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**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 ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2011**

**KEY FINANCIAL HIGHLIGHTS**

- Turnover was approximately HK\$177.5 million, decreased by 82% compared with HK\$990.8 million in 2010, mainly due to decrease in number of completed properties delivered during the year
- Rental income arising from Future City Shopping Centre was approximately HK\$24.5 million, a new stream of income since late August 2011
- Future City Shopping Centre contributed the fair value gains of approximately HK\$205.1 million
- Total assets of the Group were approximately HK\$3,387.3 million, increased by 22% compared with HK\$2,781.1 million in 2010
- Profit for the year attributable to owners of the Company was approximately HK\$33.4 million, decreased by 93% compared with HK\$509.5 million in 2010
- Total equity attributable to owners of the Company was approximately HK\$1,512.3 million, increased by 27% compared with HK\$1,195.2 million in 2010
- Impairment charges on various assets, mainly from food business segment, of aggregate amount of approximately HK\$41.4 million

The board (the “Board”) of directors (the “Directors”) of China Water Property Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2011, together with the comparative figures for the previous year. These results principally relate to the business of the Group engaging in property development and investment in the People’s Republic of China (the “PRC”) for the year ended 31 December 2011:

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2011*

	<i>Notes</i>	<b>2011</b> <i>HK\$’000</i>	2010 <i>HK\$’000</i>
<b>Continuing operations</b>			
Turnover	3	<b>177,516</b>	990,841
Cost of sales		<b>(97,772)</b>	(515,203)
Gross profit		<b>79,744</b>	475,638
Fair value gain in respect of investment properties revaluation/transferred from inventory of properties		<b>205,125</b>	478,343
Other operating income	3	<b>6,260</b>	3,388
Selling and distribution expenses		<b>(16,855)</b>	(74,820)
Administrative expenses		<b>(126,915)</b>	(79,780)
Finance costs	5	<b>(24,029)</b>	(22,890)
Operating profit before impairment charges		<b>123,330</b>	779,879
Impairment on property, plant and equipment		<b>(30,000)</b>	—
Written off of inventories		<b>(1,128)</b>	—
Written off of trade and other receivables		<b>(10,300)</b>	—
Profit before taxation	6	<b>81,902</b>	779,879
Income tax expenses	7	<b>(53,499)</b>	(265,776)
Profit for the year from continuing operations		<b>28,403</b>	514,103
<b>Discontinued operation</b>			
Loss for the year from discontinued operation	8	—	(7,299)
Profit for the year		<b>28,403</b>	506,804

	<i>Notes</i>	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Profit for the year attributable to:			
Owners of the Company			
Profit for the year from continuing operations		<b>33,373</b>	510,631
Loss for the year from discontinued operation		<u>—</u>	<u>(1,097)</u>
Profit for the year attributable to owners of the Company		<u><b>33,373</b></u>	<u>509,534</u>
Non-controlling interests			
(Loss) profit for the year from continuing operations		<b>(4,970)</b>	3,472
Loss for the year from discontinued operation		<u>—</u>	<u>(6,202)</u>
Loss for the year attributable to non-controlling interests		<u><b>(4,970)</b></u>	<u>(2,730)</u>
Profit for the year		<u><b>28,403</b></u>	<u>506,804</u>
Dividends	9	<u>—</u>	<u>—</u>
		<i>HK Cents</i>	<i>HK Cents</i> <i>(restated)</i>
<b>Earnings per share</b>			
From continuing and discontinued operations	10		
— Basic		<u><b>2.38</b></u>	<u>44.34</u>
— Diluted		<u><b>2.31</b></u>	<u>38.39</u>
From continuing operations			
— Basic		<u><b>2.38</b></u>	<u>44.43</u>
— Diluted		<u><b>2.31</b></u>	<u>38.47</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the year ended 31 December 2011*

	<b>2011</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	<b>28,403</b>	506,804
Other comprehensive income:		
Exchange differences arising on translation	<b>35,085</b>	10,319
Total comprehensive income for the year	<b><u>63,488</u></b>	<u>517,123</u>
Total comprehensive income (expense) attributable to:		
Owners of the Company	<b>68,458</b>	519,853
Non-controlling interests	<b>(4,970)</b>	(2,730)
	<b><u>63,488</u></b>	<u>517,123</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION***At 31 December 2011*

	<i>Note</i>	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Prepaid lease payments		<b>1,616</b>	1,751
Property, plant and equipment		<b>132,887</b>	95,965
Investment properties		<b>1,339,024</b>	982,353
Goodwill		<b>174,605</b>	174,605
Deposit paid on acquisition of a subsidiary		<b>121,951</b>	58,824
		<b>1,770,083</b>	1,313,498
<b>Current Assets</b>			
Inventories		<b>4,503</b>	9,851
Inventory of properties		<b>1,213,864</b>	958,195
Trade and other receivables	<i>11</i>	<b>245,179</b>	225,730
Prepaid tax		<b>156</b>	200
Pledged bank deposits		<b>3,307</b>	9,978
Bank balances and cash		<b>150,186</b>	263,602
		<b>1,617,195</b>	1,467,556
<b>TOTAL ASSETS</b>		<b>3,387,278</b>	2,781,054
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share capital		<b>175,872</b>	125,142
Reserves		<b>1,336,450</b>	1,070,059
Equity attributable to owners of the Company		<b>1,512,322</b>	1,195,201
Non-controlling interests		<b>136,931</b>	160,366
<b>TOTAL EQUITY</b>		<b>1,649,253</b>	1,355,567

	<i>Note</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
<b>Non-current Liabilities</b>			
Deferred tax liabilities		280,444	224,115
Borrowings — due after one year		128,049	294,118
Convertible notes		64,464	62,172
Deposits received for sale and lease of properties — non-current portion		123,706	—
Deferred income — non-current portion		22,114	—
		<u>618,777</u>	<u>580,405</u>
<b>Current Liabilities</b>			
Trade and other payables	12	323,167	377,384
Deposits received for sale and lease of properties — current portion		122,244	77,837
Obligations under finance leases		—	169
Tax payable		118,910	122,168
Amounts due to non-controlling shareholders of subsidiaries		58,962	43,804
Amounts due to related parties		114,298	52,246
Borrowings — due within one year		353,478	171,474
Deferred income — current portion		28,189	—
		<u>1,119,248</u>	<u>845,082</u>
<b>TOTAL LIABILITIES</b>		<u><u>1,738,025</u></u>	<u><u>1,425,487</u></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>3,387,278</u></u>	<u><u>2,781,054</u></u>
<b>NET CURRENT ASSETS</b>		<u><u>497,947</u></u>	<u><u>622,474</u></u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><u>2,268,030</u></u>	<u><u>1,935,972</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 1. GENERAL

The 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 Financial Reporting Standards (“HKFRSs”).

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

The following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) have been applied by the Group in the current year and have affected the presentation and disclosures set out in these consolidated financial statements.

### Application of new and revised standards and interpretations

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

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

The application of these new and revised HKFRSs has had no material impact on the Group’s financial performance and positions for the current and prior years.

### New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>1</sup> Disclosures — Offsetting Financial Assets and Financial Liabilities <sup>2</sup> Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interest in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>5</sup>
HKAS 12 (Amendments)	Deferred Tax — Recovery of Underlying Assets <sup>4</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>6</sup>
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2014.

***HKFRS 7 (Amendments) Disclosures — Transfers of Financial Assets Disclosures — Offsetting Financial Assets and Financial Liabilities Mandatory Effective Date of HKFRS 9 and Transition Disclosures***

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the assets. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

***HKFRS 9 Financial Instruments***

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as a fair value through profit and loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

**New and revised Standards on consolidation, joint arrangements, associates and disclosures**

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC) — Int 12 Consolidation — Special Purpose Entities. 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) the ability to use its power over investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC) — Int 13 Jointly Controlled Entities - Non-Monetary Contributions by Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint 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.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated. In addition, the application of HKFRS 11 may result in changes in the accounting of the Group's jointly controlled entities that are currently accounted for using proportionate consolidation. Under HKFRS 11, those jointly controlled entities will be classified as a joint operation or joint venture, depending on the rights and obligations of the parties to the joint arrangement. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and have not yet quantified the extent of the impact.

### ***HKFRS 13 Fair Value Measurement***

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurement, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosure will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

### ***HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income***

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

#### ***HKAS 12 (Amendments) Deferred Tax — Recovery of Underlying Assets***

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered through sale for the purpose of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors anticipate that the application of the amendments to HKAS 12 in future reporting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sale. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

#### ***HKAS 19 (as revised in 2011) Employee Benefits***

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plane assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to HKAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to HKAS 19 may have impact on amounts reported in respect of the Group's defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

### **3. TURNOVER AND OTHER OPERATING INCOME**

An analysis of the Group's turnover and other operating income for the year from continuing operations is as follows:

	<b>2011</b>	2010
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Sales of properties	<b>111,010</b>	926,688
Sales of goods to outside customers	<b>40,615</b>	64,153
Rental income	<b>24,513</b>	—
Property-related service income	<b>1,378</b>	—
	<b>177,516</b>	990,841
Other operating income:		
Exchange gain	<b>3,295</b>	99
Interest income from bank deposits	<b>2,091</b>	1,624
Sundry income	<b>874</b>	1,665
	<b>6,260</b>	3,388
Total income	<b>183,776</b>	994,229

#### 4. 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 consolidated financial statements.

The Group's operating segments are identified on the basis 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 and services 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 PRC.

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

Other Property-related Business Segment engages in provision of property management services and operation of hotel.

The Group involved in manufacturing and sales of Seabuckthorn and related products (the "discontinued operation"). This operation was discontinued with effect from 17 September 2010. The segment information reported does not include any amounts for the discontinued operation, which is described in more details in Note 8.

##### **Segment revenues and results**

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

*For the year ended 31 December 2011*

*Continuing operations*

	Property Investment <i>HK\$'000</i>	Property Development <i>HK\$'000</i>	Wah Yuen Foods <i>HK\$'000</i>	Other Property — related Businesses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>REVENUE</b>					
External sales and total revenue	<u>24,513</u>	<u>111,010</u>	<u>40,615</u>	<u>1,378</u>	<u>177,516</u>
<b>RESULT</b>					
Segment operating results before impairment	<u>8,324</u>	<u>23,254</u>	<u>(11,091)</u>	<u>(10,810)</u>	9,677
Fair value gain in respect of investment properties revaluation	205,125	—	—	—	205,125
Impairment on property, plant and equipment	—	—	(30,000)	—	(30,000)
Written off of inventories	—	—	(1,128)	—	(1,128)
Written off of trade receivables	—	—	(4,618)	—	(4,618)
Unallocated corporate income					2,491
Unallocated corporate expense					<u>(75,616)</u>
Profit from operations					105,931
Finance costs					<u>(24,029)</u>
Profit before taxation					81,902
Income tax expenses					<u>(53,499)</u>
Profit for the year					<u>28,403</u>

*For the year ended 31 December 2010*

*Continuing operations*

	Property Investment <i>HK\$'000</i>	Property Development <i>HK\$'000</i>	Wah Yuen Foods <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>REVENUE</b>				
External sales and total revenue	<u>—</u>	<u>926,688</u>	<u>64,153</u>	<u>990,841</u>
<b>RESULT</b>				
Segment operating results	<u>(3,069)</u>	<u>381,551</u>	<u>(9,738)</u>	368,744
Fair value gain in respect of investment properties transferred from inventory of properties	478,343	—	—	478,343
Unallocated corporate income				152
Unallocated corporate expense				<u>(44,470)</u>
Profit from operations				802,769
Finance costs				<u>(22,890)</u>
Profit before taxation				779,879
Income tax expenses				<u>(265,776)</u>
Profit for the year				<u>514,103</u>

## Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

*As at 31 December*

*Continuing operations*

	Property Investment		Property Development		Wah Yuen Foods		Other property related businesses		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>										
Goodwill	—	—	174,605	174,605	—	—	—	—	174,605	174,605
Inventory of properties	—	2,872	1,213,864	955,323	—	—	—	—	1,213,864	958,195
Investment properties	1,339,024	982,353	—	—	—	—	—	—	1,339,024	982,353
Others assets	12,483	8,895	451,112	485,238	103,547	147,509	68,877	—	636,019	641,642
Segment assets	1,351,507	994,120	1,839,581	1,615,166	103,547	147,509	68,877	—	3,363,512	2,756,795
Unallocated corporate assets									23,766	24,259
Consolidated assets									3,387,278	2,781,054
<b>LIABILITIES</b>										
Segment liabilities	222,097	26,533	1,311,632	1,232,560	31,324	35,455	6,185	—	1,571,238	1,294,548
Unallocated corporate liabilities									166,787	130,939
Consolidated liabilities									1,738,025	1,425,487
<b>OTHER INFORMATION</b>										
Amortisation of prepaid lease payments	—	—	—	—	189	179	—	—	189	179
Additions to property, plant and equipment	423	3,975	10,198	8,563	1,977	153	64,831	—	77,429	12,691
Depreciation of property, plant and equipment	67	383	2,844	1,238	6,733	6,458	1,794	—	11,438	8,079
Additions to investment properties	111,742	504,010	—	—	—	—	—	—	111,742	504,010

## Geographical Information

The Group operates in the two principal geographical areas — Hong Kong and the PRC.

The Group's turnover from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed as below:

	Revenue from external customer		Non-current assets	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	31,690	42,728	2,413	1,620
The PRC	145,826	948,113	1,767,670	1,311,878
	177,516	990,841	1,770,083	1,313,498

## Information of major customers

The revenues from external customers are attributed to places on the basis of the customer's location. For the year ended 31 December 2011, no single external customers accounted for 10% or more of the Group's consolidated turnover (2010: nil).

## 5. FINANCE COSTS

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
<b>Continuing operations</b>		
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	33,278	49,427
Effective interest expense on convertible notes	4,738	11,698
	<u>38,016</u>	<u>61,125</u>
Less: amounts capitalised in the cost qualifying assets	(13,987)	(38,235)
	<u><u>24,029</u></u>	<u><u>22,890</u></u>

The weighted average capitalisation rate on fund borrowed generally is 2.27% per annum (2010: 6.78% per annum).

## 6. PROFIT BEFORE TAXATION

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
<b>Continuing operations</b>		
Profit before taxation has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	68,809	29,390
Retirement benefits scheme contributions, including contributions for directors	2,074	706
	<u>70,883</u>	<u>30,096</u>
Total staff costs		
Auditors' remuneration	1,014	950
Amortisation of prepaid lease payments	189	179
Depreciation		
— owned assets	13,249	7,948
— assets held under finance leases	131	131
Share-based option expenses	—	16,073
Loss on disposal of property, plant and equipment	514	7
Operating lease rental expense in respect of rented premises	10,244	4,464
Gross rental income from investment properties	(24,513)	—
Less: Direct operating expenses from investment properties that generate rental income during the year	3,294	—
	<u><u>(21,219)</u></u>	<u><u>—</u></u>

## 7. INCOME TAX EXPENSES

<b>Continuing operations</b>	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	53	—
Under provision in prior year	37	—
PRC Enterprise Income Tax (“EIT”)		
Current year	6,084	81,960
Over provision in prior year	(15,432)	—
Land Appreciation Tax (“LAT”) in the PRC	<u>11,429</u>	<u>67,386</u>
Current tax charge for the year	2,171	149,346
Deferred tax charge for the year	<u>51,328</u>	<u>116,430</u>
	<u><u>53,499</u></u>	<u><u>265,776</u></u>

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit arising in Hong Kong for both years.

The Group’s PRC EIT is calculated based on the applicable tax rates on assessable profits, if applicable.

PRC LAT is levied at the applicable 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.

## 8. 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 Consec Seabuckthorn Co., Ltd. (“Consec 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, on which date control of Consec Seabuckthorn was passed to the acquirer. The disposal is consistent with the Group’s long-term policy to focus its activities in the property development business in the PRC.

The loss for the period from 1 January 2010 to 17 September 2010 from the discontinued operation is analysed as follows:

	<i>HK\$'000</i>
Loss of Seabuckthorn Business for the period	(10,847)
Gain on disposal of a subsidiary	<u>3,548</u>
	<u><u>(7,299)</u></u>

The results of the Seabuckthorn Business for the period from 1 January 2010 to 17 September 2010, which had been included in the profit or loss, were as follows:

	<i>HK\$'000</i>
Turnover	12,388
Cost of sales	<u>(13,158)</u>
Gross loss	(770)
Other operating income	1,041
Selling, distribution and administrative expenses	(10,872)
Finance costs	<u>(205)</u>
Loss before taxation from discontinued operation	(10,806)
Income tax expenses	<u>(41)</u>
Loss for the period from discontinued operation	<u><u>(10,847)</u></u>
Attributable to:	
Owners of the Company	(4,645)
Non-controlling interests	<u>(6,202)</u>
	<u><u>(10,847)</u></u>
	<i>HK\$'000</i>
Loss for the period from discontinued operation has been arrived at after charging (crediting):	
Staff costs	5,937
Retirement benefits scheme contributions	<u>1,143</u>
	<u>7,080</u>
Auditors' remuneration	174
Depreciation of property, plant and equipment	3,068
Amortisation of prepaid lease payments	17
Interest income	<u>(13)</u>
Other information	
Additions to property, plant and equipment	<u><u>8,586</u></u>

## 9. DIVIDENDS

The Board does not recommend the payment of a dividend for the years ended 31 December 2011 and 2010.



## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit attributable to the equity holders of approximately HK\$33,373,000 (2010: HK\$509,534,000) and on the weighted average ordinary share of 1,403,163,593 (2010 (restated): 1,149,174,266) deemed to be in issue during the year.

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

### From continuing and discontinued operations

	2011 <i>HK'000</i>	2010 <i>HK'000</i>
Earnings:		
Earnings for the purpose of basic earnings per share	33,373	509,534
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	3,956	4,761
	<u>37,329</u>	<u>514,295</u>
Earnings for the purpose of diluted earnings per share	<u>37,329</u>	<u>514,295</u>
	2011 <i>Share(s)</i>	2010 <i>Share(s)</i> <i>(restated)</i> <i>(note)</i>
Numbers of shares:		
Weighted average number of ordinary shares		
for the purposes of basic earnings per share	1,403,163,593	1,149,174,266
Effect dilutive potential ordinary shares:		
Share options issued by the Company	—	9,414,340
Convertible notes	215,683,682	181,222,222
	<u>1,618,847,275</u>	<u>1,339,810,828</u>
Weighted average number of ordinary shares		
for the purposes of diluted earnings per share	<u>1,618,847,275</u>	<u>1,339,810,828</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for shares consolidation on 17 September 2011 and 24 October 2011.

*Note:* On 24 October 2011, the Company completed an open offer at HK\$0.50 per share reflecting a discount of 4.4% to the market price. Accordingly, earnings per share for all periods up to the date on which were issued (including the 2010 comparative) has been adjusted for the bonus element of the issue. The bonus element was 2 shares for every 5 shares owned. The 2010 comparatives have been restated accordingly.

**From continuing operations**

	<b>2011</b>	2010
	<b>HK'000</b>	HK'000
Profit for the year attributable to owners of the Company:	<b>33,373</b>	509,534
Add:		
Loss for the year from discontinued operation	—	1,097
Earnings for the purpose of basic earnings per share	<b>33,373</b>	510,631
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	<b>3,956</b>	4,761
Earnings for the purpose of diluted earnings per share	<b>37,329</b>	515,392

**From discontinued operation**

For the year ended 31 December 2010, basic loss per share for the discontinued operation was HK0.09 cents, based on the loss for the year from the discontinued operation of approximately HK\$10,847,000 and the denominators detailed above for basic loss per share. Diluted loss per share was not presented because the impact of the conversion of convertible notes and the exercise of share options were anti-dilutive.

**11. TRADE AND OTHER RECEIVABLES**

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK'000</b>	HK'000
Trade receivables	<b>20,702</b>	24,953
Less: Allowance for doubtful debts	—	—
	<b>20,702</b>	24,953
Prepayments for construction work	<b>46,948</b>	85,930
Receivable on disposal of subsidiaries	<b>1,682</b>	15,599
Refundable deposit placed on acquisition of a property development project in the PRC	<b>74,256</b>	71,636
Other receivables, prepayments and other deposits	<b>101,591</b>	27,612
	<b>245,179</b>	225,730

The prepayment included an amount of approximately HK\$71,583,000 for the land development cost payment paid on behalf of Wuhan Zhong Nan Automobile Parts and Accessories Co. Ltd (武漢市中南汽車配件配套有限責任公司) (the "Target Company") to develop the land held by the Target Company, a company under the acquisition progress of the Group. The Target Company principally holds the land use right in Wuhan Economic and Technological Development Zone (the "WEDZ"), the PRC. After the completion of the acquisition, the amount will be transferred to the inventory of properties.

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

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK'000</b>	HK'000
Within 90 days	<b>12,931</b>	10,303
91 to 180 days	<b>1,224</b>	1,437
Over 180 days	<b>6,547</b>	13,213
Trade receivables	<b>20,702</b>	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 collateral 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.

## 12. TRADE AND OTHER PAYABLES

An aging analysis of trade payables is as follows:

	<b>The Group</b>	
	<b>2011</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	<b>71,626</b>	296,840
91 to 180 days	<b>69,372</b>	3,374
Over 180 days	<b>9,657</b>	7,469
	<hr/>	<hr/>
Trade payables	<b>150,655</b>	307,683
Interest payables	<b>18,882</b>	14,013
Accrued expenses	<b>15,202</b>	17,043
Other tax payable	<b>5,725</b>	9,948
Other payables	<b>132,703</b>	28,697
	<hr/>	<hr/>
	<b>323,167</b>	377,384
	<hr/> <hr/>	<hr/> <hr/>

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

The other payables included approximately HK\$23,639,000 (2010: HK\$8,530,000) of amount due to a former director and HK\$87,805,000 (2010: nil) of advances from independent third parties. These amounts are unsecured, non-interest bearing and repayable on demand.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in property development and property investment businesses strategically focusing on prime locations in second-to-third tier cities along Yangtze River. At present, the Group's development projects primarily located in Wuhan, Hangzhou, Guangzhou and other fast-growing cities in the PRC. The Group develops a well-diversified portfolio including residential properties, shopping malls, office buildings, villa and hotels, which can provide a comprehensive and sustainable growing momentum to the Group.

In 2011, facing global economic turmoil and administrative policies and macro-economic control measures implemented in the PRC property market, the Group adopted a flexible and balanced approach in controlling the progress of projects in development and acquisition of new projects to respond to these market difficulties. During the reporting period, the Group recorded a significant decrease in consolidated turnover and profits attributable to the shareholders due to the decrease in number of completed property units delivered.

### Result Summary

The consolidated turnover of the Group from continuing operations decreased by 82% from HK\$990.8 million for the year ended 31 December 2010 to HK\$177.5 million for the year ended 31 December 2011. The revenues from residential properties sales were HK\$111.0 million arising from sales of the Future City. The Group recorded sold gross floor area ("GFA") of 10,020 square meters during the year with an average selling price of HK\$11,078.

The overall gross profit from continuing operations decreased by 83% to HK\$79.7 million in 2011 from HK\$475.6 million in 2010, while the gross profit margin decreased to 45% in 2011 from 48% in 2010. The Group also had fair value gains on revaluation of investment properties of HK\$205.1 million for the year ended 31 December 2011 which represented the fair value changes of the Future City Shopping Centre as compared with that at 31 December 2010.

During the year ended 31 December 2011, the consolidated turnover of the Group was firstly attributed by HK\$24.5 million and HK\$1.4 million from property leasing and other property-related businesses respectively. The rental income was from the leasing of the Future City Shopping Centre which provides a steady and sustainable cash inflow to the Group since late August 2011.

The revenue from food business segment decreased by 37% to HK\$40.6 million in 2011 from HK\$64.1 million in 2010. It contributed an operating loss of HK\$11.1 million during the year ended 31 December 2011, which was increased by 14% compared with the loss of HK\$9.7 million during the year ended 31 December 2010.

These were no discontinued operation during the year ended 31 December 2011. During the year ended 31 December 2010, the result from discontinued operation reflected the net loss of HK\$10.8 million from the seabuckthorn-related health products business operation along with the gain arising on the disposal of HK\$3.5 million.

The profit attributable to the owners of the Company decreased by 93% to HK\$33.4 million for the year ended 31 December 2011 from HK\$509.5 million in 2010. Basic earnings per share attributable to the equity holders of the Company decreased to HK2.38 cents compared with HK44.34 cents (restated) in 2010. The Board does not propose any final dividend for the year ended 31 December 2011.

## **Business Review**

### ***The PRC Property Development Business***

During the year, the property sales were from the Future City residential units. The significant decrease in revenue compared with last year was due to no new projects completed and delivered contributing the sales during the year. The Group's development projects now include Future Mansion and WEDZ Future City in Wuhan, Mei Lai International Centre and Qiandao Lake Villa in Hangzhou, Huadu Project in Guangzhou and Hohai Project in Nanjing. To respond the uncertainties in the PRC property market, the Group adopted a flexible approach in controlling the progress of developing projects and acquisition of new projects to mitigate the operating risks and keep the Group in a healthy and sound position.

During the year, the Group signed a sale and purchase agreement to acquire 100% equity interest in a project company in the Wuhan Economic & Technological Development Zone ("WEDZ"), Wuhan City, which is the third prime property project in Wuhan. The legal procedure of the equity transfer is in progress up to the report date and expected to be finalised shortly.

During the year under review, project of the Future Mansion obtained pre-sale permit from relevant authority and presold approximately 6,764 square meters of properties with a total contracted sales amount of approximately HK\$152.7 million.

All projects are under development in accordance with their development plans.

### **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 neighbourhood. 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. The project is completed in 2010 and the shopping centre is operated in 2011.

#### ***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 square meters will be parking spaces. The project is under construction and under pre-sale.

#### ***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 splendid shopping mall and luxurious office apartments with planned GFA of approximately 91,872 square meters. The project is under planning.

### **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. 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. The project is under construction and planned to complete during 2012.

#### *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, in which phase one is completed, and phases two and three are under construction.

### **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-organised action process following the approval from local land bureau. The project is under planning.

### **Nanjing, Jiangsu**

#### *Hohai Project*

The project is located at Nanjing Gulou District No. 1 Xikang Road, next to the main campus entrance of Hohai University. As the Jiangsu province government office is also situated along Xikang Road, it is the political, economic and academic centre of Nanjing. The project has a total site area of 5,030 square meters and total planned GFA of approximately 34,758 square meters with five-star hotels, international meeting areas and commercial centres.



## ***The PRC Property Investment Business***

Wuhan Future City Commercial Property Management Company\* (formerly known as Wuhan Shen Mao Ye Retail Investment and Management Limited\*) (“Commercial Company”) was formed by the Group to operate the Future City Shopping Centre (“Shopping Centre”) owned by the Group, which held its grand opening in late August 2011. The Shopping Centre has total leasable area of approximately 55,362 square meters with car park included. The Shopping Centre now becomes a fashionable, dynamic and international shopping centre to cater the growing demand from the surrounding business centres and university region (more than twenty universities including Wuhan University and Wuhan University of Technology and tertiary education institutions) with 1,000,000 student and residential consumers. As of 31 December 2011, the fair value of the Shopping Centre recorded HK\$1,339.0 million and the occupancy rate is over 90%. The operation of the Shopping Centre provided a steady cash inflow to the Group in addition to the possible capital appreciation.

## ***The PRC Property-Related Businesses***

### *Property management business*

Wuhan Future City Property Management Company\* (“Property Company”), a wholly owned subsidiary of the Group, provides residents and tenants with safe, modern, comfortable and high quality property management services. The servicing areas reached 143,827 square meters.

### *Hotel business*

Wuhan Future City Hotel Management Company\* (formerly known as Wuhan Mao Yei International Hotel Management Limited\*) (“Hotel Company”), a wholly owned subsidiary of the Group, manages a business hotel (“Future City Hotel”) with around 400 rooms, which is featured as one of the largest all suite business hotels in number of rooms in Central China. Easy access to the East Lake and universities and government authorities attracts travelers from different levels. Future City Hotel is well-equipped with function rooms and conference rooms to provide services of banquet and business conference and team of hospitality professionals was recruited to deliver personalised services to customers.

## **Other Businesses**

### *Packaged Food and Convenience Frozen Food Products*

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

Total revenue of food product segment was HK\$40.6 million which decreased by 37% from HK\$64.1 million as compared with last year. The gross profit margin decreased from 25% to 20%. The visibility in terms of capability for turnaround and competency for growth of food product business segment in the near future remains weak with a segment loss of HK\$11.1 million this year. The Group will continue to take cautious approach to its unfavourable results and may actively consider the advantages of restructuring shortly.

\* For identification purposes only.

## *Seabuckthorn and Related Healthcare Products*

The disposal of the seabuckthorn-related business was completed in September 2010 and therefore its operating result does not exist in the 2011. The result reflected the net loss of HK\$7.3 million during the year ended 31 December 2010, which was classified under discontinued operation.

### **Financial Review**

#### *Turnover*

Turnover of the Group for the year was HK\$177.5 million from HK\$990.8 million, a decrease of 82% compared with last year. The decrease was mainly due to decrease in revenue from sales of residential properties, in which the total GFA sold and recognised during the year was 10,020 square meters, a decrease of 88% compared with last year. Further, the decrease was also attributable by the decrease in revenue from food business, from HK\$64.1 million in 2010 to HK\$40.6 million in 2011. The decrease was mainly due to the downscale of the food operation during the year.

During the year, the Group's consolidated turnover was first time attributable by rental income from investment property of HK\$24.5 million and revenue of HK\$1.4 million generated from other property-related businesses.

#### *Cost of Sales*

The cost of sales decreased from HK\$515.2 million in 2010 to HK\$97.8 million in 2011, primarily due to the decrease in total GFA sold and recognised in 2011. The cost of properties sold included development costs, land costs and borrowing costs. Further, the decrease was also attributable by the decrease in revenue from food business, from HK\$48 million in 2010 to HK\$33 million in 2011. The decrease was mainly due to the downscale of the food operation during the year.

During the year, the Group's cost of sales was also attributable by investment property segment of HK\$3.0 million and by other property-related businesses of HK\$3.7 million.

#### *Gross Profit and Gross Profit Margin*

The gross profit decreased by HK\$395.9 million from HK\$475.6 million in 2010 to HK\$79.7 million in 2011. The Group has a gross profit margin of 45% in 2011, as compared with 48% in the previous year. The decrease in the gross profit margin was primarily a result of the decrease in proportion of sales arising from residential properties which are of higher profit margins than that of food business.

#### *Other Operating Income*

Other operating income increased by 85% to HK\$6.3 million in 2011 from HK\$3.4 million in 2010. This increase was primarily due to an increase in exchange gain.

#### *Change In Fair Value of the Investment Properties*

There was a gain of HK\$205.1 million in 2011 arising from change in fair value of the Future City Shopping Centre.



### *Selling and Distribution Expenses*

The selling and distribution expenses decreased by 77% to HK\$16.9 million in 2011 from HK\$74.8 million in 2010, primarily due to a significant decrease in promotion expenses and sales commissions arising from sales of properties during the year.

### *Administrative Expenses*

The administrative expenses increased by 59% to HK\$126.9 million in 2011 from HK\$79.8 million in 2010, primarily due to one-off bonus, more employees hired, increased development projects and diversified operating teams during the year.

### *Finance Costs*

The finance costs increased by 5% to HK\$24.0 million in 2011 from HK\$22.9 million in 2010. As the Group completed the development of Future City, finance cost from relevant bank borrowings taken as capitalised costs decreased.

### *Impairment charges*

The Group had impairment charges, mainly arising from food business segment, in respect of property, plant and equipment, inventory and receivables of HK\$30.0 million, HK\$1.1 million and HK\$10.3 million respectively. The impairment charges were made after the comprehensive review of carrying values of the Group's assets.

### *Income Tax Expense*

The income tax decreased by 80% to HK\$53.5 million in 2011 from HK\$265.8 million in 2010. The decrease was primarily attributable to decrease in our sales of residential properties and profit from the properties sold, which contributed to a decrease in our provision for enterprise income tax and also land appreciation tax.

### *Discontinued Operation*

The Group had disposed of its health products business operation in September 2010. The result from discounted operation reflected the net loss of HK\$10.8 million from the health products business operation along with the gain arising on the disposal of HK\$3.5 million.

### *Profit Attributable to Owners of the Company*

The profit attributable to the owners of the Company for the year decreased by 93% to HK\$33.4 million in 2011 from HK\$509.5 million in 2010.

## **Financial Position**

The Group has strengthened its financial position by completing the open offer to raise about HK\$251.2 million during the year.

Total bank deposits and cash of the Group amounted to HK\$153.5 million as at 31 December 2011. The Group's net debt was increased by HK\$138.5 million to HK\$392.5 million, which was made up of HK\$546.0 million in debts and HK\$153.5 million in bank deposits and cash. The total debts as at 31 December 2011 included short-term borrowings of HK\$353.5 million, long-term borrowings of HK\$128.0 million and liability component of convertible notes of HK\$64.5 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\$606.1 million, or 22%, from HK\$2,781.1 million in 2010 to HK\$3,387.2 million in 2011. The Group had net current assets of HK\$497.9 million, consisting of HK\$1,617.2 million of current assets and HK\$1,119.3 million of current liabilities. The net current assets decreased by HK\$124.5 million from the net current assets of HK\$622.4 million as at 31 December 2010.

As at 31 December 2011, the Group's shareholders' equity increased by 27% from HK\$1,195.2 million to HK\$1,512.3 million and the ratio of net debt to total shareholders' equity was 26%, compared 21% as at 31 December 2010.

### ***Future Plans and Prospects***

In the year coming, the Group will continue to adhere firmly its formulated strategy focusing on property development projects in the prime second-to-third tier cities mostly along Yangtze River and deliver quality products to the customers.

With a management team comprised of property development expertise, commercial property professionals and hotel management team and the strong supports from shareholders, the Group will make its effort to enhance its brand and reputation in the PRC property market, grasp market opportunities and mitigate operating risks in the future. The Group will balance the development and growth with its resources, and keep a healthy and sound financial position.

The Group is confident that the central government can ensure its stature and maintain a balanced growing and developing economic power leading to a sustainable path toward prosperity. The Group is also confident and positive about bringing superior values to shareholders with its business strategies and competitive edges.

### **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 minimise 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 year ended 31 December 2011.

The Group is exposed to interest rate risks, primarily related to the borrowings with floating interest rates as at 31 December 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 31 December 2011, certain bank deposits, property, plant and equipment and prepaid lease payments with an aggregate carrying amount of approximately HK\$1,697.4 million were pledged as security for certain banking facilities granted to the Group.

## **CONTINGENT LIABILITIES AND COMMITMENTS**

As at 31 December 2011, the Group had capital commitments in connection with the property development activities amounted to HK\$104.5 million, primarily related to construction costs on projects under development and expenditures related to future property developments and investments.

As at 31 December 2011, the Group had not provided guarantees to banks for loans 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.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2011, the total number of employees stood at approximately 535. Total staff costs for the year under review were approximately HK\$70.9 million. The Group offers its workforce comprehensive remuneration and employees' benefits packages.

## **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 of the Company, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 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 of the Listing Rules for the year ended 31 December 2011, 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 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. Wong Chi Ming, Mr. Chan Pok Hiu and Mr. Wang Jian, who are the independent non-executive Directors of the Company.

The audit committee has reviewed the audited consolidated results of the Group for the year ended 31 December 2011.

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

Hong Kong, 28 March 2012

*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.*