wholesale of watch and watch related products in order to reduce the influence from increasing shop rentals and staff costs.

## WATER SUPPLY AND SEWAGE TREATMENT BUSINESS IN CHINA

In the past five years, the average GDP growth rate in China has been around 10%. Rapid economic growth, trend of urbanization, increasing per capita income and upward trend in the growth of the water supply industry, all boost the water demand in China. At present, the water tariffs in the China are on rising trend over these few years as a measure to increase public awareness of water conservation in China. This was reflected in the announcement of the Company dated 28 March 2007 regarding the People's Government of Yichun City approved the increase in water tariffs with effect from 1 April 2007. In light of the description as above, the directors expect that the pace of expansion in water business will be significant accelerated in the coming years.

## LIQUIDITY, GEARING & FINANCIAL RESOURCES

As at 31 December 2006, the cash and bank balances of the Group increased by HK\$0.6 million to HK\$5.1 million (31 December 2005: HK\$4.5 million).

As at 31 December 2006, the Group had outstanding borrowings and finance lease payables denominated in Hong Kong dollars with an aggregate amount of HK\$7.7 million (31 December 2005: HK\$4.7 million).

The short-term borrowings of the Group accounted for 85.7% (31 December 2005: 88.6%) of the total borrowings at 31 December 2006.

The interest expenses of the Group for the current period were HK\$0.5 million (31 December 2005: HK\$0.3 million).

As at 31 December 2006, the gearing ratio (expressed as total liabilities to total assets of the Group) was 64.4% (31 December 2005: 35.3%) and the current ratio of the Group was approximately 0.6 times (31 December 2005: 2.3 times).

## CAPITAL RAISING AND USE OF PROCEEDS

On 2 February 2006, the Company made the placement of 250,000,000 new shares to raise approximately HK\$27.5 million, of which HK\$8 million for the payment of the remaining balance of the consideration pursuant to the terms of the distribution agreement of TechnoMarine and the remaining balance of HK\$19.5 million for implementation of the distribution and for general working capital of the Group.

On 7 November, 2006, the Company issued and allotted 180,000,000 new shares at HK\$0.20 per share (equivalent to HK\$36,000,000) for the consideration to Boost Skill Investments Limited of the acquisition of 40% equity interest in Onfar International Limited.

## SIGNIFICANT INVESTMENTS

Save as disclosed in the announcements, there was no significant investment held by the Company for the year ended 31 December 2006.

## MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES

- On 14 November 2006, the Group acquired 40% equity interest of Onfar International Limited (the "Onfar International") which indirectly hold 51% equity interest in Yi Chun Water Industry Co. Limited ("Yichun"), which has been engaging in the water industry by supplying drinkable water and sewerage water treatment to the residents in Yichun City. Yichun has been granted a 30 years' licence starting from 21 November 2004 till 20 November 2034 to supply drinkable water in Yichun City, Jiangxi Province. Onfar International is an associate of the Group after the completion. The acquisition was completed on 14 November 2006. Details of the transaction have been contained in the Company's circular to its shareholders dated 27 October 2006.
- On 31 December 2006, the Group acquired 100% equity interest in Anhui Dang Shan Water Industry Company Limited ("Dang Shan"), which has been engaging in the water supply industry by supplying drinkable water to the residents and enterprises in downtown area of Dang Shan County. Dang Shan has been granted a water supply licence from 30 years starting from November 2004 till November 2034 to supply drinkable water in Dan Shan County, Anhui Province. Dang Shan is a wholly-owned subsidiary of the Group after the completion. The acquisition was completed on 31 December 2006. Details of the transaction have been contained in the Company's circular to its shareholders dated 10 November 2006.
- On 31 December 2006, the Group acquired 70% equity interest in Jining City Haiyuan Water treatment Company Limited ("Haiyuan"), which has been engaging in sewerage water and liquid waste treatment and water treatment related engineering and construction work in Jixiang County, Shandong Province. A license is granted to build and operate the sewerage water plant for an operating period of 29 years commencing from the completion of the construction in May 2007. Haiyuan is a subsidiary of the Group after the completion. The acquisition was completed on 31 December 2006. Details of the transaction have been contained in the Company's circular to its shareholders dated 22 December 2006.
- On 28 December 2006, the Group disposed the wholly-owned subsidiaries, Mascot Distribution Limited to third party at a total consideration of HK\$0.5 million.

## EMPLOYEE & REMUNERATION POLICY

As at 31 December 2006, the Group had a total of 435 employees, 400 of whom were employed in mainland China and 35 in Hong Kong, Taiwan and overseas. The Group implements remuneration policy, bonus and share options schemes with reference to the performance of the Group and individual employees. The Group also provides benefits such as insurance, medical and retirement funds to employees.

## PLEDGE OF ASSETS

The Group has pledged land and buildings with a net book value of approximately HK\$4.5 million (2005: HK\$4.6 million) and bank deposits of approximately HK\$2.1 million (2005: Nil) to secure general banking facilities granted to the Group. In addition, the Group's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of approximately HK\$826,000 (2005: HK\$927,000).

## CAPITAL COMMITMENT

As at 31 December 2006, the Group has the capital commitments contracted but not provided for acquisition of property, plant and equipment approximately HK\$1.3 million (2005: Nil).

## FOREIGN CURRENCY EXPOSURE

The Group mainly earns revenue and incurs cost in US dollars, HK dollars and RMB foreign exchange exposure of the Group is minimal as long as the policy of the Government of HKSAR to link the Hong Kong dollars to the US dollars remains in effect.

## CHANGE OF COMPANY'S NAME

Pursuant to a special resolution passed by the shareholders in the extraordinary general meeting held on 18 December 2006, the Company had changed its name from "Sky Hawk Computer Group Holdings Limited" to "China Water Industry Group Limited" and the new Chinese name "中國水業集團有限公司\*" for identification purposes only to replace "天鷹電腦集團控股有限公司" to reflect the change in the business focus of the Group. The Certificate of Incorporation on Change of Name issued by the Registrar of Companies of Cayman Islands has certified that the Company's name was changed and registered with effect from 18 December 2006.

## POST BALANCE SHEET EVENT

- Subsequent to the balance sheet date, the Company had granted in aggregate of 28,200,000 share options to 3 Executive Directors, pursuant to the Company's Share Option Scheme. On 11 January 2007, each of Mr. Sze Chun Ning and Ms. Chu Yin Yin, Georgiana had been granted 11,600,000 share options at an exercise price of HK\$0.335 per share. On 17 January 2007, the Company had granted 5,000,000 share options to Mr. Liu Bai Yue at an exercise price of HK\$0.42 per share.
- On 31 January 2007, the Company, Boost Skill Investments Limited ("Boost Skill"), a substantial shareholder of the Company, Favor Jumbo Investments Limited ("Favor Jumbo"), a company beneficially wholly owned by Mr. Wang Xiao Bo, an executive director of the Company, and Sure Ability Limited ("Sure Ability"), a company beneficially wholly owned by Mr. Sze Chun Ning, an executive director of the Company, entered into a placing and subscription agreement pursuant to which the First Shanghai Securities Group agreed to place up to 230,000,000 existing shares of the Company at the price of HK\$0.49 per share. Under the placing and subscription agreement, Boost Skill, Favor Jumbo and Sure Ability have agreed to subscribe for up to 230,000,000 subscription shares which are equal to the number of placing shares under the placing and subscription agreement.  
On 2 February 2007, a total of 230,000,000 existing shares have been placed to third parties independent of the Company.
- On 12 February 2007, the Company entered into a non-legally binding memorandum of understanding with the People's Government of Hedong District in Linyi City (臨沂市河東區人民政府), a joint venture partner, and Linyi Water Supply Limited (臨沂市河東區自來水有限公司) in relation to the Company's proposed capital contribution in the form of cash in the aggregate sum of RMB18,000,000 for the establishment of a joint venture company which will be principally engaged in water supply business in Linyi City, Shandong Province, the PRC.
- On 12 March 2007, Billion City Investments Limited ("Billion"), a wholly-owned subsidiary of the Company, and Boost Skill entered into an agreement pursuant to which Billion agreed to acquire from Boost Skill a 60% of the entire issued share capital and shareholder's loan of Onfar International Limited, an associate of the Company, for a consideration of RMB30 million.
- On 15 March 2007, China Water Industry (Hong Kong) Limited ("China Water (HK)"), a wholly-owned subsidiary of the Company, entered into a non-legally binding agreement with the Management Committee of Shu Yang District Economic Development Zone in Jiangsu Province (江蘇省沭陽縣經濟開發區管理委員會), a third party independent of the Company and its subsidiaries. Pursuant to which China Water (HK) agreed to establish a wholly-owned subsidiary in Shu Yang District Economic Development Zone in Jiangsu Province of the PRC.
- On 23 March 2007, the Company and Boost Skill entered into a placing agreement with the with DBS Asia Capital Limited ("DBS") pursuant to which DBS agreed to place up to 300,000,000 existing shares of the Company at the price of HK\$1.06 per share.  
On 29 March 2007, 300,000,000 shares of the Company have been placed to third parties independent of the Company.
- On 11 April 2007, China Water (HK) and Linyi City Hedong District Water Supply Company ("Linyi Hedong") (臨沂市河東區自來水公司), a company wholly owned by the People's Government of Hedong District, entered into a joint venture agreement pursuant to which China Water (HK) and Linyi Hedong agreed to establish a joint venture company (the "JV Company") which will be principally engaged in the provision of public service in respect of water supply and the provision of related services in Linyi City, Hedong District, Shandong Province, the PRC.
- On 11 April 2007, China Water (HK), the People's Government of Hedong District and Linyi Hedong entered into a concession agreement pursuant to which Linyi Hedong has been granted the exclusive concession of the provision of public services in respect of water supply in Linyi City, Hedong District, Shandong Province, the PRC for a term of 30 years commencing from the date of business license of the JV Company.
- On 23 April 2007, China Water Industry (Hong Kong) Limited (the "China Water"), a wholly-owned subsidiary of the Company, entered into the letter of intent with 河南省商丘市公用事業管理局 (Public Utility Management Bureau of Shang Qiu City in Henan Province) of the People's Republic of China (the "JV Partner"), pursuant to which China Water has agreed to establish the JV Company with the JV Partner to principally engage in the construction and operation of water supply plants with aggregate water supply capacity of 1 million tonnes per day for 商丘市城區 (the urban area of Shang Qiu City), 永城市 (Yong Cheng City), 夏邑縣 (Xia Yi District), 虞城縣 (Yu Cheng District), 柘城縣 (Zhe Cheng District), 寧陵縣 (Ning Ling District), 睢縣 (Ju District) and 民權縣 (Min Quan District) of the PRC. The proposed establishment of the JV Company is subject to the entering into of the JV Agreement by China Water and the JV Partner. Upon the establishment of the JV Company, it will be held as to 51% by China Water and 49% by the JV Partner.

## 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.

## CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in fulfilling its responsibilities to 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 throughout the financial year except the following:

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 period of review, 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.

## 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 CG Code. The audit committee has three member, including the Company's three Independent Non-Executive Directors, namely Mr. Wu Tak Lung, Mr. Gu Wen Xuan and Mr. Chang Kin Man is the chairman of the committee. The audit committee acts as an important link between the Board 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 meets regularly with the management, the external auditors and the internal audit personnel to discuss 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 2006.

## REMUNERATION COMMITTEE

The Remuneration Committee was 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 which in line with the Code were prepared and adopted, the members of remuneration committee comprised Mr. Chang Kin Man (Independent Non-executive Director) who act as Chairman of the remuneration committee, Mr. Wu Tak Lung (Independent Non-executive Director) and Mr. Wu Chi Lok (Executive Director).

## CLOSURE OF REGISTER OF MEMBERS

The register of Members of the Company will be closed from 29 May 2007 to 31 May 2007, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for attending the annual general meeting of the Company to be held on 31 May 2007, all transfer documents accompanied by the relevant share certificates must be lodged with Hong Kong branch shares registrar and transfer office, Union Registrars Limited, at Room 1803, Fook Lee Commercial Centre Town Place, 33 Lockhart Road, Wanchai, Hong Kong not later than 4:00 p.m. on 28 May 2007.

By order the Board  
**Wang Chia Chin**  
Chairman

Hong Kong, 25 April 2007

\* For identification purpose only

As at the date of this announcement, the board of directors of the Company comprises Mr. Wang Chia Chin, Mr. Sze Chun Ning, Vincent, Mr. Shi De Mao, Ms. Chu Yin Yin, Georgiana, Mr. Zhong Wen Sheng, Mr. Wang Xiao Bo and Mr. Liu Bai Yue, 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.