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)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

KEY FINANCIAL HIGHLIGHTS

- Total sales for the six months ended 30 June 2011 amounted to HK$102 million, an increase of 143% from HK$42 million (restated) in the corresponding period in 2010.
- Gross profit margin for the six months ended 30 June 2011 increased to 38% from 26% (restated) in the corresponding period in 2010.
- Fair value gain on investment properties amounted to HK$70 million for the current period (2010: Nil).
- Net profit for the current period attributable to the owners of the Company amounted to HK$35 million, increased by 172% from the net loss of HK$48 million in the corresponding period in 2010.
- Total assets of the Group increased to HK$2.9 billion.
- Total net debt was to HK$352 million with a ratio of net debt to total equity of 28%.
- Total equity attributable to owners of the Company was HK$1.2 billion.

INTERIM RESULT

The board (the "**Board**") of directors (the "**Directors**") of China Water Property Group Limited (the "**Company**") is pleased to announce the unaudited financial results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
			(restated)
Continuing operations			
Turnover	3	**101,686**	42,082
Cost of sales		**(62,885)**	(31,306)
Gross profit		**38,801**	10,776
Change in fair value of investment properties		**70,118**	—
Other operating income		**5,897**	516
Selling and distribution expenses		**(6,181)**	(13,175)
Administrative expenses		**(43,790)**	(28,282)
Finance costs	4	**(7,960)**	(13,373)
Profit (loss) before tax		**56,885**	(43,538)
Income tax expense	5	**(24,756)**	—
Profit (loss) for the period from continuing operations		**32,129**	(43,538)
Discontinued operation			
Loss for the period from discontinued operation	6	**—**	(10,048)
Profit (loss) for the period		**32,129**	(53,586)

	Notes	Six months ended 30 June 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited) (restated)
Profit (loss) for the period attributable to:			
Owners of the Company			
Profit (loss) for the period from continuing operations		**34,877**	(42,131)
Loss for the period from discontinued operation		**—**	(6,162)
Profit (loss) for the period attributable to owners of the Company		**34,877**	(48,293)
Non-controlling interests			
Profit (loss) for the period from continuing operations		**(2,748)**	(1,407)
Loss for the period from discontinued operation		**—**	(3,886)
Loss for the period attributable to non-controlling interests		**(2,748)**	(5,293)
		32,129	(53,586)
Dividends	7	**—**	—
		HK Cents	*HK Cents*
Earning (loss) per share	8		
From continuing and discontinued operations			
— Basic		**0.3**	(0.5)
— Diluted		**0.3**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Six months ended 30 June 2011 HK$'000 (unaudited)	2010 HK$'000 (unaudited)
Profit (loss) for the period	**32,129**	(53,586)
Other comprehensive income:		
Exchange differences arising on translation	**6,000**	399
Total comprehensive income (expense) for the period (net of tax)	**38,129**	(53,187)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**40,877**	(47,894)
Non-controlling interests	**(2,748)**	(5,293)
	38,129	(53,187)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Note	**30 June 2011** *HK$'000* **(unaudited)**	31 December 2010 *HK$'000* (audited)
ASSETS			
Non-current Assets			
Prepaid lease payments		**1,694**	1,751
Property, plant and equipment		**94,359**	95,965
Investment properties		**1,070,169**	982,353
Goodwill		**174,605**	174,605
Deposit paid on acquisition of a subsidiary		**84,337**	58,824
		1,425,164	1,313,498
Current Assets			
Inventories		**5,847**	9,851
Inventory of properties		**1,103,294**	958,195
Trade and other receivables	9	**182,360**	225,730
Prepaid tax		**156**	200
Pledged bank deposits		**8,010**	9,978
Bank balances and cash		**144,561**	263,602
		1,444,228	1,467,556
TOTAL ASSETS		**2,869,392**	2,781,054
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**125,623**	125,142
Reserves		**1,113,236**	1,070,059
Equity attributable to owners of the Company		**1,238,859**	1,195,201
Non-controlling interests		**143,438**	160,366
TOTAL EQUITY		**1,382,297**	1,355,567

	Note	30 June 2011 HK$'000 (unaudited)	31 December 2010 HK$'000 (audited)
Non-current Liabilities			
Deferred tax liabilities		**241,644**	224,115
Borrowings — due after one year		—	294,118
Convertible notes		**63,287**	62,172
		304,931	580,405
Current Liabilities			
Trade and other payables	10	**362,480**	377,384
Deposits received for sale and lease of properties		**70,764**	77,837
Obligations under finance leases		**110**	169
Tax payable		**124,282**	122,168
Amounts due to non-controlling shareholders of subsidiaries		**70,883**	43,804
Amount due to a shareholder		**112,000**	52,246
Borrowings — due within one year		**441,645**	171,474
		1,182,164	845,082
TOTAL LIABILITIES		**1,487,095**	1,425,487
TOTAL EQUITY AND LIABILITIES		**2,869,392**	2,781,054
NET CURRENT ASSETS		**262,064**	622,474
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,687,228**	1,935,972

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. GENERAL

The condensed consolidated financial statements have been prepared 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".

The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2010, except as described in note 2 below.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

New and revised Standards and Interpretations applied in the current period

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKAS 1 (Amendments)	Presentation of Financial Statements — Improvements to HKFRSs (2010)
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) — Int 14 (Amendments)	Prepayments of Minimum Funding Requirement
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, 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.

New and revised Standards and Interpretations in issue but not yet effective

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective. The following new or revised standards and interpretations have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosures of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]

[1] Effective for annual periods beginning on or after 1 January 2013

These five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 — to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees and consolidating investees that were not previously consolidated.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, jointly ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The application of HKFRS 11 might result in changes in the classification of the Group's joint arrangements and their accounting treatments.

Other than disclosed above, the directors of the Company anticipate that the application of these five new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. 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 basic of annual 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 segments are as follows:

- Property Investment Business Segment engages in leasing of investment properties in the PRC.

- Property Development Business Segment engages in development of property project in The People's Republic of China (the "**PRC**").

- Wah Yuen Foods Business Segment engages in production and distribution of snack food, convenient frozen food and other food products.

- Seabuckthorn Business Segment engaged in cultivation of seabuckthorn, as well as manufacture, sales, research and development of seabuckthorn-related health products. The Group disposed its equity interest in a subsidiary engaging in Seabuckthorn Business and the disposal was completed in September 2010.

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 2011

	Property Investment Business	**Property Development Business**	**Wah Yuen Foods Business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL REVENUE AND EXTERNAL SALES	—	75,398	26,288	101,686
RESULT				
Segment operating results	(1,501)	23,586	(8,400)	13,685
Fair value change in investment properties				70,118
Unallocated corporate income				2,771
Unallocated corporate expense				(21,729)
Profit from operations				64,845
Finance costs				(7,960)
Profit before tax				56,885
Income tax expenses				(24,756)
Profit for the period				32,129

For the six months ended 30 June 2010

	Continuing Operations				Discontinued Operation	
	Property Investment Business	**Property Development Business**	**Wah Yuen Foods Business**	**Subtotal**	**Seabuckthorn Business**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL REVENUE AND EXTERNAL SALES	—	—	42,082	42,082	9,662	51,744
RESULT						
Segment operating results	—	(14,030)	(10,894)	(24,924)	(10,017)	(34,941)
Unallocated corporate income				516	—	516
Unallocated corporate expense				(5,757)	—	(5,757)
Loss from operations				(30,165)	(10,017)	(40,182)
Finance costs				(13,373)	(9)	(13,382)
Loss before tax				(43,538)	(10,026)	(53,564)
Income tax charge				—	(22)	(22)
Loss for the period				(43,538)	(10,048)	(53,586)

4. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
		(restated)
Continuing operations		
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	**33,077**	20,166
Interest expense on obligations under finance leases	**—**	32
Effective interest expense on convertible notes	**2,329**	9,729
Total financial costs	**35,406**	29,927
Less: amounts capitalised in the cost qualifying assets	**(27,446)**	(16,554)
	7,960	13,373

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
		(restated)
Continuing operations		
The tax expense comprises:		
Current tax:		
Hong Kong Profits Tax	**—**	—
PRC Enterprise Income Tax		
Current period	**4,592**	—
Land appreciation tax ("LAT") in the PRC	**2,635**	—
Current tax expense for the period from continuing operations	**7,227**	—
Deferred tax expense for the period from continuing operations	**17,529**	—
	24,756	—

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit arising in Hong Kong for both periods.

The Group's PRC enterprise income tax is calculated based on the applicable tax rates on assessable profits, if applicable.

PRC land appreciation tax is levied at prevailing tax rate on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

6. DISCONTINUED OPERATION

Disposal of the Seabuckthorn Business

On 21 July 2010, the subsidiary of the Company entered into a sale agreement to dispose its 50% equity interest in Conseco Seabuckthorn Co., Ltd. ("Conseco Seabuckthorn"), which engaged in cultivation of seabuckthorn, as well as manufacture, sales, research and development of seabuckthorn-related health products, to an independent third party at RMB24,430,000. The disposal was completed on 17 September 2010 and the details of the disposal have been disclosed in the 2010 annual report of the Company. Due to the disposal of 50% equity interest in Conseco Seabuckthorn, the comparative figures have been re-presented to classify the Seabuckthorn Business as a discontinued operation for the period ended 30 June 2010.

The results of the Seabuckthorn Business for the six months ended 30 June 2010 which have been included in the profit or loss, were as follows:

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
		(restated)
Turnover	—	9,662
Cost of sales	—	(10,023)
Gross loss	—	(361)
Selling, distribution and administrative expenses	—	(9,656)
Finance costs	—	(9)
Loss before tax from discontinued operation	—	(10,026)
Income tax expenses	—	(22)
Loss for the period from discontinued operation	—	(10,048)
Attributable to:		
Owners of the Company	—	(6,162)
Non-controlling interests	—	(3,886)
Loss for the year from discontinued operation has been arrived at after charging:	—	(10,048)
Depreciation of property, plant and equipment	—	2,045
Amortisation of prepaid lease payment	—	11

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

8. EARNINGS (LOSSES) PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings (losses) per share attributable is based on the earnings attributable to the equity holders of approximately HK$34,877,000 (six months ended 30 June 2010: loss of HK$48,293,000) and on the weighted average ordinary share of 12,537,550,695 (six months ended 30 June 2010: 9,607,527,011) deemed to be in issue during the year.

The calculation of diluted earnings (losses) per share is based on the following data:

From continuing and discontinued operation

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings (losses):		
Earnings (losses) for the purpose of basic earnings (losses) per share	**34,877**	(48,293)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**4,761**	9,729
Earnings (losses) for the purpose of diluted loss per share	**39,638**	(38,564)

	Six months ended 30 June	
	2011	2010
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**12,537,550,695**	9,607,527,011
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**12,052,182**	77,748,406
Convertible notes	**1,812,222,222**	1,984,491,129
Weighted average number of ordinary shares for the purposes of diluted earnings (losses) per share	**14,361,825,099**	11,669,766,546

9. TRADE AND OTHER RECEIVABLES

There is no concentration of credit risk with respect to trade receivables from the property development business, as the Group has a large number of customers.

	As at 30 June 2011	As at 31 December 2010
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**23,748**	24,953
Prepayments for construction work	**34,305**	85,930
Receivable on disposal of subsidiaries	**9,917**	15,599
Deposit on acquisition of a project	**73,362**	71,636
Other receivables, prepayments and other deposits	**41,028**	27,612
	182,360	225,730

An analysis of trade receivables (net of allowance for bad and doubtful debts) by age is as follows:

	As at 30 June 2011 *HK$'000* (unaudited)	As at 31 December 2010 *HK$'000* (audited)
Within 90 days	**18,762**	10,303
91 to 180 days	**584**	1,437
Over 180 days	**4,402**	13,213
Trade receivables	**23,748**	24,953

The Directors consider that the carrying amount of trade and other receivables approximate to their fair value.

For the property development business, the Group does not grant any credit terms to its customers and does not hold any collaterals over these receivables.

The trading term with the food business segment is mainly on credit. The average credit period on sales of goods is 90 days. The Group normally provides fully for all receivables overdue 365 days based on the estimations on prior 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 recognised in the profit or loss accordingly. The balances of the allowance for doubtful debts are individually impaired trade receivables which had been overdue 365 days or/and have no material transactions with the Group during the year. The Group does not hold any collateral over these balances.

10. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

	As at 30 June 2011 *HK$'000* (unaudited)	As at 31 December 2010 *HK$'000* (audited)
Within 90 days	**234,804**	296,840
91 to 180 days	**1,307**	3,374
Over 180 days	**1,681**	7,468
Trade payables	**237,792**	307,683
Interest payables	**18,695**	14,013
Other payables	**105,993**	55,688
	362,480	377,384

Trade payables principally comprise amounts outstanding for purchase of construction materials and construction work of properties under development and investment properties.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in real estate development and property investment businesses. The Group develops quality integrated residential properties and premium commercial properties projects, which are mainly located in prime location in the provincial cities and also the second-to-third tier cities along the Yangtze River. At present, the Group is predominately focused on Wuhan, Hangzhou and other fast-growing cities in the PRC. The Group maintains a diversified product mix ranging from retail properties, residential apartment, office building, hotel to villa so as to strive for sustainable and stable growth on its property development business.

Result Summary

The consolidated turnover of the Group from continuing operations increased by 143% to HK$102 million for the six months ended 30 June 2011 from HK$42 million (restated) for the six months ended 30 June 2010. The revenues from sales of residential properties, which represented HK$75 million and were derived from sales of Future City, have accounted for the substantial majority of turnover this period. The Group recorded sold GFA of 6,471 square meters in the period and an average selling price of HK$11,652.

The overall gross profit from continuing operations increased by 260% to HK$39 million in the current period in 2011 from HK$11 million (restated) in the same period in 2010, and the gross profit margin was improved as compared with that of last year, increased from 26% to 38%. The Group also had fair value gains on investment properties of HK$70 million for the six months ended 30 June 2011 which represented the increase in fair value in Wuhan Future City shopping mall as compared with that at 31 December 2010.

The revenue from snacked food business segment decreased by 38% from HK$42 million during the six months ended 30 June 2010 to HK$26 million in the same period in 2011. It contributed an operating loss of HK$8 million, which was reduced by 23% compared with the loss of HK$11 million incurred during the six months ended 30 June 2010. This was resulted from the management's effort to monitor the performance of the snacked food business segment and minimise its operating loss. The result from discontinued operation reflected the net loss of HK$10 million from the seabuckthorn business operation during the six months ended 30 June 2010 (2011: Nil).

The profit attributable to owners of the Company was HK$35 million for the six months ended 30 June 2011 as compared with the loss of HK$48 million in the same period in 2010. Basic earnings per share attributable to the equity holders of the Company increased to HK0.3 cents compared with a loss per share of HK0.5 cents during the six months ended 30 June 2010. The Board does not propose any interim dividend for the six months ended 30 June 2011.

Business Review

The PRC Property Development Business

Following measures and policies on the PRC property market imposed by the PRC Government in 2010, the PRC Government tended to focus on the implementation of policies on residential sector during the first half year of 2011. Facing these measures, the management of the Group has carried out the combined business strategy of property development, residential property sales, retail property investments as well as establishment of property management teams to ensure the quality of the investments property. Management expertise and experience in retail property market involves in planning, design, construction, operation and management, which are prerequisites for success.

During the current period, the Group has signed the sale and purchase agreement to acquire the 100% equity interest in a project company in Wuhan City, which is the third prime property project in Wuhan Economic & Technological Development Zone ("WEDZ").

With the latest acquisition and current property projects development, the Group has expanded the land bank in strategic locations in provincial cities along the Yangtze River during the current period.

Wuhan City, Hubei

Future City:

Future City is a large-scale integrated composite development located at Luo Shi Road South within close proximity to the Luoyu Road shopping belt and the upcoming stations of metro line No.2 and 7. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University and other landmarks in the neighborhood. Future City covers a total site area of 22,313 square meters with a total GFA of approximately 145,273 square meters and comprises of five high-rise residential towers, a four-story premier shopping centre and parking spaces.

Future Mansion:

Future Mansion is located at a prime location at Wuluo Road in Hongshan District in Wuhan City, just 600 meters from Future City project. It has a total site area of 5,852 square meters and will be developed for a composite building of residential apartments and retail shops with a GFA of approximately 44,537 square meters. Of the total planned GFA, approximately 29,676 square meters will be residential units, approximately 11,888 square meters will be retail space and approximately 2,973 will be parking spaces.

WEDZ Future City:

WEDZ Future City is strategically situated in the prime location between the Wangjiawan business area and national level Wuhan Economic & Technological Development Zone, delineated in the western Wuhan Middle Ring Road, next to the Hanyang bus terminal and adjacent to Longyang Avenue. The project has a site area of 30,625 square meters is atop the Longyang Station of metro line No.3 which is currently under construction. This integrated complex will be developed for splendorous shopping mall and luxurious office apartments with planned GFA of approximately 91,872 square meters.

Hangzhou City, Zhejiang

Mei Lai International Centre:

Mei Lai International Centre is strategically located in Yuhang District, which is designated as part of the new Central Business Centre of Hangzhou City, delineated in the southern of intersection of Yingbin Road, Wengmei Road and Nanyuan Street. The integrated complex occupies a total site area of 16,448 square meters and is adjacent to the south station of Shanghai-Hangzhou High-speed Railway and also the terminal of Hangzhou metro line No.1. Of the total planned GFA of approximately 116,222 square meters, the development comprises of grade-A office block with work loft setting and two high-rise premium apartment towers and a comprehensive commercial complex.

Qiandao Lake Villa:

This development occupies a site area of approximately 33,493 square meters in Qiandao Lake in Hangzhou City. It is a low-density lakefront precinct with 26 detached villas featuring luxurious settings, inclusive of lift, garage, swimming pool, yards and complemented by a full-facility clubhouse. The location enjoys spectacular unobstructed lake view and conveniently accessible to Hangzhou City, Shanghai and Mount Huang by either High-speed Railway or expressway. The project will be completed in three phases.

Guangzhou, Guangdong

Huadu Project:

This will be an urban-renewal project in Huadu in Guangzhou City by transforming the Group's existing industrial factories into residential properties. The location abuts to local government office and prime administration centre of Huadu, enjoying supreme transportation network. The site occupies an area of approximately 28,478 square meters with total planned GFA of approximately 110,000 square meters. It will be developed into high-rise residential units and low-density townhouse. The Group will proceed to take part in government-organized action process following the approval from local land bureau.

Other Business

Packaged Food and Convenience Frozen Food Products

The food products segment offers a wide variety of quality snack products in unique Asian flavours under the brand of "Wah Yuen" with which has over 50 years of brand building in Hong Kong and also "Rocco" and "采楓" brands in the PRC.

Total revenue of food products segment was HK$26 million which decreased by 38% from HK$42 million as compared to last period. The gross profit margin resulted at a rate of 22%. Despite these continued focuses, the visibility in terms of capability for turnaround and competency for growth of food products business segment in the near future remains poor with a segment loss of HK$8.4 million in this period. The Group will continue to take cautious view with its negative results and may consider critically the advantages in restructuring.

Seabuckthorn and Related Healthcare Products

The disposal of the seabuckthorn-related business was completed in September 2010 and therefore its operating results does not exist in the current period. The result reflected the net loss of HK$10 million during the six months ended 30 June 2010, which was classified as result from discontinued operation.

Financial Review

Turnover

The Group's turnover from continuing operations increased by 143% from HK$42 million (restated) in half year 2010 to HK$102 million in half year 2011. The growth in sales was primarily due to an increase in revenue from sales of residential properties of HK$75 million. The total saleable GFA sold and recognized was 6,471 square meters which is attributable to Future City. The revenue of snacked food business segment was HK$26 million which decreased by 38% from HK$42 million as compared to the same period of last year.

Cost of Sales

The cost of sales from continuing operations increased to HK$63 million in half year 2011 from HK$31 million (restated) in half year 2010, primarily due to the GFA sold and recognized in half year 2011 (2010: Nil). The cost of properties sold included development costs, land costs and borrowing costs. The cost of sales of snacked food business segment was HK$21 million.

Gross Profit and Gross Profit Margin

The gross profit from continuing operations increased by HK$28 million from HK$11 million (restated) in half year 2010 to HK$39 million in half year 2011. The Group has a gross profit margin of 38% in half year 2011, as compared with 26% in the same period of previous year. The increase in the gross profit margin was primarily a result of the sales of residential properties in this period.

Other Operating Income

Other operating income increased by 1,043% to HK$6 million in half year 2011 from HK$0.5 million in half year 2010 (restated). This increase was primarily due to an increase in exchange gain during half year 2011.

Change in Fair Value of Investment Properties

There was a gain of HK$70 million for the six months ended 30 June 2011 arising from change in fair value of the shopping mall of Future City.

Selling and Distribution Expenses

The selling and distribution expenses decreased by 53% to HK$6 million during the six months ended 30 June 2011 from HK$13 million (restated) in the same period of 2010, primarily due to higher costs incurred as a result of the much larger number of contracted property sales agreements entered during the six months ended 30 June 2010 while less in the same period of 2011.

Administrative Expenses

The administrative expenses increased by 57% to HK$44 million in half year 2011 from HK$28 million (restated) in half year 2010, primarily due to higher staff costs and office expenses as a result of the increase in number of property projects during the current period when compared with last period.

Finance Costs

The finance costs decreased by 38% to HK$8 million in current period from HK$13 million (restated) in last period. This was mainly due to the decrease in interest on convertible notes as a result of the redemptions in 2010.

Income Tax

The Group had an income tax expense of HK$25 million for the six months ended 30 June 2011. The increase was primarily attributable to increase in sales of residential properties and fair value gain in investment properties, which contributed to an increase in provision for enterprise income tax, land appreciation tax and deferred tax expenses.

Discontinued Operation

The Group had disposed of its health products business operation in September 2010. The results from discontinued operation reflected the net loss of the health products business operation for the six month ended 30 June 2010.

Profit (Loss) Attributable to the Owners of the Company

The profit attributable to owners of the Company for the period was HK$35 million, as compared with a loss of HK$48 million of the same period of previous year.

Financial Position

Total bank deposits and cash of the Group amounted to HK$153 million as at 30 June 2011. The Group's net debt amounted to HK$352 million, which was made up of HK$505 million in debts and HK$153 million in bank deposits and cash. The total debts as at 30 June 2011 included short-term borrowings of HK$442 million, and liability component of convertible notes of HK$63 million. The Group's bank borrowings bear floating rate and were primarily denominated in Hong Kong dollar and Renminbi. The Renminbi borrowings were principally used to fund the Group's property development in the PRC.

The total assets of the Group increased by HK$0.1 billion, or 4%, from HK$2.8 billion at 31 December 2010 to HK$2.9 billion at 30 June 2011. The Group had net current assets of HK$262 million, consisting of HK$1,444 million of current assets and HK$1,182 million of current liabilities.

The Group's shareholders' equity increased by 4% from HK$1,195 million at 31 December 2010 to HK$1,239 million at 30 June 2011 and the ratio of net debt to total equity was 28% at 30 June 2011, against 21% at 31 December 2010.

FUTURE PLANS AND PROSPECTS

Despite the PRC Government's measures and policy imposed for the overheated growth of the property market, the Group is still confident to maintain the profitable results from the PRC property market with its operational strategies and competitive advantages.

The Group focuses on the property development projects in the second-to-third tier cities, which continue upward growth trend in economic and social development. With the experience of the management of the Group and the diversified property portfolio, the Group's performance will be strengthened by the income arising from both sales of properties and lease of investment properties. The management of the Group continuously emphasizes on the quality of the property projects and the quality of the property management services provided. Its commitment on the high quality of products and services will add value to the Group, enhance the reputation of the Group as well as build up market share in the PRC property market.

Along with the administrative measures and policies implemented by the PRC Government, there are some tightening credit control policies in the PRC rolling out in 2011. Property developers are now becoming more and more dependent on financing sources other than bank borrowings. As referred to the section of "Events After the End of Reporting Period", the Group has explored ways other than bank borrowings to finance its capital commitments in the property development business, which demonstrate the sensible quality of the management of the Group.

The Group will continue to make effort to plan for expansion and maximize shareholders' value.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE AND INTEREST RATE

The Group principally operates the property development business in the PRC and most of the transactions are settled in Renminbi. The conversion of Renminbi into foreign currencies or Hong Kong dollars is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact on the Group. The Group did not engage in hedging activities designed or intended to manage currency risk during the six months ended 30 June 2011.

The Group is exposed to interest rate risks, primarily related to the bank borrowings with floating interest rates as at 30 June 2011. The Group undertook primarily debt obligations to support its property development and general working capital needs. The fluctuations in interest rates affect the cost of financing and may lead to fluctuations in the fair value of the debt obligations of the Group. The results of the Group are also affected by changes in interest rates due to the impact such changes have on interest income from the bank deposits.

PLEDGE OF ASSETS

As at 30 June 2011, certain bank deposits, property, plant and equipment and prepaid lease payments with an aggregate carrying amount of approximately HK$360 million were pledged as security for certain banking facilities granted to the Group.

CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2011, the Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately HK$5 million.

As at 30 June 2011, the Group had capital commitments in connection with the property development activities amounted to HK$126 million, primarily related to construction costs on projects under development and expenditures related to future property developments and investments.

As at 30 June 2011, the Group had provided guarantees to banks for loans of approximately HK$18 million 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

On 5 August 2011, the Board proposed that every ten existing shares of HK$0.01 each in the issued and unissued share capital of the Company be consolidated into one consolidated share of HK$0.10 each in the issued and unissued share capital of the Company. The Board also proposed to raise not less than approximately HK$250 million before expenses on the basis of two offer shares for every five consolidated shares. Details of the above were set out in the announcement of the Company dated 5 August 2011 and 18 August 2011.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the total number of employees stood at approximately 391. Total staff costs for the period under review were approximately HK$13 million (six months ended 30 June 2010: HK$10.9 million). The Group offers its workforce comprehensive remuneration and employees' benefits packages.

INTERIM DIVIDEND

The Board resolved that the Company would not declare the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil)

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's ordinary shares.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2011.

COMPLIANCE WITH 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 to the Listing Rules throughout the period, except for the Rule 8.17 of the Listing Rules.

Reference is made to the announcement of the Company dated 31 March 2011 in relation to resignation of Mr. Chong Ching Hei ("**Mr. Chong**"), as financial controller and secretary of the Company. After Mr. Chong's resignation, the Company has no position of secretary of which falls below the requirement under the Rule 8.17 of the Listing Rules.

On 21 April 2011, Mr. Li Chi Chung ("**Mr. Li**") has been appointed as secretary of the Company. With the appointment of Mr. Li, the Company has complied with the requirement under Rule 8.17 of the Listing Rules regarding having secretary of the Company must be a person who is ordinary resident in Hong Kong and who has the requisite knowledge and experience to discharge the functions of secretary of the Company.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The audit committee is accountable to the Board and the primary duties of the audit committee include the review and supervision of the Group's financial reporting process and internal controls. The audit committee currently comprises Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian, who are the independent non-executive directors of the Company.

The audit committee has reviewed the unaudited consolidated results of the Group for the six months ended 30 June 2011.

By order of the Board
China Water Property Group Limited
Duan Chuan Liang
Chairman

Hong Kong, 30 August 2011

As at the date of this announcement, the Board comprises Ms. Wang Wenxia (Vice Chairman and Chief Executive Officer) and Mr. Ren Qian as executive Directors, Mr. Duan Chuan Liang (Chairman) and Mr. Zhou Kun as non-executive Directors and Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian as independent non-executive Directors.