CHINA WATER AFFAIRS GROUP LIMITED
中 國 水 務 集 團 有 限 公 司 *

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code 855)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2007

RESULTS

The Board of Directors (the "Directors") of China Water Affairs Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2007 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 March **2007** *HK$'000*	2006 *HK$'000*
Revenue	4	**140,344**	52,901
Cost of sales		**(82,186)**	(31,178)
Gross profit		**58,158**	21,723
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs		**23,241**	20,451
Valuation surplus on investment property		**40,890**	–
Other income	4	**151,274**	4,517
Selling and distribution costs		**(12,267)**	(3,055)
Administrative expenses		**(75,032)**	(29,287)
Equity-settled share options expenses		**–**	(30,532)
Other operating expenses		**(14,763)**	(7,707)
(Loss)/Gain on disposal of subsidiaries		**(357)**	3,017
Write-back of impairment loss on property, plant and equipment		**–**	2,740
Profit/(Loss) from operation	5	**171,144**	(18,133)
Finance costs	6	**(19,475)**	(2,120)
Share of results of associates		**9**	–
Profit/(Loss) before income tax		**151,678**	(20,253)
Income tax expense	7	**(48,734)**	(4,757)
Profit/(Loss) for the year		**102,944**	(25,010)
Attributable to:			
Equity holders of the Company		**63,379**	(38,590)
Minority interests		**39,565**	13,580
Profit/(Loss) for the year		**102,944**	(25,010)
		HK cents	*HK cents*
Earnings/(Loss) per share attributable to equity holders of the Company during the year	8		
– Basic		**6.6**	(6.7)
– Diluted		**6.1**	N/A

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 March 2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**715,372**	222,988
Prepaid land lease payments		**105,314**	3,875
Investment property		**139,000**	–
Interests in associates		**975**	–
Other financial assets		**41,506**	–
Goodwill		**80,350**	–
Other intangible assets		**130,000**	–
Deposits		**131,811**	5,798
		1,344,328	232,661
Current assets			
Inventories - Properties under development		**7,650**	–
Biological assets		**–**	–
Inventories		**18,117**	8,165
Trade and bills receivables	9	**23,476**	7,749
Other financial assets		**228,975**	–
Due from minority equity holders of subsidiaries		**6,573**	3,487
Due from former subsidiaries		**8,054**	14,601
Due from associates		**10,128**	–
Prepayments, deposits and other receivables		**91,614**	28,765
Bank balance held in escrow		**94**	–
Bank and cash balances		**520,281**	235,036
		914,962	297,803
Current liabilities			
Trade payables	10	**30,903**	11,960
Accrued liabilities, deposits received and other payables		**197,841**	54,421
Borrowings		**129,235**	58,621
Due to a director		**5,652**	2,294
Due to minority equity holders of subsidiaries		**185,761**	1,381
Provision for tax		**6,480**	2,492
		555,872	131,169
Net current assets		**359,090**	166,634
Total assets less current liabilities		**1,703,418**	399,295

	As at 31 March	
	2007	2006
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred government grants	**11,856**	–
Borrowings	**299,420**	60,106
Convertible bonds	**64,900**	–
Deferred tax liabilities	**42,945**	–
	419,121	60,106
Net assets	**1,284,297**	339,189
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	**11,898**	8,298
Reserves	**1,032,301**	233,032
	1,044,199	241,330
Minority interests	**240,098**	97,859
Total equity	**1,284,297**	339,189

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretation issued by the Hong Kong Institute of Certified Public Accountants, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis except for investment property, biological assets and financial assets at fair value through profit or loss which are stated at fair values.

2. ADOPTION OF NEW OR AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

From 1 April 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 April 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Company's and the Group's accounting policies, but result in additional disclosures.

New or amended HKFRSs that have been issued but are not yet effective:

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	Group and Treasury Share Transactions[6]
HK(IFRIC)-Int 12	Service Concession Arrangements[7]

Notes:

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008

3. SEGMENTS INFORMATION

Business segments

Segment information about these businesses is presented below:

For the financial year ended 31 March 2007

	City water supply	Sewage treatment	Sea buckthorn related business	Property development and investment	Electronic products	Concrete products and others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue							
External customers	55,865	–	5,609	–	–	37,158	98,632
Installation income	41,712	–	–	–	–	–	41,712
Revenue	97,577	–	5,609	–	–	37,158	140,344
Other income	10,810	–	36,962	135	475	200	48,582
Total	108,387	–	42,571	135	475	37,358	188,926
Segment results	26,074	(701)	20,751	(1,562)	(107)	185	44,640
Interest income							10,319
Unallocated corporate income							115,614
Unallocated corporate expense							(39,962)
Valuation surplus on investment property							40,890
Loss on disposal of subsidiaries							(357)
Profit from operation							171,144
Finance costs							(19,475)
Share of results of associates	9						9
Profit before income tax							151,678
Income tax expense							(48,734)
Profit for the year							102,944

As at 31 March 2007

	City water supply	Sewage treatment	Sea buckthorn related business	Property development and investment	Electronic products	Concrete products and others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS							
Segment assets	1,098,167	164,626	84,010	147,830	363	35,436	1,530,432
Interests in associates	975	–	–	–	–	–	975
	1,099,142	164,626	84,010	147,830	363	35,436	1,531,407
Unallocated corporate assets							727,883
Consolidated total assets							2,259,290
LIABILITIES							
Segment liabilities	694,743	100,022	19,504	4,354	2	10,898	829,523
Unallocated corporate liabilities							145,470
Consolidated total liabilities							974,993
Other segment information							
Depreciation and amortisation	18,158	–	1,247	–	15	3,858	23,278
Amortisation of deferred government grants	(344)	–	–	–	–	–	(344)
Capital expenditure	519,610	130,034	32,638	–	–	8,083	690,365
Loss/(Gain) on disposal of property, plant and equipment	15	–	(120)	18	2	–	(85)
Write off on property, plant and equipment	762	–	–	–	–	–	762
Valuation surplus on investments properties	–	–	–	40,890	–	–	40,890
Inventories written off	89	–	900	–	–	–	989
Impairment loss on other receivables	89	–	–	–	–	–	89
Impairment loss on due from former subsidiaries	–	5,015	–	–	–	–	5,015

For the financial year ended 31 March 2006

	City water supply HK$'000	Sewage treatment HK$'000	Sea buckthorn related business HK$'000	Electronic products HK$'000	Concrete products and others HK$'000	Consolidated HK$'000
Segment revenue						
External customers	15,042	9,125	6,088	5,970	7,373	43,598
Installation income	9,303	–	–	–	–	9,303
Revenue	24,345	9,125	6,088	5,970	7,373	52,901
Other income	309	8	20,638	351	2	21,308
Total	24,654	9,133	26,726	6,321	7,375	74,209
Segment results	5,937	5,175	16,858	(4,858)	175	23,287
Interest income						1,378
Unallocated corporate income						2,282
Equity-settled share options expenses						(30,532)
Unallocated corporate expense						(20,305)
Gain on disposal of subsidiaries						3,017
Write-back of impairment loss on property, plant and equipment						2,740
Loss from operation						(18,133)
Finance costs						(2,120)
Loss before income tax						(20,253)
Income tax expense						(4,757)
Loss for the year						(25,010)

As at 31 March 2006

	City water supply	Sewage treatment	Sea buckthorn related business	Electronic products	Concrete products and others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	252,569	21,101	70,456	2,808	23,207	370,141
Unallocated corporate assets						160,323
Consolidated total assets						530,464
LIABILITIES						
Segment liabilities	149,621	–	26,595	4,796	4,359	185,371
Unallocated corporate liabilities						5,904
Consolidated total liabilities						191,275
Other segment information						
Depreciation and amortisation	3,472	1,974	287	748	311	6,792
Capital expenditure	136,236	346	8,071	105	17,788	162,546
Impairment loss on property, plant and equipment	–	–	–	163	–	163
Loss on disposal of property, plant and equipment	7	174	–	1,137	–	1,318
Write-back of impairment loss on property, plant and equipment	(2,740)	–	–	–	–	(2,740)

Geographical segments

	PRC		HK		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to external customer	**98,632**	39,993	**–**	3,605	**98,632**	43,598
Installation income	**41,712**	9,303	**–**	–	**41,712**	9,303
Total	**140,344**	49,296	**–**	3,605	**140,344**	52,901
Segment results	**23,999**	25,903	**(1,039)**	(2,616)	**22,960**	23,287
Other segment information						
Segment assets	**1,851,498**	368,984	**407,792**	161,480	**2,259,290**	530,464
Capital expenditure	**690,068**	161,429	**297**	1,117	**690,365**	162,546

4. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, derived from the Group's principal activities recognised during the year is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Revenue :		
Sales of goods	**36,369**	18,777
Water supply	**55,790**	15,042
Water supply related installation and construction revenue	**41,712**	9,303
Sewage treatment	**–**	9,125
Hotel and rental income	**6,398**	–
Others	**75**	654
	140,344	52,901
Other income:		
Excess over cost of a business combination recognised in the income statement	**4,716**	1,154
Interest income	**10,319**	1,378
Government grants and subsidies	**25,747**	–
Amortisation of deferred government grants	**344**	–
Fair value gain on financial assets at fair value through profit or loss	**102,266**	410
Gain on disposal of property, plant and equipment	**85**	–
Miscellaneous income	**7,797**	1,575
	151,274	4,517

5. PROFIT/(LOSS) FROM OPERATION

Profit/(Loss) from operation is arrived at after charging/(crediting):

	Group	
	2007	2006
	HK$'000	*HK$'000*
Depreciation	**22,504**	6,710
Amortisation of prepaid land lease payments	**774**	82
Amortisation of deferred government grants	**(344)**	–
Impairment loss on property, plant and equipment	**–**	163
(Gain)/Loss on disposal of property, plant and equipment	**(85)**	1,318
Write off on property, plant and equipment	**762**	–
Write-back of impairment loss on property, plant and equipment	**–**	(2,740)
Excess over the cost of a business combination recognised in the income statement	**(4,716)**	(1,154)
Inventories written off (included in other operating expenses)	**989**	–
Impairment loss on other receivables	**89**	–
Impairment loss on due from former subsidiaries	**5,015**	–
Loss/(Gain) on disposal of subsidiaries	**357**	(3,017)

6. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans		
– wholly repayable within five years	**2,365**	1,559
– not wholly repayable within five years	**5,738**	–
Interest on other borrowings		
– wholly repayable within five years	**129**	353
– not wholly repayable within five years	**1,595**	–
Interest on promissory notes and convertible bonds	**13,422**	188
Interest on finance leases	**59**	20
Total borrowing costs	**23,308**	2,120
Less: interest capitalised included in property, plant and equipment	**(3,833)**	–
	19,475	2,120

7. INCOME TAX EXPENSE

Income tax expense in the income statement represents:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current		
– Hong Kong profits tax	**–**	–
– Overseas taxation	**5,789**	4,757
	5,789	4,757
Deferred		
– Current year	**42,945**	–
	48,734	4,757

Hong Kong profits tax has not been provided as the Group did not generate any assessable profit arising in Hong Kong during the year (2006: Nil). Income tax expense for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the profit for the year attributable to equity holders of the Company of HK$63,379,000 (2006: loss of HK$38,590,000) and on the weighted average of 967,388,163 (2006: 572,500,795) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to the equity holders of the Company for the year ended 31 March 2007, the potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the equity holders of the Company and was not taken into account as they had an anti-dilative effect. Therefore, the diluted earnings per share attributable to the equity holders of the Company for the year ended 31 March 2007 is based on the profit attributable to the equity holders of the Company of HK$63,379,000 and on the weighted average of 1,033,795,925 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 967,388,163 used in basic earnings per share calculation and adjusted for the effect of share options issued of 66,407,762.

The diluted loss per share for the year ended 31 March 2006 was not presented as the potential ordinary shares had anti-dilutive effect on loss per share.

9. TRADE AND BILLS RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade and bills receivables	**23,476**	7,749

The Group has a policy of allowing trade customers with credit normally ranged from 30 to 90 days. The ageing analysis of the Group's trade and bills receivables at the balance sheet date is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current to 90 days	**12,379**	4,453
91 – 180 days	**5,306**	526
Over 180 days	**5,791**	2,770
	23,476	7,749

10. TRADE PAYABLES

The credit terms of trade payables vary according to the terms agreed with different suppliers. The ageing analysis of the Group's trade payables as at the balance sheet is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current to 90 days	**19,196**	3,895
91 – 180 days	**1,746**	5,517
Over 180 days	**9,961**	2,548
	30,903	11,960

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

This year's financial report reflects the Group's remarkable success as an integrated water supplier.

The core businesses of the Group experienced a rapid expansion during the year under review. The Group recorded a turnover of HK$140.3 million representing an increase of 165.2% from HK$52.9 million recorded last year. The Group recorded a gross profit of HK$58.2 million representing an increase of 168 % from HK$21.7 million last year. For the year under review, the Group recorded a profit before income tax of HK$151.7 million (2006: loss before taxation of HK$20.3 million). The financial results for the year well demonstrated that the Group's robust growth drive and operation effects after the overall transformation of the Group's business.

The Group has deferred government grants related to the Group's acquisition of property, plant and equipment which amounted to approximately HK$11.9 million as of 31 March 2007. In accordance with Hong Kong Financial Reporting Standards, government grants relating to the assets are included in liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected lives of the related assets.

On 22 June 2006, DBS Bank Limited subscribed for convertible bonds issued by the Company at an aggregate principal amount of HK$260 million. On 14 July 2006, DBS Bank Limited further subscribed for convertible bonds issued by the Company at an aggregate principal amount of HK$40 million. The convertible bonds bearing interest at the rate of 2.5 per cent per annum. During the year ended 31 March 2007, convertible bonds with an aggregate amount of HK$233,000,000 were converted into ordinary shares of the Company and an additional of HK$67,000,000 were converted into ordinary shares of the Company after the balance sheet date but before the date of this report. Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 8.9 per cent to the adjusted liability component which resulted in interest expense on convertible bonds of approximately HK$13.4 million charged to the consolidated income statement for the year ended 31 March 2007. However, the actual cash outflow related to the payment of interest to the bondholders of convertible bonds only amounted to approximately HK$2.5 million up to the date of this report.

On the other hand, the Company has also secured a development and infrastructure project which will be carried out in Xinyu City, Jiangxi Province, China. The pre-operating costs incurred for the project have been charged to the consolidated income statement for the year. The project is expected to contribute to the revenue and profit of the Group for the next year.

FINAL DIVIDEND

No interim dividend was declared for the year ended 31 March 2007 (2006: Nil) and the Board did not recommend any payment of final dividend for the year ended 31 March 2007 (2006: Nil).

BUSINESS REVIEW AND PROSPECTS

Future Prospect

The shortage and pollution of water resources has posed a formidable challenge to the economy and society of China. Although China's population accounts for approximately 21% of the world's population, and China is the most populous nation in the world, China suffers from an acute lack of waste resources. In terms of fresh water, China is one of the thirteen nations with the lowest water resources per capita. At present, more than 400 among China's 600-odd cities encounter the problem of water shortage, including such important municipalities as Beijing and Tianjin. Meanwhile, only less than 300 million people have accessed to tap water in China. According to the relevant stipulations, the sewage treatment ratio in the cities and provinces across China should reach 70% by 2010. To ensure its normal operation, the sewage treatment market will inevitably become more and more industry-oriented and market-oriented.

In order to make better use of water resources and avoid their unrestrained abuse, the PRC Government has been actively promoting the reform of the domestic water market, including the introduction of competition and upward adjustment to prices. These measures have brought forth unlimited business opportunities to operators. Last year, the water price of China rose nearly 10%. It is believed that there is still much room for further price increase as China's water price has been low for a long time and is still a far cry from those of the developed countries. Besides, the leakage rates of China's tap water pipe networks are high, resulting in generally high operation and management costs of mainland water operators. An enterprise which has advanced technology and management may increase its investment return through cost reduction.

The management team of the Group has extensive experience in China's water industry coupled with strong government background. They are among the few first movers in domestic water market development. They have good relations with international investors and financial institutions, which will facilitate the raising of funds for business expansion. The Group opines that in the foreseeable future, China's water market will still have tremendous room for development. The Group will continue expanding its market share through merger and acquisition, so as to fulfill its civic mission as a good enterprise to provide the masses of China with clean and safe water.

Realignment of Structure to Accelerate Development

Given the huge potential of China's water market and for the purpose of further developing China's water market, the Group has realigned its structure in order to accelerate its entry to the water markets of various localities of China by enlisting cooperation in respect of holding of equity, talent and technology.

The Group has reached an agreement with Wah Yuen Holdings Limited ("Wah Yuen"), pursuant to which Wah Yuen will acquire all of the shares which are held by the Group in Conseco Seabuckthorn Co., Ltd. through an issue of new shares and convertible bonds, The transaction has made the Group's positioning to develop water operations even more distinctive. Meanwhile, the disposal of the Group's non-core business at an attractive valued price will help the Group concentrate resources on its core business development.

In addition, the Group has become a shareholder of Ming Hing Holdings Limited and Prime Investments Holdings Limited successively, aiming to fulfill mutually beneficial cooperation and accelerate the Group's pace of market expansion by leveraging on the experiences respectively owned by the two Hong Kong-listed companies in developing the market and making investment in water engineering services

Exploring for Improvement with Bright Prospects

Indeed, the de-regulation of the industry and upward adjustments of water price has brought forth an entirely new change to the China's water market. As a first mover in the transformation and development of the industry, the Group is dedicated to the development of the water market business and has faith in it. With the extensive experience of the senior management of the Group in the oversight and operation of the industry, their operation capability in the water affairs industry, our strong operation team, and the professional and far-sighted business planning, the Group has won the recognition of the local governments, industry regulatory authorities, and the capital market. This helps the Group accelerating the process of industry merger and acquisition to become a pioneer in the mushrooming water resources market of China.

In the coming year, all staff members of the Group will open up new horizons and seek growth with their concerted efforts in China's thriving water market. The Group will continue accelerating its development through merger and acquisition. To fulfill our mission of providing people of China with clean and safe water, the Group will endeavor to explore various opportunities in the water market, to strengthen and improve the scale and mode of operation of the Group, and to achieve satisfactory return for shareholders

The Group has been initiatively considering to provide sewage treatment services in its existing areas of operation, aiming to develop related business for the Group's mainline water supply business, and to bring about an efficient use of water resources in local markets as well, thereby fulfilling the Group's social mission to improve and foster China's water resources renewability, and to promote her sustainable development. While expanding its business, the Group will also endeavor to improve its corporate governance capability and to enhance the overall value of the enterprise, thus laying even more solid foundation for long-term development in the course of rapid development.

CAPITAL RAISING

On 22 June 2006, DBS Bank Limited subscribed for convertible bonds issued by the Company at an aggregate principal amount of HK$260 million. On 14 July 2006, DBS Bank Limited further subscribed for convertible bonds issued by the Company at an aggregate principal amount of HK$40 million. The net proceeds from the subscription of convertible bonds were approximately HK$286 million (after expenses) which will be used wholly for investment in water supply and/or water related projects in China. As of the balance sheet date, the net proceeds was used for investment in water supply and/or water related projects in China.

On 15 and 18 December 2006, 13 subscribers together subscribed for a total of 167,212,400 new ordinary shares of the Company at a price of HK$2.73 per share. The net proceeds from the subscription of new shares was approximately HK$450.4 million (after expenses) which was intended to be used as general working capital and for investing in water supply and/or water related business projects in the China. As of the balance sheet date, approximately HK$260 million was used for investing in water supply and/or water related business projects in the China and the remaining balance of HK$190.4 million being placed in bank balances.

On 30 March 2007, a shareholder of the Company, Asset Full Resources Limited ("AFRL") entered into a placing agreement with Credit Suisse (Hong Kong) Limited for the sale and purchase of 14,095,940 ordinary shares of the Company owned by AFRL at a price of HK$3.33 per share. Pursuant to a subscription agreement on the same date, AFRL subscribed for 14,095,940 new ordinary shares of the Company at a price of HK$3.33 per share. The net proceeds from the subscription of new shares was approximately HK$46.7 million (after expenses) which was intended to be used as general working capital.

During the year ended 31 March 2007, the subscription rights attaching to 17,000,000, 40,000,000, 17,700,000 and 1,100,000 share options issued pursuant to the share option scheme of the Company were exercised at the subscription price of HK$0.41, 0.72, 1.16 and 1.45 per share respectively, resulting in the issue of aggregate of 75,800,000 shares of HK$0.01 each for a total cash consideration of approximately HK$57,897,000 (before expenses).

LIQUIDITY AND GEARING RATIO

As at 31 March 2007, the Group has total cash and bank balances of approximately HK$520.3 million (2006: HK$235 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 43.2% (2006: 36.1%) as at 31 March 2007. The current ratio is 1.65 times (2006:2.27 times).

In the opinion of the directors, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the year ended 31 March 2007.

CODE ON CORPORATE GOVERNANCE

The Company has complied with the code provisions which set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules during the year ended 31 March 2007 except for the following deviations:

Code provision A.4.1 requires that non-executive directors should be appointed for a specific term and subject to re-election. None of the existing non-executive directors of the Company except Mr. Wu Jiesi, Mr Chen Guo Ru, Mr Chau Kam Wing and Mr Ong King Keung is appointed for a specific term. However, under the Company's bye-laws, all directors of the Company (whether executive or non-executive, except the chairman) are subject to the retirement by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice are no less exacting than those in the Code.

Under Code Provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of the Board should not be subject to retirement by rotation.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). On specific enquiries made, all Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

AUDIT COMMITTEE

The audit committee of the Company currently comprises four independent non-executive directors, namely Mr. Chau Kam Wing (chairman of audit committee), Mr. Ong King Keung, Ms. Liu Dong and Ms. Huang Shao Yun. The annual results of the Group for the year ended 31 March 2007 have been reviewed by the audit committee.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

On Behalf of the Board
Duan Chuan Liang
Chairman

Hong Kong, 27 July 2007

As at the date of this announcement, the Board comprises two executive Directors, being Mr. Duan Chuan Liang and Mr. Li Ji Sheng, four non-executive Directors, being Mr. Chen Guo Ru, Mr. Wu Jiesi, Mr. Zhao Hai Hu and Mr. Zhou Wen Zhi, and four independent non-executive Directors, being Ms. Huang Shao Yun, Ms. Liu Dong, Mr. Chau Kam Wing and Mr. Ong King Keung.

* *For identification purposes only*