

Interim Report

2010



中國水務地產集團有限公司
CHINA WATER PROPERTY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 2349)

CONTENTS

	Page
Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Statement of Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Cash Flow Statement	9
Notes to the Condensed Consolidated Financial Statements	10
Management Discussion and Analysis	26
Disclosure of Interests	31
Corporate Governance	35
Other Information	36

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. But Ka Wai (*Chairman*)
Ms. Wang Wenxia (*Vice Chairman*)
Mr. Ren Qian
Mr. But Chai Tong (*Vice Chairman*)
(*resigned on 28 June 2010*)
Mr. Sun Zhen Yu (*resigned on 25 June 2010*)

Non-executive Director

Mr. Zhou Kun

Independent non-executive Directors

Mr. Chen Ziqiang
Mr. Chan Pok Hiu (*Note*)
Mr. Wong Chi Ming (*Note*)
Mr. Tam Pei Qiang (*resigned on 28 June 2010*)
Ms. Li Ling (*resigned on 16 August 2010*)

Note: appointed on 16 August 2010

AUDIT COMMITTEE

Mr. Wong Chi Ming (*Committee Chairman*)
Mr. Chen Ziqiang
Mr. Chan Pok Hiu

REMUNERATION COMMITTEE

Mr. Chen Ziqiang (*Committee Chairman*)
Mr. Chan Pok Hiu
Mr. Wong Chi Ming

COMPANY SECRETARY

Mr. Chong Ching Hei

AUTHORISED REPRESENTATIVES

Ms. Wang Wenxia
Mr. Chong Ching Hei

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
No. 78 Des Voeux Road Central, Hong Kong

DBS Bank (Hong Kong) Limited
16th Floor, The Center
99 Queen's Road Central, Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
Level 10, HSBC Main Building
1 Queen's Road Central, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 6208, 62nd Floor,
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

AUDITORS

HLM & Co.
Certified Public Accountants

WEBSITE

www.waterpropertygroup.com

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Turnover	3	51,744	50,943
Cost of sales		(41,329)	(39,046)
Gross profit		10,415	11,897
Other operating income		516	1,454
Selling and distribution expenses		(14,793)	(9,674)
Administrative expenses		(36,320)	(19,288)
Finance costs	4	(13,382)	(17,557)
Operating loss before impairment charges		(53,564)	(33,168)
Change in fair value of biological assets less estimated point-of-sales costs		—	(23,284)
Impairment on trade receivables		—	(19,571)
Loss before tax		(53,564)	(76,023)
Income tax (charge) credit	5	(22)	38
Loss for the period	6	(53,586)	(75,985)
Loss for the period attributable to:			
Owners of the Company		(48,293)	(64,018)
Non-controlling interests		(5,293)	(11,967)
Loss for the period		(53,586)	(75,985)
Dividends	7	—	—
Loss per share	8	HK Cents	HK Cents
— Basic		(0.50)	(7.38)
— Diluted		N/A	N/A



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Loss for the period	(53,586)	(75,985)
Other comprehensive income (expense):		
Exchange differences arising on translation	399	(766)
Total comprehensive expense for the period (net of tax)	(53,187)	(76,751)
Total comprehensive expense attributable to:		
Owners of the Company	(47,894)	(64,784)
Non-controlling interests	(5,293)	(11,967)
	(53,187)	(76,751)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
ASSETS			
Non-current Assets			
Prepaid lease payments		2,793	2,877
Property, plant and equipment		151,570	157,467
Biological assets		4,560	4,560
Intangible assets		962	962
Goodwill		174,605	174,605
Deferred tax assets		3,918	3,918
Deposit paid on acquisition of a subsidiary	15(iii)	56,818	—
		395,226	344,389
Current Assets			
Inventories		35,857	33,048
Properties under development	9	1,172,619	412,168
Trade and other receivables	10	230,901	122,523
Prepaid tax		13,395	156
Derivatives financial instruments		—	1,511
Pledged bank deposits		13,974	13,973
Bank balances and cash		361,388	164,646
		1,828,134	748,025
TOTAL ASSETS		2,223,360	1,092,414
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	11	122,376	84,800
Reserves		458,719	167,910
Equity attributable to owners of the Company		581,095	252,710
Non-controlling interests		167,785	36,710
TOTAL EQUITY		748,880	289,420

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 30 June 2010

	Notes	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Non-current Liabilities			
Obligations under finance leases		239	377
Borrowings	12	239,837	137,875
Convertible notes	13	61,970	107,975
Deferred tax liabilities		111,603	—
		413,649	246,227
Current Liabilities			
Trade and other payables	14	126,577	204,543
Obligations under finance leases		275	618
Tax payable		2,354	2,354
Amounts due to minority shareholders of subsidiaries		76,434	13,357
Amount due to a shareholder		—	20,420
Pre-sale deposits received		656,182	—
Borrowings	12	172,501	241,575
Convertible notes	13	26,508	73,900
		1,060,831	556,767
TOTAL LIABILITIES		1,474,480	802,994
TOTAL EQUITY AND LIABILITIES		2,223,360	1,092,414
NET CURRENT ASSETS		767,303	191,258
TOTAL ASSETS LESS CURRENT LIABILITIES		1,162,529	535,647

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company										
	Share capital	Share premium	Convertible notes equity reserve	Special reserve	PRC statutory reserves	Share option reserve	Translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010 (audited)	84,800	523,024	46,941	10,816	25,565	10,679	20,767	(469,882)	252,710	36,710	289,420
Loss for the period	—	—	—	—	—	—	—	(48,293)	(48,293)	(5,293)	(53,586)
Translation exchange differences	—	—	—	—	—	—	399	—	399	—	399
Total comprehensive expense for the period	—	—	—	—	—	—	399	(48,293)	(47,894)	(5,293)	(53,187)
Issue of shares on acquisition of subsidiaries	8,299	114,427	—	—	—	—	—	—	122,726	—	122,726
Issue of shares on conversion of convertible notes	14,816	59,676	(20,364)	—	—	—	—	—	54,128	—	54,128
Issue of shares on top-up placing	13,860	188,496	—	—	—	—	—	—	202,356	—	202,356
Shares issue expenses	—	(10,807)	—	—	—	—	—	—	(10,807)	—	(10,807)
Shares issued on exercise of share options	601	6,832	—	—	—	—	—	—	7,433	—	7,433
Transfer of share option reserve on exercise of share options	—	—	—	—	—	(2,295)	—	2,295	—	—	—
Share-based option expenses	—	—	—	—	—	443	—	—	443	—	443
Release from redemption of convertible notes	—	—	(725)	—	—	—	—	725	—	—	—
Acquired on acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	126,166	126,166
Contributions from minority shareholders of a subsidiary	—	—	—	—	—	—	—	—	—	10,202	10,202
At 30 June 2010 (unaudited)	122,376	881,648	25,852	10,816	25,565	8,827	21,166	(515,155)	581,095	167,785	748,880

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended 30 June 2010

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Convertible notes equity reserve HK\$'000	Special reserve HK\$'000	PRC statutory reserves HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2009 (audited)	6,919	85,883	58,645	10,816	25,565	8,820	20,767	(154,497)	62,918	39,039	101,957
Loss for the period	—	—	—	—	—	—	—	(64,018)	(64,018)	(11,967)	(75,985)
Exchange differences	—	—	—	—	—	—	(766)	—	(766)	—	(766)
Total comprehensive expense for the period	—	—	—	—	—	—	(766)	(64,018)	(64,784)	(11,967)	(76,751)
Share-based option expenses	—	—	—	—	—	530	—	—	530	—	530
Issue of new shares											
— Conversion of convertible notes	667	9,711	(3,119)	—	—	—	—	—	7,259	—	7,259
— Open offer	3,460	24,218	—	—	—	—	—	—	27,678	—	27,678
Transaction costs attributable to issue of shares	—	(1,266)	—	—	—	—	—	—	(1,266)	—	(1,266)
At 30 June 2009 (unaudited)	11,046	118,546	55,526	10,816	25,565	9,350	20,001	(218,515)	32,335	27,072	59,407

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
NET CASH FROM (USED IN) OPERATING ACTIVITIES	295,861	(9,954)
NET CASH USED IN INVESTING ACTIVITIES	(177,030)	(1,110)
NET CASH FROM FINANCING ACTIVITIES	77,537	11,758
NET INCREASE IN CASH AND CASH EQUIVALENTS	196,368	694
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	169,417	20,205
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	399	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	366,184	20,899
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	361,388	21,219
Pledged bank deposits	9,974	4,966
Bank overdrafts	(5,178)	(5,286)
	366,184	20,899

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2010

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2009, except as described in note 2 below.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning from 1 January 2010.

HKFRSs (Amendments)	Amendment to HKFRS 5 included in Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The application of these new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK (IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

2. APPLICATION OF NEW AND REVISED HKFRSs *(continued)*

- ¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
- ² Effective for annual periods beginning on or after 1 February 2010.
- ³ Effective for annual periods beginning on or after 1 July 2010.
- ⁴ Effective for annual periods beginning on or after 1 January 2011.
- ⁵ Effective for annual periods beginning on or after 1 January 2013.

The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

The accounting policies of the operating segments are the same as the Group's accounting policies in the preparation of the Group's annual financial statements.

The Group's operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. Specifically, segment information reported externally was analysed on the basis of the types of goods supplied provided by the Group's operating divisions, which is the same information reported to the chief operating decision maker. The Group's operating and reportable segments are as follows:

- Property Development Business Segment engages in development of property project in the PRC.
- Wah Yuen Food Business Segment engages in production and distribution of snack food, convenient frozen food and other food products.
- Seabuckthorn Business Segment engages in cultivation of seabuckthorn, as well as manufacture, sales, research and development of seabuckthorn-related health products.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

3. REVENUE AND SEGMENT INFORMATION *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the six months ended 30 June 2010 and 2009

	Property Development Business		Wah Yuen Food Business		Seabuckthorn Business		Eliminations		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
REVENUE										
External sales	—	—	42,082	38,850	9,662	12,093	—	—	51,744	50,943
Inter-segment sales	—	—	12,445	10,931	—	—	(12,445)	(10,931)	—	—
Total revenue	—	—	54,527	49,781	9,662	12,093	(12,445)	(10,931)	51,744	50,943
RESULTS										
Segment operating results before impairment charges	(14,030)	—	(10,894)	(9,335)	(10,017)	(7,201)	—	—	(34,941)	(16,536)
Change in fair value of biological assets less estimated point-of-sales costs	—	—	—	—	—	(23,284)	—	—	—	(23,284)
Impairment on trade receivables	—	—	—	(19,571)	—	—	—	—	—	(19,571)
Unallocated corporate income									516	1,454
Unallocated corporate expenses									(5,757)	(529)
Loss from operations									(40,182)	(58,466)
Finance costs									(13,382)	(17,557)
Loss before tax									(53,564)	(76,023)
Income tax (charge) credit									(22)	38
Loss for the period									(53,586)	(75,985)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For six months ended 30 June 2010

4. FINANCE COSTS

	Six months ended 30 June	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	20,175	4,005
Interest expense on obligations under finance leases	32	65
Effective interest expense on convertible notes	9,729	13,487
Total finance costs	29,936	17,557
Less: Amount capitalised to properties under development	(16,554)	—
	13,382	17,557

5. INCOME TAX (CHARGE) CREDIT

	Six months ended 30 June	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
The tax (charge) credit comprises:		
Current tax:		
Hong Kong Profits Tax		
Over provision in prior years	—	80
PRC Enterprise Income Tax		
Current period	(22)	(42)
Current tax (charge) credit for the period	(22)	38

The income tax expense for the period represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries in the PRC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

5. INCOME TAX (CHARGE) CREDIT *(continued)*

The subsidiaries located in other jurisdictions have no assessable profits for the period. No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for the period.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures. No Land Appreciation Tax has been provided for as the Group has no recognised income from the sale or transfer of properties for the period.

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Cost of inventories sold	41,329	39,046
Depreciation and amortisation	6,084	5,338
Changes in fair value less estimated point-of-sales costs of biological assets	—	23,284
Impairment on trade receivables	—	19,571
Share-based option expenses	443	529
Operating lease rental in respect of rental premises	1,561	1,203

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable is based on the loss attributable to the equity holders of the Company approximately HK\$48,293,000 (six months ended 30 June 2009: HK\$64,018,000) and on the weighted average ordinary share of 9,607,527,011 (six months ended 30 June 2009: 866,912,753) deemed to be in issue during the period.

The calculation of basic and diluted loss per share is based on the following data:

	Six months ended 30 June	
	2010 (unaudited) HK\$'000	2009 (unaudited) HK\$'000
Loss:		
Loss for the purpose of basic loss per share	(48,293)	(64,018)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	9,729	13,487
Loss for the purpose of diluted loss per share	(38,564)	(50,531)

	Six months ended 30 June	
	2010	2009
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic loss per share	9,607,527,011	866,912,753
Effect of dilutive potential ordinary shares:		
Share options	77,748,406	—
Convertible notes	1,984,491,129	1,133,666,667
Weighted average number of ordinary shares for the purposes of diluted loss per share	11,669,766,546	2,000,579,420

Diluted loss per share for the six months ended 30 June 2010 and 2009 were not presented because the impact of the conversion of convertible bonds and the exercise of share options was anti-dilutive.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

9. PROPERTIES UNDER DEVELOPMENT

	HK\$'000
At 1 January 2010 (audited)	412,168
Additions during the period	70,530
Acquisition of subsidiaries (note 15)	689,921
At 30 June 2010 (unaudited)	1,172,619

As at 30 June 2010, properties under development of approximately HK\$307,516,000 (31 December 2009: HK\$181,320,000) were pledged as collateral for the Group's bank borrowings (note 16).

10. TRADE AND OTHER RECEIVABLES

The Group adopts a general policy of allowing average credit periods ranging from 90 days to 180 days to its trade customers.

	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Trade receivables	15,885	128,215
Less: Allowance for doubtful debts	—	(102,301)
Net trade receivables	15,885	25,914
Prepayments and other deposits	156,605	85,191
Other receivables	58,411	11,418
	230,901	122,523

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For six months ended 30 June 2010

10. TRADE AND OTHER RECEIVABLES (continued)

An ageing analysis of trade receivables (net of allowance for doubtful debts) is as follows:

	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Within 90 days	8,932	12,850
91 to 180 days	4,067	1,709
Over 180 days but within one year	2,886	11,355
Trade receivables	15,885	25,914

The Group normally provides fully for all receivables overdue 365 days based on the estimations or past experiences and the assessment of payment performance under current economic environment. When the Group is satisfied that no recovery of the amount owing is possible, the amount considered irrecoverable is written off against the financial asset and recognized in the consolidated income statement accordingly. The balances of the allowance for doubtful debts are individually impaired trade receivables which had been overdue over 365 days or/and have no material transactions with the Group during the period. The Group does not hold any collateral over these balances.

11. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2010 (audited)	20,000,000,000	200,000
Increase during the period (Note a)	30,000,000,000	300,000
At 30 June 2010 (unaudited)	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2010 (audited)	8,480,001,467	84,800
Issue of shares on exercise of share options (Note b)	60,113,268	601
Issue of shares on top-up placing (Note c)	1,386,000,000	13,860
Issue of shares on conversion of 2010 convertible notes (Note d)	37,190,082	372
Issue of shares on conversion of 2017 convertible notes (Note e)	1,444,444,443	14,444
Issue of shares on acquisition of subsidiaries (Note f)	829,856,787	8,299
At 30 June 2010 (unaudited)	12,237,606,047	122,376

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

11. SHARE CAPITAL *(continued)*

Notes:

- (a) On 10 May 2010, the ordinary resolution has been approved by the shareholders of the Company at the extraordinary general meeting in relation to the increase in authorised share capital of the Company from HK\$200,000,000 (divided into 20,000,000,000 ordinary shares) to HK\$500,000,000 (divided into 50,000,000,000 ordinary shares) by creating an additional 30,000,000,000 unissued ordinary shares of the Company.
- (b) On 11 February 2010 and 9 April 2010, 10,018,878 and 50,094,390 ordinary shares were issued by the Company giving cash consideration of HK\$530,000 and HK\$6,903,007 respectively, which were derived from the exercise of the Company's share options at an exercise price of HK\$0.0529 and HK\$0.1378 respectively.
- (c) On 12 April 2010, 1,386,000,000 ordinary shares were issued by the Company as a result of the top-up placing agreement dated 31 March 2010. Shares were issued at a price of HK\$0.146 giving the gross proceeds of approximately HK\$202,356,000.
- (d) On 9 April 2010, 2010 convertible notes with principal amount of HK\$4,500,000 were converted into 37,190,082 ordinary shares of the Company at the conversion price of HK\$0.121.
- (e) On 16 April 2010 and 20 May 2010, 2017 convertible notes with principal amount of HK\$30,000,000 and HK\$35,000,000 were converted into 666,666,666 and 777,777,777 ordinary shares of the Company respectively, at the conversion price of HK\$0.045.
- (f) On 25 June 2010, 437,811,333 and 392,045,454 ordinary shares were issued by the Company at HK\$0.146 and HK\$0.15 per share respectively, as partial consideration in acquisition of subsidiaries of the Company (note 15).

All shares rank *pari passu* with the shares in issue in all respects.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

12. BORROWINGS

	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Bank overdrafts	5,178	5,202
Bank loans	384,717	365,328
Other loans	22,443	8,920
	412,338	379,450
Analysis as:		
Secured	384,717	365,328
Unsecured	27,621	14,122
	412,338	379,450
The maturity profile of the above borrowings is as follows:		
On demand or within one year	172,501	241,575
More than one year, but not exceeding two years	239,837	137,875
	412,338	379,450
Less: amount due within one year shown under current liabilities	(172,501)	(241,575)
	239,837	137,875

The bank overdrafts and bank loans carry interest at the prevailing market rates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

13. CONVERTIBLE NOTES

On 13 November 2007, the Company issued convertible notes with a principal amount of HK\$180,050,000 ("2017 Notes"), which bear coupon interest rate at 3% per annum payable semiannually in arrears. The 2017 Notes were issued as part of the consideration for the acquisition of entire issued share capital of China Environmental Water Holdings Limited. The 2017 Notes due on 13 November 2017 are convertible into fully paid ordinary shares with a par value of HK\$0.01 each of the Company at an initial conversion price of HK\$0.15, subject to adjustment.

On 28 November 2007, the Company issued 3% convertible notes with aggregate principal amounts of HK\$122,000,000 ("2010 Notes") through a placing agent to certain independent third parties. Unless previously redeemed, converted or purchased and cancelled, the 2010 Notes will be redeemed at 135.32% of the principal amount on the maturity date. The 2010 Notes, due on 28 November 2010 are convertible at any time on or after 28 November 2007 until 10 business days prior to the maturity date by the noteholders into fully paid ordinary shares of HK\$0.01 each of the Company. Subject to adjustments upon the occurrence of dilution events or other features stipulated in the placing agreement, the conversion price for the 2010 Notes will be HK\$1.43 per share.

According to the terms of conditions of 2010 Notes, on the date falling 24 months following the issue date, the noteholders will have the right, at such noteholders' option, to require the Company to redeem in whole or in part the 2010 Notes at a price at which a yield of 13% per annum calculated for each HK\$100,000 of unpaid principal amount of the 2010 Notes on a semi-annual basis ("Early Redemption Price") from 28 November 2007 up to the relevant redemption date.

According to the terms and condition of 2010 Notes, on the date falling 18 months following issue date, the Company may redeem in whole but not in part at the Early Redemption Price in the event that (i) the closing price of the shares exceeds of the conversion price for at least 30 consecutive trading days prior to the date upon which notice of such redemption is given or (ii) at least 90% in principal amount of 2010 Notes have already been redeemed, converted, repurchased or cancelled.

During the year ended 31 December 2008, the conversion price of 2010 Notes was adjusted from HK\$1.43 to HK\$1.144 effective from 28 November 2008 in accordance with the reset mechanism. On 11 August 2009, the conversion price of 2010 Notes has been effectively adjusted from HK\$1.144 to HK\$0.4 as a result of the deed of alteration entered into between the Company and the noteholders on 14 July 2009.

During the year ended 31 December 2009, the conversion price of 2010 Notes was adjusted from HK\$0.4 to HK\$0.121, effective from 27 October 2009 as a result of the open offer.

The completion of open offer also made a corresponding adjustment of conversion price of 2017 Notes from HK\$0.15 to HK\$0.045 in accordance with the terms set out in the placing agreement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For six months ended 30 June 2010

13. CONVERTIBLE NOTES (continued)

The fair value of the liability component was determined at issuance of the notes. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. The residual amounts represent the value of the equity component and are included in shareholders' equity. The effective interest rate of the liability component are ranging from 7.55% to 14.1% per annum. The movement of the liability component and equity component of 2017 Notes and 2010 Notes for the period is set out below:

	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Liability component at beginning of year	181,875	262,156
Interest charge	9,729	27,461
Interest paid	(3,591)	(8,519)
Conversion of 2010 Notes	(5,670)	(20,466)
Conversion of 2017 Notes	(48,458)	(24,451)
Redemption of 2010 Notes	(45,407)	(54,306)
Carrying amount at the end of the year	88,478	181,875
Less: amount due within one year shown under current liabilities	(26,508)	(73,900)
	61,970	107,975

14. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Within 90 days	5,201	6,966
91 to 180 days	269	723
Over 180 days	5,072	6,685
Trade payables	10,542	14,374
Deferred consideration payable for acquisition of subsidiaries (note 15)	68,182	48,864
Construction payables	29,976	92,208
Interest payables	13,211	22,074
Other payables	4,666	27,023
	126,577	204,543

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

15. ACQUISITION OF SUBSIDIARIES

- (i) On 1 April 2010, the Group entered into the agreement to acquire 60% of the entire equity interest of 杭州普天房地產開發有限公司 (Hangzhou Pu Tian Property Development Co., Ltd. *), a People's Republic of China ("PRC") company principally engaging in a property development project in Hangzhou City, the PRC, at a consideration of approximately HK\$170,454,000 (equivalent to RMB150,000,000). The consideration comprised cash of approximately HK\$85,227,000 (equivalent to RMB75,000,000) and issue of 437,811,333 new shares of the Company at an issue price of HK\$0.146 upon the completion and issue of 145,937,111 new shares of the Company to be settled six months after the completion.

Details of the net assets acquired in the business combination are summarised below:

	Carrying amount before acquisition and fair value
	HK\$'000
<hr/>	
Net assets acquired:	
Property, plant and equipment	1,612
Properties under development	497,687
Deposits, prepayments and other receivables	37,819
Prepaid tax	2,033
Bank balances and cash	2,378
Borrowings	(90,909)
Trade and other payables	(66,332)
Deferred tax liabilities	(100,198)
	<hr/>
	284,090
Non-controlling interests	(113,636)
	<hr/>
	170,454
<hr/>	
Total consideration satisfied by:	
Cash	
— Paid	57,954
— Payable	27,274
Consideration shares	
— Issued	63,920
— Issuable	21,306
	<hr/>
	170,454
<hr/>	
Net cash outflow arising from the acquisition during the period:	
Cash consideration paid	57,954
Bank balances and cash acquired	(2,378)
	<hr/>
	55,576
<hr/>	

* For identification purpose only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

15. ACQUISITION OF SUBSIDIARIES *(continued)*

- (ii) On 21 May 2010, the Group entered into the agreement to acquire 60% of the entire issued share capital of HK Mei Lai International (Canada) Limited, a Hong Kong incorporated company principally engaging in investment holding of a property development project company in Hangzhou City, the PRC, at a consideration of approximately HK\$98,864,000 (equivalent to RMB87,000,000). The consideration comprised cash of approximately HK\$20,455,000 (equivalent to RMB18,000,000) and issue of 392,045,454 new shares of the Company at an issue price of HK\$0.15 upon the completion and issue of 130,681,818 new shares of the Company to be settled six months after the completion.

Details of the net assets acquired in the business combination are summarised below:

	Carrying amount before acquisition and fair value
	HK\$'000
<hr/>	
Net assets acquired:	
Property, plant and equipment	1,786
Properties under development	192,234
Deposits, prepayments and other receivables	1,920
Bank balances and cash	902
Borrowings	(11,363)
Trade and other payables	(3,625)
Amounts due to shareholders	(139,124)
Deferred tax liabilities	(11,405)
	<hr/>
	31,325
Non-controlling interest	(12,530)
Assignment of partial amounts due to shareholders	80,069
	<hr/>
	98,864
<hr/>	
Total consideration satisfied by:	
Cash Paid	20,455
Consideration shares	
— Issued	58,807
— Issuable	19,602
	<hr/>
	98,864
<hr/>	
Net cash outflow arising from the acquisition during the period:	
Cash consideration paid	20,455
Bank balances and cash acquired	(902)
	<hr/>
	19,553
	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

15. ACQUISITION OF SUBSIDIARIES *(continued)*

- (iii) On 15 May 2010, the Group entered into the agreement to acquire 100% of the entire equity interest of 武漢凱越房地產開發有限公司, a PRC company principally engaging in a property development project in Wuhan City, the PRC, at a consideration of approximately HK\$56,818,000 (equivalent to RMB50,000,000). The transaction has been completed in July 2010 and therefore the consideration paid by the Group during the period classified as deposit paid for acquisition of a subsidiary in the condensed consolidated statement of financial position.

16. PLEDGE OF ASSETS

At the end of reporting period, the following assets were pledged by the Group to banks to secure general banking facilities granted to the Group.

	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Land and buildings together with relevant land use rights situated in the PRC	336,947	181,320
Land and buildings situated in Hong Kong	430	449
Plant and machinery	4,767	4,906
Bank deposits	13,974	13,973
	356,118	200,648

17. OPERATING LEASES COMMITMENTS

At the end of reporting period, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	30 June 2010 (unaudited) HK\$'000	31 December 2009 (audited) HK\$'000
Within one year	4,590	2,958
In the second to fifth years inclusive	4,260	2,981
More than five years	4,659	4,773
	13,509	10,712

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For six months ended 30 June 2010

18. CAPITAL COMMITMENTS

As at 30 June 2010, the Group had capital commitments in respect of its share of capital contribution in certain joint ventures engaged in the business of property development in the PRC and the properties development expenditures of approximately HK\$124,173,000 (31 December 2009: HK\$82,800,000) and HK\$271,210,000 (31 December 2009: HK\$125,900,000) respectively.

19. CONTINGENT LIABILITIES

As at 30 June 2010, the Group had provided guarantees to banks for loans of approximately HK\$87,492,000 (31 December 2009: nil) in respect of the mortgage loans provided by the banks to purchasers of the properties of the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates. The directors of the Company considered that the fair value of such guarantee on initial recognition was insignificant.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company primarily focuses on developing in medium to large property development projects in the provincial cities along the Yangtze River and also in second to third tier cities in the PRC. At present, the portfolio has expanded regional footprint with seven property development projects in five provinces in the PRC and covered a variety of property types of villa, townhouse, residential, commercial, office and hotel. The unaudited interim results of the Group for the six months ended 30 June 2010 principally related to the Group's subordinate divisions — food products business and seabuckthorn-related business. The business of the Group has focused primarily on property development and investment in the PRC since October 2009.

RESULTS SUMMARY

The projects of PRC property development division span major provincial cities in the PRC, comprising of Wuhan, Hangzhou, Changsha, Nanchang and Guangzhou. For the period ended 30 June 2010, the Group achieved the contracted sales of approximately RMB625 million with a total GFA of 53,100 square meters. The revenue from PRC property development business division is expected to come on stream in second half this year.

The consolidated turnover of the Group for the period ended 30 June 2010, which principally relate to the food products business and the seabuckthorn-related business, was HK\$51.7 million, representing a increase of 1.6% over the same period last year. The overall gross profit margin fell to 20.1% as compared with the same period last year. The declines were largely due to slowdown in revenue growth and unfavorable utilization over the food products business and the seabuckthorn-related business during the period. The Group had continued to drive operational improvements on a better mix of products and customers, cost management as well as level of production activities. Nevertheless, the Group was operating at a loss during the period, mainly attributable to low utilization of capacity along with slowdown in revenue growth of the food products business and the seabuckthorn-related business.

The loss attributable to equity holders of the Company for the period ended 30 June 2010 amounted to HK\$48 million, compared to HK\$64 million in the same period last year. The basic loss per share amounted to HK0.50 cents, against basic loss per share of HK7.38 cents in same period in 2009.

The Board does not propose any interim dividend for the period ended 30 June 2010.

BUSINESS REVIEW

The PRC Property Development Business

Facing an overheating economy and soaring property markets, the Central Government began to tighten monetary policy in early this year and is trying hard to introduce corrections to property price in second quarter through a variety of administrative measures such as reducing credit availability and accelerating construction of affordable housing. The effects of corrections at the first tier cities are more pronounced than the second to third tier cities in terms of transaction volume and property prices. Even so, the property prices in some cities have not seen significant adjustments in the wake of the recent corrections, despite the fact that transaction volume has declined. The Central Government may welcome the moderate deceleration as a way to make the economy and property sector growth more sustainable.

During the six months ended 30 June 2010, the property segment has incurred the preliminary expenses and operating charges in the amount of HK\$14 million. The Group presold 53,100 square meters of properties with a total contracted sales amount of approximately RMB625 million. The revenue recognition from contracted sales will take place in the late 2010. The details of contracted sales by project were as follows:

Project	Location	Property type	Contracted sales GFA Square meters	Contracted sales amount RMB'000	Interest attributable to the Group %
Future City	Wuhan	Residential	50,300	513,000	100%
Qiandao Lake Villa	Hangzhou	Villa	2,800	112,000	60%
Total			53,100	625,000	

BUSINESS REVIEW

The PRC Property Development Business *(continued)*

During the reporting period, the Group had three property projects under construction with a total GFA of 287,100 square meters. The details of projects under construction were as follows:

Project	Location	Property type	GFA under construction Square meters	Interest attributable to the Group %
Future City	Wuhan	Residential and Commercial	147,300	100%
Qiandao Lake Villa	Hangzhou	Villa	23,500	60%
Mei Lai International Centre	Hangzhou	Residential, Commercial and Office	116,300	60%
Total			287,100	

Additionally, both of the up-and-coming projects in Nanchang City and Changsha City will proceed to land pre-purchase measures and target for acquisition through government-organized auction process in the second half this year. The project in Nanchang City, namely China Cultural & Arts Valley Project in which the Group has a 80% equity interest, will be developed for properties in stage with a multifaceted international arts hub and a large-scale low-density residential development with types of villa, townhouse, low-rise apartment and commercial facility in a vast area adjacent to Honggutan in Nanchang City.

The project in Changsha City, in which the Group has a 55% equity interest, will be developed for properties of residential and commercial units with an area of 600,000 square meters and 66,700 square meters respectively. In the second half of this year, the Group will implement an urban-renewal project in Guangzhou City by transforming its existing industrial factories into residential units with an estimated GFA of 110,000 square meters. The Group will proceed to take part in government-organized auction process following the approval of land use alteration from local land bureau.

These projects under planning will contribute a considerable area to land resources available for property development in the second half this year.

BUSINESS REVIEW

Manufacturing Business

Seabuckthorn and Related Healthcare Products

During the period under review, the seabuckthorn-related business reported revenue of HK\$9.6 million, which represented a decrease of HK\$2.4 million, or 20% over the same period last year. The seabuckthorn-related business has been sluggish and its margins have been under pressure over the period, contributed to a gross profit margin at 16% and segment loss of HK\$10 million.

Given the consistent efforts to return the seabuckthorn-related business to profitability in vain, the Group has concluded, it is not easy to improve its performance or reduce the operating loss in the foreseeable future. As recently announced, the Group had taken place the restructuring by entered into an agreement to dispose of the seabuckthorn-related business. The restructuring enables the Group to focus the resources and build on strengths in the property development business in the PRC that the Group serves. The Group will discontinue and withdraw from the seabuckthorn-related business upon the completion of restructuring.

Packaged Food and Convenience Frozen Food Products

Total revenue of food business segment during the period was HK\$42 million which had been maintained at level close to the same period last year. The gross profit margin remained under pressure at a rate of 21%, though the Group had continued to align operations and resources to meet an increasingly competitive in its food business environment over the period. Despite these continued focuses, the Group has no better visibility in terms of the capability for turnaround and competency for growth of food business segment in the short term. The food business segment reported a segment loss of HK\$10.9 million. The Group will have a cautious view with its negative results and may consider critically the advantages in restructuring.

FINANCIAL POSITION

The Group has strengthened its financial position by completing the placement to raise about HK\$202 million during the period.

The Group's bank deposits and cash amounted to HK\$375 million as at 30 June 2010. The Group's net debt was decreased by HK\$258 million to HK\$126 million, which was made up of HK\$501 million in debts and HK\$375 million in bank deposits and cash. The total debts as at 30 June 2010 included bank borrowings of HK\$413 million and liability component of convertible notes of HK\$88 million. The Group's bank borrowings bear a floating rate interest and were primarily denominated in Hong Kong dollar and Renminbi. The Renminbi borrowings were principally used to fund the Group's property development and food business in the PRC. In addition, the Group will continue to strengthen its borrowings profile in line with future development needs, as and when appropriate, will explore opportunities to diversify its funding base.

As at 30 June 2010, the equity interest attributable to the owners of the Company was increased by 2.3 times to HK\$581 million (31 December 2009: HK\$253 million) and the ratio of net debt to total equity was 21.7%, against 152% as at 31 December 2009.

FUTURE PLANS AND PROSPECTS

In recent, most of the provinces and regions in the PRC reported first-half gross domestic product growth exceeding the national level, certain second to third tier regions generally outperforming the first tier cities with higher growth rate. With rapid economic growing and urbanizing in the second to third tier cities, the demand for urban housing will be very strong for many years to come. The stable property prices and sound economic growth will be determining factors in the choice of the extent to which the Central Government adopts administrative measures. The Group is confident about the medium and long term future that its growing position, coupled with its excellent rapport with strategic partners and local governments in the PRC, will enable to take full advantage of opportunities that arise the regions along Yangtze River.

The Group is making progress on all of the operational priorities in these regions and this has had a very positive impact. Whilst the Group will contemplate the projects in more economically advanced areas and keep this possibility in perspective. These developments continue to build clear strategic goals and give great confidence that their full potential will be fully leveraged in the future. The Group's goal of the enhancing shareholder value remains paramount in the development and execution of these strategies.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2010, the interests or short positions of each Director and chief executive of the Company in Shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for the Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long positions in ordinary shares of the Company as at 30 June 2010:

Name of Director	Corporate Interests (Shares)	Personal Interests (Shares)	Total Interests (Shares)	Approximate percentage of issued share capital of the Company (%)
Mr. But Ka Wai	16,664,000	—	16,664,000	0.136%

Note: These Shares were held by Able Success Group Limited which owned by Mr. But Ka Wai.

Saved as disclosed above, as at 30 June 2010, none of Directors or chief executive of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company or its associated corporations as recorded in the register required to be maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2010, the Company had been notified of the following substantial shareholders' interests and short positions in the Shares and underlying shares, being 5% or more of the Company's issued share capital.

Long Positions in the Shares

Name of substantial shareholders	Note	Capacity/ Nature of interest	Number of Shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
China Water Affairs Group Limited	(1)	Beneficial owner and Interest of controlled corporation	3,318,039,504	27.11%
Highest Growth Holdings Limited		Interest of controlled corporation	846,228,234	6.91%
Sunshine Capital Investments Group Limited		Interest of controlled corporation	744,562,216	6.08%
Atlantis Investment Management Limited		Investment manager	744,562,216	6.08%

Long positions in the underlying shares of the Company

Name of substantial shareholders	Note	Capacity/ Nature of interest	Number of Shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
China Water Affairs Group Limited	(2)	Interest of controlled corporation	1,812,222,224	14.81%
Sunshine Capital Investments Group Limited	(3)	Interest of controlled corporation	88,235,294	0.72%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes:

- (1) These shares of the Company held by Sharp Profit Investments Limited ("Sharp Profit"), a wholly owned subsidiary of China Water Affairs Group Limited ("China Water Affairs"). Therefore, China Water Affairs was deemed to be beneficially interested in the said shares of the Company held by Sharp Profit for the purposes of the SFO.
- (2) Convertible notes in the principal amount of HK\$81,550,000 carrying the rights to subscribe for shares at conversion price of HK\$0.045 per share was issued by the Company to Good Outlook Investments Limited ("Good Outlook") on 13 November 2007 to satisfy part of the consideration of the acquisition of the entire issued share capital of China Water Environmental Holdings Limited. If the conversion rights attached to the convertible notes had been fully exercised, 1,812,222,222 shares would be issued at the conversion price of HK\$0.045 per share. China Water Affairs is deemed to be interested in the said underlying shares by virtue of its wholly owned interest in Good Outlook.
- (3) These shares of the Company were held by Global Business Investment Enterprises Limited, a wholly owned subsidiary of Sunshine Capital Investments Group Limited ("Sunshine Capital"). Therefore, Sunshine Capital was deemed to be beneficially interested in the said shares of the Company held by Global Business Investment Enterprises Limited for the purposes of the SFO.

Saved as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or chief executives of the Company, who had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO as at 30 June 2010.

SHARE OPTION SCHEME

At the general meeting of the Company held on 3 June 2003, the shareholders of the Company approved the adoption of a share option scheme. As at 30 June 2010, there are options relating to 250,471,948 shares granted by the Company pursuant to the Option Scheme which are valid and outstanding.

SHARE OPTION SCHEME *(continued)*

Movement of the share option under the Option Scheme during the period is as follows:

Category	Date of grant	Exercise Price (HK\$)	As at Exercise period	Number of share options			As at 30 June 2010
				At the beginning of the period	Exercised during the period	Expired during the period	
Employees	18.07.2007	0.1378	18.07.2007 to 17.07.2010	60,113,268	—	—	60,113,268
	26.11.2007	0.1208	26.11.2007 to 25.11.2010	60,113,267	—	—	60,113,267
	14.12.2007	0.1118	14.12.2007 to 13.12.2010	20,037,756	—	—	20,037,756
	25.03.2008	0.0529	25.03.2008 to 24.03.2011	120,226,535	10,018,878	—	110,207,657
Consultant	18.07.2007	0.1378	18.07.2007 to 17.07.2010	50,094,390	50,094,390	—	—
Total				310,585,216	60,113,268	—	250,471,948

Saved as disclosed above, at no time during the period ended 30 June 2010 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, chief executive of the Company or their spouses or children under age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

INTERIM DIVIDEND

The Board resolved that the Company would not to declare the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the period, except for the Rules 3.10(1) and 3.21 of the Listing Rules.

Reference is made to the announcement of the Company dated 28 June 2010 in relation to the retirement of Mr. Tam Pei Qiang, an independent non-executive Director and a member of the audit committee of the Company. Following Mr. Tam's retirement, the Company has only two independent non-executive Directors and two audit committee members, the number of which falls below the minimum number required under the Rules 3.10(1) and 3.21 of the Listing Rules.

On 16 August 2010, Ms. Li Ling, an independent non-executive Director, has resigned from her office and Mr. Chan Pok Hiu and Mr. Wong Chi Ming have been appointed as independent non-executive Directors and members of the audit committee of the Company. With the appointment of Mr. Chan Pok Hiu and Mr. Wong Chi Ming, the Company will have complied with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules regarding having at least three independent non-executive Directors and the audit committee of the Company comprising a minimum of three members, in each case, at least one of them has the appropriate qualifications or accounting or related financial management expertise.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code set out in Appendix 10 of the Listing Rules (as amended from time to time by the Stock Exchange) as its own code of conduct for regulating securities transactions by Directors of the Company. Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

OTHER INFORMATION

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

Most of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars or Renminbi. The usual treasury policy of the Group for managing significant currency exposure and minimize currency risk whenever it may have material impact on the Group. The Group did not enter into new foreign currency forward contracts during the six months ended 30 June 2010. There was no material foreign exchange exposure to the Group during the period under review.

ACQUISITIONS OF SUBSIDIARIES

- (i) On 1 April 2010, China Water Real Property Limited, a wholly owned subsidiary of the Company, entered into the agreement to acquire 60% of the entire equity interest of 杭州普天房地產開發有限公司 (Hangzhou Pu Tian Property Development Co., Ltd.*), a PRC company principally engaging in a property development project in Hangzhou City, the PRC. The transaction has been completed in June 2010. The total consideration for the transaction was approximately HK\$170.5 million (equivalent to RMB150 million) being settled by way of cash of HK\$85.2 million (equivalent to RMB75 million) and issue of 437,811,333 new shares of the Company at an issue price of HK\$0.146 upon the completion and issue of 145,937,111 new shares of the Company to be settled six months after the completion. Details of the transaction were set out in the circular of the Company dated 20 April 2010.
- (ii) On 15 May 2010, 湖北阜城房地產開發有限公司 (Hubei Funcheng Property Development Limited*) a wholly owned subsidiary of the Company, entered into the agreement to acquire 100% of the entire equity interest of 武漢凱越房地產開發有限公司, a PRC company principally engaging in a property development project in Wuhan City, the PRC. The transaction has been completed in July 2010. The total consideration for the transaction was approximately HK\$56.8 million (equivalent to RMB50 million) being fully settled by way of cash.

* For identification purpose only

- (iii) On 21 May 2010, China Water Property (Hong Kong) Development Limited, a wholly owned subsidiary of the Company, entered into the agreement to acquire 60% of the entire issued share capital of HK Mei Lai International (Canada) Limited, a Hong Kong incorporated company principally engaging in investment holding of a property development project company in Hangzhou City, the PRC. The transaction has been completed in June 2010. The total consideration for the transaction was approximately HK\$98.9 million (equivalent to RMB87 million) being settled by way of cash of HK\$20.5 million (equivalent to RMB18 million) and issue of 392,045,454 new shares of the Company at an issue price of HK\$0.15 upon the completion and issue of 130,681,818 new shares of the Company to be settled six months after the completion. Details of the transaction were set out in the circular of the Company dated 7 June 2010.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

Except for the share placement by the Company in April 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's ordinary shares during the period.

PLEDGE OF ASSETS

As at 30 June 2010, certain bank deposits, property, plant and equipment, prepaid lease payments and properties under development with an aggregate carrying amount of approximately HK\$356 million were pledged as security for certain banking facilities granted to the Group.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

CONTINGENT LIABILITIES AND COMMITMENTS

- (i) As at 30 June 2010, the Group had total future minimum lease payments under noncancelable operating leases in respect of rented premises amounting to approximately HK\$13,509,000.
- (ii) As at 30 June 2010, the Group had capital commitments in respect of its share of capital contribution in three joint ventures engaged in the business of property development in the PRC and the properties development expenditures of approximately HK\$124,173,000 and HK\$271,210,000, respectively.

- (iii) As at 30 June 2010, the Group had provided guarantees to banks for loans of approximately HK\$87,492,000 in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

EVENTS AFTER THE END OF REPORTING PERIOD

Subsequent to the reporting date, a wholly-owned subsidiary company of the Group, China Environmental Water Holdings Limited, entered into the conditional sale and purchase agreement dated as of 21 July 2010 with 山合林(北京)水土保持技術有限公司 (Shan He Lin (Beijing) Water and Soil Conservation Technique Co., Limited*) in relation to dispose of 50% equity interest in Conseco Seabuckthorn Co., Ltd., a PRC company principally engaging in seabuckthorn cultivation in the PRC. The total consideration for the transaction was approximately RMB24,430,000 (equivalent to approximately HK\$27,761,000). Details of the transaction were set out in the circular of the Company dated 11 August 2010.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the total number of employees of the Group was approximately 706. The total staff costs for the period under review were approximately HK\$10.9 million (six months ended 30 June 2009: HK\$10.7 million). The Group offers comprehensive remuneration and employees' benefits package to its employees.

AUDIT COMMITTEE

The audit committee of the Company comprises three members namely Mr. Chen Ziqiang, Mr. Chan Pok Hiu and Mr. Wong Chi Ming who are independent non-executive Directors. The audit committee of the Company has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters with management relating to the preparation of unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2010.

On behalf of the Board
But Ka Wai
Chairman

Hong Kong, 27 August 2010

* *For identification purpose only*