



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)



2013 INTERIM REPORT

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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

AUTHORISED REPRESENTATIVES

Ms. Wang Wenxia
Mr. Duan Chuan Liang

AUDITOR

HLM CPA Limited
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

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.waterpropertygroup.com

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2013

	Notes	Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Continuing operations			
Turnover	3	156,190	48,825
Cost of sales		<u>(119,468)</u>	<u>(25,839)</u>
Gross profit		36,722	22,986
Fair value gain in respect of investment properties revaluation		23,497	77,778
Other operating income		741	506
Selling and distribution expenses		(2,351)	(4,610)
Administrative expenses		(70,791)	(37,358)
Finance costs	4	<u>(11,446)</u>	<u>(18,102)</u>
(Loss) profit before tax		(23,628)	41,200
Income tax expense	5	<u>(24,024)</u>	<u>(22,161)</u>
(Loss) profit for the period from continuing operations	7	(47,652)	19,039
Discontinued operation			
Loss for the period from discontinued operation	6	–	<u>(8,961)</u>
(Loss) profit for the period		<u>(47,652)</u>	<u>10,078</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2013

	Note	Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company			
(Loss) profit for the period from continuing operations		(66,164)	20,746
Loss for the period from discontinued operation		—	(8,961)
(Loss) profit for the period attributable to owners of the Company		(66,164)	11,785
Profit (loss) for the period attributable to non-controlling interests		18,512	(1,707)
(Loss) profit for the period		(47,652)	10,078
		HK Cents	HK Cents
(Loss) earnings per share	9		
From continuing and discontinued operations			
— Basic		(3.64)	0.67
— Diluted		(3.64)	0.67
From continuing operations			
— Basic		(3.64)	1.18
— Diluted		(3.64)	1.17

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period	(47,652)	10,078
Other comprehensive income (expense):		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences arising on translation	13,883	14,667
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	13,883	20,614
Total comprehensive (expense) income for the period (net of tax)	(33,769)	30,692
Total comprehensive (expense) income attributable to:		
Owners of the Company	(52,281)	32,399
Non-controlling interests	18,512	(1,707)
	(33,769)	30,692

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

		30 June 2013	31 December 2012
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
ASSETS			
Non-current Assets			
Property, plant and equipment		63,591	69,964
Investment properties	10	2,225,000	2,079,012
Goodwill		174,605	174,605
Prepayment for acquisition of an intangible asset		32,979	22,724
Prepayment for acquisition of an available-for-sale investment		12,500	–
		<u>2,508,675</u>	<u>2,346,305</u>
Current Assets			
Inventories		858	938
Inventory of properties	11	1,502,016	1,456,297
Trade and other receivables	12	250,716	148,614
Prepaid tax		261	257
Pledged bank deposits		71,620	51,953
Bank balances and cash		107,942	124,986
		<u>1,933,413</u>	<u>1,783,045</u>
TOTAL ASSETS		<u>4,442,088</u>	<u>4,129,350</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	185,872	180,872
Reserves		1,413,725	1,418,157
Equity attributable to owners of the Company		<u>1,599,597</u>	1,599,029
Non-controlling interests		187,828	169,316
TOTAL EQUITY		<u>1,787,425</u>	<u>1,768,345</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

		30 June 2013	31 December 2012
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current Liabilities			
Deferred tax liabilities		397,716	388,708
Borrowings — due after one year	14	675,000	466,049
Convertible notes	15	68,225	66,932
Deposits received for sale and lease of properties — non-current portion		107,139	113,578
Deferred income — non-current portion		9,503	11,665
		<u>1,257,583</u>	<u>1,046,932</u>
Current Liabilities			
Trade and other payables	16	561,088	523,488
Deposits received for sale and lease of properties — current portion		158,452	220,139
Tax payable		27,386	27,212
Amounts due to non-controlling shareholders of subsidiaries		—	10,354
Amounts due to related parties		189,064	162,766
Borrowings — due within one year	14	456,950	364,354
Deferred income — current portion		4,140	5,760
		<u>1,397,080</u>	<u>1,314,073</u>
TOTAL LIABILITIES		<u>2,654,663</u>	<u>2,361,005</u>
TOTAL EQUITY AND LIABILITIES		<u>4,442,088</u>	<u>4,129,350</u>
NET CURRENT ASSETS		<u>536,333</u>	<u>468,972</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,045,008</u>	<u>2,815,277</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Convertible notes equity reserve	Share options reserve	Special reserve	PRC statutory reserves	Property revaluation reserve	Translations reserve	Accumulated profits	Attributable to the owners of the Company		
	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 2013 (audited)	180,872	1,149,871	25,434	13,048	(184)	25,565	5,947	66,725	131,751	1,599,029	169,316	1,768,345
Loss for the period	-	-	-	-	-	-	-	-	(66,164)	(66,164)	18,512	(47,652)
Translation exchange differences	-	-	-	-	-	-	-	13,883	-	13,883	-	13,883
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	13,883	(66,164)	(52,281)	18,512	(33,769)
Share options expense	-	-	-	19,849	-	-	-	-	-	19,849	-	19,849
Issue of shares	5,000	28,000	-	-	-	-	-	-	-	33,000	-	33,000
As 30 June 2013 (unaudited)	185,872	1,177,871	25,434	32,897	(184)	25,565	5,947	80,608	65,587	1,599,597	187,828	1,787,425

For the six months ended 30 June 2012

	Attributable to owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Convertible notes equity reserve	Share options reserve	Special reserve	PRC statutory reserves	Property revaluation reserve	Translations reserve	Accumulated profits	Equity attributable to the owners of the Company		
	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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(284,145)	(108,347)
NET CASH USED IN INVESTING ACTIVITIES	(52,442)	(5,918)
NET CASH FROM FINANCING ACTIVITIES	338,093	78,820
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,506	(35,445)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	176,939	152,234
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,117	1,206
CASH AND CASH EQUIVALENTS AT END OF PERIOD	179,562	117,995
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	107,942	115,348
Pledged bank deposits	71,620	–
Bank balances and cash included in a disposal group classified held for sale	–	2,647
	179,562	117,995

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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 2013 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2012, except as described in Note 2 below.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively, to as the "Group") are property investment, property development, hotel business and property management in the People's Republic of China (the "PRC"). The Group was also engaged in production and distribution of snack food, convenient frozen food and other food products which was discontinued in 2012 (Details are set out in Note 6).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle;
Amendments to HKFRS 7 Disclosures	Offsetting Financial Assets and Financial Liabilities;
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities; Transition Guidance;
HKFRS 10	Consolidated Financial Statements;
HKFRS 11	Joint Arrangements;
HKFRS 12	Disclosure of Interests in Other Entities;
HKFRS 13	Fair Value Measurement;
HKAS 19 (as revised in 2011)	Employee Benefits;
HKAS 27 (as revised in 2011)	Separate Financial Statements;
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures;
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income; and
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine.

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 the six months ended 30 June 2013

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 and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities ¹
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
HKFRS 9	Financial instruments ²
HKAS 32 (Amendments)	Presentation — Offsetting Financial Assets and Financial Liabilities ¹
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-financial Assets ¹
HKAS 39 (Amendments)	Financial instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting ¹
HK(IFRIC)-Int 21	Levies ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 January 2015

Saved as disclosed in the annual report for the year ended 31 December 2012, the directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the results and financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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 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 projects in the PRC
- Hotel Business Segment engages in operating hotels in the PRC
- Property Management Business Segment engages in provision of property management services in the PRC

The Group involved in production and distribution of snack food, convenient frozen food and other food product (the "discontinued operation") during the period ended 30 June 2012. This operation was discontinued with effect from 11 June 2012. The segment information reported does not include any amounts for the discontinued operation, details of which are set out in Note 6.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

3. SEGMENT INFORMATION (Continued)

Segment revenues and results

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

For the six months ended 30 June 2013

Continuing operations

	Property Investment Business HK\$'000 (unaudited)	Property Development Business HK\$'000 (unaudited)	Hotel Business HK\$'000 (unaudited)	Property Management Business HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
TOTAL REVENUE AND EXTERNAL SALES	18,446	114,565	19,545	3,634	156,190
RESULT					
Segment operating results	10,594	(3,515)	(5,386)	459	2,152
Fair value gain in respect of investment properties revaluation	23,497	-	-	-	23,497
Unallocated corporate income					-
Unallocated corporate expense					(37,831)
Loss from operations					(12,182)
Finance costs					(11,446)
Loss before tax					(23,628)
Income tax expense					(24,024)
Loss for the period					(47,652)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

3. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the six months ended 30 June 2012

Continuing operations

	Property Investment Business HK\$'000 (unaudited)	Property Development Business HK\$'000 (unaudited)	Hotel Business HK\$'000 (unaudited)	Property Management Business HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
TOTAL REVENUE AND EXTERNAL SALES	32,874	-	13,815	2,136	48,825
RESULT					
Segment operating results	23,203	(15,629)	(9,123)	(558)	(2,107)
Fair value gain in respect of investment properties revaluation	77,778	-	-	-	77,778
Unallocated corporate income					85
Unallocated corporate expense					(16,454)
Profit from operations					59,302
Finance costs					(18,102)
Profit before tax					41,200
Income tax expense					(22,161)
Profit for the period					19,039

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

4. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Interest expenses on bank loans and other borrowings wholly repayable within five years	51,131	26,714
Effective interest expense on convertible notes	2,506	2,421
	53,637	29,135
Less: amounts capitalised in the cost of qualifying assets	(42,191)	(11,033)
	11,446	18,102

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax ("EIT")	3,486	2,717
PRC Land Appreciation Tax ("LAT")	14,664	–
Current tax charge for the period	18,150	2,717
Deferred tax charge for the period	5,874	19,444
	24,024	22,161

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 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

6. DISCONTINUED OPERATION

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 were principally engaged in the distribution of food products, and disposed of machineries and inventories of certain subsidiaries of the Company, which were related to the production of food products and were mainly related to the business of the Sale Companies (collectively refer to as "Disposal Group"), to Auto Success Limited, a connected person of the Company under Chapter 14A of the Listing Rules at a consideration of HK\$25,000,000, subject to adjustments (the "Disposals").

The Disposals were completed on 25 July 2012, on which the control of Sale Companies were passed to Auto Success Limited and the adjusted consideration was approximately HK\$16,336,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

6. DISCONTINUED OPERATION *(Continued)*

	Six months ended 30 June 2012 HK\$'000 (unaudited)
Turnover	10,786
Cost of sales	<u>(8,666)</u>
Gross profit	2,120
Selling, distribution and administrative expenses	(10,744)
Other operating income	25
Finance costs	<u>(336)</u>
Loss before tax from discontinued operation	(8,935)
Income tax expense	<u>(26)</u>
Loss for the period from discontinued operation	<u>(8,961)</u>
Loss for the period from discontinued operation has been arrived at after charging:	
Depreciation of property, plant and equipment	2,869
Amortisation of prepaid lease payments	<u>97</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

7. (LOSS) PROFIT FOR THE PERIOD

Continuing operations

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

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation and amortisation	6,603	5,753
Operating lease rental expense in respect of rented premises	13,273	13,396
Gross rental income from investment properties	(18,446)	(32,874)
Less: Direct operating expenses from investment properties that generate rental income	4,865	2,841
	<u>(13,581)</u>	<u>(30,033)</u>

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

9. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share is based on the loss attributable to owners of the Company of approximately HK\$66,164,000 (profit attributable to owners of the Company for six months ended 30 June 2012: approximately HK\$11,785,000) and the weighted average number of ordinary shares of 1,815,628,938 (six months ended 30 June 2012: 1,759,272,312) deemed to be in issue during the period.

Diluted (loss) earnings per share was not presented for both periods because the impact of the conversion of convertible notes and the exercise of share options was anti-dilutive.

From continuing operations

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

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period attributable to owners of the Company	(66,164)	11,785
Less: Loss for the period from discontinued operation	—	8,961
(Loss) earnings for the purpose of basic (loss) earnings per share	(66,164)	20,746
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax) (note)	—	2,421
Earnings for the purpose of diluted (loss) earnings per shares	(66,164)	23,167

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

9. (LOSS) EARNINGS PER SHARE (Continued)

From continuing operations (Continued)

	Six months ended 30 June	
	2013	2012
	Share(s)	Share(s)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	1,815,628,938	1,759,272,312
Effect of dilutive potential ordinary shares:		
Convertible notes (note)	–	215,683,682
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	1,815,628,938	1,974,955,994

note: The computation of diluted loss per share for the period ended 30 June 2013 do not assume the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share.

From discontinued operation

Since the discontinued operation was discontinued during 2012, no results from discontinued operation were incurred during the period ended 30 June 2013.

For six months ended 30 June 2012, basic loss per share for the discontinued operation was HK0.51 cents, based on the loss for the period from the discontinued operation of approximately HK\$8,961,000 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 the six months ended 30 June 2013

10. INVESTMENT PROPERTIES

	HK\$'000
At fair value	
At 1 January 2013 (audited)	2,079,012
Transferred from inventory of properties	66,083
Additions	30,707
Fair value change recognised in profit or loss	23,497
Exchange differences	<u>25,701</u>
At 30 June 2013 (unaudited)	<u>2,225,000</u>

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

The fair values 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 Surveyors, 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.

Details of the pledged investment properties as at 30 June 2013 and 31 December 2012 are set out in Note 18.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

11. INVENTORY OF PROPERTIES

	HK\$'000
At 1 January 2013 (audited)	1,456,297
Construction costs incurred	146,469
Capitalisation of interest	42,191
Disposal recognised in cost of sales	(88,447)
Transfer to investment properties	(66,083)
Exchange difference	11,589
	<u>1,502,016</u>
At 30 June 2013 (unaudited)	<u>1,502,016</u>

Details of the pledged inventories of properties as at 30 June 2013 and 31 December 2012 are set out in Note 18.

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
Trade receivables	13,182	7,676
Prepayments for construction work	176,284	103,841
Receivable on disposal of subsidiaries	879	2,731
Refundable deposit placed on acquisition of a property development project in the PRC	8,000	–
Other receivables, prepayments and other deposits	52,371	34,366
	<u>250,716</u>	<u>148,614</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

12. TRADE AND OTHER RECEIVABLES (Continued)

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

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
Within 90 days	13,182	7,196
91 to 180 days	–	229
Over 180 days	–	251
	<u>13,182</u>	<u>7,676</u>

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

13. SHARE CAPITAL

	Number of ordinary shares Share(s)	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2013 (audited) and 30 June 2013 (unaudited)	5,000,000,000	500,000
Issued and fully paid:		
At 1 January 2013 (audited)	1,808,722,861	180,872
Issue of shares (note)	50,000,000	5,000
At 30 June 2013 (unaudited)	<u>1,858,722,861</u>	<u>185,872</u>

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

note: On 19 June 2013, 50,000,000 shares were issued by the Company as a result of a subscription agreement dated 6 June 2013. Shares were issued at a price of HK\$0.66 giving the gross proceeds of HK\$33,000,000 for general working capital of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

14. BORROWINGS

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
Bank loans	1,079,300	786,144
Other loans	52,650	44,259
	<u>1,131,950</u>	<u>830,403</u>
Analysis as:		
Secured	1,062,500	744,444
Unsecured	69,450	85,959
	<u>1,131,950</u>	<u>830,403</u>
The carrying amount repayable:		
Within one year	456,950	364,354
More than one year, but not exceeding two years	268,750	55,556
More than two years, but not exceeding five years	406,250	410,493
	<u>1,131,950</u>	<u>830,403</u>
Less: amounts due within one year shown under current liabilities	<u>(456,950)</u>	<u>(364,354)</u>
	<u>675,000</u>	<u>466,049</u>

The above loans carry interest at the prevailing market.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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 placement. 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. As at 30 June 2013, the outstanding principal amount of 2017 Notes is HK\$81,550,000 (31 December 2012: HK\$81,550,000).

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 movements of the liability component of the convertible notes for the period/year are set out below:

	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
Carrying amount of liability component:		
At beginning of period/year	66,932	64,464
Effective interest charged for the period/year	2,506	4,915
Interest payable for the period/year	(1,213)	(2,447)
At the end of the period/year	68,225	66,932

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

16. TRADE AND OTHER PAYABLES

An aging analysis of the Group's trade payables at the end of the reporting period based on invoice date is as follows:

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
Within 90 days	178,013	179,664
91 to 180 days	662	70
Over 180 days	23,117	25,944
Trade payables	201,792	205,678
Interest payables	43,711	19,136
Accrued expenses	20,204	19,674
Other tax payable	7,172	27,340
Properties under redevelopment consideration payable	88,125	69,259
Other payables	200,084	182,401
	561,088	523,488

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

17. ACQUISITION OF A SUBSIDIARY

On 6 January 2011, Water Property Group Hubei Limited* (水務地產湖北集團有限公司), 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 Wuhan Zhong Nan Automobile Parts and Assessories Co. Ltd.* (武漢市中南汽車配件配套有限公司) (the "Target Company"), a PRC company principally holding a land use right in Wuhan Economic and Technological Development Zone. Deposit in the sum of HK\$121,951,000 was paid on entering into the acquisition agreement.

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

	31 May 2012 HK\$'000
The fair values of the identified assets and liabilities of the Target Company recognised at the date of acquisition are as follows:	
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/>
Total identifiable net assets at fair value	129,631
	<hr/>
Total consideration satisfied by:	
Deposit paid on acquisition of a subsidiary	121,951
Exchange difference	1,507
Cash paid on acquisition of a subsidiary	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	(5,996)
	<hr/>

* For identification purposes only

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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.

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
Land and buildings together with relevant land use rights situated in the PRC	429,815	466,844
Investment properties situated in the PRC	1,360,000	1,424,692
Investment properties under development situated in the PRC	571,250	423,457
Investment properties under redevelopment situated in the PRC	293,750	230,863
Bank deposits	71,620	51,953
	2,726,435	2,597,809

19. CAPITAL COMMITMENTS

As at 30 June 2013, the Group had capital commitments in respect of its construction of properties, contracted but not provided in the condensed consolidated financial statements, amounting to approximately HK\$344.3 million (31 December 2012: approximately HK\$111.7 million).

The Group had capital commitments in respect of its prepayment for acquisition of an intangible asset, authorised but not contracted in the consolidated financial statements, amounting to not more than approximately HK\$241.2 million (31 December 2012: approximately HK\$239.0 million).

20. CONTINGENT LIABILITY

As at 30 June 2013, the Group had provided guarantees to banks for loans of approximately HK\$147 million (31 December 2012: Nil) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

21. EVENTS AFTER THE REPORTING PERIOD

- (1) On 22 July 2013, a joint venture agreement (the "JV Agreement") was entered into between Shenzhen Zhongshui Property Company Limited* (深圳中水置業有限公司) ("Zhongshui Property"), an indirect wholly owned subsidiary of the Company, and Beijing Huangcheng Club & Culture Company Limited* (北京皇城會所文化有限公司) (the "Huangcheng Club", in which Zhongshui Property is interested in 10% of the registered and paid up capital of Huangcheng Club), pursuant to which the Joint Venture Company will be established in Beijing, the PRC. The purpose of establishing the Joint Venture Company is to develop and operate the land parcel B14 in Qianmen Avenue, Beijing (the "Land") and the Premises. The Joint Venture Company will be owned beneficially as to 70% by Zhongshui Property and as to 30% by Huangcheng Club.

Pursuant to the terms of the JV Agreement, the registered capital of the Joint Venture Company will be HK\$125,000,000 (equivalent to approximately RMB100,000,000), in which HK\$87,500,000 (equivalent to approximately RMB70,000,000) will be contributed by Zhongshui Property by way of cash and the balance will be contributed by Huangcheng Club by way of cash. Under the JV Agreement, Zhongshui Property will contribute not more than HK\$262,500,000 (equivalent to approximately RMB210,000,000) (including Zhongshui Property's contribution to the registered capital in the Joint Venture Company in the sum of HK\$87,500,000 (equivalent to approximately RMB70,000,000) as mentioned above) out of the Group's internal resources.

Up to the date of the announcement, the application in formation of the Joint Venture Company is in progress. At the date of the announcement, neither party has made any contribution to the Joint Venture Company.

- (2) On 22 July 2013, a lease agreement was entered into among Huangcheng Club, Zhongshui Property (collectively referred as the "Joint Venture Parties") and Beijing Qianmen Tianshi Property Development Company Limited* (北京前門天市置業發展有限公司) (the "Landlord"), pursuant to which the Landlord agrees to lease the Land and part of the Premises and contract the Joint Venture Parties to construct for a term of 20 years (with conditional extension term of 20 years) at a total rent and constructions costs of HK\$625,000,000 (equivalent to approximately RMB500,000,000).

Up to the date of the announcement, an amount of non-refundable deposit of HK\$62,500,000 (equivalent to approximately RMB50,000,000) was paid to the Landlord as prepaid rent and constructions costs.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in property development, property investment, hotel business and property management 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 increased by 220% from HK\$48.8 million for the six months ended 30 June 2012 to HK\$156.2 million for the six months ended 30 June 2013. The revenues from properties sales were HK\$114.6 million for the Current Period are mainly from sales of the Future Mansion in Wuhan. The revenues from property leasing business, hotel business and property management business were HK\$18.5 million, HK\$19.5 million and HK\$3.6 million respectively.

The overall gross profit from continuing operations increased by 60% to HK\$36.7 million for the Current Period from HK\$23.0 million for the same period in 2012, while the gross profit margin decreased to 24% for the Current Period from 47% for the same period in 2012. The Group also had fair value gains on revaluation of investment properties of HK\$23.5 million for the six months ended 30 June 2013 which represented the net fair value upwards of the investment properties portfolio in the PRC of the Group as compared with that at 31 December 2012.

The loss attributable to the owners of the Company was HK\$66.2 million for the six months ended 30 June 2013 while a profit of HK\$11.8 million for the same period in 2012. Basic loss per share attributable to owners of the Company during Current Period recorded HK3.64 cents while basic earnings per share of HK0.67 cents was recorded during the six months ended 30 June 2012. The Board does not propose any interim dividend for the six months ended 30 June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The PRC Property Development Business

There is a significant increase in revenue in Current Period compared with same period in 2012 because Future Mansion in Wuhan was completed and delivered contributing the sales since second half year in 2012. The Group's development projects now include Zhongshui • Longyang Plaza (previously known as "Wuhan Economic & Technological Development Zone Future City", "WEDZ Future City") in Wuhan, Mei Lai International Centre and Qiandao Lake Villa in Hangzhou. To respond the uncertainties in the PRC property market, the Group keeps its adopted flexible and balanced approach in controlling the progress of developing projects and acquisition of new projects to mitigate the operating risks and keeps the Group in a healthy and sound position.

During the six months ended 30 June 2013, the Group recorded gross floor area ("GFA") of 9,962 square meters sold with an average selling price of HK\$11,500 per square meter. Future Mansion recorded property sales of approximately HK\$108.8 million, representing GFA of 9,485 square meters sold, while the remaining 477 square meters sold were from Future City in Wuhan contributing approximately HK\$5.8 million property sales.

On 22 July 2013, a lease agreement was entered into among Beijing Huangcheng Club & Culture Company Limited* (北京皇城會所文化有限公司) and Shenzhen Zhongshui Property Company Limited* (深圳中水置業有限公司) (a wholly own subsidiary of the Group) and Beijing Qianmen Tianshi Property Development Company Limited* (北京前門天市置業發展有限公司) (the "Landlord"), pursuant to which the Landlord agrees to lease to the Group the Qianmen Avenue land parcel B14 (the "Land"), Beijing, the PRC, mainly for the use of as a theme hotel and culture club and related property businesses. As the Land is located at the core area of central Beijing City, which is a Beijing traditional commercial street near Tiananmen Square and Dashilar Street, as well as significant political and administrative areas, the lease will enhance the Group's property portfolio and generate a stable income stream for the Group. It offers the Group a good opportunity to expand its business in central district of Beijing.

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

* For identification purposes only

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 stations of metro line No. 2 and 7, in which line No. 2 was completed and in use in late 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 was built at an area of land of 19,191 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 stepwisely in 2010 and 2011 and the Future City shopping centre held its grand opening in late August 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, in which line No. 2 was completed and in use in late 2012. It has a total land site of 5,852 square meters and been developed for a composite building of residential apartments and retail shops with GFA of approximately 45,381 square meters. The project is completed and under sale in second half year of 2012.

Zhongshui • Longyang Plaza (Previously known as "WEDZ Future City")

Zhongshui • Longyang Plaza 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 land site 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 construction.

MANAGEMENT DISCUSSION AND ANALYSIS

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 land site 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 already in use in late 2012. The total planned GFA is approximately 116,222 square meters. The development comprises of grade-A office block with work loft setting, two high-rise premium apartment towers and a premier shopping centre and parking spaces. The project is under construction and planned to complete in late 2013/early 2014.

Qiandao Lake Villa

This development occupies a land site of approximately 44,016 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 land site occupies an area of approximately 28,183 square meters with total planned GFA of approximately 110,000 square meters with underground included. It could be developed into high-rise residential units and low-density townhouse. The project is undetermined, subject to government-organised auction process and the market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

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 situated along Xikang Road, it is the political, economic and academic centre of Nanjing. The project has a total land site of 5,030 square meters and total planned GFA of approximately 34,759 square meters with five-star hotels, international meeting areas and commercial centres.

Beijing

Qianmen Project

The project is situated at Qianmen Avenue land parcel B14 (the "Land"), Beijing, the PRC with a land site of 10,487 square meters. The Land is located at the core area of central Beijing City, which is a Beijing traditional commercial street near Tiananmen Square and Dashilar Street as well as significant political and administrative areas. Upon the completion of the premises, its GFA will be approximately 38,876 square meters and comprise of 1 storey and 3 levels below ground, mainly for the use of as a theme hotel and culture club and related property businesses (subject to government approval).

The PRC Property Investment Business

In Wuhan, Wuhan Future City Commercial Property Management Company* (武漢未來城商業物業管理有限公司) ("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 and tertiary education institutions including Wuhan University and Wuhan University of Technology) with 1,000,000 students and residential consumers.

During the Current Period, a tenancy-mix optimisation project was initiated in order to further improve the earning efficiency of the Shopping Centre. A decrease in rental income and occupancy rate was noted during the project was carried out. During the period ended 30 June 2013, the rental income arising from the Shopping Centre was approximately HK\$18.4 million and the average occupancy rate is around 62%. As at 30 June 2013, the fair value of the Shopping Centre recorded HK\$1,360.0 million.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

In Hangzhou, Hangzhou Mei Lai Commercial Property Management Company* (杭州美萊商業企業管理有限公司) was formed by the Group to prepare the operation of the commercial part of Mei Lai International Centre in Yuhang district of Hangzhou. This commercial part is expected to complete at late 2013 to early 2014. The commercial part has approximately 58,310 square meters with car park included. Mei Lai International Centre is located in new Central Business District in Yuhang district of Hangzhou and adjacent to the south station of Shanghai-Hangzhou High-Speed Railway and also the terminal of Hangzhou metro line No. 1, which is already in use in late 2012, it is expected Mei Lai International Centre can meet the increasing needs from residential and office customers nearby. As at 30 June 2013, the fair value of the commercial part of Mei Lai International Centre recorded HK\$571.3 million.

In Guangzhou, upon the foods business discontinued by the Group in mid-2012, the industrial land there was held as investment properties under redevelopment. As at 30 June 2013, the fair value of the land recorded HK\$293.8 million. Applications for land use right of the investment properties under re-development in the PRC are still in progress at 30 June 2013. In spite of the above, the Directors of the Company are of the opinion that the Group has acquired the beneficial interest of those properties and legal titles document will be obtained after certain procedures set out by relevant authorities, while the Group will consider the possible resolution to maximise the shareholders' value.

The PRC Hotel Business

Wuhan Future City Hotel Management Company* (武漢未來城大酒店管理有限公司) ("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.

In June 2013, Future City Hotel won an award of "Top 10 Most Welcome Boutique Business Hotel 2013"* presented by the China Travel and Hotel Management Association (the "CTHMA"). The award was by poll from PRC residents in national wide and the professional judges from the CTHMA. At the same time, Future City Hotel was also qualified as vice president unit of CTHMA. The award and qualification was a significant recognition of Future City Hotel by both Chinese public as well as hotel professionals.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

During the Current Period, Hong Kong Walter Hotel Management Group Limited, set up and wholly owned by the Group, aims to strategically manage and operate the PRC hotel business, leverage its strength and resources in hospitality services to provide professional services to customers.

During the period ended 30 June 2013, the revenue arising from hotel business was approximately HK\$19.5 million and the average occupancy rate is around 80%.

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 190,654 square meters.

During the period ended 30 June 2013, the revenue from property management business was approximately HK\$3.6 million.

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.

Given the consistent efforts to return the foods business to profitability in vain, the Group had taken place the restructuring to discontinue the foods business during 2012. The related disposal was completed in July 2012 and therefore its operating result has been classified as discontinued operation for current and prior years. The result from discontinued operation reflected the net loss of approximately HK\$9.0 million, were charged to the profit or loss in 2012. No result was included in Current Period.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

Turnover of the Group for the six months ended 30 June 2013 was approximately HK\$156.2 million from approximately HK\$48.8 million, an increase of 220% compared with same period in 2012. The increase was mainly due to an increase in revenue from sales of residential properties, in which the total GFA recognised during the Current Period was 9,962 square meters, while there was no GFA recognised in same period in 2012.

The revenue from property leasing decreased from approximately HK\$32.9 million in 2012 to approximately HK\$18.4 million in 2013, while the revenue from hotel business and property management business increased from approximately HK\$13.8 million in 2012 to HK\$19.5 million in 2013 and from HK\$2.1 million in 2012 to approximately HK\$3.6 million in 2013 respectively.

Cost of Sales

The cost of sales increased from approximately HK\$25.8 million for the six months ended 30 June 2012 to approximately HK\$119.5 million for the six months ended 30 June 2013, primarily due to the increase in total GFA recognised in Current Period, where the cost of properties sold including development costs, land costs and borrowing costs.

During the Current Period, the cost of sales was also attributable by property investment business of approximately HK\$4.9 million, an increase of approximately HK\$1.3 million compared with that in 2012, and by hotel business and property management business of approximately HK\$21.2 million and approximately HK\$2.3 million respectively, and increase of approximately HK\$0.8 million and approximately HK\$0.5 million compared with those in 2012 respectively.

Gross Profit and Gross Profit Margin

The gross profit increased by approximately HK\$13.7 million from approximately HK\$23.0 million for the six months ended 30 June 2012 to approximately HK\$36.7 million in same period in 2013. The Group has a gross profit margin of 24% for the six months ended 30 June 2013, as compared with 47% for the same period in 2012. The decrease in the gross profit margin was because property sales' profit margin is lower than property leasing business, where property sales contributed 73% of Group's turnover in Current Period (six months ended 30 June 2012: 0%).

MANAGEMENT DISCUSSION AND ANALYSIS

Other Operating Income

Other operating income increased by 46% to approximately HK\$0.74 million for the six months ended 30 June 2013 from approximately HK\$0.51 million in same period in 2012. This increase was primarily due to an increase in bank interest income.

Change in Fair Value of the Investment Properties

There was a net gain of approximately HK\$23.5 million for the six months ended 30 June 2013 arising from change in fair value of the investment property portfolio in the PRC held by the Group.

Selling and Distribution Expenses

The selling and distribution expenses decreased by 49% to approximately HK\$2.4 million for the six months ended 30 June 2013 from approximately HK\$4.6 million for the same period in 2012, primarily due to less expense of advertising and promotion for Future City Shopping Centre and Future City Hotel during the Current Period after their grand opening in late 2011/early 2012.

Administrative Expenses

The administrative expenses increased by 89% to approximately HK\$70.8 million for the six months ended 30 June 2013 from approximately HK\$37.4 million for the same period in 2012, primarily due to one-off share-based payment, one-off directors' bonus, increased development projects and diversified operating teams in the Current Period compared with the same period in 2012.

Finance Costs

The finance costs decreased by 37% to approximately HK\$11.4 million for the six months ended 30 June 2013 from approximately HK\$18.1 million for the same period in 2012. As the Group raised more bank borrowings specific for the development projects, finance cost from relevant bank borrowings taken as capitalised costs increased.

Income Tax Expense

The income tax increased by 8% to approximately HK\$24.0 million for the six months ended 30 June 2013 from approximately HK\$22.2 million for the same period in 2012. The amount was primarily attributable to the deferred tax recognised from fair value gain in respect of investment properties revaluation and enterprise income tax and land appreciation tax arising from properties sold during Current Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Discontinued Operation

The result from Wah Yuen foods business was classified as discontinued operation. For the period ended 30 June 2012, the result from discontinued operation reflected the net loss of approximately HK\$9.0 million. No result was included in Current Period.

Loss/profit Attributable to Owners of the Company

The loss attributable to the owners of the Company for the six months ended 30 June 2013 recorded approximately HK\$66.2 million while a profit of approximately HK\$11.8 million was recorded for the same period in 2012.

FINANCIAL POSITION

The Group has strengthened its financial position by shares placement to raise about approximately HK\$33 million during Current Period.

Total bank deposits and cash of the Group amounted to approximately HK\$179.6 million as at 30 June 2013. The Group's net debt was increased by approximately HK\$300.2 million to approximately HK\$1,020.6 million, which was made up of approximately HK\$1,200.2 million in debts and approximately HK\$179.6 million in bank deposits and cash. The total debts as at 30 June 2013 included short-term borrowings of approximately HK\$457.0 million, long-term borrowings of approximately HK\$675.0 million and liability component of convertible notes of approximately HK\$68.2 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 approximately HK\$312.7 million, or 8%, from approximately HK\$4,129.4 million as at 31 December 2012 to approximately HK\$4,442.1 million as at 30 June 2013. The Group had net current assets of approximately HK\$536.3 million, consisting of approximately HK\$1,933.4 million of current assets and approximately HK\$1,397.1 million of current liabilities. The net current assets increased by approximately HK\$67.3 million from the net current assets of approximately HK\$469.0 million as at 31 December 2012.

As at 30 June 2013, the Group's shareholders' equity increased by approximately HK\$0.6 million from approximately HK\$1,599.0 million to approximately HK\$1,599.6 million and the ratio of net debt to total shareholders' equity was 64%, compared 45% as at 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS AND PROSPECTS

The recovery of global economy remains slow and uncertain. Domestically, Central Government is cautious about its monetary policy in order to maintain stable development of Chinese economy, to keep domestic market demand and to accelerate urbanisation, while moving ahead with structural reform. The administrative policy and real estate control measures in PRC property market is expected to remain for a period of time. The Group is positive in the PRC property market. Having a diverse portfolio of properties including residential properties, shopping malls, office buildings, villas and hotels, the Group has a strong foundation to mitigate operating risks in challenging environment while is able grasp market opportunities.

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 is confident and positive about bringing superior values to shareholders with its business strategies and competitive edges and to enhance its brand and reputation in the PRC property market. The Group will balance the development and growth with its resources, and keep a healthy and sound financial position.

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 2013, 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 2013

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

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 2013

Name of Director	Capacity	Note	Number of underlying shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficial owner	(4)	12,795,263	0.69%
		(5)	54,262,000	2.92%
			67,057,263	3.61%
Ms. Wang Wenxia	Beneficial owner	(4)	12,795,263	0.69%
		(6)	18,087,228	0.97%
			30,882,491	1.66%
Mr. Ren Qian	Beneficial owner	(6)	1,500,000	0.08%
Mr. Zhou Kun	Beneficial owner	(6)	1,500,000	0.08%
Mr. Chan Pok Hiu	Beneficial owner	(6)	700,000	0.04%
Mr. Wong Chi Ming	Beneficial owner	(6)	700,000	0.04%
Mr. Wang Jian	Beneficial owner	(6)	700,000	0.04%

Notes:

- (1) The personal interests of Mr. Duan Chuan Liang comprise 4,207,928 ordinary shares and 67,057,263 outstanding share options.
- (2) The personal interests of Ms. Wang Wenxia comprise 1,231,440 ordinary shares and 30,882,491 outstanding share options.
- (3) The personal interests of Mr. Ren Qian comprise 680,400 ordinary shares and 1,500,000 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 2013 *(Continued)*

- (4) 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 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.

- (5) These share options were granted on 23 April 2013 at an exercise price of HK\$0.598 per share of the Company with exercise period from 23 April 2013 to 22 April 2023.
- (6) These share options were granted on 29 May 2013 at an exercise price of HK\$0.64 per share of the Company with exercise period from 29 May 2013 to 28 May 2023.

Save as disclosed above, as at 30 June 2013, 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 2013, 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 2013**

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	830,835,135	44.70%
China Financial International Investments Limited	(2)	Beneficial owner	194,259,429	10.45%
China Financial International Investments and Managements Limited	(3)	Investment manager	194,259,429	10.45%

(ii) Long positions in the underlying shares as at 30 June 2013

Name of substantial shareholders	Note	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
China Water Affairs Group Limited	(4)	Interest of controlled corporation	215,683,681	11.60%

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 2013 *(Continued)*

- (3) These Shares were held by China Financial International Investments and Managements 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) 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 2013.

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 2013
				As at 1 January 2013	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
Director	23/04/2013	0.598	23/04/2013 to 22/04/2023	-	54,262,000	-	-	-	54,262,000
Directors/ Employees/ Consultants	29/05/2013	0.64	29/05/2013 to 28/05/2023	-	42,787,228	-	-	-	42,787,228
				<u>25,590,526</u>	<u>97,049,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,639,754</u>

Saved as disclosed above, at no time during the period ended 30 June 2013 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

During the six months ended 30 June 2013, 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 Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

(1) Code Provision A.4.2

Under this code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. According to the Company's articles of association, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman of the Board of the Company (the "Chairman") shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the Chairman should not be subject to retirement by rotation.

(2) Code Provision A.6.7

Under this 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, certain non-executive Directors and one independent non-executive Director could not attend the extraordinary general meeting of the Company held on 27 May 2013 (the "EGM") and the annual general meeting of the Company held on 18 June 2013 (the "AGM"). However, at the respective general meetings of the Company, there were one executive Director and at least 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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE *(Continued)*

(3) 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, was unable to attend the EGM and the AGM. However, Ms. Wang Wenxia, the Vice Chairman and executive Director of the Company, took the chair of that meetings, 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 2013.

OTHER INFORMATION

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE AND INTEREST RATE

The Group principally operates the property investment, property development, hotel business and property management 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 2013.

The Group is exposed to interest rate risks, primarily related to the borrowings with floating interest rates as at 30 June 2013. 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.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2013, the total number of employees stood at approximately 404. Total staff costs (including the share-based payment) for the period under review were approximately HK\$46.5 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 2013 (six months ended 30 June 2012: Nil).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's ordinary shares.

OTHER INFORMATION

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 2013.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors, including (i) printed copies of corporate communications (including but not limited to annual reports, interim reports, notices of meetings, circulars and proxy forms) required under the Listing Rules; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board; (iii) updated and key information on the Group is available on the website of the Company; (iv) the Company's website offers a communication channel between the Company and its shareholders and stakeholders; and (v) the Company's Registrar deals with shareholders for share registration and related matters.