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 2011

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 2011 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2011

	Notes	**2011** *HK$'000*	2010 *HK$'000*
Revenue	4	**1,478,163**	1,398,168
Cost of sales		**(846,792)**	(811,606)
Gross profit		**631,371**	586,562
Other income	4	**129,407**	87,116
Selling and distribution costs		**(54,472)**	(48,526)
Administrative expenses		**(289,864)**	(248,361)
Equity-settled share options expenses		**–**	(6,030)
Other operating expenses		**(3,569)**	(8,535)
Excess over the cost of business combination recognised in profit or loss		**–**	68,218
Fair value gain on investment properties		**21,033**	18,600
Fair value gain on financial assets at fair value through profit or loss		**5,197**	24,378
Change in fair value of derivative financial instruments		**(6,476)**	115,652
Gain on disposal/reversal of impairment on available-for-sale financial assets		**83,525**	43,871
Gain on disposal of assets classified as held for sale		**201,189**	–
Deemed gain for the change from available-for-sale financial assets to interests in associates		**61,634**	–
Loss on redemption of convertible bonds		**(16,460)**	–

	Notes	**2011** *HK$'000*	2010 *HK$'000*
Profit from operation	5	**762,515**	632,945
Finance costs	6	**(102,742)**	(112,811)
Share of results of associates		**65,445**	–
Profit before income tax		**725,218**	520,134
Income tax expense	7	**(124,726)**	(75,431)
Profit for the year		**600,492**	444,703
Profit for the year attributable to:			
Owners of the Company		**421,905**	301,571
Non-controlling interests		**178,587**	143,132
		600,492	444,703
Earnings per share for profit attributable to owners of the Company during the year	9	***HK cents***	*HK cents*
Basic		**31.24**	23.31
Diluted		**28.83**	22.73

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

	2011 *HK$'000*	2010 *HK$'000*
Profit for the year	**600,492**	444,703
Other comprehensive income		
Reclassification adjustments relating to available-for-sale financial assets		
– Conversion of convertibe bonds to shares	**(6,654)**	–
– Change from available-for-sale financial assets to interests in associates	**(61,634)**	–
Change in fair value of available-for-sale financial assets	**(146,633)**	221,433
Share of other comprehensive income of associates	**6,029**	–
Currency translation	**176,467**	13,577
Other comprehensive income for the year, net of tax	**(32,425)**	235,010
Total comprehensive income for the year	**568,067**	679,713
Total comprehensive income attributable to:		
Owners of the Company	**332,965**	534,487
Non-controlling interests	**235,102**	145,226
	568,067	679,713

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,403,298**	3,063,979
Prepaid land lease payments		**442,678**	429,164
Investment properties		**840,227**	718,409
Interests in associates		**536,117**	88,149
Available-for-sale financial assets		**123,190**	455,512
Goodwill		**172,667**	175,343
Other intangible assets		**178,665**	176,109
Deposits and prepayments		**287,875**	191,220
		5,984,717	5,297,885
Current assets			
Properties under development		**30,300**	166,216
Properties held for sale		**63,913**	1,511
Inventories		**95,592**	55,987
Trade receivables	10	**359,147**	539,000
Amounts due from grantors for contract work		**103,910**	94,588
Financial assets at fair value through profit or loss		**4,062**	53,841
Due from non-controlling equity holders of subsidiaries		**198,102**	131,566
Prepayments, deposits and other receivables		**515,637**	233,311
Derivative financial assets		**47,390**	142,897
Pledged deposits		**25,873**	83,111
Cash and cash equivalents		**848,635**	522,678
		2,292,561	2,024,706
Assets classified as held for sale		**84,158**	453,519
		2,376,719	2,478,225

	Notes	2011 HK$'000	2010 HK$'000
Current liabilities			
Trade payables	11	**346,707**	326,848
Accrued liabilities, deposits received and other payables		**745,704**	738,173
Borrowings		**623,397**	636,815
Due to non-controlling equity holders of subsidiaries		**68,897**	118,175
Provision for tax		**124,227**	85,520
Derivative financial liabilities		**25,982**	3,006
Convertible bonds		**–**	257,252
		1,934,914	2,165,789
Net current assets		**441,805**	312,436
Total assets less current liabilities		**6,426,522**	5,610,321
Non-current liabilities			
Borrowings		**1,211,134**	1,535,960
Due to non-controlling equity holders of subsidiaries		**37,371**	–
Convertible bonds		**569,141**	–
Deferred government grants		**54,603**	51,446
Deferred tax liabilities		**220,944**	196,137
		2,093,193	1,783,543
Net assets		**4,333,329**	3,826,778
EQUITY			
Equity attributable to owners of the Company			
Share capital		**13,859**	13,277
Proposed final dividend		**41,576**	39,980
Reserves		**2,809,197**	2,496,397
		2,864,632	2,549,654
Non-controlling interests		**1,468,697**	1,277,124
Total equity		**4,333,329**	3,826,778

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values.

2. ADOPTION OF REVISED/AMENDED HKFRSs

In the current year, the Group have applied for the first time the following revision and amendment to standards and interpretations ("revised/amended HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 April 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HKFRSs (Amendments)	Improvements to HKFRSs 2010 – HKAS 1 Presentation of Financial Statements

Except for as explained below, the adoption of these revised/amended HKFRSs has no significant impact on the consolidated financial statements of the Group.

HKFRS 3 (Revised) – Business Combinations and HKAS 27 (Revised) – Consolidated and Separate Financial Statements

The revised accounting policies are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The Group has acquired the business in 重慶永川區佳和自來水有限責任公司 and 宜豐縣自來水公司 according to the revised standard. The adoption of revised HKFRS 3 has had no material impact to the consolidated financial statements.

HKAS 27 has been revised in relation to a change in the ownership interest in a subsidiary. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss. The adoption of the revised HKAS 27 has had no material impact on the current year.

HKFRSs (Amendments) – Improvements to HKFRSs 2009

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Prior to this amendment, HKAS 17 generally required a lease of land to be classified as an operating lease and to present consideration paid on acquisition of leasehold land as operating lease prepayments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group has reassessed the classification of the land elements of its unexpired leases at 1 April 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

HKFRSs (Amendments) – Improvements to HKFRSs 2010

As part of Improvements to HKFRSs issued in 2010, the amendments to HKAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The Group has applied the amendments in advance of their effective date and amendments have been made to the consolidated statement of changes in equity. The amendments have been applied retrospectively.

New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group (exception for the amendments to HKAS 1 Presentation of Financial Statements which are part of the Improvements to HKFRS 2010).

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1&2]
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instrument[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets[3]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKFRS 9	Financial Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2010
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, joint controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The HKICPA amended HKAS 12 Income Taxes to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. Currently HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The effective date for the amendment is annual periods beginning on or after 1 January 2012. The Group does not early adopt this amendment as permitted.

The Group is in the process of making an assessment of the potential impact of new/revised HKFRSs and the Directors so far concluded that the application of new/revised HKFRSs will have no material impact on the Group's financial statements.

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; and

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

Information about other business activities and operating segments that are not reportable are combined and disclosed in "All other segments". "All other segments" 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 on financial assets at fair value through profit or loss, change in fair value of derivative financial instruments, gain on disposal of assets classified as held for sale, gain on disposal of available-for-sale financial assets, deemed gain for the change from available-for-sale financial assets to interests in associates, finance costs, share of results of associates, corporate income, corporate expense, excess over the cost of business combination recognised in profit and loss, reversal of impairment loss on available-for-sale financial assets, income tax expense and loss on redemption 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, derivative financial assets and interests in associates. 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.

For the year ended 31 March 2011

	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 segments *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
Revenue							
From external customers	1,084,029	48,599	187,504	–	158,031	–	1,478,163
From inter-segment	4,702	–	–	–	4,514	(9,216)	–
Segment revenue	1,088,731	48,599	187,504	–	162,545	(9,216)	1,478,163
Segment profit/(loss)	389,180	19,881	64,625	(2,335)	45,381	–	516,732
Unallocated corporate income							36,885
Unallocated corporate expense							(119,711)
Gain on disposal of assets classified as held for sale							201,189
Fair value gain on financial assets at fair value through profit or loss							5,197
Change in fair value of derivative financial instruments							(6,476)
Gain on disposal on available-for-sale financial assets							83,525
Deemed gain for the change from available-for-sale financial assets to interests in associates							61,634
Loss on redemption of convertible bonds							(16,460)
Finance costs							(102,742)
Share of results of associates	6,036	–	59,409	–	–	–	65,445
Profit before income tax							725,218
Income tax expense							(124,726)
Profit for the year							600,492
Other segment information							
Addition of investment property	–	–	66,074	–	–	–	66,074
Additions to other non-current segment assets	297,541	2,010	35,684	33	89,911	–	425,179
Amortisation of deferred government grants	(2,209)	(240)	–	–	–	–	(2,449)
Amortisation of other intangible assets	1,922	6,046	–	–	–	–	7,968
Depreciation of property, plant and equipment and amortisation of prepaid land lease payments	165,959	388	8,138	285	8,919	–	183,689
Property, plant and equipment written off	96	–	–	–	15	–	111
Gain on disposal of property, plant and equipment	(5,187)	–	–	–	(573)	–	(5,760)
Gain on disposal of land use rights	(236)	–	–	–	–	–	(236)
Fair value gain on investment properties	–	–	(21,033)	–	–	–	(21,033)
Trade receivables written off	1,599	–	–	–	–	–	1,599

	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 segments *HK$'000*	Total *HK$'000*
Segment assets	4,212,708	241,925	1,384,016	201,375	288,462	6,328,486
Other financial assets						174,642
Interests in associates	93,723	–	442,394	–	–	536,117
Other corporate assets						1,322,191
						8,361,436
Segment liabilities	891,945	24,586	17,702	162,507	53,882	1,150,622
Deferred tax liabilities						220,944
Provision for tax						124,227
Other corporate liabilities						2,532,314
						4,028,107

For the year ended 31 March 2011, the Group did not depend on any single customers under each of the segments.

For the year ended 31 March 2010

	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 segments *HK$'000*	Inter-segment elimination *HK$'000*	Total *HK$'000*
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)	–
Segment revenue	965,523	78,395	54,519	228,682	233,378	(162,329)	1,398,168
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 segment information							
Addition of 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 segments *HK$'000*	Total *HK$'000*
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	–	–	–	–	88,149
Other corporate assets						799,115
						7,776,110
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 the Group's total revenue was attributable to other infrastructure construction services revenue from one customer of HK$228,682,000.

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

	2011	2010
	HK$'000	*HK$'000*
Revenue:		
Sales of goods	**141,443**	121,329
Sales of properties	**187,504**	50,130
Water supply operation services	**775,076**	632,532
Water supply construction services – intangible assets	**2,406**	10,558
Water supply related installation	**274,554**	251,606
Sewage treatment operation services	**38,249**	35,499
Sewage treatment construction services – financial assets	**6,527**	40,964
Other infrastructure construction services	**–**	228,682
Hotel and rental income	**7,033**	7,611
Finance income	**3,823**	1,932
Others	**41,548**	17,325
Total	**1,478,163**	1,398,168
Other income:		
Interest income	**9,683**	11,265
Government grants and subsidies #	**80,047**	56,276
Amortisation of deferred government grants	**2,449**	2,153
Gain on disposal of land use rights	**236**	–
Gain on disposal of property, plant and equipment	**5,760**	1,446
Dividend income from financial assets	**12,801**	4,821
Miscellaneous income	**18,431**	11,155
Total	**129,407**	87,116

Government grants and subsidies mainly comprised unconditional subsidies for subsidising the Group's water supply and other businesses.

5. PROFIT FROM OPERATION

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

	2011	2010
	HK$'000	*HK$'000*
Cost of inventories sold	**846,792**	811,606
Depreciation	**169,069**	136,758
Amortisation of prepaid land lease payments	**14,620**	7,136
Amortisation of other intangible assets	**7,968**	7,574
Operating leases in respect of		
– leasehold land and buildings	**4,878**	7,892
– other property, plant and equipment	**22,535**	17,025
Staff costs (including directors' emoluments):		
Salaries and wages	**204,104**	180,044
Equity-settled share option expenses	**–**	6,030
Retirement scheme contribution	**1,834**	1,435
	205,938	187,509
Gain on disposal of land use rights	**(236)**	–
Loss on partial disposal of convertible bonds	**–**	2,687
Property, plant and equipment written off	**111**	95
Inventories written off	**–**	142
Trade receivables written off	**1,599**	1,440
Net foreign exchange gain	**(42)**	(4,702)

6. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on bank loans		
– wholly repayable within five years	**48,506**	82,685
– not wholly repayable within five years	**8,542**	3,378
Interest on other borrowings		
– wholly repayable within five years	**15,016**	20,060
– not wholly repayable within five years	**1,318**	3,174
Interest on convertible bonds	**50,069**	21,722
Total borrowing costs	**123,451**	131,019
Less: interest capitalised included in property, plant and equipment	**(20,709)**	(18,208)
	102,742	112,811

7. INCOME TAX EXPENSE

Income tax expense in the consolidated income statement represents:

	2011	2010
	HK$'000	*HK$'000*
Current		
– Hong Kong	**2,395**	–
– PRC	**107,224**	82,799
	109,619	82,799
Deferred tax	**15,107**	(7,368)
Total income tax expense	**124,726**	75,431

8. DIVIDENDS

(a) Dividends attributable to the year

	2011	2010
	HK$'000	*HK$'000*
Proposed final dividend		
– HK$0.03 (2010: HK$0.03) per ordinary share	**41,576**	39,980
Interim dividend		
– HK$0.02 (2010: HK$0.02) per ordinary share	**27,289**	26,552
	68,865	66,532

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 2011. In addition, the final dividend is subject to the shareholders' approval at the forthcoming annual general meeting; and the satisfaction of certain conditions under an amended and restated term facility agreement which have been satisfied as of the date of this announcement.

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

	2011	2010
	HK$'000	***HK$'000***
Final dividend in respect of the previous financial year of HK$0.03 (2010: HK$0.03) per ordinary share	**39,980**	36,206
Adjustment to the final dividend (Note)	**645**	3,600
	40,625	39,806

Note: The adjustment was due to placing and subscription of new shares prior to the record date of the 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$421,905,000 (2010: HK$301,571,000) and the weighted average of 1,350,426,192 (2010: 1,293,977,152) 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 2011, 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$421,905,000 and after adjustments to reflect the effect of deemed exercise or conversion of convertible bonds, which was HK$437,558,000 and on the adjusted weighted average of 1,517,856,764 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 1,350,426,192 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 167,430,572.

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 adjusted weighted average of 1,326,720,048 ordinary shares outstanding during the year, being the weighted average number of ordinary shares 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.

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 based on invoice dates is as follows:

	2011	2010
	HK$'000	*HK$'000*
0 to 90 days	**111,934**	138,774
91 to 180 days	**37,648**	58,592
Over 180 days	**209,565**	341,634
Neither past due nor impaired	**359,147**	539,000

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:

	2011	2010
	HK$'000	*HK$'000*
0 to 90 days	**84,728**	95,170
91 to 180 days	**34,905**	30,969
Over 180 days	**227,074**	200,709
	346,707	326,848

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year ended 31 March 2011, the Group recorded a turnover of HK$1,478.2 million, representing an increase of 5.7% from HK$1,398.2 million in last year. The Group recorded a gross profit of HK$631.4 million representing an increase of 7.6% from HK$586.6 million in last year. For the year under review, the Group recorded a profit for the year attributable to owners of the Company of in HK$421.9 million, representing an increase of 39.9% from HK$301.6 million in last year. The basic earnings per share increased by 34.0% to HK31.24 cents in current year.

DIVIDENDS

The Directors recommended a final dividend of HK3 cents (2010: 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, 2 September 2011, will be payable on or about Friday, 23 September 2011 to the shareholders whose names appear on the register of members on Friday, 16 September 2011. In addition, the final dividend is subject to the satisfaction of certain conditions under an amended and restated term facility agreement which have been satisfied as of the date of this announcement.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 9 September 2011 to Friday, 16 September 2011 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 2011 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, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 8 September 2011.

BUSINESS REVIEW

The Group's total revenue continuously increased from HK$1,398.2 million for the year ended 31 March 2010 to HK$1,478.2 million for the year ended 31 March 2011. The Group recorded a robust growth in its "Water" segment. For the year under review, the total revenue attributable to the "Water" segment amounted to HK$1,132.6 million, which represented approximately 76.6% of the total revenue. For the corresponding year under review, the total revenue attributable to the "Water" segment amounted to HK$986.2 million, which represented approximately 70.5% of the total revenue only. This represented a organic growth of "Water" segment revenue of 14.8%, which is mainly attributed to the successful growth of the Group through various mergers and acquisition, increase in operating efficiency and tariff of the water supply and sewage treatment plants.

(i) Water Supply Business Analysis

City water supply projects of the Group are well spread in various provincial cities and regions across China, including Hunan, Henan, Jiangsu, Hubei, Jiangxi, Guangdong and Chongqing.

For the year under review, the revenue from city water supply operation and construction amounted to HK$1,084.0 million (2010: HK$907.8 million), representing an increase of 19.4% as compared with the last corresponding year. The total water segment profit (including city water supply, water related installation works and meter installation) amounted to HK$389.2 million (2010: HK$270.7 million), representing a substantial increase of 43.8% as compared with the last corresponding year.

(ii) Sewage Treatment Business Analysis

Sewage treatment projects of the Group are mainly located in Hubei and Jiangxi provinces of China.

For the year under review, the revenue from sewage treatment operation and construction business amounted to HK$48.6 million (2010: HK$78.4 million), representing a decrease of 38.0% as compared with the last corresponding year, which was due to the completion of recognition of construction revenue of two of the Group's sewage treatment plants in Jiangxi province in last year. The total sewage treatment segment profit (including sewage treatment operating and construction) amounted to HK$19.9 million (2010: HK$18.8 million), representing an increase of 5.9% as compared with the last corresponding year.

(iii) Property Business Analysis

The Group held various property development and investment projects which are mainly located in Jiangxi province.

For the year under review, the revenue from property business segment amounted to HK$187.5 million (2010: HK$50.1 million), representing an increase of 274.3% as compared with the last corresponding year, which was due to the sales of a property project in Jiangxi province. The total property business segment profit amounted to HK$64.6 million (2010: HK$21.2 million), representing an increase of 204.7% as compared with the last corresponding year.

(iv) Other Infrastructure Construction Business Analysis

For the year under review, the Group did not record any revenue from the other infrastructure construction business segment (2010: HK$228.7 million) as the progress of the Group's contracted infrastructure construction project in Jiangxi province was in the final stage in the last financial year. The total other infrastructure construction business segment loss amounted to HK$2.3 million (2010: profit of HK$88.8 million).

For the year under review, the Group recorded a gain on disposal of assets classified as held for sale amounted to HK$201.2 million, which represented the aggregate gain on disposal of 35% equity interest in 江河農村電氣化發展有限公司 and 17.085% equity interest in 中國水務投資有限公司. The Group considered that realisation of the above investments at a gain can provide resources to the Group in developing water supply related businesses in China.

For the year under review, the Group also recorded a number of gains related to China Water Property Group Limited ("China Water Property"), an associate of the Group with its ordinary shares listed on the mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2349), which included i) gain of HK$82.3 million arising from conversion of HK$60 million convertible bonds of China Water Property at the exercise price of HK$0.045 held by the Group into the ordinary shares of China Water Property; ii) deemed gain of HK$61.6 million from the release of available-for-sale financial assets revaluation reserve upon the recognition of China Water Property as an associate of the Group; and iii) share of results of China Water Property in an amount of HK$59.4 million.

FUTURE PROSPECTS

China is a water-stressed country. The water pollution caused by the fast urbanisation in China is compounding the severity of the problem. The Group believes that water industry in China has large growth potential as solving the problems of water shortage and water pollution are critical to the success of sustainable economic growth and social development in China.

Water is the origin of life, key element of production and base of ecology. This first sentence in the No.1 Document in 2011 issued by the Chinese Central Government bought out the overwhelming importance of water conservancy development in China in the coming 10 years that have never been seen before. Blueprint of the water industry is outlined in the No.1 Document in 2011 and the entire water industry is expected to experience ample growth thereafter. With the persistent central government policies of integration of urban and rural water supply, reform of water price to escalation system for better water resources management which also created the need for complementary water installation work, demand for improvement of sewage treatment management standard, demand for substantial water conservancy infrastructure and among others, all these created an unprecedented opportunity for the Group. The Group will strive to move further and become a leading integrated water solution provider and create greater value for our shareholders and investors.

CAPITAL RAISING

On 19 May 2011, the Company and ORIX Corporation ("ORIX") entered into a subscription agreement pursuant to which ORIX agreed to subscribe 235,598,277 new ordinary shares at the price of HK$3.40 per share. The net proceeds from the subscription of new shares will be used for water related investments and for general working capital of the Group. On 30 May 2011, the subscription completed and raised total cash consideration of approximately HK$801.0 million (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. The transaction was completed on 15 April 2010.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2011, the Group has total cash and bank balances of approximately HK$874.5 million (2010: HK$605.8 million). The gearing ratio, calculated as a percentage of total liabilities to total assets, is 48.2% (2010: 50.8%) as at 31 March 2011. The current ratio is 1.23 times (2010: 1.14 times) as at 31 March 2011. 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 are 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 2011 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.

Mr. Duan Chuan Liang serves as the chairman of the Company. Following the resignation of Mr. Du Lin Dong as chief executive officer of the Company during the year under review, the previous job responsibilities of Mr. Du were discharged by the executive directors (being Mr. Duan Chuan Liang and Mr. Li Ji Sheng) collectively, which deviates from the requirement under Code Provision A.2.1 that the roles of the chairman and chief executive officer should be segregated.

The Board believes that the present structure will benefit to the Group and shareholders as a whole. With their profound knowledge and expertise in water related businesses, Mr. Duan and Mr. Li provide a strong and consistent leadership to formulate strategies, make and implement decisions promptly and efficiently. The balance of power and authority is ensured by the operations of Board, which comprises experienced and high caliber individuals. Major decisions of the Group are made in consultation with members of the Board and appropriate Board committees and senior management. A clear segregation of the duties and responsibilities at the board level is maintained to achieve a balance of power and authority. Audit Committee is composed exclusively of all Independent Non-executive Directors; and the Independent Non-executive Directors have free and direct access to the Company's external auditors and independent professional advices when consider necessary.

HUMAN RESOURCES

As at 31 March 2011, the Group has employed approximately 4,600 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 2011 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, 28 June 2011

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*