中國水務集團有限公司*
China Water Affairs Group Limited

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

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2010

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 2010 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2010

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Revenue	4	**1,398,168**	1,033,199
Cost of sales		**(811,606)**	(712,430)
Gross profit		**586,562**	320,769
Other income	4	**87,116**	58,822
Selling and distribution costs		**(48,526)**	(34,745)
Administrative expenses		**(248,361)**	(195,132)
Equity-settled share options expenses		**(6,030)**	(26,666)
Other operating expenses		**(8,535)**	(4,600)
Excess over the cost of business combination recognised in profit or loss		**68,218**	7,880
Fair value gain on investment properties		**18,600**	225,511
Fair value gain/(loss) on financial assets at fair value through profit or loss		**24,378**	(73,673)
Change in fair value of derivative financial instruments		**115,652**	38,120
Reversal of impairment/(impairment loss) on available-for-sale financial assets		**43,871**	(109,032)
Gain on repurchase of convertible bonds		**–**	187,910

	Notes	**2010** ***HK$'000***	2009 *HK$'000*
Profit from operation	5	**632,945**	395,164
Finance costs	6	**(112,811)**	(85,223)
Share of results of associates		**–**	16,692
Share of result of a jointly-controlled entity		**–**	(16)
Profit before income tax		**520,134**	326,617
Income tax expense	7	**(75,431)**	(97,943)
Profit for the year		**444,703**	228,674
Profit for the year attributable to:			
Owners of the Company		**301,571**	115,037
Minority interests		**143,132**	113,637
		444,703	228,674
Earnings per share for profit attributable to owners of the Company during the year	9	***HK cents***	*HK cents*
Basic		**23.31**	9.39
Diluted		**22.73**	9.12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2010

	2010	2009
	HK$'000	*HK$'000*
Profit for the year	**444,703**	228,674
Other comprehensive income		
Disposal of available-for-sale financial assets	**–**	(2,203)
Change in fair value of available-for-sale financial assets	**221,433**	(122,692)
Impairment loss on available-for-sale financial assets	**–**	109,032
Currency translation	**13,577**	39,696
Other comprehensive income for the year	**235,010**	23,833
Total comprehensive income for the year	**679,713**	252,507
Total comprehensive income attributable to:		
Owners of the Company	**534,487**	137,470
Minority interests	**145,226**	115,037
	679,713	252,507

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,063,979**	1,961,865
Prepaid land lease payments		**429,164**	222,813
Investment properties		**718,409**	670,900
Interests in associates		**88,149**	103,580
Interest in a jointly-controlled entity		**–**	13,414
Available-for-sale financial assets		**455,512**	513,198
Goodwill		**175,343**	155,126
Other intangible assets		**176,109**	172,771
Deposits and prepayments		**191,220**	119,257
		5,297,885	3,932,924
Current assets			
Properties under development		**166,216**	115,219
Properties held for sale		**1,511**	–
Inventories		**55,987**	46,013
Trade receivables	10	**539,000**	337,318
Amounts due from grantors for contract work		**94,588**	52,797
Financial assets at fair value through profit or loss		**53,841**	132,896
Derivative financial instruments		**142,897**	61,984
Due from minority equity holders of subsidiaries		**131,566**	31,208
Prepayments, deposits and other receivables		**233,311**	257,404
Pledged deposits		**83,111**	31,587
Cash and cash equivalents		**522,678**	546,067
		2,024,706	1,612,493
Assets classified as held for sale		**453,519**	–
		2,478,225	1,612,493

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Current liabilities			
Trade payables	11	**326,848**	261,134
Amounts due to customers for contract work		**–**	14,665
Accrued liabilities, deposits received and other payables		**738,173**	578,697
Borrowings		**636,815**	332,800
Due to minority equity holders of subsidiaries		**118,175**	109,497
Due to a jointly-controlled entity		**–**	13,970
Provision for tax		**85,520**	83,940
Derivative financial instruments		**3,006**	6,891
Convertible bonds		**257,252**	–
		2,165,789	1,401,594
Net current assets		**312,436**	210,899
Total assets less current liabilities		**5,610,321**	4,143,823
Non-current liabilities			
Borrowings		**1,535,960**	1,011,367
Convertible bonds		**–**	235,530
Deferred government grants		**51,446**	28,309
Deferred tax liabilities		**196,137**	180,780
		1,783,543	1,455,986
Net assets		**3,826,778**	2,687,837
EQUITY			
Equity attributable to owners of the Company			
Share capital		**13,277**	12,069
Proposed final dividend		**39,980**	36,206
Reserves		**2,496,397**	1,827,885
		2,549,654	1,876,160
Minority interests		**1,277,124**	811,677
Total equity		**3,826,778**	2,687,837

Notes:

1. **BASIS OF PREPARATION**

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include 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 "Listing Rules").

The financial statements have been prepared on the historical cost basis except for investment properties, certain financial assets and derivative financial instruments which are stated at fair values.

2. **ADOPTION OF NEW OR AMENDED HKFRSs**

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 April 2009.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or an associate
HKAS 39 & HK(IFRIC) – Int 9 (Amendments)	Reassessment of embedded derivatives
HKFRS 2 (Amendments)	Share-based payment – vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosure about financial instruments
HKFRS 8	Operating segments
HK(IFRIC) – Int 15	Agreements for the construction of real estate
Various	Annual improvements to HKFRSs 2008

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKAS 1 (Revised 2007) Presentation of financial statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. A third statement of financial position as at the beginning of the earliest comparative period is required when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 April 2008 and accordingly the third statement of financial position as at 1 April 2008 is not presented.

HKAS 27 (Amendments) Cost of an investment in a subsidiary, jointly controlled entity or an associate

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associate (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to HKAS 27 and therefore no comparatives have been restated.

HKFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

HKFRS 8 Operating segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously under HKAS 14 Segment Reporting.

Annual improvements to HKFRSs 2008

In October 2008, the HKICPA issued its first Annual improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. Of these, the amendment to HKAS 28 Investments in Associates has changed the Group's accounting policies on allocation of impairment losses but did not have any impact of the current period results and financial position.

The amendment clarifies that an investment in associate accounted for under the equity method is a single asset for the purposes of impairment testing. Any impairment loss recognised by the investor after applying the equity method is not allocated to individual assets including goodwill included in the investment balance. Accordingly, any reversal of such impairment losses in a subsequent period is recognised to the extent that the recoverable amount of the associate has increased.

In prior years, the Group allocated the impairment loss initially to goodwill included as part of the investment balance. According to the Group's accounting policies on goodwill, no reversals of impairment losses attributed to the carrying amount of goodwill would have been recognised in subsequent periods.

The new policy also applies to the Group's investment in the jointly controlled entity, which is accounted for under the equity method in the consolidated financial statements.

For the current period, there were no impairment losses recognised and no reversals of impairment losses recognised in prior periods on investments in associates and a jointly controlled entity. The adoption of this new policy has no impact on the current period results and financial position therefore. The new accounting policy has been applied prospectively as permitted by the amendment and comparatives have not been restated.

At the date of authorisation of these financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new and amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

HKFRS 3 Business Combinations (Revised 2008)

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

HKFRS 9 Financial instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors of the Company are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

HKAS 27 Consolidated and separate financial statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors of the Company are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

Annual improvements to HKFRSs 2009

The HKICPA has issued Improvements to Hong Kong Financial Reporting Standards 2009. Most of the amendments become effective for annual periods beginning on or after 1 April 2010. The Group expects the amendment to HKAS 17 Leases to be relevant to the Group's accounting policies. Prior to the amendment, HKAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principals in HKAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 April 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors of the Company are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

3. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

(i) "Water" segment, which is presented as "City water supply operation and construction" and "Sewage treatment operation and construction" segments, involves the provision of water supply and sewage treatment operation and construction services (including the transfer-operate-transfer ("TOT") and build-operate-transfer ("BOT") arrangements);

(ii) "Property development and investment" segment involves development of properties for sale and investment in properties for capital appreciation;

(iii) "Other infrastructure construction" segment involves construction of road and other municipal works; and

(iv) "All other" segment includes manufacture and sale of concrete products and other business activities.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that equity-settled share option expenses, fair value gain/loss on financial assets at fair value through profit or loss, fair value change on derivative financial instruments, finance costs, share of results of associates and a jointly controlled entity, corporate income, corporate expenses, excess over the cost of business combination recognised in profit and loss, reversal of impairment loss, impairment loss on available-for-sale financial assets, income tax expense and gain on repurchase of convertible bonds.

Segment assets consist primarily of intangible assets, goodwill, property, plant and equipment, prepaid land lease payments, inventories and trade receivables and mainly exclude corporate assets, available-for-sale financial assets, financial assets at fair value through profit or loss, and interests in associates and a jointly controlled entity. Segment liabilities comprise operating liabilities and exclude items such as taxation, corporate borrowings and other corporate liabilities.

No asymmetrical allocations have been applied to reportable segments.

	City water supply operation and construction *HK$'000*	Sewage treatment operation and construction *HK$'000*	Property development and investment *HK$'000*	Other infrastructure construction *HK$'000*	All other *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
For the year ended 31 March 2010							
Revenue							
From external customers	**907,767**	**78,395**	**50,130**	**228,682**	**133,194**	**–**	**1,398,168**
From inter-segment	**57,756**	**–**	**4,389**	**–**	**100,184**	**(162,329)**	**–**
Reportable segment revenue	**965,523**	**78,395**	**54,519**	**228,682**	**233,378**	**(162,329)**	**1,398,168**
Reportable segment profit	**270,730**	**18,796**	**21,153**	**88,764**	**55,484**	**–**	**454,927**
Unallocated corporate income							**24,474**
Unallocated corporate expense							**(92,545)**
Equity-settled share option expenses							**(6,030)**
Excess over the cost of business combination recognised in profit or loss							**68,218**
Fair value gain on financial assets at fair value through profit or loss							**24,378**
Change in fair value of derivative financial instruments							**115,652**
Reversal of impairment loss on available-for-sale financial assets							**43,871**
Finance costs							**(112,811)**
Profit before income tax							**520,134**
Income tax expense							**(75,431)**
Profit for the year							**444,703**
Other reportable segment information							
Addition of an investment property	**–**	**–**	**27,536**	**–**	**–**	**–**	**27,536**
Additions to other non-current segment assets	**260,477**	**12,472**	**82,932**	**3,030**	**11,773**	**–**	**370,684**
Amortisation of deferred government grants	**(1,918)**	**(235)**	**–**	**–**	**–**	**–**	**(2,153)**
Amortisation of other intangible assets	**1,665**	**5,909**	**–**	**–**	**–**	**–**	**7,574**
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	**132,891**	**357**	**91**	**224**	**10,331**	**–**	**143,894**
Property, plant and equipment written off	**95**	**–**	**–**	**–**	**–**	**–**	**95**
Gain on disposal of property, plant and equipment	**(1,446)**	**–**	**–**	**–**	**–**	**–**	**(1,446)**
Fair value gain on investment properties	**–**	**–**	**(18,600)**	**–**	**–**	**–**	**(18,600)**
Trade receivables written off	**1,440**	**–**	**–**	**–**	**–**	**–**	**1,440**
Inventories written off	**142**	**–**	**–**	**–**	**–**	**–**	**142**

	City water supply operation and construction *HK$'000*	Sewage treatment operation and construction *HK$'000*	Property development and investment *HK$'000*	Other infrastructure construction *HK$'000*	All other *HK$'000*	Total *HK$'000*
Reportable segment assets	**4,273,745**	**231,527**	**1,078,711**	**480,838**	**171,775**	**6,236,596**
Other financial assets						**652,250**
Interests in associates						**88,149**
Other corporate assets						**799,115**
						7,776,110
Reportable segment liabilities	**693,354**	**22,301**	**116,866**	**166,755**	**60,000**	**1,059,276**
Deferred tax liabilities						**196,137**
Provision for tax						**85,520**
Other corporate liabilities						**2,608,399**
						3,949,332

For the year ended 31 March 2010, 16% of Group's total revenue was attributable to other infrastructure construction services revenue from one customer of HK$228,682,000.

	City water supply operation and construction HK$'000	Sewage treatment operation and construction HK$'000	Property development and investment HK$'000	Other infrastructure construction HK$'000	All other HK$'000	Inter-segment elimination HK$'000	Total HK$'000
For the year ended 31 March 2009							
Revenue							
From external customers	656,903	82,383	–	191,920	101,993	–	1,033,199
From inter-segment	22,677	–	–	–	51,066	(73,743)	–
Reportable segment revenue	679,580	82,383	–	191,920	153,059	(73,743)	1,033,199
Reportable segment profit	142,839	16,818	225,419	36,075	10,352	–	431,503
Unallocated corporate income							24,958
Unallocated corporate expenses							(85,836)
Equity-settled share option expenses							(26,666)
Excess over the cost of business combination recognised in profit or loss							7,880
Fair value loss on financial assets at fair value through profit or loss							(73,673)
Change in fair value of derivative financial instruments							38,120
Impairment loss on available-for-sale financial assets							(109,032)
Gain on repurchase of convertible bonds							187,910
Finance costs							(85,223)
Share of results of associates							16,692
Share of result of a jointly-controlled entity							(16)
Profit before income tax							326,617
Income tax expense							(97,943)
Profit for the year							228,674
Other reportable segment information							
Additions of investment properties	–	–	225,716	–	–	–	225,716
Additions to other non-current segment assets	352,735	2,897	264	1,867	5,087	–	362,850
Amortisation of deferred government grants	(1,274)	(20)	–	–	–	–	(1,294)
Amortisation of other intangible assets	2,359	5,897	–	–	–	–	8,256
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	87,089	291	19	107	8,071	–	95,577
Impairment loss on amounts due from former subsidiaries	694	–	–	–	–	–	694
Property, plant and equipment written off	211	–	–	–	95	–	306
(Gain)/loss on disposal of property, plant and equipment	(11)	–	–	–	138	–	127
Gain on disposal of land use rights	(345)	–	–	–	–	–	(345)
Fair value gain on investment properties	–	–	(225,511)	–	–	–	(225,511)
Trade receivables written off	3,721	–	–	–	1,773	–	5,494
Inventories written off	36	–	–	–	–	–	36

	City water supply operation and construction *HK$'000*	Sewage treatment operation and construction *HK$'000*	Property development and investment *HK$'000*	Other infrastructure construction *HK$'000*	All other *HK$'000*	Total *HK$'000*
Reportable segment assets	2,657,931	212,849	790,490	294,024	141,507	4,096,801
Other financial assets						708,078
Interests in associates						103,580
Interest in a jointly controlled entity						13,414
Other corporate assets						623,544
						5,545,417
Reportable segment liabilities	514,470	34,748	42,188	196,041	38,636	826,083
Deferred tax liabilities						180,780
Provision for tax						83,940
Other corporate liabilities						1,766,777
						2,857,580

For the year ended 31 March 2009, 19% of the Group's total revenue was attributable to other infrastructure construction services revenue from one customer of HK$191,920,000.

The Group's revenues from external customers and its non-current assets by geographical areas are not presented as the geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

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:

	2010	2009
	HK$'000	*HK$'000*
Revenue:		
Sales of goods	**121,329**	89,728
Sales of properties	**50,130**	–
Water supply operation services	**632,532**	379,548
Water supply construction services – intangible assets	**10,558**	31,966
Water supply related installation	**251,606**	239,043
Sewage treatment operation services	**35,499**	29,586
Sewage treatment construction services – financial assets	**40,964**	52,024
Other infrastructure construction services	**228,682**	191,920
Hotel and rental income	**7,611**	8,070
Finance income	**1,932**	773
Others	**17,325**	10,541
Total	**1,398,168**	1,033,199
Other income:		
Interest income	**11,265**	5,161
Government grants and subsidies #	**56,276**	19,670
Amortisation of deferred government grants	**2,153**	1,294
Gain on disposal of land use rights	**–**	345
Gain on disposal of convertible bonds	**–**	6,715
Gain on disposal of subsidiaries	**–**	1,438
Dividend income from financial assets	**4,821**	8,901
Miscellaneous income	**12,601**	15,298
Total	**87,116**	58,822

Government grants and subsidies mainly comprised unconditional subsidies for subsidising the Group's water supply and infrastructure construction business.

5. PROFIT FROM OPERATION

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

	2010	2009
	HK$'000	*HK$'000*
Cost of inventories sold	**811,606**	712,430
Depreciation	**136,758**	90,621
Amortisation of prepaid land lease payments	**7,136**	4,956
Amortisation of other intangible assets	**7,574**	8,256
Operating leases in respect of		
– leasehold land and buildings	**7,892**	7,824
– other property, plant and equipment	**17,025**	4,839
Auditors' remuneration	**5,300**	5,350
Staff costs (excluding directors' emoluments):		
Salaries and wages	**165,539**	133,772
Equity-settled share option expenses	**4,523**	12,304
Retirement scheme contribution	**1,423**	611
	171,485	146,687
(Gain)/Loss on disposal of property, plant and equipment	**(1,446)**	127
Gain on disposal of land use rights	**–**	(345)
Loss/(Gain) on partial disposal of convertible bonds	**2,687**	(6,715)
Property, plant and equipment written off	**95**	306
Inventories written off	**142**	36
Trade receivables written off	**1,440**	5,494
Impairment loss on amounts due from former subsidiaries	**–**	694
Net foreign exchange gain	**(4,702)**	(672)

6. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank loans		
– wholly repayable within five years	**82,685**	26,532
– not wholly repayable within five years	**3,378**	13,599
Interest on other borrowings		
– wholly repayable within five years	**20,060**	10,050
– not wholly repayable within five years	**3,174**	8,694
Interest on convertible bonds	**21,722**	40,095
Total borrowing costs	**131,019**	98,970
Less: interest capitalised included in property, plant and equipment	**(18,208)**	(13,747)
	112,811	85,223

7. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2010	2009
	HK$'000	*HK$'000*
Current		
– PRC	**82,799**	35,599
Deferred		
– Current year	**(7,368)**	62,344
Total income tax expense	**75,431**	97,943

8. DIVIDENDS

(a) Dividends attributable to the year

	2010	2009
	HK$'000	*HK$'000*
Proposed final dividend		
– HK$0.03 (2009: HK$0.03) per ordinary share	**39,980**	36,206
Interim dividend		
– HK$0.02 (2009: HK$Nil) per ordinary share	**26,552**	–
	66,532	36,206

The final dividend proposed after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of contributed surplus for the year ended 31 March 2010. In addition, the payment of the final dividend is subject to the shareholders' approval and the satisfaction of certain conditions under the Amended Loan Agreement.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2010	2009
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year of HK$0.03 (2009: HK$Nil) per ordinary share	**36,206**	–
Adjustment to 2009 final dividend *(note)*	**3,600**	–
	39,806	–

Note: The adjustment was due to placing and subscription of new shares prior to the record date of the 2009 final dividend and, therefore, the related shares rank for this dividend payment.

9. EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of HK$301,571,000 (2009: HK$115,037,000) and the weighted average of 1,293,977,152 (2009: 1,224,661,305) ordinary shares in issue during the year.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2010, the Company's warrants and potential shares arising from the conversion of the Company's convertible bonds would increase the earnings per share attributable to the owners of the Company and were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK$301,571,000 and on the weighted average of 1,326,720,048 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,293,977,152 used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 32,742,896.

In the calculation of the diluted earnings per share attributable to the owners of the Company for the year ended 31 March 2009, the Company's warrants were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company of HK$115,037,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was HK$118,315,000 and on the weighted average of 1,297,084,520 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,224,661,305 used in basic earnings per share calculation and adjusted for the effect of share options and deemed exercise or conversion of convertible bonds existing during the year of 72,423,215.

10. TRADE RECEIVABLES

The Group has a policy of allowing trade customers with credit terms of normally within 90 days except for construction projects for which settlement is made in accordance with the terms specified in the contracts governing the relevant transaction. The ageing analysis of trade receivables is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 to 90 days	**138,774**	115,357
91 to 180 days	**58,592**	93,798
Over 180 days	**341,634**	128,163
Neither past due nor impaired	**539,000**	337,318

11. TRADE PAYABLES

The credit terms of trade payables vary according to the terms agreed with different suppliers. Based on the invoice dates, the ageing analysis of the Group's trade payables as at the reporting date is as follows:

	2010	2009
	HK$'000	*HK$'000*
0 to 90 days	**95,170**	105,876
91 to 180 days	**30,969**	67,750
Over 180 days	**200,709**	87,508
	326,848	261,134

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 March 2010, the Group recorded a turnover of HK$1,398.2 million, representing an increase of 35% from HK$1,033.2 million recorded last year. The Group recorded a gross profit of HK$586.6 million representing an increase of 83% from HK$320.8 million last year. For the year under review, the Group recorded a profit for the year of HK$444.7 million (2009: HK$228.7 million). The basic earnings per share increased by 148% to 23.31 cents.

DIVIDENDS

The Directors recommended a final dividend of HK3 cents (2009: HK3 cents) per ordinary share, which is subject to approval of the shareholders at the forthcoming annual general meeting of the Company to be held on Friday, 10 September 2010, will be payable on or about Friday, 17 September 2010 to the shareholders whose names appear on the register of members on Friday, 10 September 2010. In addition, the payment of the final dividend is subject to the satisfaction of certain conditions under an amended and restated term facility agreement.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 6 September 2010 to Friday, 10 September 2010 both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the entitlement to the proposed final dividend for the year ended 31 March 2010 and attending and voting at the annual general meeting, all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the office of the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 3 September 2010.

BUSINESS REVIEW

(I) Water Supply Business Analysis

In the year, the Group sustained rapid growth in its revenue and profit from water supply business.

The revenue from city water supply operation and construction amounted to approximately HK$907.8 million (2009: HK$656.9 million), representing an increase of 38% as compared with last year.

City water supply projects owned by the Group spread various provinces and municipalities across China, including provinces such as Hunan, Henan, Jiangsu, Hubei, Jiangxi, Guangdong and Chongqing Municipality. The total water segment profits (including city water supply, water related installation works and meter installation) amounted to approximately HK$270.7 million (2009: HK$142.8 million).

(II) Sewage Business Analysis

During the year, the Group has recorded revenue from sewage treatment operation and construction business of HK$78.4 million (2009: HK$82.4 million). Sewage treatment projects operated by the Group are mainly derived from Hubei and Jiangxi provinces. The total sewage segment profit (including sewage treatment operation and construction) amounted to approximately HK$18.8 million (2009: HK$16.8 million).

(III) Investment Business Analysis

As at the reporting date, the Group's investment portfolio held for trading mainly consists of Qian Jiang Water Resources Development Co., Ltd ("Qian Jiang") (Shanghai Stock Exchange Code: 600283). The Group has disposed 7,742,000 A shares of Qian Jiang with gross sale proceeds of approximately HK$85 million.

The proceeds from disposal of shares have been retained for development of current water projects.

(IV) Property Business Analysis

During the year, the Group has recorded revenue from property business of HK$50.1 million (2009: Nil) which was derived from the sale of properties located in Xinyu City of Jiangxi province. The total property segment profit amounted to approximately HK$21.2 million (2009: HK$225.4 million).

FUTURE PROSPECTS

With the continuous economic development in China that promotes urbanization and the government's policy that advocates integration of urban and rural water supply, water supply is extended to wider areas and management standards are enhanced. All these factors provide remarkable room for growth of income from water supply and installation work under the current city water supply projects of the Group. In addition, the Group is also identifying with effort some promising water projects to enlarge its water supply business and enhance its effectiveness.

On top of its prior solid foundation of water supply, the Group endeavors to realize integration of water supply and emission, to expand its sewage treatment business and to optimize the structural linkage between water supply industry and related water industry so as to fully enhance its overall effectiveness, service quality and competitiveness.

The Group will also continue to implement its strategies for development of water supply and related business opportunities in the PRC. Given the Group's competitive advantages and expertise in water supply business, favourable government policies that promote the sustainable development of high quality water supply business in the PRC and the water business is less influenced by the current blur capital market and economy outlook, the Directors believe that the Company can benefit from the favourable industry development and the continuous development of water business is in the best interest of the Company and the shareholders as a whole.

CAPITAL RAISING

On 26 June 2009, Mr. Duan Chuan Liang, a director of the Company and Asset Full Resources Limited ("AFRL") entered into a placing agreement with Kim Eng Securities (Hong Kong) Limited for the placing of up to 120,000,000 ordinary shares of the Company at a price of HK$1.90 per share. Pursuant to a subscription agreement on the same date, Mr. Duan Chuan Liang and AFRL subscribed for 120,000,000 new ordinary shares of the Company at a price of HK$1.90 per share. On 10 July 2009, the subscription completed and raised total consideration of approximately HK$228,000,000 (before expenses).

ISSUE OF CONVERTIBLE BONDS

On 10 March 2010, the Company entered into a subscription agreement with DBS Bank Limited ("DBS") pursuant to which DBS agreed to subscribe for the convertible bonds of the Company in an aggregate principal amount of HK$600 million. The net proceeds from the issue of convertible bonds will be used for capital expenditure, working capital and general corporate purposes. Further details of which are disclosed in the Company's announcement dated 10 March 2010. The transaction was completed on 15 April 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2010, the Group has total cash and bank balances of approximately HK$605.8 million (2009: HK$577.7 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 50.8% (2009: 51.5%) as at 31 March 2010. The current ratio is 1.14 times (2009: 1.15 times) as at 31 March 2010. 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

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 2010 except for the following deviations:

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.

HUMAN RESOURCES

As at 31 March 2010, the Group has employed approximately 4,500 staff. Most of them stationed in the PRC and the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including their experience and performance, the market condition, industry practice and applicable employment law.

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 2010 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 2010

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*