

INTERIM REPORT 2012



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)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Wang Wenxia
(Vice Chairman and Chief Executive Officer)
Mr. Ren Qian

Non-executive Directors

Mr. Duan Chuan Liang *(Chairman)*
Mr. Zhou Kun

Independent non-executive Directors

Mr. Chan Pok Hiu
Mr. Wong Chi Ming
Mr. Wang Jian

AUDIT COMMITTEE

Mr. Wong Chi Ming *(Committee Chairman)*
Mr. Chan Pok Hiu
Mr. Wang Jian

REMUNERATION COMMITTEE

Mr. Chan Pok Hiu *(Committee Chairman)*
Mr. Wong Chi Ming
Mr. Wang Jian

NOMINATION COMMITTEE

Mr. Chan Pok Hiu *(Committee Chairman)*
Mr. Wong Chi Ming
Mr. Wang Jian

COMPANY SECRETARY

Mr. Yeung Tak Yip
(appointed on 26 June 2012)
Mr. Li Chi Chung
(resigned on 26 June 2012)

AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang
Ms. Wang Wenxia

AUDITORS

Messrs. HLM & Co.
Certified Public Accountants

REGISTERED OFFICE

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

PRINCIPAL BANKERS

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

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

Standard Chartered Bank (Hong Kong) Limited
20th Floor, Millennium City 2
388 Kwun Tong Road
Kwun Tong, Kowloon

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.waterpropertygroup.com

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Continuing operations			
Turnover	3	48,825	75,398
Cost of sales		(25,839)	(42,340)
Gross profit		22,986	33,058
Fair value gain in respect of investment properties		77,778	70,118
Other operating income		506	4,946
Selling and distribution expenses		(4,610)	(1,318)
Administrative expenses		(37,358)	(33,559)
Finance costs	4	(18,102)	(6,620)
Profit before taxation		41,200	66,625
Income tax expenses	5	(22,161)	(24,756)
Profit for the period from continuing operations	7	19,039	41,869
Discontinued operation			
Loss for the period from discontinued operation	6	(8,961)	(9,740)
Profit for the period		10,078	32,129

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Profit for the period attributable to:			
Owners of the Company			
Profit for the period from continuing operations		20,746	44,462
Loss for the period from discontinued operation		(8,961)	(9,585)
Profit for the period attributable to owners of the Company		11,785	34,877
Non-controlling interests			
Loss for the period from continuing operations		(1,707)	(2,593)
Loss for the period from discontinued operations		—	(155)
Loss for the period attributable to non-controlling interests		(1,707)	(2,748)
Profit for the period		10,078	32,129
		HK Cents	HK Cents (restated)
Earnings per share	9		
From continuing and discontinued operations			
— Basic		0.67	2.65
— Diluted		0.67	2.41
From continuing operations			
— Basic		1.18	3.38
— Diluted		1.17	3.03

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Profit for the period	10,078	32,129
Other comprehensive income (expense):		
Exchange differences arising on translation	14,667	6,000
Fair value gain in respect of properties prior to its reclassification as investment properties	7,930	—
Deferred taxation recognised on fair value change of properties prior to its reclassification as investment properties	(1,983)	—
Other comprehensive income for the period	20,614	6,000
Total comprehensive income for the period (net of tax)	30,692	38,129
Total comprehensive income (expense) attributable to:		
Owners of the Company	32,399	40,877
Non-controlling interests	(1,707)	(2,748)
	30,692	38,129

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
ASSETS			
Non-current Assets			
Prepaid lease payments		—	1,616
Property, plant and equipment		115,537	132,887
Investment properties	10	1,442,593	1,339,024
Goodwill		174,605	174,605
Deposit paid on acquisition of a subsidiary	17	—	121,951
		1,732,735	1,770,083
Current Assets			
Inventories		648	4,503
Inventory of properties	11	1,679,301	1,213,864
Trade and other receivables	12	139,338	245,179
Prepaid tax		156	156
Pledged bank deposits		—	3,307
Bank balances and cash		115,348	150,186
		1,934,791	1,617,195
Assets classified as held for sale	6	25,697	—
		1,960,488	1,617,195
TOTAL ASSETS		3,693,223	3,387,278
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	180,872	175,872
Reserves		1,393,849	1,336,450
Equity attributable to owners of the Company		1,574,721	1,512,322
Non-controlling interests		135,224	136,931
TOTAL EQUITY		1,709,945	1,649,253

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
Non-current Liabilities			
Deferred tax liabilities		337,777	280,444
Borrowings — due after one year	14	117,284	128,049
Convertible notes	15	65,668	64,464
Deposits received for sale and lease of properties — non-current portion		122,857	123,706
Deferred income — non-current portion		20,935	22,114
		664,521	618,777
Current Liabilities			
Trade and other payables	16	323,167	323,167
Deposits received for sale and lease of properties — current portion		319,280	122,244
Tax payable		43,426	118,910
Amounts due to non-controlling shareholders of subsidiaries		67,361	58,962
Amounts due to related parties		162,279	114,298
Borrowings — due within one year	14	366,667	353,478
Deferred income — current portion		8,182	28,189
		1,290,362	1,119,248
Liabilities associated with assets classified as held for sale	6	28,395	—
		1,318,757	1,119,248
TOTAL LIABILITIES		1,983,278	1,738,025
TOTAL EQUITY AND LIABILITIES		3,693,223	3,387,278
NET CURRENT ASSETS		641,731	497,947
TOTAL ASSETS LESS CURRENT LIABILITIES		2,374,466	2,268,030

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company											
	Convertible								Equity			
	Share capital	Share premium	notes equity reserve	Share options reserve	Special reserve	PRC statutory reserves	Property revaluation reserve	Translation reserve	Accumulated profits	attributable to owners of the Company	Non-controlling interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012 (audited)	175,872	1,124,871	25,434	13,048	10,816	25,565	—	54,055	82,661	1,512,322	136,931	1,649,253
Profit (loss) for the period	—	—	—	—	—	—	—	—	11,785	11,785	(1,707)	10,078
Translation exchange differences	—	—	—	—	—	—	—	14,667	—	14,667	—	14,667
Fair value gain in respect of properties prior to its reclassification as investment properties	—	—	—	—	—	—	7,930	—	—	7,930	—	7,930
Deferred taxation recognised on fair value change of properties prior to its reclassification as investment properties	—	—	—	—	—	—	(1,983)	—	—	(1,983)	—	(1,983)
Total comprehensive income (expense) for the period	—	—	—	—	—	—	5,947	14,667	11,785	32,399	(1,707)	30,692
Issue of shares	5,000	25,000	—	—	—	—	—	—	—	30,000	—	30,000
As 30 June 2012 (unaudited)	180,872	1,149,871	25,434	13,048	10,816	25,565	5,947	68,722	94,446	1,574,721	135,224	1,709,945

For the six months ended 30 June 2011

	Attributable to owners of the Company											
	Convertible								Equity			
	Share capital	Share premium	notes equity reserve	Share options reserve	Special reserve	PRC statutory reserves	Translation reserve	Accumulated profits	attributable to owners of the Company	Non-controlling interests	Total equity	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2011 (audited)	125,142	922,088	25,434	16,494	10,816	25,565	20,904	48,758	1,195,201	160,366	1,355,567	
Profit (loss) for the period	—	—	—	—	—	—	—	34,877	34,877	(2,748)	32,129	
Translation exchange differences	—	—	—	—	—	—	6,000	—	6,000	—	6,000	
Total comprehensive income (expense) for the period	—	—	—	—	—	—	6,000	34,877	40,877	(2,748)	38,129	
Deregistration of subsidiaries	—	—	—	—	—	—	—	—	—	(14,180)	(14,180)	
Exercise of share options	481	3,525	—	(1,225)	—	—	—	—	2,781	—	2,781	
Share options lapsed/expired	—	—	—	(2,221)	—	—	—	2,221	—	—	—	
As 30 June 2011 (unaudited)	125,623	925,613	25,434	13,048	10,816	25,565	26,904	85,856	1,238,859	143,438	1,382,297	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For six months ended 30 June 2012

	Six months ended 30 June	
	2012 (unaudited) HK\$'000	2011 (unaudited) HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(108,347)	(150,711)
NET CASH USED IN INVESTING ACTIVITIES	(5,918)	(38,141)
NET CASH FROM FINANCING ACTIVITIES	78,820	54,703
NET DECREASE IN CASH AND CASH EQUIVALENTS	(35,445)	(134,149)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	152,234	272,283
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,206	13,139
CASH AND CASH EQUIVALENTS AT END OF PERIOD	117,995	151,273
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	115,348	144,561
Pledged bank deposits	—	8,010
Bank overdrafts	—	(1,298)
Bank balances and cash included in a disposal group classified as held for sale	2,647	—
	117,995	151,273

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

1. BASIS OF PREPARATION

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 2012 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2011, except as described in Note 2 below.

In current period for the six months ended 30 June 2012 (the “Current Period”), the Group was engaged in production and distribution of snack food, convenient frozen food and other food products. This operation was discontinued on 11 June 2012. Details are set out in Note 6. Accordingly, the comparative figures of the condensed consolidated income statement for the six months ended 30 June 2011 have been restated.

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 amendments to Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

- amendments to HKFRS 7 Financial Instruments: Disclosure — Transfers of Financial Assets; and
- amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The application of the above amendments in the current interim period has no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRSs issued but not yet effective

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

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

- 1 Effective for annual periods beginning on or after 1 July 2012
- 2 Effective for annual periods beginning on or after 1 January 2013
- 3 Effective for annual periods beginning on or after 1 January 2014
- 4 Effective for annual periods beginning on or after 1 January 2015

Save as disclosed in the annual report for the year ended 31 December 2011, the directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

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 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 People's Republic of China (the "PRC")
- Property Development Business Segment engages in development of property project in the PRC
- Other Property-related Business Segment engages in provision of property management services and operation of hotel

The Group involved in production and distribution of snack food, convenient frozen food and other food products (the "discontinued operation"). This operation was classified as discontinued operation from 11 June 2012. The segment information reported does not include any amounts of the discontinued operation, details of which are set out in Note 6.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

3. SEGMENT INFORMATION (continued)

Segment revenues and results

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

For the six months ended 30 June 2012

Continuing operations

	Property Investment HK\$'000	Property Development HK\$'000	Other Property- related Businesses HK\$'000	Total HK\$'000
TOTAL REVENUE AND EXTERNAL SALES	32,874	—	15,951	48,825
RESULT				
Segment operating results	23,203	(15,629)	(9,681)	(2,107)
Fair value gain in respect of investment properties	77,778	—	—	77,778
Unallocated corporate income				85
Unallocated corporate expense				(16,454)
Profit from operations				59,302
Finance costs				(18,102)
Profit before taxation				41,200
Income tax expenses				(22,161)
Profit for the period				19,039

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

3. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30 June 2011

Continuing operations

	Property Investment HK\$'000	Property Development HK\$'000	Total HK\$'000 (restated)
TOTAL REVENUE AND EXTERNAL SALES	—	75,398	75,398
RESULT			
Segment operating results	(1,501)	23,586	22,085
Fair value gain in respect of investment properties	70,118	—	70,118
Unallocated corporate income			2,771
Unallocated corporate expense			(21,729)
Profit from operations			73,245
Finance costs			(6,620)
Profit before taxation			66,625
Income tax expenses			(24,756)
Profit for the period			41,869

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

4. FINANCE COSTS

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Continuing operations		
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	26,714	31,737
Effective interest expense on convertible notes	2,421	2,329
	29,135	34,066
Less: amounts capitalised in the cost of qualifying assets	(11,033)	(27,446)
	18,102	6,620

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Continuing operations		
The tax expense comprises:		
Current tax:		
Hong Kong Profits Tax	—	—
PRC Enterprise Income Tax ("EIT")	2,717	4,592
PRC Land Appreciation Tax ("LAT")	—	2,635
Current tax expense for the period from continuing operations	2,717	7,227
Deferred tax expense for the period from continuing operations	19,444	17,529
	22,161	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 EIT is calculated based on the applicable tax rates on assessable profits, if applicable.

PRC LAT 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

6. DISCONTINUED OPERATION/DISPOSAL GROUP HELD FOR SALE

Discontinued operation of foods business of the Group (“Wah Yuen Foods Business”)

On 24 April 2012, the subsidiaries of the Company entered into a sale and purchase agreement (the “Agreement”) to dispose their equity interests in Honfine Company Limited, Wah Yuen Foods (Hong Kong) Company Limited, Million Riches Development Limited and Wah Yuen Licensing Company Limited (hereafter collectively refer as “Sale Companies”), which are principally engaged in the distribution of food products, and dispose of machineries and inventories of certain subsidiaries of the Company, which are related to the production of food products and are mainly related to the business of the Sale Companies (collectively refer to as “Disposal Group”), to Auto Success Limited (the “Disposals”), a Connected Person of the Company under Chapter 14A of the Listing Rules at a consideration of HK\$25,000,000, subject to adjustments. Details of the Disposals are disclosed in the circular of the Company dated 24 May 2012. The Disposals were approved by shareholders in an extraordinary general meeting held on 11 June 2012. As at 30 June 2012, the transaction was not yet completed, and therefore, the assets and liabilities attributable to the Disposal Group, which are expected to be sold within twelve months, have been classified as assets classified as held for sale and liabilities associated with assets classified as held for sale respectively and are presented separately in the condensed consolidated statement of financial position (see below). Subsequently, the Disposals were completed in July 2012, details of which are set out in Note 21.

In accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, as at 30 June 2012, the Disposals constitute discontinued operation of Wah Yuen Foods Business, therefore the comparative figures for the six months ended 30 June 2011 have been restated.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

6. DISCONTINUED OPERATION/DISPOSAL GROUP HELD FOR SALE (continued)

Discontinued operation of foods business of the Group ("Wah Yuen Foods Business") (continued)

The results of Wah Yuen Foods Business for the six months ended 30 June 2012 and 2011, which have been included in the profit or loss, were as follows:

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Turnover	10,786	26,288
Cost of sales	(8,666)	(20,545)
Gross profit	2,120	5,743
Selling, distribution and administrative expenses	(10,744)	(15,094)
Other income	25	951
Finance costs	(336)	(1,340)
Loss before taxation from discontinued operation	(8,935)	(9,740)
Income tax expenses	(26)	—
Loss for the period from discontinued operation	(8,961)	(9,740)
Loss for the period from discontinued operation has been arrived at after charging:		
Depreciation of property, plant and equipment	2,869	2,963
Amortisation of prepaid lease payments	97	522

The sale proceeds are expected to exceed the net carrying amounts of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

6. DISCONTINUED OPERATION/DISPOSAL GROUP HELD FOR SALE (continued)

Discontinued operation of foods business of the Group (“Wah Yuen Foods Business”) (continued)

The major classes of assets and liabilities of the Disposal Group as at 30 June 2012, which have been presented separately in the condensed consolidated statement of financial position, are as follows:

	30 June 2012 HK\$'000
Property, plant and equipment	10,794
Prepaid lease payments	207
Inventories	4,148
Trade and other receivables	7,901
Bank balances and cash	2,647
Total assets classified as held for sale	25,697
Trade and other payables	13,601
Tax payable	29
Bank borrowings	14,731
Deferred tax liabilities	34
Total liabilities associated with assets classified as held for sale	28,395

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

7. PROFIT FOR THE PERIOD

Continuing operations

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

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Depreciation and amortisation	5,753	1,074
Operating lease rental in respect of rental premises	13,396	2,899
Gross rental income from investment properties	(32,874)	—
Less: Direct operating expenses from investment properties that generate rental income during the period	2,841	—
	(30,033)	—

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

9. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic earnings per share is based on the earnings attributable to owners of the Company of approximately HK\$11,785,000 (six months ended 30 June 2011: HK\$34,877,000) and the weighted average number of ordinary shares of 1,759,272,312 (six months ended 30 June 2011 (restated): 1,316,442,823) deemed to be in issue during the period.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

9. EARNINGS PER SHARE (continued)

From continuing and discontinued operations (continued)

The calculation of diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Earnings:		
Earnings for the purpose of basic earnings per share	11,785	34,877
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax) (note c)	—	2,329
Earnings for the purpose of diluted earnings per share	11,785	37,206
	Six months ended 30 June	
	2012 Share(s)	2011 Share(s) (restated) (note a)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,759,272,312	1,316,442,823
Effect of dilutive potential ordinary shares:		
Share options issued by the Company (note b)	—	12,052,182
Convertible notes (note c)	—	215,683,682
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,759,272,312	1,544,178,687

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

9. EARNINGS PER SHARE (continued)

From continuing and discontinued operations (continued)

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

notes:

- a. 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 2011 comparative) has been adjusted for the bonus element of the issue. The bonus element was 2 shares for every 5 shares owned. The 2011 comparative figures have been restated accordingly.
- b. The computation of diluted earnings per share for the period ended 30 June 2012 does not assume the exercise of Company's outstanding share options as the subscription price of those options are higher than the average market price of Company for the period.
- c. The computation of diluted earnings per share for the period ended 30 June 2012 does not assume the conversion of the Company's outstanding convertible notes since their exercise would result in an increase in earnings per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

9. EARNINGS PER SHARE (continued)

From continuing operations

The calculation of basic and diluted earnings per share is based on the following data.

	Six months ended 30 June	
	2012 HK\$'000	2011 HK\$'000 (restated)
Profit for the period attributable to owners of the Company	11,785	34,877
Less:		
Loss for the period from discontinued operation	8,961	9,585
Earnings for the purpose of basic earnings per share	20,746	44,462
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	2,421	2,329
Earnings for the purpose of diluted earnings per shares	23,167	46,791

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

9. EARNINGS PER SHARE (continued)

From continuing operations (continued)

	Six months ended 30 June	
	2012 Share(s)	2011 Share(s) (restated) (note a)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,759,272,312	1,316,442,823
Effect of dilutive potential ordinary shares:		
Share options issued by the Company (note b)	—	12,052,182
Convertible notes	215,683,682	215,683,682
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,974,955,994	1,544,178,687

From discontinued operation

For six months ended 30 June 2012, basic loss per share for the discontinued operation was HK0.51 cents (six months ended 30 June 2011 (restated): HK0.73 cents), based on the loss for the period from the discontinued operation of approximately HK\$8,961,000 (six months ended 30 June 2011: HK\$9,585,000) and the weighted average number of ordinary shares detailed in continuing and discontinued operations above. Diluted loss per share was not presented because the impact of the conversion of convertible notes and the exercise of share options was anti-dilutive.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

10. INVESTMENT PROPERTIES

	HK\$'000
At 1 January 2012 (audited)	1,339,024
Transferred from prepaid lease payments	1,329
Fair value change recognised in other comprehensive income	7,930
Fair value change recognised in profit or loss	77,778
Exchange differences	16,532
	<u>1,442,593</u>
At 30 June 2012 (unaudited)	<u>1,442,593</u>

The Group's investment properties are held under medium term lease and are situated in the PRC.

The fair values of the Group's investment properties of approximately HK\$1,433,333,000 at 30 June 2012 have been arrived at on the basis of a valuation carried out at that date by Peak Vision Appraisals Limited, independent qualified professional valuers not connected to the Group. Peak Vision Appraisals Limited is a member of the Hong Kong Institute of Valuers, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

As at 30 June 2012, the fair value of the Group's investment properties transferred from prepaid lease payments of approximately HK\$9,259,000 (31 December 2011: Nil) has been arrived at on the basis of a valuation carried out at 11 June 2012 by RHL Appraisal Limited, independent qualified professional valuers not connected to the Group. RHL Appraisal Limited is a member of the Hong Kong Institute of Valuers, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The directors are of opinion that there are no material changes in fair value of the investment properties between 11 June 2012 and 30 June 2012.

As at 30 June 2012, investment properties of approximately HK\$1,433,333,000 (31 December 2011: HK\$1,339,024,000) were pledged as collateral for the Group's borrowings (Note 14).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

11. INVENTORY OF PROPERTIES

	HK\$'000
At 1 January 2012 (audited)	1,213,864
Additions during the period	103,686
Acquisition of a subsidiary (Note 17)	352,063
Exchange differences	9,688
	<u>1,679,301</u>
At 30 June 2012 (unaudited)	<u>1,679,301</u>

As at 30 June 2012, properties under development of approximately HK\$406,066,000 (31 December 2011: HK\$354,956,000) were pledged as collateral for the Group's borrowings (Note 14).

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2012 HK\$'000 (unaudited)	As at 31 December 2011 HK\$'000 (audited)
Trade receivables	3,346	20,702
Prepayments for construction work	84,900	46,948
Receivable on disposal of subsidiaries	—	1,682
Refundable deposit placed on acquisition of a property development project in the PRC	3,568	74,256
Other receivables, prepayments and other deposits (note)	47,524	101,591
	<u>139,338</u>	<u>245,179</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

12. TRADE AND OTHER RECEIVABLES (continued)

note: The prepayment as at 31 December 2011 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. The acquisition of the Target Company is completed in May 2012, the amount is included in the inventory of properties as at 30 June 2012.

An aging analysis of trade receivables (net of allowance for bad and doubtful debts) at the end of the reporting period is as follows:

	As at 30 June 2012 HK\$'000 (unaudited)	As at 31 December 2011 HK\$'000 (audited)
Within 90 days	3,089	12,931
91 to 180 days	257	1,224
Over 180 days	—	6,547
Trade receivables	3,346	20,702

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

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

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.

* For identification purposes only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

12. TRADE AND OTHER RECEIVABLES (continued)

The trading term with the foods business segment was mainly on credit. The average credit period on sales of goods was 90 days. The Group normally provided fully for all receivables overdue 365 days, have no material transactions with the Group during the period, and based on the estimations on prior experiences and the assessment of payment performance under current economic environment. When the Group was satisfied that no recovery of the amount owing was possible, the amount considered irrecoverable was written off against the financial asset and recognised in the profit or loss accordingly. The balances of the allowance for doubtful debts were individually impaired trade receivables which had been overdue 365 days or/and have no material transactions with the Group during the period/year. The Group did not hold any collateral over these balances.

13. SHARE CAPITAL

	Number of ordinary shares Share(s)	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2012 (audited) and 30 June 2012 (unaudited)	5,000,000,000	500,000
Issued and fully paid:		
At 1 January 2012 (audited)	1,758,722,861	175,872
Issue of shares (note)	50,000,000	5,000
At 30 June 2012 (unaudited)	1,808,722,861	180,872

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

note: On 29 June 2012, 50,000,000 shares were issued by the Company as a result of a subscription agreement dated 14 June 2012. Shares were issued at a price of HK\$0.6 giving the gross proceeds of HK\$30,000,000 for general working capital of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

14. BORROWINGS

	30 June 2012 (unaudited) HK\$'000	31 December 2011 (audited) HK\$'000
Bank overdrafts	—	1,259
Bank loans	481,482	457,829
Other loans	2,469	22,439
	483,951	481,527
Analysis as:		
Secured	481,482	459,088
Unsecured	2,469	22,439
	483,951	481,527
The carrying amount repayable:		
Within one year	366,667	353,478
More than one year, but not exceeding two years	117,284	—
More than two years, but not exceeding five years	—	128,049
	483,951	481,527
Less: amounts due within one year shown under current liabilities	(366,667)	(353,478)
	117,284	128,049

The above loans carry interest at the prevailing market rates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

15. CONVERTIBLE NOTES

Convertible notes due on 13 November 2017

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

The conversion price of 2017 Notes was adjusted from HK\$0.15 to HK\$0.045 effective from 12 October 2009 upon the completion of open offer in the proportion of five offer shares for one share. The conversion price was adjusted from HK\$0.045 to HK\$0.3781 effective from 24 October 2011 upon the completion of share consolidation and open offer on 17 September 2011 and 24 October 2011 respectively.

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

	30 June 2012 (unaudited) HK\$'000	31 December 2011 (audited) HK\$'000
Carrying amount of liability component:		
At beginning of period/year	64,464	62,172
Interest charged for the period/year	2,421	4,738
Interest paid for the period/year	(1,217)	(2,446)
At the end of the period/year	65,668	64,464

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

16. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables at the end of the reporting period is as follows:

	As at 30 June 2012 HK\$'000 (unaudited)	As at 31 December 2011 HK\$'000 (audited)
Within 90 days	75,421	71,626
91 to 180 days	3,978	69,372
Over 180 days	35,826	9,657
Trade payables	115,225	150,655
Interest payables	18,845	18,882
Accrued expenses	10,885	15,202
Other tax payable	20,028	5,725
Other payables (note)	158,184	132,703
	323,167	323,167

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

note: The other payables included approximately HK\$100,617,000 (31 December 2011: HK\$87,805,000) advances from independent third parties.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

17. DEPOSIT PAID ON ACQUISITION OF A SUBSIDIARY/ACQUISITION OF A SUBSIDIARY

On 6 January 2011, Water Property Hubei Limited* (水務地產湖北有限公司), a wholly owned subsidiary of the Company, entered into an agreement with Wuhan Hailuo Commercial Investment Management Co. Ltd.* (武漢海螺商貿投資管理有限公司) to acquire 100% of the entire equity interest of Target Company, a PRC company principally holding a land use right in Wuhan Economic and Technological Development Zone.

Since the acquisition was completed in May 2012, the Target Company became a wholly owned subsidiary of the Company thereafter.

	31 May 2012
	HK\$'000
<hr/>	
Assets and liabilities recognised at the date of acquisition (determined on provisional basis):	
Inventory of properties	352,063
Bank balances	177
Other payables	(29,159)
Amounts due to the acquirer	(141,325)
Borrowings	(18,355)
Deferred tax liabilities	(33,770)
	<hr/>
	129,631
	<hr/>
Total consideration satisfied by:	
Deposit paid on acquisition of a subsidiary	123,458
Cash paid	6,173
	<hr/>
	129,631
	<hr/>
Net cash outflow arising on acquisition:	
Cash consideration paid	(6,173)
Bank balances acquired	177
	<hr/>
Net cash outflow of cash and cash equivalents in respect of the acquisition	<hr/>
	(5,996)

* For identification purposes only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For six months ended 30 June 2012

18. PLEDGE OF ASSETS

At the end of reporting period, the following assets were pledged by the Group to banks to secure general banking facilities granted to the Group and their respective carrying amounts are as follows.

	30 June 2012 (unaudited) HK\$'000	31 December 2011 (audited) HK\$'000
Land and buildings together with relevant land use rights situated in the PRC	1,839,400	1,693,980
Land and buildings situated in Hong Kong	—	159
Bank deposits	—	3,307
	1,839,400	1,697,446

19. CAPITAL COMMITMENTS

As at 30 June 2012, the Group had capital commitments in respect of its construction of properties, contracted but not provided in the condensed consolidated financial statements, amounting to HK\$96 million (31 December 2011: HK\$105 million).

20. CONTINGENT LIABILITIES

As at 30 June 2012, the Group had not provided guarantees to banks (31 December 2011: Nil) in respect of the mortgage loans provided by the banks to purchasers of the properties of the Group developed and sold.

21. EVENT AFTER REPORTING PERIOD

On 25 July 2012, the Disposals, as described in Note 6, were completed. Since the consideration of HK\$25,000,000 is subject to adjustments, the Group is not yet in a position to quantify the financial impact from the Disposals. The financial impact is expected to be finalised around October 2012.

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.

RESULT SUMMARY

The consolidated turnover of the Group from continuing operations decreased by 35% from HK\$75.4 million (restated) for the six months ended 30 June 2011 to HK\$48.8 million for the six months ended 30 June 2012. The revenues for the Current Period are from property investment business and other property-related businesses, while there was residential properties sales recorded arising from sales of the Future City in the same period in 2011. During the six months ended 30 June 2012, the consolidated turnover of the Group was attributed by HK\$32.9 million and HK\$15.9 million from property investment business 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 overall gross profit from continuing operations decreased by 31% to HK\$23.0 million in the Current Period from HK\$33.1 million (restated) in the same period in 2011, while the gross profit margin increased to 47% in the Current Period from 44% (restated) in the same period in 2011. The Group also had fair value gain arising from revaluation of investment properties of HK\$77.8 million for the six months ended 30 June 2012 which represented the fair value changes of the Future City Shopping Centre as compared with that at 31 December 2011.

The Group entered into the Agreement on 24 April 2012 to dispose certain subsidiaries, machineries and inventories, which constitutes the operation of Wah Yuen Foods Business and subsequently approved by shareholders on 11 June 2012. Therefore, the result from Wah Yuen Foods Business was classified as discontinued operation. During the six months ended 30 June 2012, the result from discontinued operation reflected the loss of HK\$9.0 million, decreased by 7% compared with the loss of HK\$9.7 million during the six months ended 30 June 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

The profit attributable to owners of the Company decreased by 66% to HK\$11.8 million for the six months ended 30 June 2012 from HK\$34.9 million in the same period in 2011. Basic earnings per share attributable to owners of the Company during Current Period decreased to HK0.67 cents from HK2.65 cents (restated) during the six months ended 30 June 2011. The Board does not propose any interim dividend for the six months ended 30 June 2012.

BUSINESS REVIEW

The PRC Property Development Business

During the six months ended 30 June 2012, no new projects were completed and delivered. The Group's development projects now include Future Mansion and the Wuhan Economic & Technological Development Zone ("WEDZ") Future City in Wuhan, Mei Lai International Centre and Qiandao Lake Villa in Hangzhou, Huadu Project in Guangzhou and Hohai Project in Nanjing. During the Current Period, 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 Current Period, the Group completed an acquisition of 100% equity interest in a project company in WEDZ, Wuhan City, which is the third prime property project in Wuhan.

With the completion of the acquisition and current property projects development, the Group has strengthened its property development potentials in strategic locations in provincial cities along Yangtze River.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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, which are expected to be completed at the end of 2012. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University, Wuhan University of Technology and other landmarks in the neighbourhood with 1,000,000 students and residential consumers. Future City covers a total site area of 22,313 square meters with a total gross floor area ("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 stepwisely in 2010 and 2011 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 is near the conjunction of metro line No. 2 and 7. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 and 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, which is expected to be completed in October 2012. 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 2012–2013.

MANAGEMENT DISCUSSION AND ANALYSIS

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 City, 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 auction process following the approval from local land bureau. The project is under planning.

Nanjing City, Jiangsu

Hohai Project

The project is located at Nangjing Gulou District No. 1 Xikang Road, next to the main campus entrance of Hohai University. As the Jiangsu province government office is 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The PRC Property Investment Business

Wuhan Future City Commercial Property Management Company* (“Commercial Company”) was formed by the Group to operate the Future City Shopping Centre (the “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 and tertiary education institutions including Wuhan University and Wuhan University of Technology) with 1,000,000 students and residential consumers. For the six months ended 30 June 2012, an amount of HK\$32.9 million rental income was recognised in property investment business. As at 30 June 2012, the fair value of the Shopping Centre recorded HK\$1,433.3 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

For the six months ended 30 June 2012, an aggregate amount of revenue of HK\$15.9 million was arising from 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 145,273 square meters.

Hotel business

Wuhan Future City Hotel Management Company* (“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.

* For identification purposes only.

MANAGEMENT DISCUSSION AND ANALYSIS

Discontinued operation — Wah Yuen Foods Business

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 for the six months period ended 30 June 2012 was HK\$10.8 million which decreased by 59% from HK\$26.3 million as compared with the same period in 2011. The gross profit margin decreased from 22% to 20%. A loss of HK\$9.0 million was incurred during Current Period, decreased by 7% compared with the loss of HK\$9.7 million in the same period in 2011. The result was classified as result from discontinued operation. The related Disposals were completed in July 2012, details of which are set out in “Event After Reporting Period”.

FINANCIAL REVIEW

Turnover

Turnover of the Group for the six months ended 30 June 2012 was HK\$48.8 million from HK\$75.4 million (restated), a decrease of 35% compared with the same period in 2011. The decrease was mainly due to decrease in revenue from sales of residential properties, in which no property projects were completed and delivered during the period, while there was 6,471 square meters sold during the same period in 2011. Meanwhile, the decrease was offset by new income streams, the rental income from property investment business of HK\$32.9 million and other property-related businesses of HK\$15.9 million during the Current Period.

Cost of Sales

The cost of sales decreased from HK\$42.3 million (restated) for the six months ended 30 June 2011 to HK\$25.8 million for the six months ended 30 June 2012, primarily due to no new property projects were completed and delivered during Current Period. Meanwhile, the decrease was offset with the cost of new businesses of HK\$3.6 million from property investment business and HK\$22.2 million from property-related businesses in Current Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

The gross profit decreased by HK\$10.1 million from HK\$33.1 million (restated) for the six months ended 30 June 2011 to HK\$23.0 million in the same period in 2012. The Group has a gross profit margin of 47% for the six months ended 30 June 2012, as compared with 44% (restated) in the same period in 2011. The increase in the gross profit margin was because property leasing has a higher profit margin than property sale.

Other Operating Income

Other operating income decreased by 90% to HK\$0.5 million for the six months ended 30 June 2012 from HK\$4.9 million (restated) in the same period in 2011. The decrease was primarily due to a decrease in exchange gain.

Change in Fair Value of the Investment Properties

There was a gain of HK\$77.8 million for the six months ended 30 June 2012 arising from change in fair value of the Future City Shopping Centre.

Selling and Distribution Expenses

The selling and distribution expenses increased by 250% to HK\$4.6 million for the six months ended 30 June 2012 from HK\$1.3 million (restated) in the same period in 2011, primarily due to an increase in advertising and promotion expenses for the Future City Shopping Centre and hotel operation during the Current Period.

Administrative Expenses

The administrative expenses increased by 11% to HK\$37.4 million for the six months ended 30 June 2012 from HK\$33.6 million (restated) in the same period in 2011, primarily due to more employees hired, increased development projects and diversified operating teams during the Current Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

The finance costs increased by 174% to HK\$18.1 million for the six months ended from 30 June 2012 from HK\$6.6 million (restated) in the same period in 2011. As the Group completed the development of Future City, finance cost from relevant bank borrowings taken as capitalised costs decreased.

Income Tax Expenses

The income tax expenses decreased by 10% to HK\$22.2 million for the six months ended 30 June 2012 from HK\$24.8 million in the same period in 2011. The amount was primarily attributable to the deferred tax recognised from fair value gain in respect of investment properties and enterprise income tax incurred by property investment business.

Discontinued Operation

The result from Wah Yuen Foods Business was classified as discontinued operation. During the six months ended 30 June 2012, the result from discontinued operation reflected the loss of HK\$9.0 million, decreased by 7% compared with the loss of HK\$9.7 million during the six months ended 30 June 2011.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company for the six months ended 30 June 2012 decreased by 66% to HK\$11.8 million from HK\$34.9 million in the same period in 2011.

FINANCIAL POSITION

The Group has strengthened its financial position by a private placement of HK\$30 million during Current Period. Total bank deposits and cash of the Group amounted to HK\$115.3 million as at 30 June 2012. The Group's net debt was increased by HK\$41.9 million to HK\$434.4 million, which was made up of HK\$549.7 million in debts and HK\$115.3 million in bank deposits and cash. The total debts as at 30 June 2012 included short-term borrowings of HK\$366.7 million, long-term borrowings of HK\$117.3 million and liability component of convertible notes of HK\$65.7 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The total assets of the Group increased by HK\$305.9 million, or 9%, from HK\$3,387.3 million as at 31 December 2011 to HK\$3,693.2 million as at 30 June 2012. The Group had net current assets of HK\$641.7 million, consisting of HK\$1,960.5 million of current assets and HK\$1,318.8 million of current liabilities. The net current assets increased by HK\$143.8 million from the net current assets of HK\$497.9 million as at 31 December 2011.

As at 30 June 2012, the Group's shareholders' equity increased by 4% from HK\$1,512.3 million to HK\$1,574.7 million and the ratio of net debt to total shareholders' equity was 28%, compared 26% as at 31 December 2011.

FUTURE PLANS AND PROSPECTS

The recovery of the global economy is still clouded by uncertainty and the austerity measures are still in place. Given the central government holds its determination tight in macro control over real estate market, the Group remains cautious about the market conditions and adopts a flexible and balanced approach in controlling the progress of projects under development to respond to the market difficulties. The Group will balance the development and growth with its resources, and keep a healthy and sound financial position.

After discontinuation of the under-performing foods business in June 2012, the Group will utilize its resources on its core property businesses to strengthen the Group's performance. 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 is confident and positive about bringing superior values to shareholders with its business strategies and competitive edges.

DISCLOSURE OF INTERESTS

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

As at 30 June 2012, the interests and the short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(i) Long positions in shares as at 30 June 2012

Name of Director	Capacity	Note	Number of ordinary shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficiary owner	(1)	4,207,928	0.23%
Ms. Wang Wenxia	Beneficiary owner	(2)	1,231,440	0.07%
Mr. Ren Qian	Beneficiary owner		680,400	0.04%

(ii) Long positions in underlying shares as at 30 June 2012

Name of Director	Capacity	Note	Number of underlying shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficiary owner	(3)	12,795,263	0.71%
Ms. Wang Wenxia	Beneficiary owner	(3)	12,795,263	0.71%

Notes:

- (1) The personal interests of Mr. Duan Chuan Liang comprise 4,207,928 ordinary shares and 12,795,263 outstanding share options.
- (2) The personal interests of Ms. Wang Wenxia comprise 1,231,440 ordinary shares and 12,795,263 outstanding share options.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS *(continued)*

(ii) Long positions in underlying shares as at 30 June 2012 *(continued)*

- (3) These share options were granted on 3 November 2010 at an exercise price of HK\$0.1004 per share of the Company with exercise period from 3 November 2010 to 2 November 2020.

Pursuant to the terms of the share option scheme, the exercise price of the share options and the number of shares of the Company to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options were adjusted as a result of the completion of the open offer on 24 October 2011. Adjusted number of outstanding share options is 25,590,526 and adjusted exercise price per share in respect of the outstanding share options is HK\$0.9602 per share.

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

The register of substantial shareholders of the Company maintained under Section 336 of the SFO shows that as at 30 June 2012, the Company had been notified of the following substantial shareholders' interests and short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital.

DISCLOSURE OF INTERESTS

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

(i) Long positions in the shares as at 30 June 2012

Name of substantial shareholders	Note	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
China Water Affairs Group Limited	(1)	Beneficial owner and Interest of controlled corporation	787,091,136	43.52%
China Financial International Investments Limited	(2)	Beneficial owner	193,639,429	10.71%
China Financial International Investments and Management Limited	(3)	Investment manager	193,639,429	10.71%
Asia Lane Holdings Limited	(4)	Beneficial owner	90,760,000	5.02%

(ii) Long positions in the underlying shares as at 30 June 2012

Name of substantial shareholders	Note	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
China Water Affairs Group Limited	(5)	Interest of controlled corporation	215,683,681	11.92%

Notes:

- (1) These shares (the "Shares") of the Company held by Sharp Profit Investments Limited ("Sharp Profit") and Good Outlook Investments Limited ("Good Outlook") which are wholly owned subsidiaries of China Water Affairs Group Limited ("China Water Affairs"). Therefore, China Water Affairs was deemed to be beneficially interested in the said Shares held by Sharp Profit and Good Outlook for the purposes of the SFO.
- (2) These Shares were held by Global Business Investment Enterprises Limited, a wholly owned subsidiary of China Financial International Investments Limited (Stock Code: 721) ("CFIIL"). Therefore, CFIIL was deemed to be beneficially interested in the said Shares held by Global Business Investment Enterprises Limited for the purposes of the SFO.

DISCLOSURE OF INTERESTS

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

(ii) Long positions in the underlying shares as at 30 June 2012 *(continued)*

- (3) These Shares were held by China Financial International Investments and Management Limited ("CFIIM") which is owned by to 51% by Capital Focus Asset Management Limited ("Capital Focus"), 29% by CFIL. Accordingly, for the purposes of the SFO, Capital Focus is deemed to have the same interests in the Company as CFIIM.
- (4) Asia Lane Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is beneficial owned by Ms. Kuang Fei, an independent third party.
- (5) Convertible notes in the principal amount of HK\$81,550,000 carrying the rights to subscribe for Shares at conversion price of HK\$0.045 per share was issued by the Company to Good Outlook on 13 November 2007 to satisfy part of the consideration of the acquisition of the entire issued share capital of China Environmental Water Holdings Limited. If the conversion rights attached to the convertible notes had been fully exercised, 1,812,222,222 Shares would be issued at the conversion price of HK\$0.045 per share.

Pursuant to the terms of the convertible notes, the conversion price of the outstanding convertible notes were adjusted as a result of the completion of the one consolidated share for every ten shares and the open offer in the proportion of two offer shares for every five consolidated shares on 24 October 2011. Adjusted conversion price as HK\$0.3781 in respect of the outstanding principal amount of HK\$81,550,000, the outstanding principal amount of HK\$81,550,000, an aggregate of approximately 215,683,681 Shares will be issued and allotted upon full conversion of the convertible notes. China Water Affairs is deemed to be interested in the said underlying shares by virtue of its wholly owned interest in Good Outlook.

Save as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO as at 30 June 2012.

DISCLOSURE OF INTERESTS

SHARE OPTIONS

The following table discloses movements in the Company's share options during the period.

Category	Date of grant	Exercise price (HK\$)	Exercise period	Number of share options					As at 30 June 2012
				As at 1 January 2012	Granted during the period	Exercised during the period	Expired during the period	Lapsed during the period	
Directors / Employees	03/11/2010	0.9602	03/11/2010 to 02/11/2020	25,590,526	—	—	—	—	25,590,526

Saved as disclosed above, at no time during the period ended 30 June 2012 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

CORPORATE GOVERNANCE

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2012, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) (previously known as Code on Corporate Governance Practices) as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

(1) Code Provision A.6.7

Following the amendments to the CG Code, code provision A.6.7 of the CG Code came into force on 1 April 2012, which stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Due to other business engagements, two non-executive Directors (including independent non-executive Directors) could not attend the extraordinary general meeting of the Company held on 11 June 2012 and the annual general meeting of the Company held on 26 June 2012 (the “AGM”). However, at the respective general meeting of the Company, there were executive Directors and a non-executive Director and two independent non-executive Directors present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company (the “Shareholders”).

CORPORATE GOVERNANCE

(2) Code Provision E.1.2

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting and also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Due to another business engagement, Mr. Duan Chuan Liang, the Chairman of the Board, was unable to attend the AGM. However, Ms. Wang Wenxia, the Vice Chairman and executive Director of the Company, took the chair of that meeting, one non-executive Director and independent non-executive Directors, being the delegate of the Audit, Remuneration and Nomination Committees were present thereat to be available to answer any question to ensure effective communication with the Shareholders.

Except as stated above, the Company has continued to comply with the applicable code provisions of the CG Code.

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 2012.

OTHER INFORMATION

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 six months ended 30 June 2012.

The Group is exposed to interest rate risks, primarily related to the borrowings with floating interest rates as at 30 June 2012. 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 2012, certain land and buildings together with relevant land use rights situated in the PRC with an aggregate carrying amount of approximately HK\$1,839.4 million were pledged as security for certain banking facilities granted to the Group.

CONTINGENT LIABILITIES AND COMMITMENTS

As at 30 June 2012, the Group had capital commitments in connection with the property development activities amounted to HK\$96 million, primarily related to construction costs on projects under development and expenditures related to future property developments and investments.

EVENT AFTER REPORTING PERIOD

On 25 July 2012, the Disposals, as described in Note 6 to the condense consolidated financial statements, were completed. Since the consideration of HK\$25,000,000 is subject to adjustments, the Group is not yet in a position to quantify the financial impact from the Disposals. The financial impact is expected to be finalised around October 2012.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the total number of employees stood at approximately 520. Total staff costs for the period under review were approximately HK\$21.1 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 2012.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's ordinary shares.

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 unaudited consolidated results of the Group for the six months ended 30 June 2012.