THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Water Property Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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)

(1) PROPOSED SHARE CONSOLIDATION; (2) PROPOSED OPEN OFFER IN THE PROPORTION OF TWO OFFER SHARES FOR EVERY FIVE CONSOLIDATED SHARES HELD ON THE RECORD DATE; (3) CONNECTED TRANSACTION: SET OFF OF LOAN; AND (4) APPLICATION FOR WHITEWASH WAIVER

Independent Financial Adviser to the Independent Board Committee

AmCap
Ample Capital Limited
豐盛融資有限公司

A letter of advice from the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 30 to 45 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 28 to 29 of this circular.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. These certain events are set out in the paragraph headed "Termination of the Underwriting Agreement" on pages 7 to 8 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed.

A notice convening the EGM to be held at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 10:30 a.m. on 16 September 2011 is set out on pages 160 to 163 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire and in such event, the proxy shall be deemed to be revoked.

31 August 2011

The expected timetable for the Share Consolidation and the Open Offer as set out below is indicative only and has been prepared on the assumption that the Share Consolidation, the Open Offer, the Set Off and the Whitewash Waiver will be approved by the Shareholders or the Independent Shareholders at the EGM. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

Despatch of Company's circular with notice of EGM	31 August 2011
Latest time for lodging forms of proxy for the purpose of the EGM	10:30 a.m. on 14 September 2011
EGM	10:30 a.m. on 16 September 2011
Announcement of results of EGM to be published on the Stock Exchange website	16 September 2011
Effective date of the Share Consolidation	19 September 2011
Original counter for trading in Existing Shares in board lots of 4,000 Shares (in the form of existing share certificates in yellow brown) temporarily closes	9:00 a.m. 19 September 2011
Temporary counter for trading in the Consolidated Shares in board lots of 400 Consolidated Shares (in the form of existing share certificates in yellow brown) opens	9:00 a.m. 19 September 2011
First day of free exchange of existing share certificates	19 September 2011
First day of operation of odd lot trading facility	19 September 2011
Last day of dealings in Shares on a cum-entitlement basis	19 September 2011
First day of dealings in Shares on an ex-entitlement basis	20 September 2011
Latest time for lodging transfer of Shares in order to be qualified for the Open Offer	4:30 p.m. on 21 September 2011
Register of members of the Company closed (both dates inclusive)	22 September 2011 to 26 September 2011 (both dates inclusive)

Record Date	26 September 2011
Register of members of the Company re-opens	27 September 2011
Despatch of the Prospectus Documents (in case of the Prohibited Shareholders, the Prospectus only)	27 September 2011
Original counter for trading in Consolidated Shares in board lots of 4,000 Consolidated Shares (in the form of new share certificates in golden yellow) re-opens	9:00 a.m. 3 October 2011
Parallel trading in Consolidated Shares commences	9:00 a.m. 3 October 2011
Latest time for acceptance of, and payment of Offer Shares	4:00 p.m. on 13 October 2011
Latest time for the Open Offer to become unconditional (being the third Business Days following the Latest Acceptance Date)	4:00 p.m. on 18 October 2011
Announcement of results of acceptance of the Offer Shares to be published on the Stock Exchange	On or before 21 October 2011
Despatch of share certificates for Offer Shares	On or before 24 October 2011
Temporary counter for trading in the Consolidated Shares in board lots of 400 Consolidated Shares (in the form of existing share certificates in yellow brown) closes	4:00 p.m. on 24 October 2011
Parallel trading ends	4:00 p.m. on 24 October 2011
Last day of operation of odd lot trading facility	24 October 2011
Dealings in Offer Shares commence	9:00 a.m. on 26 October 2011
Latest time for free exchange of share certificates	4:30 p.m. 26 October 2011

EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE

The Latest Acceptance Date will be postponed if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 13 October 2011. Instead, the Latest Acceptance Date will be rescheduled to 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon. If the Latest Acceptance Date is postponed in accordance with the foregoing, the dates mentioned in the section headed "EXPECTED TIMETABLE" in this circular may be affected. An announcement will be made by the Company in such event.

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Announcement"	the announcement of the Company dated 5 August 2011 in relation to, among other matters, the Share Consolidation, the Open Offer, the connected transaction in relation of the Set Off and the Whitewash Waiver
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day on which the Stock Exchange is open for the business in dealing securities
"Chairman"	the chairman of the Board
"China Water" or **"Underwriter"**	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
"China Water Undertaking"	the irrevocable undertaking given by China Water pursuant to the Underwriting Agreement
"Company"	China Water Property Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
"Consolidated Share(s)"	whole ordinary share(s) of HK$0.10 each in the share capital of the Company as a result of the Share Consolidation
"Convertible Bonds"	the convertible bonds with principal amount of HK$81,550,000 convertible into 1,812,222,222 Existing Shares with a conversion price of HK$0.045 per Existing Share, which is beneficially held by Good Outlook
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the Share Consolidation, the absence of excess application arrangement under the Open Offer, the Whitewash Waiver and the Set Off
"Existing Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company prior to the Share Consolidation becoming effective

"Executive"	Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s)
"Good Outlook"	Good Outlook Investments Limited, a wholly owned subsidiary of China Water
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	The independent committee of the Board comprising all the non-executive Directors (other than Mr. Duan) and independent non-executive Directors to advise the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the Set Off
"Independent Financial Adviser" or **"Ample Capital"**	Ample Capital Limited, a licensed corporation under the SFO licensed to conduct types 4, 6 and 9 regulated activities (Advising on Securities, Advising on Corporate Finance and Asset Management) under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Whitewash Waiver and the Set Off
"Independent Shareholders"	Shareholders other than China Water, its concert parties and those who are involved in or interested in the Underwriting Agreement, the Open Offer, the Whitewash Waiver and the Set Off who are required by the Listing Rules and/or the Takeovers Code to abstain from voting in respect of the resolution(s) relating to the Open Offer, the Whitewash Waiver and the Set Off to approve the resolutions at the EGM
"Latest Acceptance Date"	being 4:00 p.m. 13 October 2011 or such other date and/or time as the Underwriter and the Company may agree as the latest date for acceptance and payment in respect of applications under the Open Offer
"Latest Lodging Date"	being 4:30 p.m. 21 September 2011 or such other date and/or time as the Underwriter and the Company may agree as the latest time for lodging transfer of Shares order to be qualified for the Open Offer
"Latest Practicable Date"	26 August 2011, being the latest practicable date prior to the printing of this circular to ascertaining certain information herein

"Last Trading Date"	28 July 2011, being the last trading day of the Shares prior to the release of the Announcement of the Company dated 5 August 2011
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	the loan of approximately HK$112 million as at the Latest Practicable Date owed by the Company to China Water
"Mr. Duan"	Mr. Duan Chuan Liang, being (i) the Chairman and non-executive Director of the Company; and (ii) the chairman and executive director of China Water
"Open Offer"	the proposed issue of Offer Shares on the basis of two (2) Offer Shares for every five (5) Shares to Qualifying Shareholders at the Subscription Price, pursuant to the terms and conditions of the Underwriting Agreement
"Offer Share(s)"	502,492,246 Consolidated Shares to be allotted and issued pursuant to Open Offer
"Overseas Letter"	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer
"Overseas Shareholders(s)"	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) as shown on such register is(are) outside Hong Kong
"Prohibited Shareholders"	such Overseas Shareholders, to whom the Directors, based on legal opinions provided by legal advisers and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Offer Shares
"Prospectus"	the prospectus to be issued by the Company in relation to the Open Offer
"Prospectus Documents"	the Prospectus and the application form to be used by the Qualifying Shareholders to apply for the Offer Shares

"Prospectus Posting Date"	27 September 2011 or such later date as the Underwriter may agree in writing with the Company
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Prohibited Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
"Record Date"	26 September 2011, being the date by reference to which entitlements to the Open Offer will be determined
"Relevant Period"	the period beginning six month immediately prior to the date of the publication of the Announcement and ending on the Latest Practicable Date
"Registrar"	Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, being the Company's Hong Kong branch share registrar
"Set Off"	the set off of the Subscription Price against the Loan for the Offer Shares to which China Water and its associates are entitled under the Open Offer
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	Existing Share(s) or Consolidated Share(s), as the case maybe
"Share Consolidation"	the proposed consolidation of every ten (10) Existing Shares of HK$0.01 each in the issued and unissued share capital of the Company into one (1) Consolidated Share of HK$0.10 in the issued and unissued share capital of the Company
"Share Option(s)"	the share option(s) granted under the Share Option Scheme
"Share Option Scheme"	the share option scheme adopted by the Company
"Sharp Profit"	Sharp Profit Investments Limited, a wholly owned subsidiary of China Water
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.50 per Offer Share
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers

"Underwriting Agreement"	the underwriting agreement dated 28 July 2011 entered into among the Company and the Underwriter in relation to the Open Offer
"Underwritten Shares"	357,369,361 Offer Shares underwritten by China Water as the Underwriter under the Underwriting Agreement
"Whitewash Waiver"	the whitewash waiver from the obligation of the Underwriter to make a mandatory offer under Rule 26 of the Takeovers Code as a result of the underwriting of the Offer Shares under the Underwriting Agreement pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code
"%"	percent.
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong

The following information is derived from, and should be read in conjunction with, the full text of this circular.

Basis of the Open Offer:	Two (2) Offer Shares for every five (5) Consolidated Shares held on the Record Date.
Number of Shares in issue:	12,562,306,151 Existing Shares (equivalent to 1,256,230,615 Consolidated Shares) as at the date of the Announcement
Number of outstanding Share Options:	244,752,000 Share Options to subscribe for an aggregate of 244,752,000 Existing Shares (equivalent to 24,475,200 Consolidated Shares) as at the date of the Announcement, as to 122,376,000 Share Options are held by Mr. Duan.
Number of Offer Shares:	502,492,246 Offer Shares.
Number of Offer Shares undertaken to be taken up by China Water and its associates:	Pursuant to the Underwriting Agreement, China Water has given the irrevocable China Water Undertaking in favour of the Company that (a) to subscribe for or procure subscriptions for: (i) 31,508,247 Offer Shares to which China Water is entitled under the Open Offer; (ii) 64,532,373 Offer Shares and 47,880,000 Offer Shares to which each of Good Outlook and Sharp Profit is entitled under the Open Offer respectively; and (iii) 1,202,265 Offer Shares to which Mr. Duan is entitled under the Open Offer; and (b) to procure (i) Good Outlook not to convert the Convertible Bonds prior to the completion of the Open Offer; and (ii) Mr. Duan not to exercise the Share Options held by him prior to the Completion of the Open Offer.
Number of Offer Shares underwritten by the Underwriter:	Pursuant to the Underwriting Agreement, China Water has conditionally agreed to underwrite 357,369,361 Offer Shares (other than the Offer Shares undertaken to be taken up by China Water and its concert parties (including Mr. Duan) under the China Water Undertaking), on the terms and subject to the conditions set out in the Underwriting Agreement. The Open Offer (other than the Offer Shares undertaken to be taken up by China Water and its concert parties under the China Water Undertaking) will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement.

TERMINATION OF THE UNDERWRITING AGREEMENT

If at any time, prior to 4:00 p.m. on the third Business Day following the Latest Acceptance Date:

(1) in the sole and absolute discretion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or

(5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares provisionally allotted to it,

The Underwriter shall at its sole and absolute discretion be entitled by notice in writing to the Company, served prior to 4:00 p.m. on the third Business Day **after the Latest Acceptance Date**, which is expected to be 18 October 2011, to terminate the Underwriting Agreement.

The Underwriting Agreement further contains provisions that the Underwriter may terminate its commitment under the Underwriting Agreement if prior to 4:00 p.m. on the third Business Day **following the Latest Acceptance Date**, which is expected to be 18 October 2011, there is:

(a) any material breach of any of the warranties or undertakings under the Underwriting Agreement; or

(b) any specified event described in the Underwriting Agreement comes to the knowledge of the Underwriter.

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)

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

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

Principal place of business in Hong Kong:
Suite 6208, 62nd Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

31 August 2011

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED OPEN OFFER IN THE PROPORTION OF TWO OFFER SHARES FOR EVERY FIVE CONSOLIDATED SHARES HELD ON THE RECORD DATE;
(3) CONNECTED TRANSACTION: SET OFF OF LOAN;
AND
(4) APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

Reference is made to the Announcement of the Company dated 5 August 2011 in relation to, among other matters, the Share Consolidation, the Open Offer, the Whitewash Waiver and the Set Off.

The purpose of this circular is to give (i) details of the Share Consolidation, the Open Offer, the Whitewash Waiver and the Set Off; (ii) the recommendations of the Independent Board Committee in relation to the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the Set Off; (iii) a letter of advice from the Independent Financial

Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the Set Off; and (iv) notice convening the EGM.

PROPOSED SHARE CONSOLIDATION

The Board proposes that every ten (10) Existing Shares of HK$0.01 each in the issued and unissued share capital of the Company be consolidated into one (1) Consolidated Share of HK$0.10 in the issued and unissued share capital of the Company. As at the date of the Announcement, there were 12,562,306,151 Shares of HK$0.01 each in issue and fully paid or credited as fully paid. Assuming no further Shares will be issued from the date of the Announcement up to the date of the EGM, there will be 1,256,230,615 Consolidated Shares of HK$0.10 each in issue and fully paid or credited as fully paid following the Share Consolidation. The authorised share capital of the Company will remain at HK$500,000,000 divided into 5,000,000,000 Consolidated Shares of HK$0.10 each.

The implementation of the Share Consolidation is conditional upon:

(i) the passing of the necessary ordinary resolution by the Shareholders at the EGM to approve the Share Consolidation; and

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consolidated Shares.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consolidated Shares. All necessary arrangements will be made for the Consolidated Shares to be admitted into the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

The Consolidated Shares will be traded in board lots of 4,000 Consolidated Shares. Based on the closing price of HK$0.111 per Existing Share on the trading day immediately before the date of the Announcement, the value of each board lot of the Consolidated Shares, assuming the Share Consolidation had already been effective, would be HK$4,440.

Status of the Consolidated Shares

The Consolidated Shares will rank pari passu in all respects with each other and the Share Consolidation will not result in any change in the relative rights of the Shareholders. Fractional Consolidated Shares will not be issued by the Company to Shareholders. Any fractional entitlement to the Consolidated Shares will be aggregated, sold and retained for the benefit of the Company. In order to alleviate the difficulties arising from the existence of odd lots of Consolidated Shares, the Company has agreed to procure Mansion House Securities (F.E.) Limited, as an agent to arrange for matching service regarding the sale and purchase of odd lots of Consolidated Shares from 19 September 2011 to 24 October 2011 (both days inclusive).

Shareholders of odd lots of the Consolidated Shares may contact Mr. Tony Hui of Mansion House Securities (F.E.) Limited (telephone number: (852) 2843 1408) during the aforesaid period. Shareholders should note that matching of the sale and purchase of odd lots of Consolidated Shares is on a best effort basis and successful matching of the sale and purchase of such odd lots is not guaranteed.

Reasons for the Share Consolidation

The proposed Share Consolidation will increase the nominal value of the Shares and reduce the total number of Shares currently in issue. As such, the transaction and handling costs of the Company in relation to the dealing in the Consolidated Shares are expected to be reduced, which will be beneficial to the Company. Moreover, as the market value of each board lot upon the Share Consolidation becoming effective will be higher than the market value of each existing board lot, the transaction cost as a proportion of the market value of each board lot will be lower. It is expected that the liquidity in trading of the Shares will increase accordingly and the market value of the Shares will be more precisely reflect the intrinsic value of the Company. Accordingly, the Board is of the view that the Share Consolidation is beneficial to the Company and Shareholders as a whole.

Other than the expenses to be incurred by the Company in relation to the Share Consolidation, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of Shareholders as a whole.

Exchange of Share Certificate

Subject to the Share Consolidation becoming effective, which is currently expected to be 19 September 2011, being the Business Day immediately after the date of the EGM, Shareholders may on or after 19 September 2011 and until 26 October 2011 (both days inclusive), submit their share certificates in yellow brown for Shares to the Registrar for exchange for share certificates in golden yellow for the Consolidated Shares at the expense of the Company.

Shareholders should note that after the prescribed time for free exchange of share certificates, a fee of HK$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) will be payable by the Shareholders to the Registrar for exchange of share certificates.

With effect from 24 October 2011, trading will only be in Consolidated Shares. Share certificates in yellow brown for the Shares will cease to be valid for trading and settlement purpose, but will remain valid and effective as documents of title.

PROPOSED OPEN OFFER

The Board proposes to raise not less than approximately HK$250 million before expenses by issuing 502,492,246 Offer Shares at the Subscription Price of HK$0.50 per Offer Share on the basis of two (2) Offer Shares for every five (5) Consolidated Shares held on the Record Date.

Issue statistics

Basis of the Open Offer:	Two (2) Offer Shares for every five (5) Consolidated Shares held on the Record Date.
Number of Shares in issue:	12,562,306,151 Existing Shares (equivalent to 1,256,230,615 Consolidated Shares) as at the date of the Announcement
Number of outstanding Share Options:	244,752,000 Share Options to subscribe for an aggregate of 244,752,000 Existing Shares (equivalent to 24,475,200 Consolidated Shares) as at the date of the Announcement, as to 122,376,000 Share Options are held by Mr. Duan.
Number of Offer Shares:	502,492,246 Offer Shares.
Number of Offer Shares undertaken to be taken up by China Water and its associates:	Pursuant to the Underwriting Agreement, China Water has given the irrevocable China Water Undertaking in favour of the Company that (a) to subscribe for or procure subscriptions for: (i) 31,508,247 Offer Shares to which China Water is entitled under the Open Offer; (ii) 64,532,373 Offer Shares and 47,880,000 Offer Shares to which each of Good Outlook and Sharp Profit is entitled under the Open Offer respectively; and (iii) 1,202,265 Offer Shares to which Mr. Duan is entitled under the Open Offer; and (b) to procure (i) Good Outlook not to convert the Convertible Bonds prior to the completion of the Open Offer; and (ii) Mr. Duan not to exercise the Share Options held by him prior to the Completion of the Open Offer.
Number of Offer Shares underwritten by the Underwriter:	Pursuant to the Underwriting Agreement, China Water has conditionally agreed to underwrite 357,369,361 Offer Shares (other than the Offer Shares undertaken to be taken up by China Water and its concert parties under the China Water Undertaking), on the terms and subject to the conditions set out in the Underwriting Agreement. The Open Offer (other than the Offer Shares undertaken to be taken up by China Water and its concert parties under the China Water Undertaking) will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement.

Of the 244,752,000 Share Options mentioned above, 122,376,000 Share Options are being held by Mr. Duan and the other 122,376,000 Share Options are being held by Ms. Wang Wenxia, the Vice Chairman and Chief Executive Officer of the Company under the share option scheme adopted by the Company. Ms. Wang Wenxia has given an irrevocable undertaking to confirm that she will not exercise any of the Share Options held by her on or before the Record Date.

Good Outlook, a wholly owned subsidiary of China Water, is the holder of the Convertible Bonds with outstanding principal amount of HK$81,550,000, which is convertible into 1,812,222,222 Shares at the existing conversion price of HK$0.045 per Share. Under the China Water Undertaking, China Water has undertaken it will procure that the Convertible Bonds will not be converted into Shares prior to the completion of the Open Offer.

Save for the Share Options and the Convertible Bonds mentioned above, there are no outstanding warrants or share options or securities or derivatives that are convertible or exchangeable into Shares or confer any right to subscribe for Shares as at the date of the Announcement.

Subscription Price

The Subscription Price for the Offer Shares is HK$0.50 per Offer Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Open Offer.

The Subscription Price represents:

(i) a discount of approximately 54.95% to the closing price of HK$1.11 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange on the Last Trading Date;

(ii) a discount of approximately 55.91% to the average closing price of HK$1.134 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Date;

(iii) a discount of approximately 46.58% to the theoretical price of approximately HK$0.936 per Consolidated Share (assuming that the Share Consolidation has become effective) based on the closing price of HK$1.11 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange on the Last Trading Date; and

(iv) a discount of approximately 26.47% to the closing price of HK$0.68 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares and the financial requirements of the Company. The Group needs additional funds to finance its operations and business activities, in particular its property projects in the PRC. In view of the recent financial conditions of the Group as mentioned above and taking into consideration of the theoretical price per Share, in order to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Directors (including the non-executive Directors and the independent non-executive Directors after taking into consideration of the advices of Independent Financial Adviser) consider that the proposed discount of the Subscription Price is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (including the non-executive Directors and the independent non-executive Directors after taking into consideration of the advices of Independent Financial Adviser) consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Open Offer

The Open Offer is conditional upon the following conditions being fulfilled:

(a) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the date on which the prospectus for the Open Offer is despatched;

(b) the passing by the Independent Shareholders (or, where appropriate, Shareholders) at the relevant EGM of ordinary resolutions to approve the lack of excess application arrangement in the Open Offer and the Whitewash Waiver by no later than the date on which the prospectus for the Open Offer is despatched;

(c) the posting of the Prospectus Documents for the Open Offer to the Qualifying Shareholders of the Company and the posting of the prospectus for the Open Offer and a letter in the agreed form to the Prohibited Shareholders as defined in the Underwriting Agreement, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the prospectus for the Open Offer is despatched;

(d) the Executive Director of the Securities and Futures Commission or his delegate granting the Whitewash Waiver to China Water and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;

(e) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares by no later than the date on which the prospectus for the Open Offer is despatched;

(f) if necessary, the passing by the Independent Shareholders at the relevant EGM of ordinary resolutions to approve the Set Off of the Loan;

(g) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement;

(h) compliance with and performance of all the undertakings and obligations of the China Water under the terms of the Underwriting Agreement and the China Water Undertaking; and

(i) the Share Consolidation having become effective.

As at the Latest Practicable Date, none of the aforesaid conditions have been fulfilled.

If any of the conditions of the Open Offer are not fulfilled on or before 18 October 2011 (or such later time and/or date as the Company and the Underwriter may determine), neither the Company nor the Underwriter shall have any rights or be subject to any obligations arising from the Underwriting Agreement and the Open Offer will not proceed.

Status of the Open Offer

The Offer Shares, when allotted, issued and fully-paid, will rank pari passu with the Shares in issue in all respects. Holders of such Offer Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares. The Offer Shares will be traded in board lot of 4,000 Consolidated Shares which is the same as the board lot size for trading in Shares on the Stock Exchange.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to Qualifying Shareholders and (ii) the Prospectus with the Overseas Letter, for information only, to the Prohibited Shareholders.

To qualify for the Open Offer, the Shareholder must be registered as a member of the Company on the Record Date and must not be a Prohibited Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Registrar, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on the Latest Lodging Date. Holders of Share Options who wish to participate in the Open Offer should exercise their Share Options in accordance with their respective terms no later than the Latest Lodging Date.

Closure of register of members

The Company's register of members will be closed from 21 September 2011 to 22 September 2011, both dates inclusive, for the purpose of, among other things, establishing entitlements to the Open Offer. No transfer of Shares will be registered during this period.

Rights of Overseas Shareholders and Prohibited Shareholders

If at the close of business on the Record Date, a Shareholder's address on the Company's register of members is in a place outside of Hong Kong, that Shareholder may not be eligible to take part in the Open Offer. The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than in Hong Kong.

In compliance with Rule 13.36(2) of the Listing Rules, the Directors will make enquiries as to whether the issue of Offer Shares to the Overseas Shareholder may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Offer Shares to such Overseas Shareholders, no provisional allotment of Offer Shares will be made to such Overseas Shareholders. Accordingly, the Open Offer will not be extended to the Prohibited Shareholders. The Company will disclose the results of the enquiry in the Prospectus regarding the legal restrictions on the issue and allotment of Offer Shares to the Overseas Shareholders.

The Prohibited Shareholders will be entitled to vote at the EGM to consider and, if thought fit, for the resolution(s) approving, among other things, the Whitewash Waiver.

Fractional entitlement to the Offer Shares

Fractions of Offer Shares will not be allotted to Qualifying Shareholders and fractional entitlements will be rounded down to the nearest whole number of Offer Shares. Any Offer Shares created from the aggregation of fractions of Offer Shares will be taken up by the Underwriter.

No application for excess Offer Shares

No excess Offer Shares will be offered to the Qualifying Shareholders and any Offer Shares not taken up by the Qualifying Shareholders will be underwritten by the Underwriter.

Share certificates for the Offer Shares

Subject to the fulfillment of the conditions of the Open Offer, share certificates for all Offer Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Offer Shares on or before 24 October 2011 by ordinary post at their own risk.

Application for listing of the Offer Shares on the Stock Exchange

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares.

Reasons for the Open Offer and the use of proceeds

The Group is principally engaged in property development and investment in the PRC, and production and distribution of snack food, convenient frozen food and other food products.

Upon the full subscription of the Offer Shares and assuming no further Shares have been allotted and issued from the date hereof to the Record Date, the Company will receive gross proceeds of approximately HK$250 million. The Group needs additional funds to finance its operations and activities for expanding its businesses, in particular its property projects in the PRC. The net proceeds under the Open Offer are expected to amount to approximately HK$138 million (after the Set Off of the Loan of HK$112 million). The Company intends to use the net proceeds for property development and related business in the PRC.

Upon completion of the Open Offer and if the Underwriter becomes the controlling Shareholder, the Underwriter will maintain the current business of the Company and will not introduce any major changes to the business including redeployment of fixed assets of the Group. The Underwriter has no intention to change the management and other employees of the Group.

In light of the growth of the Group in the recent years, it is expected that the business of the Company will keep growing in the long run, which justifies the long-term interests of the Underwriter.

The main property projects of the Group are located in Wuhan City, Hubei Province, Hangzhou City, Zhijiang Province and Guangzhou City, Guangdong Province, the PRC. Details of those projects can be found on the annual report of the Company for year ended 31 December 2010. It is expected that the proceeds from the Open Offer will be utilized within 12 months for such property development projects.

It is expected that approximately up to HK$44 million of the net proceeds will be applied to set off the bank borrowings within 1 years and the remaining balance of approximately not less than HK$94 million will be applied to capital commitments in connection with the property development projects of the Group.

The Directors have considered other alternative fund raising methods such as issue of new shares and bank borrowings and consider that the Open Offer has the benefits of allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings if they take up their entitled Offer Shares and participate in the future growth of the Group.

The Directors (including the non-executive Directors and the independent non-executive Directors after taking into consideration of the advices of the Independent Financial Advisor) believe that the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

UNDERWRITING ARRANGEMENT

China Water Undertaking

Pursuant to the Underwriting Agreement, China Water has given the irrevocable China Water Undertaking in favour of the Company that (a) to subscribe for or procure subscriptions for: (i) 31,508,247 Offer Shares to which China Water is entitled under the Open Offer; (ii) 64,532,373 Offer Shares and 47,880,000 Offer Shares to which Good Outlook and Sharp Profit is entitled under the Open Offer respectively; and (iii) 1,202,265 Offer Shares to which Mr. Duan is entitled under the Open Offer; and (b) to procure (i) Good Outlook not to convert the Convertible Bonds prior to the completion of the Open Offer; and (ii) Mr. Duan not to exercise the Share Options held by him prior to the Completion of the Open Offer.

Save for the China Water Undertaking as disclosed above, the Board had not received any information or irrevocable undertakings from any substantial Shareholders of their intention to take up the securities of the Company to be offered to them under the Open Offer.

Underwriting Agreement

Date:	28 July 2011
Underwriter:	China Water
	China Water is a listed company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued shares of which listed on the main board of the Stock Exchange.
	China Water, together with Good Outlook, Sharp Profit and Mr. Duan, hold an aggregate of 3,628,072,138 Existing Shares (equivalent to approximately 362,807,213 Consolidated Shares), representing approximately 28.88% of the issued share capital of the Company.
	The ordinary course of business of China Water does not include underwriting.

Number of Offer Shares underwritten:	Pursuant to the Underwriting Agreement, China Water as the underwriter has conditionally agreed to underwrite the Offer Shares (other than the Offer Shares agreed to be taken up under the China Water Undertaking) which have not been taken up. Accordingly, the Open Offer is fully underwritten.
Commission:	No underwriting commission will be payable by the Company to the Underwriter under the Underwriting Agreement.

Termination of the Underwriting Agreement

If at any time, prior to 4:00 p.m. on the third Business Day following the Latest Acceptance Date:

(1) in the sole and absolute discretion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or

(5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares provisionally allotted to it,

The Underwriter shall at its sole and absolute discretion be entitled by notice in writing to the Company, served prior to 4:00 p.m. on the third Business Day **after the Latest Acceptance Date**, which is expected to be 18 October 2011, to terminate the Underwriting Agreement.

The Underwriting Agreement further contains provisions that the Underwriter may terminate its commitment under the Underwriting Agreement if prior to 4:00 p.m. on the third Business Day **following the Latest Acceptance Date**, which is expected to be 18 October 2011, there is:

(a) any material breach of any of the warranties or undertakings under the Underwriting Agreement; or

(b) any specified event described in the Underwriting Agreement comes to the knowledge of the Underwriter.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.

CONNECTED TRANSACTION: THE SET OFF OF THE LOAN

As at the date of the Announcement, the Company is indebted to China Water the Loan in the sum of approximately HK$112 million under three loan agreements. The Loan is unsecured, bearing an interest at 8% per annum and with a term of 6 months.

Pursuant to the Underwriting Agreement, China Water and the Company have agreed that the Subscription Price payable by China Water and its associates (other than Mr. Duan) for the Offer Shares to which each of them is entitled under the Open Offer and the Underwritten Shares would be by way of the Set Off against the Loan in first place and the remaining balance of the Subscription Price will be settled in cash. The exact amount of the Loan to be set off for such aggregate Subscription Price depends on the number of Offer Shares to be taken up by the Qualifying Shareholders. For the avoidance of doubt, the Subscription Price required to be paid by Mr. Duan shall be settled by himself in cash.

The completion of the Set Off is subject to the same conditions of the Open Offer. Completion of the Set Off shall take place simultaneously with the issue of the Offer Shares by the Company pursuant to the terms of the Open Offer.

Reasons for the Set Off

The Directors consider that the Set Off will enable the Group to repay part or whole of the liabilities of the Company without cash outflow and will allow the Group to reduce its gearing level. The Directors accordingly consider that the Set Off is in the interests of the Company and the Shareholders as a whole.

While the Loan from China Water of HK$112 million might be extended when it falls due, the Set Off was agreed after arm's length negotiations between the Company and China Water as underwriter. In the event of absence of the Set Off arrangement in the Open Offer, China Water will have additional cash outflow of HK$112 million under the Open Offer and this will affect the willingness of China Water to act as underwriter for the Open Offer. Given that China Water will not charge any underwriting commission and the Loan was utilized towards the property development projects of the Company, the Company considers that the Set Off arrangement is fair and reasonable.

Implications under Listing Rules

Since China Water and its concert parties are substantial Shareholders, the Set Off constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and requires the approval of the Independent Shareholders.

WARNING OF THE RISK OF DEALING IN SHARES

The Open Offer is conditional upon the obligations of the Underwriter under the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Shareholders and potential investors should therefore exercise caution when dealing in Shares, and if they are in any doubt about their positions, they should consult their professional advisers.

Shareholders should note that Shares will be dealt in on an ex-entitlement basis commencing from 20 September 2011 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled, will accordingly bear the risk that the Open Offer cannot become

unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

CHANGES IN SHAREHOLDING STRUCTURE

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer, assuming no Share Options have been exercised and no Convertible Bonds have been converted and after full conversion of the Convertible Bonds:

Shareholder	At the Latest Practicable Date		Immediately after the Open Offer (assuming no Shareholder taking up any Offer Shares)		Immediately after the Open Offer (assuming that all Shareholders taking up their respective entitlements)		Immediately after the Open Offer (assuming no Shareholder taking up any Offer Shares) and after full conversion of the Convertible Bonds by Good Outlook *(Note 3)*		Immediately after the Open Offer (assuming that all Shareholders taking up their respective entitlements) and after full conversion of the Convertible Bonds by Good Outlook *(Note 3)*	
	No. of Consolidated Shares assuming the Share Consolidation have been effective	Approximate percentage	No. of Consolidated Shares	Approximate percentage	No. of Consolidated Shares	Approximate percentage	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage
China Water and its concert parties										
China Water *(Note 1)*	78,770,617	6.27%	467,648,224	26.59%	110,278,864	6.27%	467,648,224	24.11%	110,278,864	5.68%
Good Outlook *(Note 1)*	161,330,933	12.84%	225,863,306	12.84%	225,863,306	12.84%	407,085,528	20.98%	407,085,528	20.98%
Sharp Profit *(Note 1)*	119,700,000	9.53%	167,580,000	9.53%	167,580,000	9.53%	167,580,000	8.64%	167,580,000	8.64%
Mr. Duan *(Note 2)*	3,005,663	0.24%	4,207,929	0.24%	4,207,929	0.24%	4,207,929	0.22%	4,207,929	0.22%
Subtotal	362,807,213	28.88%	865,299,459	49.20%	507,930,099	28.88%	1,046,521,681	53.95%	689,152,746	35.52%
Other Shareholders	893,423,402	71.12%	893,423,402	50.80%	1,250,792,762	71.12%	893,423,402	46.05%	1,250,792,762	64.48%
Total	1,256,230,615	100%	1,758,722,861	100%	1,758,722,861	100%	1,939,945,508	100%	1,939,945,508	100%

Notes

1. Good Outlook and Sharp Profit are wholly-owned subsidiaries of China Water, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability the issued shares of which are listed on the main board of the Stock Exchange (Stock Code: 855).

2. Mr. Duan is the Chairman and non-executive Director of the Company and is also the chairman and executive director of China Water.

3. Pursuant to the China Water Undertaking, Good Outlook may not convert the Convertible Bonds into conversion Shares prior to the completion of the Open Offer. Furthermore, pursuant to the terms of the Convertible Bonds, no conversion of the Convertible Bonds will be allowed if such conversion shall trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the relevant holder of the Convertible Bonds who exercises the conversion rights. As such, the above shareholding table is for illustrative purpose only.

ADJUSTMENTS IN RELATION TO THE SHARE OPTIONS AND THE CONVERTIBLE BONDS

Up to the date of the Announcement, 244,752,000 outstanding Share Options have been granted by the Company under the Share Option Scheme entitling the holders thereof to subscribe for up to an aggregate of 244,752,000 Existing Shares (equivalent to 24,475,200 Consolidated Shares).

Good Outlook, a wholly owned subsidiary of China Water, is the holder of the Convertible Bonds with outstanding principal amount of HK$81,550,000, which is convertible into 1,812,222,222 Existing Shares (equivalent to 181,222,222 Consolidated Shares and approximately 14.43% of issued share capital of the Company) at the existing conversion price of HK$0.045 per Existing Share.

Subject to the confirmation of auditors, the Share Consolidation and the issue of the Offer Shares may cause adjustments to the exercise price of the Share Options and the conversion price of the Convertible Bonds. The Company will instruct its auditors to review and certify the basis of such adjustments as soon as possible. The adjustments to the exercise price of the Share Options will be in compliance with the requirements under Chapter 17 of the Listing Rules and in accordance with the terms of the existing share option scheme. Further announcement(s) will be made by the Company in respect of such adjustments as and when appropriate.

FUNDS RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The Company has not performed any fund raising activities in the past twelve months from the date of the Announcement.

WHITEWASH WAIVER

Assuming no Shareholders had taken up any of the Offer Shares, the taking up of (i) the Offer Shares to which China Water and its concert parties are entitled under the Open Offer, and (ii) the Underwritten Shares would result in the aggregate shareholdings of China Water and its concert parties in the Company being increased from approximately 28.88% to approximately 49.20% and would therefore give rise to a mandatory offer obligation under Rule 26 of the Takeovers Code for the Underwriter to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already held by it and its concert parties unless the Whitewash Waiver is obtained.

As at the date of the Announcement, the Underwriter and the parties acting in concert with it hold the following Shares, convertible securities, warrants or options of the Company:

(a) China Water directly holds 787,706,172 Existing Shares (equivalent to approximately 78,770,617 Consolidated Shares), representing approximately 6.27% of the existing issued share capital of the Company;

(b) Good Outlook, a wholly owned subsidiary of China Water, holds 1,613,309,332 Shares (equivalent to approximately 161,330,933 Consolidated Shares), representing approximately 12.84% of the existing issued share capital of the Company and is also holder of the Convertible Bonds issued by the Company with outstanding principal amount of HK$81,550,000 convertible into 1,812,222,222 Existing Shares (equivalent to approximately 181,222,222 consolidated shares and representing approximately 14.43% of the entity issued share capital of the Company) at the existing conversion price of HK$0.045 per Existing Share;

(c) Sharp Profit, a wholly owned subsidiary of China Water, holds 1,197,000,000 Shares (equivalent to approximately 119,700,000 Consolidated Shares), representing approximately 9.53% of the existing issued share capital of the Company; and

(d) Mr. Duan is (i) the Chairman and non-executive Director of the Company; (ii) the chairman and executive director of China Water; (iii) the legal and beneficial owner of 30,056,634 Existing Shares (equivalent to approximately 3,005,663 Consolidated Shares), representing approximately 0.24% of the existing issued share capital of the Company and 122,376,000 share options granted under the share option scheme adopted by the Company; and (iv) the legal and beneficial owner of 322,874,301 shares of HK$0.01 each in the share capital of China Water, representing about 20.30% of the issued share capital of China Water.

Save as disclosed above, the Underwriter and its parties acting in concert do not hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company as at the date of the Announcement. Save as disclosed above, the Underwriter and its parties acting in concert do not own any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company.

Save for the exercise of 30,056,634 Share Options by Mr. Duan on 24 March 2011, the Underwriter and the parties acting in concert with it have not acquired any voting rights of the Company and have not dealt in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares of the Company in the six months prior to the date of the Announcement. The exercise of the Share Option by Mr. Duan took place before any negotiations and discussions of the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off as disclosed herein and the Company has obtained a confirmation from the Executive under paragraph 3a of Schedule VI of the Takeovers Code that the exercise of Share Options by Mr. Duan does not constitute disqualifying transaction for the purpose of the Whitewash Waiver.

An application have been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, which the Underwriter and the parties acting in concert with it and those who are involved in and/or interested in the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the

Set Off will abstain from voting on the relevant resolution(s). It is a condition precedent to the completion of the Open Offer that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive, the Open Offer will not proceed.

The Executive has indicated that the Whitewash Waiver will be granted, subject to, among other things, the approval of the Independent Shareholders by way of poll at the EGM.

The Directors (including the independent non-executive Directors and the non-executive Directors) believe that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of the Announcement, China Water and its concert parties in aggregate hold approximately 28.88% of the issued share capital of the Company and therefore China Water is a connected person of the Company. The Set Off as contemplated under the Underwriting Agreement therefore constitutes connected transaction on the part of the Company under Chapter 14A of the Listing Rules. The Set Off is subject to the reporting and announcement requirements and the approval of the Independent Shareholders at the EGM under the Listing Rules.

As the Proposed Open Offer will not increase the issued share capital or the market capitalisation of the Company by more than 50%, the Open Offer is not subject to Shareholders' approval in accordance with Rule 7.24(5) of the Listing Rules. However, the absence of excess application and the alternative arrangement for the disposal of the Offer Shares not taken up under the Open Offer shall be specifically approved by the Independent Shareholders at the EGM by way of poll for the purpose of compliance with Rule 7.21 of the Listing Rules.

As China Water, being the Underwriter to the Open Offer, is deemed to have a material interest in the Open Offer and the Set Off, China Water and its concert parties and those who are involved in or interested in the Open Offer, the Whitewash Waiver and the Set Off will abstain from voting on the respective resolutions at the EGM for approving the Whitewash Waiver, the Set Off and the absence of excess application arrangement under the Open Offer. The voting at the EGM will be taken by way of poll.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

The stable property prices and sustainable economic growth will be determining factors in the choice of the extent to which the Central Government adopts administrative measures or incentives, in turn, lead to influence how urbanisation playing out in the years ahead. The Group is confident about the Central Government can ensure its stature as a balanced growing and developing economic power that is following a sustainable path toward long term prosperity.

With the scale and pace of urbanisations, especially in the second-to-third tier cities continued at an unprecedented rate, the underlying demand for housing will be very strong for many years to come. These urbanising regions, coupled with their robust patterns of population and economic outcomes, will offer compelling upside over the next few years and are expected to be strongest growth market of the Group.

The Group possessed a portfolio of predominately integrated commercial properties development projects in prime locations in these urbanising regions, in particular in the provinces such as Hubei and Zhejiang. The Group will design and make better use of locations of these premium integrated commercial properties so as to further enhance their value and become the focal point for the local community. These strategies will make to put the Group in a stronger position to deliver on the business objective. The Group is forging ahead with its plans for expansion and focusing its quest to continuously grow the business and provide respectable returns for shareholders over the long term.

EGM

A notice convening the EGM at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 16 September 2011 at 10:30 a.m. is set out on pages 160 to 163 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire.

To the best of the Directors' knowledge, information and belief, no Shareholders have material interests in the Share Consolidation and accordingly no Shareholders are required to abstain from voting in respect of the resolution approving the Share Consolidation at the EGM.

In accordance with the Takeovers Code and the Listing Rules, the Underwriter and the parties acting in concert with it and their respective associates (as defined under the Listing Rules) and those who are involved in and/or interested in the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off will abstain from voting on the relevant resolutions in respect of the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off.

RECOMMENDATION

The Directors consider that the Share Consolidation is in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM in respect of the Share Consolidation.

The Directors also consider that the terms of the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Open Offer, the Whitewash Waiver and the Set Off. You are advised to read carefully the letter from the Independent Board Committee regarding the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off on pages 28 to 29 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 30 to 45 of this circular, considers that the terms of the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off are fair and reasonable insofar as the Independent Shareholders are concerned.

FURTHER INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

By the order of the Board
China Water Property Group Limited
Wang Wenxia
Vice Chairman and Chief Executive Officer

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the Set Off.

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)

31 August 2011

To the Independent Shareholders

Dear Sir or Madam,

(1) PROPOSED OPEN OFFER IN THE PROPORTION OF TWO OFFER SHARES FOR EVERY FIVE CONSOLIDATED SHARES HELD ON THE RECORD DATE;
(2) CONNECTED TRANSACTION: SET OFF OF LOAN;
AND
(3) APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 31 August 2011 (the "Circular") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off are fair and reasonable insofar as the Independent Shareholders are concerned. Ample Capital has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages 30 to 45 of the Circular, we are of the opinion that the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. We are also of the view that the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Open Offer, the Whitewash Waiver and the Set Off.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Zhou Kun	**Mr. Chan Pok Hiu**	**Mr. Wong Chi Ming**	**Mr. Wang Jian**
Non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Adviser prepared for the purpose of inclusion in this circular:

AmCap
Ample Capital Limited
豐盛融資有限公司

Ample Capital Limited
Unit A, 14th Floor
Two Chinachem Plaza
135 Des Voeux Road Central
Hong Kong

31 August 2011

To the Independent Board Committee and the Independent Shareholders of China Water Property Group Limited

Dear Sirs/Madams,

(1) PROPOSED OPEN OFFER IN THE PROPORTION OF TWO OFFER SHARES FOR EVERY FIVE CONSOLIDATED SHARES HELD ON THE RECORD DATE; (2) CONNECTED TRANSACTION: SET OFF OF LOAN; (3) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off, details of which are set out in the Letter from the Board (the "Letter from the Board") contained in the circular (the "Circular") of the Company to the Shareholders dated 31 August 2011, of which this letter forms part. Terms used in this letter have the same meanings as defined in the Circular unless the context otherwise requires.

On 5 August 2011, the Board announced that it was proposing to raise not less than approximately HK$250 million before expenses by issuing 502,492,246 Offer Shares at the Subscription Price of HK$0.50 per Offer Share on the basis of two Offer Shares for every five Consolidated Shares held on the Record Date.

China Water is the underwriter of the Open Offer. Pursuant to the Underwriting Agreement, China Water and the Company have agreed that the aggregate Subscription Price required to be paid by China Water and its associates under its underwriting obligation of the Underwriting Agreement and the Open Offer will be settled by way of firstly the Set Off against the Loan and after the Set Off of the Loan in full, by cash. As China Water and its concert parties in aggregate holds approximately 28.88% of the issued share capital of the Company as at the Latest Practicable Date and therefore China Water is a connected person of the Company, the Set Off will constitute a connected transaction on the part of the Company.

Under the Open Offer, it is proposed that no excess Offer Shares will be offered to the Qualifying Shareholder and any Offer Shares not taken up by the Qualifying Shareholders will be underwritten by the Underwriter. Under the Listing Rules, the absence of the excess application for the Open Offer will be subject to approval by the Independent Shareholders.

Assuming no Shareholders had taken up any of the Offer Shares, the taking up of (i) the Offer Shares to which China Water and its concert parties are entitled under the Open Offer, and (ii) the Underwritten Shares would result in the aggregate shareholdings of China Water and its concert parties in the Company being increased from approximately 28.88% to approximately 49.20% and would therefore give rise to a mandatory offer obligation under Rule 26 of the Takeovers Code for the Underwriter to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already held by it and its concert parties unless the Whitewash Waiver is obtained. An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll. If the Whitewash Waiver is not granted by the Executive, the Open Offer will not proceed.

The EGM will be convened to approve the Open Offer (including the absence of excess application arrangement under the Open Offer), the Whitewash Waiver, the Underwriting Agreement and the Set Off by way of poll. In accordance with the Takeovers Code and the Listing Rules, the Underwriter and the parties acting in concert with it and their respective associates (as defined under the Listing Rules) and those who are involved in and/or interested in the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off will abstain from voting on the relevant resolutions in respect of the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off.

The Independent Board Committee, which comprises all non-executive Directors (other than Mr. Duan) and independent non-executive Directors in compliance with Rule 2.8 of the Takeovers Code, has been established to advise the Independent Shareholders as to whether the terms of the Underwriting Agreement, the Open Offer (including the absence of excess application arrangement under the Open Offer), the Whitewash Waiver and the Set Off are fair and reasonable and whether the Open Offer (including the absence of excess application arrangement under the Open Offer), the Whitewash Waiver, the Underwriting Agreement and the Set Off are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote. As at the Latest Practicable Date, given that Mr. Duan is (i) the chairman and executive director of China Water (being the Underwriter under the Open Offer); and (ii) the legal and beneficial owner of 322,874,301 shares of HK$0.01 each in the share capital of China Water, representing approximately 20.30% of the issued share capital of China Water, Mr. Duan is considered to have an interest in the Open Offer and thus will not act as a member of the Independent Board Committee.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company for which they are solely responsible, are true and accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statements in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Shareholders as a result of the Open Offer, the Set Off and the Whitewash Waiver.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

The principal factors and reasons that we have taken into consideration in arriving at our opinion on the Open Offer, the Underwriting Agreement, the Set Off and the Whitewash Waiver are set out as follows:

1. Background and reasons for the Open Offer

(a) Information on the Group

The Group is principally engaged in property development and investment in the PRC, and production and distribution of snack food, convenient frozen food and other food products. We understand from the Company that the business of the Group has been focused primarily on property development and investment in the PRC since October 2009.

Based on the information set out in the 2010 annual report of the Company, the financial results of the Group are summarized as follows:

	For the year ended 31 December	
	2010	**2009**
	HK$'000	*HK$'000*
Turnover		
Property development and investment business	926,688	—
Food related business	64,153	65,612
Discontinued operations (Note)	12,388	34,842
Profit/(Loss) attributable to equity holders of the Company	509,534	(316,294)
Total assets	2,781,054	1,092,414
Total liabilities	1,425,487	802,994
Equity attributable to equity holders of the Company	1,195,201	252,710
Cash and cash equivalents	273,580	178,619

Note: The discontinued operations represent the healthcare product business of the Group which was disposed of in September 2010.

Based on the results of the Group for the year ended 31 December 2010, the property development and investment business accounted for the majority of the turnover of the Group, representing approximately 92.4% of the Group's turnover for the year. At present, the Group's property business is mainly focused on Wuhan and Hangzhou. The Group is maintaining a diversified portfolio of property projects in these regions at various stages of development with a variety of property types of residential apartment, office building, hotel, villa and commercial property.

The year 2010 was a fruitful year for the Group. The Group's turnover increased by fourteen-fold from approximately HK$66 million in 2009 to approximately HK$991 million in 2010. According to the 2010 annual report of the Company, the growth in sales was primarily due to an increase in revenue from sale of residential properties in Wuhan and Hangzhou of approximately HK$927 million. On the other hand, the turnover from the food related business of the Group showed a slight decrease of approximately 2.3% from approximately HK$65.6 million in 2009 to approximately HK$64.1 million in 2010. This sector recorded an operating loss of approximately HK$9.7 million in 2010. The profit attributable to the owners of the Company was approximately HK$509.5 million in 2010 as compared with the loss of approximately HK$316.3 million in 2009. This tremendous improvement was resulted from the successful sale of properties in the year as well as recognition of fair value gain in investment properties of HK$478 million, which represented the fair value changes of Wuhan Future City shopping mall after its completion of construction in 2010.

We understand from the Company that it is the plan to continue the expansion of its property development and investment business having considered its success in 2010 and the potential growth of the property market in the PRC.

We also understand that the Group's turnover showed an increase from approximately HK$42.1 million for the six months ended 30 June 2010 to approximately HK$101.7 million for the six months ended 30 June 2011, which was primarily driven by the property development business.

(b) Reasons for the Open Offer

The Directors consider that the capital raised by the Open Offer will provide the funding for the Group to finance its operations and activities for expanding its businesses, in particular its property projects in the PRC. The estimated net proceeds of the Open Offer will be approximately HK$138 million (after the Set Off of the Loan of HK$112 million).

We understand from the Directors that they have considered other means of fund raising such as by way of bank borrowings or private placement of Shares. The Directors are generally of the view that it is more desirable to finance the Group's long term growth by way of equity rather than debt as it will strengthen the Group's financial position without imposing any repayment or interest burden to the Group. We concur with the Directors that bank borrowing and other debt financing will adversely affect the Group's balance sheet and increase the gearing ratio. We also concur with the Directors' view that unlike private placement of Shares which will result in dilution of Shareholders' interests in the Company, the Open Offer would enable the Qualifying Shareholders to maintain their relative percentage interests in the Company by taking up their allotments under the Open Offer in full. As such, the Qualifying Shareholders are given an opportunity to participate in the future growth and development of the Group. While rights issue and open offer both can raise funds and allow the Qualifying Shareholders to maintain their existing shareholdings in the Company, the Company opts for the latter as it does not require time for trading of nil-paid entitlements on the Stock Exchange, and is more time and cost effective. In view of the time and cost efficiency, we concur with the Directors that the Open Offer is a better fund raising method for the Company.

As at 30 June 2011, the Group had a cash balance of approximately HK$152.6 million, while it had bank borrowings of approximately HK$441.6 million and loans due to China Water of approximately HK$112 million. All the bank borrowings of the Group are due within one year. In view of the above, we consider that the cash level of the Group is not high taking into account the maturity profile of its borrowings.

In view that (i) the Open Offer will provide funds for the business development of the Group and the Set Off will reduce cash outflow and gearing simultaneously for the Group (further analyses on the Set Off are set out under the section headed "The Set Off" below), (ii) the use of net proceeds for the Open Offer is mainly to finance the property development business of the Group, which has brought to the Group fruitful return in 2010 and is in line with the Group's development plan, and (iii) the cash balance of the Group is not considered to be high and a higher cash level will probably enable the Company to grasp any immediate investment opportunity, (iv) the Open Offer is considered to be a better fund raising method, we are of the view that the Open Offer is in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Open Offer

(a) Basis of the Open Offer

As stated in the Board letter, the Open Offer is on the basis of two Offer Shares for every five Consolidated Shares held on the Record Date.

(b) Subscription Price

The Subscription Price for the Offer Shares is HK$0.50 per Offer Share and is payable in full on application. The Subscription Price represents:

(i) a discount of approximately 54.95% to the closing price of HK$1.11 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange on the Last Trading Date;

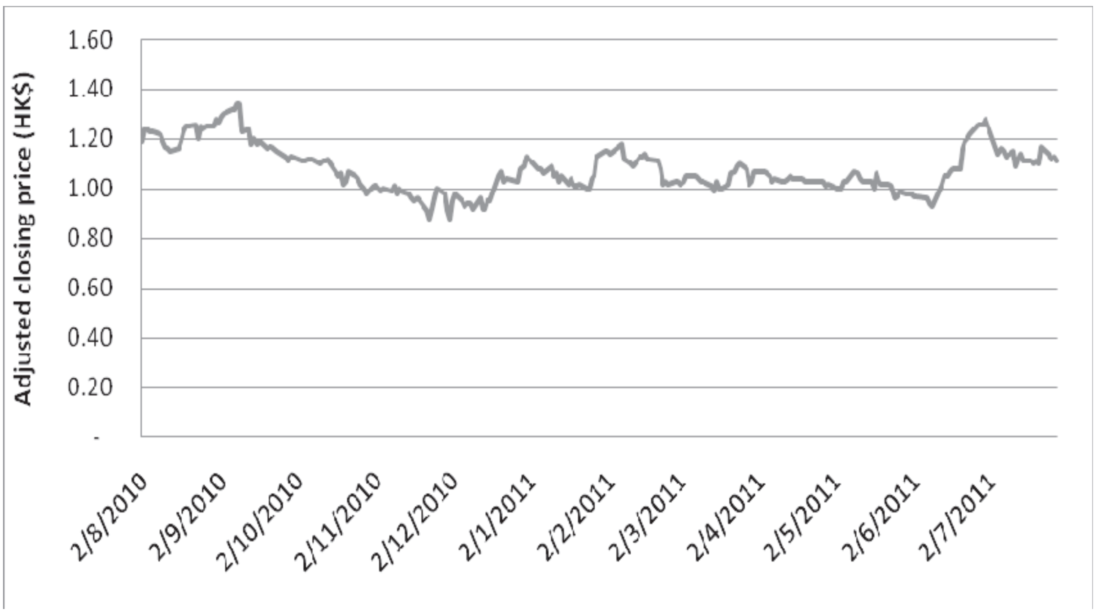
(ii) a discount of approximately 55.91% to the average closing price of HK$1.134 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Date; and

(iii) a discount of approximately 46.58% to the theoretical price of approximately HK$0.936 per Consolidated Share (assuming that the Share Consolidation has become effective) based on the closing price of HK$1.11 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange on the Last Trading Date.

The Board Letter states that the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares and the financial requirements of the Company.

(i) Historical closing prices of the Company

We have reviewed the trading price of the Shares for the 12-month period prior to the date of the Underwriting Agreement, commencing from 2 August 2010 up to and including 28 July 2011 (being the date of the Underwriting Agreement) (the "Review Period"). The chart below illustrates the daily closing prices of the Consolidated Shares (after adjusted with the proposed Share Consolidation) during the Review Period:



Source: website of the Stock Exchange — www.hkex.com.hk

During the Review Period, the highest closing price and the lowest closing price of the Consolidated Shares was HK$1.34 on 9 September 2010 and HK$0.88 on 23 November 2010. The Consolidated Shares were traded with a closing price over the Subscription Price during the Review Period. The Subscription Price is lower than the lowest closing price of the Adjusted Shares during the Review Period and represents a discount of approximately 43.18% to such lowest closing price.

Based on the Comparables (as defined below), we note that it is a common market practice that, in order to enhance the attractiveness of an open offer/rights issue exercise and to encourage the existing shareholders to participate in an open offer/rights issue, the subscription price of an open offer/rights issue normally represents a discount to the prevailing market prices of the relevant shares. Hence, the fact that the Subscription Price is lower than the prevailing market prices of the Shares is in line with general practice and is acceptable. We will further analyse the fairness and reasonableness of the discounts represented by the Subscription Price by making comparisons with other listed comparables which made open offers/rights issues recently under the section headed "Comparison with other open offers/rights issues" below in this letter.

(ii) Comparison with other open offers/rights issues

In order to assess the reasonableness of the Subscription Price, we have compared the Open Offer with recent open offers and rights issues conducted by other companies listed on the Stock Exchange. We are of the view that open offers and rights issues are similar in nature as both of the fund raising method offer the shareholders a pro rata entitlement to subscribe for new shares of a company and the major difference between an open offer and a rights issue is that the subscription rights are available for trading under a rights issue while there is no such arrangement under an open offer. In view of that, we have included rights issue into our analysis as we consider a broader comparison can provide a more general reference for the Subscription Price. Shareholders should note that listed companies differ from one another and it is a common market practice to price an open offer or rights issue at a discount to the market price of relevant shares in order to encourage subscription by their shareholders. In addition, the market sentiment at the relevant time may also play an important role in the determination of the subscription price. Accordingly, we have reviewed the following open offers and rights issue which were announced by companies listed on the Stock Exchange during the period from 1 January 2011 to 28 July 2011, being the date of the Underwriting Agreement. Such open offers and rights issues are an exhaustive list of open offers and rights issues during the abovementioned period identified by us to our best knowledge. All the open offers and rights issues during the period, regardless of the business nature of the listed companies, are included in our analysis as (i) we consider that there is no direct relationship between the business nature of a listed company and the discount it adopts for determining the subscription price of open offer/rights issue; and (ii) the size of the comparable companies would be limited if the analysis is restricted to companies with similar business as only two companies out of the comparable companies identified by us are principally engaged in similar business of the Group, i.e. property development. We consider using an exhaustive list of open offers and rights issues can offer a broader comparison in order to provide a more general reference for the Subscription Price. Details of our findings on these open offers and rights issues (the "Comparables") are summarized in the table below.

Date of announcement (2011)	Company (stock code)	Basis of entitlement	Subscription price *HK$*	Closing price per share on the last full trading day *HK$*	Discount *(Note 1)*	Underwriting Commission	Application for excess rights shares
4 January	Dragon Hill Wuling Automobile Holdings Limited (305)	1 for 6	0.90	0.92	2.17%	Nil	No
5 January	Easyknit Enterprises Holdings Limited (616)	1 for 2	0.35	0.530	34.00%	1.00%	Yes
6 January	Heritage International Holdings Limited (412)	1 for 2	0.05	0.077	35.06%	2.50%	Yes
12 January	Capital VC limited (2324)	1 for 2	0.30	0.420	28.57%	3.00%	Yes
21 January	Sheng Yuan Holdings Limited (851)	2 for 5	0.42	0.79	46.84%	1.50%	Yes

Date of announcement (2011)	Company (stock code)	Basis of entitlement	Subscription price *HK$*	Closing price per share on the last full trading day *HK$*	Discount *(Note 1)*	Underwriting Commission	Application for excess rights shares
31 January	China Environment Energy Investment Limited (formerly known as Nam Hing Holdings Limited) (986)	26 for 1	0.068	0.944	92.80%	3.00%	Yes
31 January	Hanny Holdings Limited (275)	8 for 1	0.30	3.05	91.16%	2.50%	Yes
1 February	China 3D Digital Entertainment Limited (8078)	7 for 1	0.015	0.3150	95.238%	2.00%	Yes
10 February	The Wharf (Holdings) Limited (4)	1 for 10	36.50	53.05	31%	1.25%	Yes
16 February	China Properties Investment Holdings Ltd (736)	30 for 1	0.068	0.415	83.61%	3.00%	Yes
28 February	Kantone Holdings Limited (1059)	2 for 5	0.1	0.133	24.81%	2.50%	Yes
8 March	Pacific Plywood Holdings Limited (767)	30 for 1	0.08	0.72	88.89%	2.50%	Yes
18 March	China State Construction International Holdings Limited (3311)	1 for 5	6	7.2	16.67%	2.50%	Yes
18 March	Smart Union Group (Holdings) Limited (2700)	22 for 5	0.112	0.693	83.84%	N/A	No
25 March	Finet Group Limited (8317)	4 for 1	0.25	1.5	83.33%	1.50%	No
29 March	Cinda International Holdings Limited (111)	1 for 5	1.1	1.8	38.89%	0.50%	Yes
30 March	China Communications Services Corporation Ltd. — H Shares (552)	4 for 10	Not less than RMB2.53	5.38	44.05%	N/A	Yes
4 April	Mobile Telecom Network (Holdings) Limited (8266)	1 for 1	0.1	0.265	62.26%	3.50%	No
8 April	Willie International Holdings Limited (273)	8 for 1	0.125	0.73	82.88%	2.50%	Yes
8 April	Radford Capital Investment Limited (901)	4 for 1	0.35	0.78	55.13%	2.50%	Yes
11 April	Symphony Holdings Ltd. (1223)	1 for 2	0.25	0.4	37.50%	1.00%	Yes
12 April	Polyard Petroleum International Group Limited (8011)	1 for 1	0.12	0.156	23.08%	N/A	No
18 April	China Star Entertainment Limited (326)	3 for 1	0.25	0.55	54.55%	2.50%	Yes
18 April	Bao Yuan Holdings Limited (692)	22 for 1	0.05	0.295	83.05%	3.00%	Yes
3 May	CITIC Resources Holdings Limited (1205)	3 for 10	1.38	1.860	25.81%	1.50%	Yes
6 May	Media China Corporation Limited (419)	1 for 2	0.18	0.240	25.00%	3.00%	Yes
6 May	21 Holdings Limited (1003)	8 for 1	0.10	0.89	88.8%	2.00%	Yes
6 May	Opes Asia Development Limited (810)	1 for 2	0.07	0.110	36.4%	2.30%	No
18 May	Midas International Holdings Limited (1172)	1 for 1	0.1	0.183	45.4%	1.00%	Yes

Date of announcement (2011)	Company (stock code)	Basis of entitlement	Subscription price HK$	Closing price per share on the last full trading day HK$	Discount (Note 1)	Underwriting Commission	Application for excess rights shares
25 May	Central China Real Estate Limited (832)	21.4 for 100	1.71	2.17	21.2%	1.50%	Yes
26 May	Waytung Global Group Limited (21)	1 for 2	0.40	0.60	33.33%	1.00%	Yes
31 May	Vitop Bioenergy Holdings Limited (1178)	1 for 3	0.25	0.49	48.98%	4.00%	Yes
2 June	Emperor Capital Group Limited (717)	2 for 1	0.338	0.56	39.64%	2.00%	Yes
2 June	Simsen International Corporation Limited (993)	20 for 1	0.03	0.233	87.12%	2.50%	Yes
2 June	Crosby Capital Limited (8088)	1 for 1	0.80	1.50	46.67%	2.50%	Yes
7 June	Eternity Investment Limited (764)	5 for 1	0.04	0.156	74.36%	1.00%	Yes
9 June	China Agri-products Exchange Limited (0149)	30 for 1	0.195	1.51	87.09%	2.5%	Yes
9 June	New Universe International Group Limited (8068)	1 for 10	0.15	0.152	1.32%	Nil	Yes
21 June	Guojin Resources Holdings Limited (630)	11 for 10	0.05	0.149	66.4%	2.50%	Yes
24 June	China CITIC Bank Corporation Limited — H Shares (998)	2 for 10	4.01	4.91	18.33%	N/A	Yes
29 June	Radford Capital Investment Limited (901)	1 for 2	0.75	0.81	7.4%	2.50%	Yes
29 June	Unlimited Creativity Holdings Limited (8079)	10 for 1	0.15	0.84	82.14%	2.00%	Yes
6 July	Xpress Group Limited (185)	3 for 20	0.11	0.124	11.29%	HK$1.00	Yes
8 July	Suncorp Technologies Limited (1063)	18 for 1	0.10	0.023 (before share consolidation)	85.51%	3.00%	Yes
12 July	Palmpay China (Holdings) Limited (8047)	1 for 1	0.05	0.17	70.59%	2.50%	No
Maximum					**95.24%**		
Minimum					**1.32%**		
Mean					**51.60%**		
	The Company	**2 for 5**	**0.5**	**1.11**	**54.95%**	**Nil**	**No**

Source: website of the Stock Exchange — www.hkex.com.hk

Note:

1. Being the discount of the subscription price to the closing price per share on the last trading day prior to the release of the relevant announcement.

As shown in the above table, all the Comparables had the subscription prices set at discounts to their respective closing price per share on the last trading day prior to the release of the relevant announcement, ranging from approximately 1.3% to 95.2%, with an average of approximately 51.6%. In the case of the Open

Offer, the discounts of 54.95% as represented by the Subscription Price to the closing price per Share is within the relevant ranges of the Comparables and is very closed to the average discount of the Comparables of 51.60%.

As discussed in the above, in general, it is a common market practice to price an open offer or a rights issue at a discount to the market price of the shares so as to encourage subscription by the shareholders. As for all open offer or rights issue cases, the interests of the qualifying shareholders will not be prejudiced by the relatively low subscription price so long as they are offered an equal opportunity to participate in the open offer or rights issue. Having considered the subscription prices under the Comparables, we are of the view that the discount as represented by the Subscription Price to the closing price is within market range and is closed to the market average. On this basis, we are of the view that the Subscription Price is fair and reasonable.

3. Underwriting arrangements

We have reviewed the Underwriting Agreement and set out below are the major terms thereof.

Underwriting Commission

Pursuant to the Underwriting Agreement, no underwriting commission will be paid to the Underwriter for its underwriting commitment. We note from the Comparables above that an underwriting commission was normally charged by the underwriter in an open offer/rights issue and the underwriting commission generally had a range of 1% to 4%. In view that the Group can save the cost for paying underwriting commission, we consider the arrangement of nil underwriting commission is fair and reasonable so far as the Independent Shareholders are concerned.

We consider that the rights of minority shareholders of the Company would not be different whatever it is China Water or other third parties being the underwriter of the Open Offer. In view of that and the favourable term to charge nil underwriting commission to the Company, we consider China Water acting as the underwriter to the Open Offer is fair and reasonable.

Application for excess Offer Shares

As stated in the Board Letter, there is no arrangement for application of the Offer Shares by the Qualifying Shareholders in excess of their proportionate assured allotment under the Open Offer. The Company considers that it is not cost effective to set up arrangement in relation to application for excess Offer Shares as additional effort and costs will be incurred by the Company to administer the relevant excess application procedures. Any Offer Share not subscribed for by the Qualifying Shareholders will be taken up by the Underwriter pursuant to the Underwriting Agreement.

We noted that 7 out of the 45 Comparables did not offer excess application for the offer shares.

Although the absence of the excess application arrangement may not be desirable from the point of view of those Qualifying Shareholders who wish to take up additional Offer Shares in excess of their assured entitlements, in light of that (i) the nil excess application should be balanced against the fact that the Subscription Price has been set at discounts to the prevailing market prices of the Shares which provides reasonable incentive for the Qualifying Shareholders to take up their respective assured entitlement of the Offer Shares and participate in the Open Offer; (ii) those Qualifying Shareholders who choose to accept their respective entitlements under the Open Offer in full can maintain their respective existing shareholdings in the Company after the Open Offer; (iii) the Open Offer allows the Qualifying Shareholders to exercise their rights to subscribe for the Offer Shares with a fair chance; and (iv) the nil excess application would lower the administrative costs of the Open Offer to the Company, we consider that the absence of the arrangement for excess application under the Open Offer may not give rise to less favourable situation to the Independent Shareholders than the Underwriter. As such, we are of the view that the absence of excess application arrangement, on balance, is acceptable.

Termination

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, it should also be noted that the Open Offer would not be proceeded if the Underwriter exercise their termination rights under the Underwriting Agreement, details of the provisions granting the Underwriter such termination rights are included in the section headed "Termination of the Underwriting Agreement" in the Letter. In view that it is common to have termination clause incorporated in underwriting agreements, we consider such provisions are normal commercial terms and in line with the normal market practice.

After reviewing the Underwriting Agreement and having considered the above, we are of the view that the terms of the Underwriting Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

4. Potential dilution effect of the Open Offer on shareholding interests

The table which demonstrates the possible shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Open Offer are set out in the section headed "Changes in shareholding structure" in the Board Letter.

As the Open Offer is offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Open Offer in full. Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Open Offer will have their shareholdings in the Company diluted by up to a maximum of approximately 28.57%. In all cases of open offers, the dilution on the shareholding of those Qualifying Shareholders who do not take up in full their assured entitlements under the

Open Offer is inevitable. In fact, the dilution magnitude of any open offers depends mainly on the extent of the basis of entitlement under such exercises since the higher offering ration of new shares to existing shares is the greater the dilution on the shareholding would be.

Taking into account (i) the inherent dilutive nature of open offer in general; and (ii) the Open Offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to at a lower price as compared to the historical and prevailing market price of the Shares, we are of the view that such potential dilution of the Open Offer on the shareholding of the Shareholders is acceptable.

5. Financial effects of the Open Offer

Net asset value

Based on the statement of unaudited pro forma financial information set out in Appendix II to the Circular, the unaudited pro forma adjusted consolidated net tangible assets of the Group would amount to approximately HK$1,313.5 million upon completion of the Open Offer, representing an increase of approximately HK$249.2 million as compared to the unaudited consolidated net tangible asset value of the Group of approximately HK$1,064.3 million as at 30 June 2011.

Gearing Ratio

Immediately following the Open Offer, the total asset of the Group will be increased by the net proceeds of the Open Offer while the total liabilities will be reduced by the full or partial Set Off and accordingly, the gearing ratio of the Group will be improved as a result of the Open Offer.

In view of the above, we consider that the Open Offer has positive effect on both the net asset value and the gearing ratio of the Group.

6. The Whitewash Waiver

In the event that the Underwriter is required to perform its underwriting commitment under the Underwriting Agreement in full, the aggregate shareholding of the Underwriter and its concert parties will increase from approximately 28.88% to approximately 49.20%. Accordingly, the Underwriter will be obliged under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all of the Shares which are not owned by or agreed to be acquired by it and its concert parties. An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

As stated in the Letter, the Open Offer is conditional upon, among other things, the Executive granting the Whitewash Waiver to the Underwriter. Based on our analysis of the terms of the Open Offer as set out above, we consider that the terms of the Open Offer are fair and reasonable and the Open Offer is in the interests of the Company and the

Shareholders as a whole. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Open Offer will not proceed. Given (i) the abovementioned positive impacts on the Group as a result of the Open Offer; (ii) all Qualifying Shareholders will be provided with an equal opportunity to take up their Offer Shares in accordance with their provisional entitlements under the Open Offer and their respective interests in the Company will not be diluted if they elect to take up in full their provisional allotments under the Open Offer, we are of the opinion that, for the purposes of implementing the Open Offer as discussed above, the application of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. The Set Off

As at the Latest Practicable Date, the Company was indebted to China Water the Loan in the sum of approximately HK$112 million under three loan agreements. The Loan is unsecured, bearing an interest of 8% per annum and with a term of six months and is repayable in October and November 2011. We understand from the Company that the Loan was obtained from China Water for the purposes of provision of general working capital of the Group. As advised by the Company, the Company has considered other means of financing at the material time when the Loan was obtained and considered that the loans from shareholder was an efficient way for financing. Pursuant to the respective loan agreements of the Loan, the Loan is soon to be repayable.

Pursuant to the Underwriting Agreement, China Water and the Company have agreed that the Subscription Price payable by China Water and its associates (other than Mr. Duan) for the Offer Shares to which each of them is entitled under the Open Offer and the Underwritten Shares would be by way of the Set Off against the Loan in first place and the remaining balance of the Subscription Price will be settled in cash. The exact amount of the Loan to be set off for such aggregate Subscription Price depends on the number of Offer Shares to be taken up by the Qualifying Shareholders.

The Directors consider that the Set Off will enable the Group to repay part or whole of the liabilities of the Company without cash outflow and will allow the Group to reduce its gearing level. The Directors accordingly consider that the Set Off is in the interests of the Company and the Shareholders as a whole.

We concur with the Directors that the Company's financial position will be strengthened by the Set Off, as the liabilities of the Group will decrease while its equity capital will increase. Further, in case that the Loan will be set off, in terms of the amounts of loans being set off, the capacity of the Underwriter will change from a creditor to a Shareholder. The position of a creditor is generally more favourable than a shareholder, in terms of the relative certainty of the creditor's right to payment of interest (as opposed to shareholder's right to dividend payment) and right to assets of the Company upon winding up (as opposed to shareholder's right to surplus assets (if any) upon liquidation). In view of the above, we concur with the Directors that the position of the Underwriter is not better off under the current underwriting arrangement and, as a matter of fact, the Underwriter is assisting the Company to undergo the fund-raising activity by way of the Open Offer.

Taking into account that (i) the Loan is soon to be repayable; (ii) the Set Off enables the Group to repay the Loan without cash outflow and to lower its gearing level; (iii) the Set Off is on a dollar to dollar basis, which we consider is on normal commercial terms, and (iv) fair and equal subscription application rights have been incorporated in the terms of the Open Offer, which means that rights of minority shareholders would not be prejudiced even if the Set Off is in place, we consider the Set Off is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

Having considered that (i) the Loan represents financial support from China Water for the Group's operations and it is not an obligation of China Water being a shareholder to provide such financing, (ii) the Set Off, is part of the term of the Underwriting Agreement, arrived at based on arm's length negotiation between the Company and China Water and the absence of the Set Off might affect the willingness of China Water to act as underwriter of the Open Offer; (iv) the Loan is soon to be repayable, we consider that applying part of the proceeds from the Open Offer to set off the Loan, instead of repaying the other borrowings of the Group or applying for business development of the Group, is acceptable.

8. Financial effects of both the Open Offer and the Set Off

Net assets and gearing

As set out in the 2010 annual report of the Company, the Group had an audited consolidated net assets of approximately HK$1,195.2 million as at 31 December 2010. As advised by the Company, upon completion of the Open Offer and the Set Off, the consolidated total liabilities of the Group will be reduced as a result of the Set Off and the consolidated net assets of Group will be improved by the net proceeds from the Open Offer. On such basis, the consolidated net assets of the Group is expected to increase and the gearing ratio (defined as total debt over total assets) of the Group is expected to reduce immediately upon completion of the Open Offer and the Set Off.

Liquidity

Since the Set Off will relieve the Group from the burden of repayment of the Loan in cash. As such, the Set Off is expected to have a positive effect on the liquidity position of the Group.

In view of the above, we consider that the Open Offer and the Set Off have positive effect on the net asset value, the gearing ratio and the liquidity of the Group.

RECOMMENDATIONS

Having considered the above principal factors and reasons, in particular,

(i) the Open Offer will provide funds to finance the property development business of the Group, which has brought to the Group fruitful return in 2010 and is in line with the Group's development plan;

(ii) compared with other fund raising methods, the Open Offer is considered to be a better fund raising method;

(iii) the discount as represented by the Subscription Price to the closing price is within market range and is closed to the market average;

(iv) the terms of the Underwriting Agreement are fair and reasonable, in particular, the nil excess application would lower the administrative costs of the Open Offer to the Company;

(v) the positive financial effects on the net assets, liquidity, gearing of the Group following completion of the Open Offer and the Set Off;

(vi) if the Whitewash Waiver is not approved by the Independent Shareholders, the Open Offer will not proceed. Under such circumstances, the Group and the Shareholders will not be able to enjoy the benefits expected to arise out of the Open Offer;

(vii) the Set Off enables the Group to repay the Loan, which is soon to be repayable, without cash outflow and to lower its gearing level; and

(viii)the Set Off is on a dollar to dollar basis, which we consider is on normal commercial terms,

we consider that the terms of the Underwriting Agreement, the Open Offer, the Set Off and the Whitewash Waiver are fair and reasonable and the Underwriting Agreement, the Open Offer, the Set Off and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the ordinary resolutions approving the Underwriting Agreement, the Open Offer, the Set Off and the Whitewash Waiver at the EGM.

Yours faithfully,

For and on behalf of	For and on behalf of
Ample Capital Limited	**Ample Capital Limited**
H. W. Tang	**Thomas Leung**
President	*Senior Vice President*

1. FINANCIAL SUMMARY

The financial information for the annual results of the Group for the three years ended 31 December 2008, 31 December 2009 and 31 December 2010 have been extracted from the respective published audited financial statements of the Group. The auditors, HLM & Co. have expressed an unqualified opinion on those financial statements in their report for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 respectively.

RESULTS

	Year ended 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
	(restated)	(restated)	
Continuing operations			
Turnover	200,835	65,612	990,841
(Loss)/profit from operations	(278,227)	(193,931)	802,769
Finance costs	(37,186)	(34,803)	(22,890)
(Loss)/profit before tax	(315,413)	(228,734)	779,879
Income tax credit/(expenses)	1,105	3,163	(265,776)
	(314,308)	(225,571)	514,103
Discontinued operation	(11,973)	(106,460)	(7,299)
(Loss)/profit before non-controlling interests	(326,281)	(332,031)	506,804
Non-controlling interests	32,698	15,737	2,730
(Loss)/profit for the year attributable to the equity holders of the Company	(293,583)	(316,294)	509,534
(Loss)/earnings per share (expressed in HK cents per share)			
From continuing and discontinued operations			
— Basic	(17.96) cents	(7.73) cents	4.66 cents
— Diluted *(Note 2)*	N/A	N/A	4.00 cents

ASSETS AND LIABILITIES

	At 31 December		
	2008	**2009**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	553,448	1,092,414	2,781,054
Total liabilities	(451,491)	(802,994)	(1,425,487)
Non-controlling interests	(39,039)	(36,710)	(160,366)
Equity attributable to equity owners of the Company	62,918	252,710	1,195,201

Note:

1. There were no dividends declared or paid for the three years ended 31 December 2008, 2009 and 2010. There were no items that are exceptional because of size, nature or incidence during each of the three financial years ended 31 December 2008, 2009 and 2010.

2. The diluted earnings per Share for the year ended 31 December 2010 are based on the profit attributable to the equity holders assuming that the Convertible Bonds have been converted. Diluted loss per share for the years ended 31 December 2009 and 2008 were not presented as the impact of the conversion of convertible bonds was anti-dilutive. For further details of the calculation of the earnings per Share, please refer to the financial note 14 on page 78 of this circular.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

Set out below are the audited consolidated income statement, consolidated statement of financial position, consolidated statement of change in equity and consolidated cashflow statement of the Group and notes to the financial statements reproduced from the audited financial statements published in the Company's annual report for the year ended 31 December 2010.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000 (restated)
Continuing operations			
Turnover	7	990,841	65,612
Cost of sales		(515,203)	(49,311)
Gross profit		475,638	16,301
Fair value gain in respect of investment properties transferred from inventory of properties		478,343	—
Other operating income	7	3,388	3,734
Selling and distribution expenses		(74,820)	(17,447)
Administrative expenses		(79,780)	(47,741)
Finance costs	8	(22,890)	(34,803)
Operating profit (loss) before impairment charges		779,879	(79,956)
Impairment on properties, plant and equipment		—	(39,888)
Impairment on trade receivables		—	(102,301)
Write-off of inventories		—	(6,589)
Profit (loss) before tax		779,879	(228,734)
Income tax (charge) credit	10	(265,776)	3,163
Profit (loss) for the year from continuing operations	11	514,103	(225,571)
Discontinued operation			
Loss for the year from discontinued operation	12	(7,299)	(106,460)
Profit (loss) for the year		506,804	(332,031)

	NOTES	2010 HK$'000	2009 HK$'000 (restated)
Profit (loss) for the year attributable to:			
Owners of the Company			
Profit (loss) for the year from continuing operations		510,631	(225,217)
Loss for the year from discontinued operation		(1,097)	(91,077)
Profit (loss) for the year attributable to owners of the Company		509,534	(316,294)
Non-controlling interests			
Profit (loss) for the year from continuing operations		3,472	(354)
Loss for the year from discontinued operation		(6,202)	(15,383)
Loss for the year attributable to non-controlling interests		(2,730)	(15,737)
		506,804	(332,031)
Dividends	13	—	—
Earnings (loss) per share	14	*HK Cents*	*HK Cents*
From continuing and discontinued operations			
Basic		4.66	(7.73)
Diluted		4.00	N/A
From continuing operations			
Basic		4.67	(5.50)
Diluted		4.01	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
Profit (loss) for the year	506,804	(332,031)
Other comprehensive income:		
Exchange differences arising on translation	10,319	—
Total comprehensive income (expense) for the year (net of tax)	517,123	(332,031)
Total comprehensive income (expense) attributable to:		
Owners of the Company	519,853	(316,294)
Non-controlling interests	(2,730)	(15,737)
	517,123	(332,031)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets			
Prepaid lease payments	15	1,751	2,877
Properties, plant and equipment	16	95,965	157,467
Investment properties	18	982,353	—
Goodwill	19	174,605	174,605
Deposit paid on acquisition of a subsidiary	45	58,824	—
Biological assets	20	—	4,560
Intangible assets	21	—	962
Deferred tax assets	37	—	3,918
		1,313,498	344,389
Current assets			
Inventories	22	9,851	33,048
Inventory of properties	23	958,195	412,168
Trade and other receivables	24	225,730	122,523
Prepaid tax		200	156
Derivative financial instruments	25	—	1,511
Pledged bank deposits	26	9,978	13,973
Bank balances and cash	26	263,602	164,646
		1,467,556	748,025
TOTAL ASSETS		2,781,054	1,092,414
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	34	125,142	84,800
Reserves		1,070,059	167,910
Equity attributable to owners of the Company		1,195,201	252,710
Non-controlling interests		160,366	36,710
TOTAL EQUITY		1,355,567	289,420

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	NOTES	**2010** *HK$'000*	**2009** *HK$'000*
Non-current liabilities			
Deferred tax liabilities	37	224,115	—
Obligations under finance leases	29	—	377
Borrowings — due after one year	32	294,118	137,875
Convertible notes	33	62,172	107,975
		580,405	246,227
Current liabilities			
Trade and other payables	27	377,384	204,543
Deposits received for sale and lease of properties	28	77,837	—
Obligations under finance leases	29	169	618
Tax payable		122,168	2,354
Amounts due to non-controlling shareholders of subsidiaries	30	43,804	13,357
Amount due to a shareholder	31	52,246	20,420
Borrowings — due within one year	32	171,474	241,575
Convertible notes	33	—	73,900
		845,082	556,767
TOTAL LIABILITIES		1,425,487	802,994
TOTAL EQUITY AND LIABILITIES		2,781,054	1,092,414
NET CURRENT ASSETS		622,474	191,258
TOTAL ASSETS LESS CURRENT LIABILITIES		1,935,972	535,647

The consolidated financial statements on pages 36 to 124 were approved and authorised for issue by the board of directors on 28 March 2011 and are signed on its behalf by:

Duan Chuan Liang	**Wang Wenxia**
DIRECTOR	*DIRECTOR*

STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current asset			
Interests in subsidiaries	17	710,117	382,273
Current assets			
Amount due from related parties		450	450
Trade and other receivables		1,002	—
Bank balances		190	145
		1,642	595
TOTAL ASSETS		711,759	382,868
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	34	125,142	84,800
Reserves	36	454,726	104,196
TOTAL EQUITY		579,868	188,996
Non-current liability			
Convertible notes	33	62,172	107,975
		62,172	107,975
Current liabilities			
Other creditors and accruals		18,005	11,997
Amount due to a shareholder	31	51,714	—
Convertible notes		—	73,900
		69,719	85,897
TOTAL LIABILITIES		131,891	193,872
TOTAL EQUITY AND LIABILITIES		711,759	382,868
NET CURRENT LIABILITIES		(68,077)	(85,302)
TOTAL ASSETS LESS CURRENT LIABILITIES		642,040	296,971

The financial statements on pages 36 to 124 were approved and authorised for issue by the board of directors on 28 March 2011 and are signed on its behalf by:

Duan Chuan Liang	**Wang Wenxia**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital	Share premium	Convertible notes equity reserve	Share options reserve	Special reserve	PRC statutory reserve	Translation reserve	Accumulated profit (losses)	Attributable to owners of the Company	Non-controlling interests	Total
	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 2009	6,919	85,883	58,645	8,820	10,816	25,565	20,767	(154,497)	62,918	39,039	101,957
Loss for the year and total comprehensive expense	—	—	—	—	—	—	—	(316,294)	(316,294)	(15,737)	(332,031)
Issue of shares on acquisition of a subsidiary	8,462	110,856	—	—	—	—	—	—	119,318	—	119,318
Issue of shares on conversion of convertible notes	6,113	49,599	(10,795)	—	—	—	—	—	44,917	—	44,917
Issue of shares on open offers	61,230	255,299	—	—	—	—	—	—	316,529	—	316,529
Issue of shares on top-up placing	2,076	27,400	—	—	—	—	—	—	29,476	—	29,476
Shares issue expenses	—	(6,013)	—	—	—	—	—	—	(6,013)	—	(6,013)
Release from redemption of convertible note	—	—	(909)	—	—	—	—	909	—	—	—
Share-based option expenses	—	—	—	1,859	—	—	—	—	1,859	—	1,859
Contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	13,408	13,408
At 31 December 2009 and 1 January 2010	84,800	523,024	46,941	10,679	10,816	25,565	20,767	(469,882)	252,710	36,710	289,420
Profit for the year	—	—	—	—	—	—	—	509,534	509,534	(2,730)	506,804
Translation exchange differences	—	—	—	—	—	—	10,319	—	10,319	—	10,319
Total comprehensive income for the year	—	—	—	—	—	—	10,319	509,534	519,853	(2,730)	517,123
Disposal of a subsidiary	—	—	—	—	(848)	—	(10,182)	—	(11,030)	(22,190)	(33,220)
Issue of shares on acquisition of subsidiaries	11,065	152,572	—	—	—	—	—	—	163,637	126,166	289,803
Issue of shares on conversion of convertible notes	14,816	59,676	(20,364)	—	—	—	—	—	54,128	—	54,128
Issue of shares on top-up placing	13,860	188,496	—	—	—	—	—	—	202,356	—	202,356
Shares issue expenses	—	(10,807)	—	—	—	—	—	—	(10,807)	—	(10,807)
Release from redemption of convertible note	—	—	(1,143)	—	—	—	—	1,143	—	—	—
Exercise of share options	601	9,127	—	(2,295)	—	—	—	—	7,433	—	7,433
Share options lapsed/expired	—	—	—	(7,963)	—	—	—	7,963	—	—	—
Share-based option expenses	—	—	—	16,073	—	—	—	—	16,073	—	16,073
Contributions from non-controlling interests	—	—	—	—	848	—	—	—	848	22,410	23,258
At 31 December 2010	125,142	922,088	25,434	16,494	10,816	25,565	20,904	48,758	1,195,201	160,366	1,355,567

The special reserve represents:

(i) the difference between the nominal value of the share capital issued by Wah Yuen Foods International Limited, a subsidiary of the Company, and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation; and

(ii) the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation.

The People's Republic of China (the "PRC") statutory reserves consist of a reserve fund and an expansion fund provided in accordance with the articles of association of the PRC subsidiaries. Laws and regulations in the PRC allow foreign investment enterprises to appropriate from profit after taxation, prepared in accordance with the PRC rules and regulations, an annual amount to the reserve fund and the expansion fund according to the decision of the board or the articles of association.

The reserve fund is to be used to expand the working capital of the PRC subsidiaries. When the PRC subsidiaries suffer losses, the reserve fund may be used to make up accumulated losses under special circumstances.

The expansion fund is to be used for business expansion and, if approved, can also be used to increase the capital of the PRC subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES			
Profit (loss) before tax from continuing operations		779,879	(228,734)
Loss before tax from discontinued operation	12	(7,258)	(106,426)
		772,621	(335,160)
Adjustments for:			
Interest expenses		23,095	34,963
Interest income		(1,637)	(227)
Depreciation		11,147	10,472
Amortisation of prepaid lease payments		196	202
Write-off of intangible asset		—	52
Loss on disposal on properties, plant and equipment		7	96
Loss on redemption of convertible note		199	—
Gain on disposal of a subsidiary		(3,548)	(37)
Share-based option expenses		16,073	1,859
Fair value gain in respect of investment properties transferred from inventory of properties		(478,343)	—
Change in fair value less estimated point-of-sales costs of biological assets		—	23,284
Write-off of inventories		—	6,681
Impairment on goodwill		—	69,904
Impairment on trade receivables		—	102,301
Impairment on properties, plant and equipment		—	39,888
Loss on disposal of derivative financial instrument		—	135
Net change in fair value of derivative financial instrument		—	5,303
Operating cash flows before movements in working capital		339,810	(40,284)
(Increase) decrease in inventories		(783)	3,408
Increase in inventory of properties		(300,464)	—
Increase in deposits received for sale of properties		14,428	—
(Increase) decrease in trade and other receivables		(37,204)	2,381
Increase in trade and other payables		329,915	666
Cash generated from (used in) operations		345,702	(33,829)
Interest paid		(61,819)	(11,732)
Hong Kong Profits Tax refunded		—	810
PRC Tax (paid) refunded		(29,223)	2,052
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES		254,660	(42,699)

	NOTES	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES			
Decrease in pledged bank deposit		4,000	—
Settlement of derivative financial instruments		1,511	(1,916)
Purchase of properties, plant and equipment		(17,261)	(11,853)
Increase in deposit paid for acquisition of a subsidiary	45	(58,824)	—
Balance payment on acquisition of a subsidiary		(48,864)	—
Net cash inflow (outflow) on disposal of a subsidiary	44	6,624	(27)
Net cash outflow on acquisition of subsidiaries	39	(156,749)	(54,479)
Interest received		1,637	227
Proceeds from disposal of properties, plant and equipment		—	21
NET CASH USED IN INVESTING ACTIVITIES		(267,926)	(68,027)
FINANCING ACTIVITIES			
Exercise of share options		7,433	—
Borrowings raised		470,588	53,485
Repayment of bank borrowings		(477,714)	(101,766)
Contributions from non-controlling interests		22,410	13,408
Capital element of finance leases		(826)	(4,000)
(Payment to) advances from a shareholder		(58,170)	21,243
Advances from non-controlling interests		848	7,705
Proceeds from issue of new shares		202,356	330,182
Expenses on issue of new shares		(10,807)	(6,013)
Payment on redemption of convertible notes		(73,346)	(54,306)
NET CASH GENERATED FROM FINANCING ACTIVITIES		82,772	259,938
NET INCREASE IN CASH AND CASH EQUIVALENTS		69,506	149,212
Effect of foreign exchange rate change		33,360	—
CASH AND CASH EQUIVALENTS AT 1 JANUARY		169,417	20,205
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		272,283	169,417
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		263,602	164,646
Pledged bank deposit		9,978	9,973
Bank overdrafts		(1,297)	(5,202)
		272,283	169,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL

China Water Property Group Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 October 2002.

The shares of the Company are listed on The Stock Exchange of Hong Kong Limited on 25 June 2003. The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate information" of the Group's Annual Report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are (i) manufacture, sales and distribution of snack food and convenience frozen food products; and (ii) development of property project in the People's Republic of China (the "PRC"). Details of the principal subsidiaries are set out in note 47.

In prior years, the Group was also engaged in cultivation and sale of seabuckthorn seedlings, and manufacture and sale of seabuckthorn related products. This operation was discontinued in September 2009. Details are set out in note 12. Accordingly, the comparative figures of the consolidated income statement for the year ended 31 December 2009 have been restated to reflect the discontinuance of this operation.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HK-Interpretation ("Int") 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners

HKFRS 3 (as revised in 2008) Business Combination

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

- HKFRS 3 (as revised in 2008) allows a choice on a tranaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of HK Mei Lai International (Canada) Limited, 杭州普天房地產開發有限公司 (Hangzhou Pu Tian Property Development Co., Ltd), 武漢凱越房地產開發有限公司 (Wuhan Kai Yue Property Development Co., Ltd.), the Group has elected to measure the non-controlling interests at fair value at the date of acquisition.

- HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously there were accounted for as part of the cost of the acquisition.

The application of HKFRS 3 (as revised in 2008) has no material impact on the Group's results for both years.

Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such item loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$6,950,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2010. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities.

New and revised Standards and Interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters[3]
HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Asset[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Amendments that are effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost of fair value. Specifically, debt investments that are within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measurement at their fair values at the end of subsequent accounting period.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Group because the Group is not a government-related entity.

The amendments to HKAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. However, if the Group does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to HKAS 32 will have an impact on the classification of those rights issues.

HK(IFRIC) — Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Group has not entered into transactions of this nature. However, if the Group does enter into any such transactions in the future, HK(IFRIC) — Int 19 will affect the required accounting. In particular, under HK(IFRIC) — Int 19, equity instruments issued under such arrangements will be measured at their fair value, and difference between the carrying amount of financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with HKFRS 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, could have affected the amounts recognised as of that date.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interests in the acquiree was initially measured at the non-controlling interests' proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less that its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Revenue from sales of properties is recognised when the risks and rewards of the properties transferred to the purchaser, which is when the construction of the relevant properties have been completed and properties have been delivered to the purchaser pursuant to the sale agreements, and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in current liabilities.

Investment in subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised as profit or loss over the period necessary to match them with the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Properties, plant and equipment

Properties, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of properties, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of properties, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	Over the relevant lease terms, or 20 years, whichever is the shorter
Furniture and equipment	16%–20%
Motor vehicles	20%–30%
Plant and machinery	8%–10%
Loose tools and moulds	10%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of properties, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represent up-front prepayments made for the land use rights and are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Cost includes cost of purchases and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs at the point of harvest.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories: financial assets "at fair value through profit or loss" (FVTPL) and "loans and receivables". All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designed as at FVTPL.

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loan and receivables (including trade and other receivables, pledged bank deposits, bank balances and cash, and amounts due from Directors) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Object evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the assets carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and he decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of an identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designed as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on points paid or received that form an integral part of the effective rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL.

Convertible notes

Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to convertible notes equity reserve. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to convertible notes equity reserve. No gain or loss is recognised in profit and loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the lives of the convertible notes using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognised its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amounts recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

When some or all of the economic benefit required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the reporting period, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 and the amount initially recognised less cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Equity settled share-based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than is carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land for own use

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case the entire lease is generally treated as a finance lease and accounted for as properties, plant and equipment. To the extent the allocation of the lease payments can be made reliably, interest in leasehold land is accounted for as operating lease and amortised over the lease terms on a straight-line basis.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arises.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the period in which the property is derecognised.

Inventory of properties is transferred to investment properties when it is evidenced by the commencement of an operating lease to another party. The difference between the fair value and the carrying amount at the date of transfer is recognised in profit or loss.

Intangible assets

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development expenditure or trademark fee, patent fee and development cost is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life when the asset is available for use.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Biological assets

Biological assets represent seabuckthorn plantations held under the Forest Tree Rights and, are stated at fair value less estimated point-of-sale cost. Gain or loss arising on initial recognition of plantations at fair value less estimated point-of-sale costs and from change in fair value less estimated point-of-sale costs of plantations at each reporting date are included in the consolidated statement of comprehensive income for the period in which they arise.

The fair value of the plantations is estimated by reference to independent professional valuations of the underlying biological assets using the income approach with the discounted cash-flow method. The expected future income from the whole life cycle of the seabuckthorn plantations is determined using the market prices of the estimated yields of the seabuckthorn, net of maintenance and harvesting costs, and any costs required to bring the seabuckthorn plantations to maturity. The estimated yields of the seabuckthorn plantations are dependent on the age of the seabuckthorn and the location of the seabuckthorn. The market price of seabuckthorn is largely dependent on the prevailing market price of seedlings, cortex, fruits, sap and leaves.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in join ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to cover or settle the carrying amount of its asset and liabilities.

Current tax or deferred tax is recognised in profit and loss, expect when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current tax and deferred tax is also recognised in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventory of properties

Inventory of properties includes properties under development and properties held for sale which are included in current assets at the lower of cost and net realisable value.

The costs of properties under development consist of construction expenditures, amounts capitalised in respect of amortisation of upfront payments of land use rights, borrowing costs directly attributable to construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs. On completion, the properties, together with related land use rights, are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle, which are classified as properties held for development under non-current assets.

No depreciation is provided on properties under development.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (the "foreign currencies") are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of a control over a subsidiary that includes a foreign operations, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposal (i.e. partial disposal of associates or jointly controlled entitles that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in the foreign currency translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their indeed use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Depreciation and amortisation

The Group depreciates the properties, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's properties, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

(b) Estimated impairment on properties, plant and equipment

Properties, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the higher of fair value of the properties, plant and equipment less costs to sell or the value-in-use calculations. An impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise. As at 31 December 2010, the Group reported no impairment loss for certain properties, plant and equipment (2009: HK$39,888,000).

(c) Estimated impairment on inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and identifies obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The Group carries out a review of the inventories on a product-by-product basis at the end of each reporting periods and provide impairment on obsolete items.

(d) Allowance for doubtful debts

The Group's provision policy for bad and doubtful debts is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. As at 31 December 2010, the carrying amount of trade receivable is approximately HK$24,953,000, (2009: HK$25,914,000) (net of allowance for doubtful debts of approximately HK$Nil (2009: HK$102,301,000)).

(e) Estimated impairment on goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than previously estimated, a material impairment loss may arise in the future period. As at 31 December 2010, the carrying amount of goodwill is approximately HK$174,605,000 (2009: HK$174,605,000), net of accumulated impairment loss of HK$Nil (2009: HK$171,613,000). Details of the recoverable amount calculation are disclosed in note 19.

(f) Estimation of fair value of biological assets

The biological assets are stated at fair value less point-of-sale cost. This requires an independent valuer's assessment of the fair value of the biological assets. The carrying amount of the Group's biological assets at 31 December 2010 is HK$Nil (2009: HK$4,560,000). Details of the valuation are disclosed in note 20.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other receivables and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk management

Certain trade receivables of the Group are denominated in foreign currencies which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets 2010	Liabilities 2010	Assets 2009	Liabilities 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Renminbi ("Rmb")	1,954,183	1,137,333	203,756	411,077

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in Rmb against Hong Kong dollar.

The following table shows the sensitivity analysis of a 5% increase/decrease in Rmb against the Hong Kong dollars, the effect in the profit/loss for the year is as follows:

	Impact of Rmb 2010	Impact of Rmb 2009
	HK$'000	*HK$'000*
Increase/decrease in profit/loss for the year	40,843	10,366

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, carrying out fund raising activities and matching the maturity profiles of financial assets and liabilities. The maturity profile of the Group's financial liabilities at the end of the reporting period based on contractual undiscounted payments are summarised below:

	2010			
	On demand	Within 1 year	2–5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	377,384	—	—	377,384
Obligations under finance leases	—	169	—	169
Amounts due to non-controlling shareholders of subsidiaries	43,804	—	—	43,804
Amount due to a shareholder	52,246	—	—	52,246
Tax payables	—	122,168	—	122,168
Borrowings	32,650	138,824	294,118	465,592
Convertible notes	62,172	—	—	62,172
	568,256	261,161	294,118	1,123,535

Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting dates.

	2009			
	On demand	Within 1 year	1–5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	204,543	—	—	204,543
Obligations under finance leases	—	618	377	995
Amounts due to non-controlling shareholders of subsidiaries	13,357	—	—	13,357
Amount due to a shareholder	20,420	—	—	20,420
Tax payables	2,354	—	—	2,354
Borrowings	—	241,575	137,875	379,450
Convertible notes	—	73,900	107,975	181,875
	240,674	316,093	246,227	802,994

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken in time to recover overdue debts. In addition, management of the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spreading over a large number of counterparties and customers.

Interest rate risk management

The Group

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk.

Management of the Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing position, alternative financing and hedging. Based on these scenarios, management of the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shifts is useful for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, management of the Group will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below, which include interest rate exposure on variable interest-bearing liabilities and deposits, have been determined based on the exposure to interest rates for of non-derivative instrument at the end of the reporting period. For non-bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used which represents management's assessment of the possible change in interest rates.

If interest rates have been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would increase/decrease by HK$1,920,000 (2009: HK$2,013,000).

The Company

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. The Company's exposure to changes in interest rates is mainly attributable to its borrowings. A 100 basis point increase or decrease is used which represents management's assessment of the possible change in interest rates.

If interest rates have been 100 basis points higher/lower and all other variables were held constant, the Company's loss for the year ended 31 December 2010 would increase/decrease by HK$2,000 (2009: HK$1,000).

Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of each reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument recognised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

At 31 December 2010, the Group had following financial instruments carried at fair value all of which are based on the Level 2 of the fair value hierarchy:

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Assets		
Derivative financial instruments	—	1,511

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009 except as follows:

	2010		**2009**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The Group				
Cash and cash equivalents	272,283	272,283	169,417	169,417
Trade and other receivables	225,730	225,730	122,523	122,523
Trade and other payables	(377,384)	(377,384)	(204,543)	(204,543)
Amount due to a shareholder	(52,246)	(52,246)	(20,420)	(20,420)
Amount due to non-controlling shareholders of subsidiaries	(43,804)	(43,804)	(13,357)	(13,357)
Obligations under finance leases	(169)	(169)	(995)	(995)
Borrowings	(465,592)	(465,592)	(379,450)	(379,450)
Convertible bonds	(62,172)	(62,172)	(181,875)	(181,875)

Estimation of fair value

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(i) Cash and cash equivalents, pledged bank deposits, trade and other receivables, advance deposits, trade and other payables, advance receipts and amount due to a shareholder and amounts due to non-controlling shareholders of subsidiaries

The carrying values approximate fair value because of the short maturities of these instruments.

(ii) Borrowings and Obligations under finance leases

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Derivatives

Interest rate swap agreements are valued using a Discounted Cashflow model mainly based on independently sourced market data. Future cashflows for floating rate indices are implied from market curves. All future cashflows are then discounted back to the valuation date to arrive at the fair market value.

(iv) Interest rates used for determining fair value

The Group uses the appropriate market yield curve or benchmark rate as of 31 December 2010 plus an appropriate constant credit spread to calculate the fair value of its interest bearing debt.

(v) Convertible bonds

Appropriate valuation methods and assumptions with reference to market conditions existing at the end of each reporting period to determine the fair value of the embedded financial derivative of the convertible bonds that is separated from the host debt contract are adopted. The basis for determining the fair value is disclosed in note 33.

Commodity price risk management

The Group is exposed to commodity price risk due to certain factors, such as level of demand and supply in the market and government policy and regulations. Such exposure mainly arises from its purchase of raw materials and the profit margin on sale of its finished products may be affected if the increase in cost of raw materials increases and the Group is unable to pass such cost increases to its customers. In addition, the Group is also subject to fluctuations in the selling price of its finished products due to competition and market demand.

The Group does not have any formal hedging policy for such exposure. However, the Group will closely monitor the costing and consider to take appropriate action should the need arise.

Price risk management

The Group has no any investment held for trading as at 31 December 2010, therefore, no price risk exposed to the Group at the year ended.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

During the year ended 31 December 2010, the Group's strategy remained unchanged as compared to that of 2009. Management of the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowing divided by total equity.

The management considers the gearing ratio at the year end date is as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Borrowings, net of cash and bank balance	192,012	200,831
Convertible notes	62,172	181,875
Obligations under finance leases	169	995
Total debts	254,353	383,701
Total assets	2,781,054	1,092,414
Total debts to total assets ratio	0.09	0.35

The decrease in the gearing ratio during year resulted primarily from the issue of new shares arising from the top-up placing in April 2010. After the completion of the top-up placing, the Company has received the proceeds of approximately HK$191,549,000, which has resulted in the improvement in the gearing ratio of the Group.

6. 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 provided by the Group's operating divisions, which is the same information reported to the chief operating decision maker.

The Group's operating segments are as follows:

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

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

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

— Seabuckthorn Business Segment engages in cultivation of seabuckthorn, as well as manufacture, sales, research and development of seabuckthorn-related health products.

During the year, the Group disposed its equity interest in a subsidiary engaging in Seabuckthorn Business and the disposal was completed in September 2010. Seabuckthorn Business is classified as discontinued operation. The remaining three operating segments, namely Property Development Business, Property Investment Business and Wah Yuen Foods Business are classified as continuing operations of the Group for both years.

Segment revenues and results

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

For the year ended 31 December 2010

	Continuing Operations				Discontinued Operation	
	Property Investment	Property Development	Wah Yuen Foods	Subtotal	Seabuckthorn	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL REVENUE AND EXTERNAL SALES	—	926,688	64,153	990,841	12,388	1,003,229
RESULT						
Segment operating results before impairment charges	(3,069)	381,551	(9,738)	368,744	(10,601)	358,143
Fair value gain in respect of investment properties transferred from inventory of properties	478,343	—	—	478,343	—	478,343
Gain on disposal of a subsidiary	—	—	—	—	3,548	3,548
Unallocated corporate income				152	—	152
Unallocated corporate expense				(44,470)	—	(44,470)
Profit (loss) from operations				802,769	(7,053)	795,716
Finance costs				(22,890)	(205)	(23,095)
Profit (loss) before tax				779,879	(7,258)	772,621
Income tax expenses				(265,776)	(41)	(265,817)
Profit (loss) for the year				514,103	(7,299)	506,804

For the year ended 31 December 2009

	Continuing Operations				Discontinued Operation	
	Property Investment	Property Development	Wah Yuen Foods	Subtotal	Seabuckthorn	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL REVENUE AND EXTERNAL SALES	—	—	65,612	65,612	34,842	100,454
RESULT						
Segment operating results before impairment charges	—	(2,822)	(25,243)	(28,065)	(12,986)	(41,051)
Change in fair value of derivative financial instruments	—	—	(5,303)	(5,303)	—	(5,303)
Change in fair value of biological assets less estimated point-of-sales cost	—	—	—	—	(23,284)	(23,284)
Impairment on goodwill	—	—	—	—	(69,904)	(69,904)
Impairment on properties, plant and equipment	—	—	(39,888)	(39,888)	—	(39,888)
Impairment on trade receivables	—	—	(102,301)	(102,301)	—	(102,301)
Write-off on inventories	—	—	(6,589)	(6,589)	(92)	(6,681)
Unallocated corporate income				3,734	—	3,734
Unallocated corporate expense				(15,519)	—	(15,519)
Loss from operations				(193,931)	(106,266)	(300,197)
Finance costs				(34,803)	(160)	(34,963)
Loss before tax				(228,734)	(106,426)	(335,160)
Income tax credit (paid)				3,163	(34)	3,129
Loss for the year				(225,571)	(106,460)	(332,031)

Statement of Financial Position

	Continuing Operations						Discontinued Operation			
	Property Investment		Property Development		Wah Yuen Foods		Seabuckthorn		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS										
Goodwill and intangible assets	—	—	174,605	174,605	—	—	—	962	174,605	175,567
Biological assets	—	—	—	—	—	—	—	4,560	—	4,560
Properties under development	2,872	—	955,323	412,168	—	—	—	—	958,195	412,168
Investment properties	982,353	—	—	—	—	—	—	—	982,353	—
Other assets	8,895	—	485,238	191,187	147,509	194,384	—	107,241	641,642	492,812
Segment assets	994,120	—	1,615,166	777,960	147,509	194,384	—	112,763	2,756,795	1,085,107
Unallocated corporate assets									24,259	7,307
Consolidated total assets									2,781,054	1,092,414
LIABILITIES										
Segment liabilities	26,533	—	1,232,560	502,070	35,455	74,374	—	49,908	1,294,548	626,352
Unallocated corporate liabilities									130,939	176,642
Consolidated total liabilities									1,425,487	802,994
OTHER INFORMATION										
Amortisation of prepaid lease payments	—	—	—	—	179	179	17	23	196	202
Additions to properties, plant and equipment	3,975	—	8,563	355	153	1,027	8,586	10,826	21,277	12,208
Depreciation of properties, plant and equipment	383	—	1,238	93	6,458	6,175	3,068	4,204	11,147	10,472
Additions to investment properties	982,353	—	—	—	—	—	—	—	982,353	—
Write-off of intangible assets	—	—	—	—	—	—	—	52	—	52

Information of major customers

The revenues from external customers are attributed to places on the basis of the customer's location. For the year ended 31 December 2010, no single external customers accounted for 10% or more of the Group's total revenue.

For the year ended 31 December 2009, included in revenues of Wah Yuen Foods Business of HK$65,612,000 are revenues of HK$36,954,000 which arose from sales to the food business's three major customers and each major customer accounted for above 10% of the Group's total turnover.

7. TURNOVER AND OTHER OPERATING INCOME

Turnover represents revenue arising from sale of properties, snack food and convenience frozen food products for the year.

An analysis of turnover and other operating income is as follows:

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Sales of properties	926,688	—
Sales of goods to outside customers	64,153	65,612
	990,841	65,612
Other operating income:		
Exchange gain	99	1,589
Gain on disposal of a subsidiary	—	37
Interest income from bank deposits	1,624	227
Sundry income	1,665	1,881
Total other operating income	3,388	3,734
Total income	994,229	69,346

8. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	49,427	7,240
Interest expense on obligations under finance leases	—	102
Effective interest expense on convertible notes	11,698	27,461
	61,125	34,803
Less: amounts capitalised in the cost qualifying assets	(38,235)	—
	22,890	34,803

The weighted average capitalisation rate on funds borrowed generally is 6.78% per annum (2009: Nil).

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2010	2009
	HK$'000	*HK$'000*
Directors' fees, salaries and other benefits	5,230	4,246
Retirement benefit scheme contributions	61	60
	5,291	4,306

(a) Directors' emoluments

For the year ended 31 December 2010

Name of Director	Fees	Salaries and other benefits	Total
	HK$'000	*HK$'000*	*HK$'000*
EXECUTIVE DIRECTORS			
Mr. But Chai Tong *(Note i)*	—	604	604
Mr. But Ka Wai *(Note ii)*	—	485	485
Mr. Ren Qian	120	—	120
Mr. Sun Zhen Yu *(Note iii)*	58	442	500
Ms. Wang Wenxia	120	2,200	2,320
NON-EXECUTIVE DIRECTORS			
Mr. Zhou Kun	60	341	401
Mr. Duan Chuan Liang *(Note iv)*	33	724	757
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Mr. Chen Zi Qiang	36	—	36
Ms. Li Ling *(Note v)*	22	—	22
Mr. Tam Pei Qiang *(Note i)*	18	—	18
Mr. Wong Chi Ming *(Note vi)*	14	—	14
Mr. Chan Pok Hiu *(Note vi)*	14	—	14
	495	4,796	5,291

Notes:

(i) Resigned on 28 June 2010

(ii) Resigned on 25 October 2010

(iii) Resigned on 25 June 2010

(iv) Appointed on 25 October 2010

(v) Resigned on 16 August 2010

(vi) Appointed on 16 August 2010

For the year ended 31 December 2009

Name of Director	Fees	Salaries and other benefits	Total
	HK$'000	*HK$'000*	*HK$'000*
EXECUTIVE DIRECTORS			
Mr. But Chai Tong	—	1,025	1,025
Mr. But Ka Wai	—	1,141	1,141
Mr. Ren Qian	51	—	51
Mr. Sun Zhen Yu	51	529	580
Ms. Wang Wenxia	23	229	252
Mr. But Ching Pui	—	180	180
Mr. Gao Ji Hong	—	150	150
Mr. Ying Wei	—	510	510
NON-EXECUTIVE DIRECTORS			
Mr. Zhou Kun	237	—	237
Ms. Leung Wai Ling	23		23
Ms. Wang Fang	21	—	21
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Mr. Chen Zi Qiang	36	—	36
Ms. Li Ling	15	—	15
Mr. Tam Pei Qiang	18	—	18
Mr. Ip Shing Tong, Francis	27	—	27
Mr. Ku Siu Fung, Stephen	40	—	40
	542	3,764	4,306

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 December 2010 included two (2009: two) executive directors of the Company. The emoluments of the remaining three (2009: three) individuals are as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	2,364	2,111
Retirement benefit schemes contributions	24	57
	2,388	2,168

The emoluments of each of the two (2009: three) highest paid individuals were less than HK$1,000,000.

(c) During the year, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals of the Group (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the year.

10. INCOME TAX CHARGE (CREDIT)

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
The tax charge (credit) comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	—	—
Over provision in prior years	—	(80)
PRC Enterprise Income Tax		
Current year	81,960	1
Under provision in prior years	—	174
Land appreciation tax ("LAT") in the PRC	67,386	—
Current tax charge (credit) for the year	149,346	95
Deferred tax charge (credit) for the year *(note 37)*	116,430	(3,258)
	265,776	(3,163)

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

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

PRC land appreciation tax is levied at 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.

The tax charge (credit) for the year can be reconciled to the profit (loss) before tax from continuing operations per the consolidated income statement as follows:

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Profit (loss) before tax from continuing operations	779,879	(228,734)
Tax at PRC Enterprise Income Tax rate of 25% (2009: 25%)	194,970	(57,183)
Tax effect of expenses not deductible for tax purposes	23,831	54,425
Tax effect of income not taxable for tax purposes	(28,218)	(11,215)
Tax effect on temporary differences not recognised	995	(3,219)
Under provision in respect of prior year	—	94
Tax effect on tax losses not recognised	1,777	8,485
Utilisation of tax losses not previously recognised	(50)	(49)
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,085	5,499
Land appreciation tax	67,386	—
Tax charge (credit) for the year (relating to continuing operations)	265,776	(3,163)

11. PROFIT (LOSS) FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Continuing operations		
Profit (loss) for the year has been arrived at after charging:		
Staff costs, including directors' emoluments *(note 9)*	29,390	21,649
Retirement benefits scheme contributions, including contributions for directors *(note 9)*	706	483
Total staff costs	30,096	22,132
Auditors' remuneration	950	812
Amortisation of prepaid lease payments	179	179
Depreciation		
— owned assets	7,948	5,966
— assets held under finance leases	131	302
Share-based option expenses	16,073	1,859
Write-off of inventories	—	6,589
Impairment on trade receivables	—	102,301
Impairment on goodwill	—	69,904
Impairment on properties, plant and equipment	—	39,888
Net change in fair value of derivative financial instruments	—	5,303
Loss on disposal of properties, plant and equipment	7	30
Operating lease rentals paid in respect of rented premises	4,464	2,769

12. DISCONTINUED OPERATION

On 21 July 2010, the subsidiary of the Company entered into a sale agreement to dispose of its 50% equity interest in Conseco Seabuckthorn Co., Ltd. ("Conseco Seabuckthorn"), which is engaged in the cultivation of seabuckthorn, as well as manufacture, sales, research and development of seabuckthorn-related health products, to an independent third party at RMB24,430,000. The disposal was completed on 17 September 2010, on which date control of Conseco Seabuckthorn was passed to the acquirer. The disposal is consistent with the Group's long-term policy to focus its activities on the property development business in the PRC.

Due to the disposal of 50% equity interest in Conseco Seabuckthorn during the year ended 31 December 2010, the comparative figures have been re-presented to classify the Seabuckthorn Business as a discontinued operation for the year ended 31 December 2009.

The loss for the period/year from discontinued operation is analysed as follows:

	1.1.2010 to 30.9.2010	1.1.2009 to 31.12.2009
	HK$'000	*HK$'000*
Loss of Seabuckthorn Business for the period/year	(10,847)	(106,460)
Gain on disposal of a subsidiary	3,548	—
	(7,299)	(106,460)

The results of the Seabuckthorn Business for the period/year, which have been included in the profit or loss, were as follows:

	1.1.2010 to 30.9.2010	1.1.2009 to 31.12.2009
	HK$'000	*HK$'000*
Turnover	12,388	34,842
Cost of sales	(13,158)	(25,840)
Gross (loss) profit	(770)	9,002
Other operating income	1,041	—
Selling, distribution and administrative expenses	(10,872)	(22,080)
Finance costs	(205)	(160)
Impairment of goodwill	—	(69,904)
Change in fair value of biological assets less estimated point-of-sales costs	—	(23,284)
Loss before tax from discontinued operation	(10,806)	(106,426)
Income tax expenses	(41)	(34)
Loss for the year from discontinued operation	(10,847)	(106,460)
Attributable to:		
Owners of the Company	(4,645)	(91,077)
Non-controlling interest	(6,202)	(15,383)
	(10,847)	(106,460)
Loss for the year from discontinued operation include the following:		
Staff costs	5,937	10,548
Retirement benefits scheme contributions	1,143	1,147
	7,080	11,695
Auditor's remuneration	174	16
Depreciation of properties, plant and equipment	3,068	4,204
Write-off of inventories	—	92
Amortisation of prepaid lease payment	17	23
Loss on disposal of properties, plant and equipment	—	66
Write-off of intangible assets	—	52
Interest income	(13)	—
Cash flows from discontinued operation:		
Net cash outflow from operating activities	(5,757)	(3,952)
Net cash outflow from investing activities	(8,573)	(10,762)
Net cash inflow from financing activities	15,831	15,659
Cash flows from discontinued operation	1,501	945

13. DIVIDENDS

The directors do not recommend the payment of a dividend for the years ended 31 December 2010 and 2009.

14. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the profit attributable to the equity holders of approximately HK$509,534,000 (2009: loss of HK$316,294,000) and on the weighted average ordinary share of 10,944,516,817 (2009: 4,091,644,726) deemed to be in issue during the year.

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

From continuing and discontinued operations

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Earnings (loss):		
Earnings (loss) for the purpose of basic earnings (loss) per share	509,534	(316,294)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	4,761	9,333
Earnings (loss) for the purpose of diluted earnings (loss) per share	514,295	(306,961)

	2010	**2009**
	Shares	*Shares*
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	10,944,516,817	4,091,644,726
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	94,143,401	6,183,084
Convertible notes	1,812,222,222	3,256,666,667
Weighted average number of ordinary shares for the purposes of diluted earnings (loss) per share	12,850,882,440	7,354,494,477

From continuing operations

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
		(restated)
Profit (loss) for the year attributable to owners of the Company:	509,534	(316,294)
Less:		
Loss for the year from discontinued operation	(1,097)	(91,077)
Earnings (loss) for the purpose of basic earnings (loss) per share	508,437	(407,371)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	4,761	9,333
Earnings (loss) for the purpose of diluted earnings (loss) per share	513,198	(398,038)

Diluted loss per share for the year ended 31 December 2009 were not presented because the impact of the conversion of convertible bonds and the exercise of share options was anti-dilutive.

15. PREPAID LEASE PAYMENTS

The Group's interest in land use rights and leasehold land represented prepaid operating lease payments and their carrying values are analysed as follows:

	2010	2009
	HK$'000	*HK$'000*
Cost		
At 1 January	4,834	4,834
Exchange difference	128	—
Derecognised on disposal of a subsidiary *(note 44)*	(1,066)	—
At 31 December	3,896	4,834
Accumulated amortisation		
At 1 January	1,957	1,755
Exchange difference	56	—
Derecognised on disposal of a subsidiary *(note 44)*	(64)	—
Amortisation for the year	196	202
At 31 December	2,145	1,957
Carrying values		
At 31 December	1,751	2,877

The land use rights and leasehold land of the Group as at 31 December 2010 are held on medium term leases and situated in the PRC and Hong Kong respectively.

	2010	2009
	HK$'000	*HK$'000*
In Hong Kong	219	226
In the PRC	1,532	2,651
	1,751	2,877

16. PROPERTIES, PLANT AND EQUIPMENT

THE GROUP

	Buildings HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Plant, and machinery HK$'000	Construction in progress HK$'000	Loose tools and moulds HK$'000	Total HK$'000
COST							
At 1 January 2009	93,361	39,056	8,910	160,426	1,278	189	303,220
Addition	23	557	599	1,775	8,899	—	11,853
Acquisition of subsidiaries	—	113	242	—	—	—	355
Impairment	(22,032)	(11,703)	—	(64,660)	—	—	(98,395)
Disposals	(159)	(12)	(1,046)	—	(66)	—	(1,283)
Derecognised on disposal of a subsidiary	—	(151)	—	—	—	—	(151)
At 31 December 2009 and 1 January 2010	71,193	27,860	8,705	97,541	10,111	189	215,599
Exchange difference	1,934	854	234	2,410	81	—	5,513
Additions	818	5,093	3,380	867	7,103	—	17,261
Acquisition of subsidiaries *(note 39)*	—	274	3,742	—	—	—	4,016
Disposals	—	(8)	—	—	—	—	(8)
Derecognised on disposal of a subsidiary *(note 44)*	(32,525)	(2,490)	(3,442)	(31,474)	(17,295)	—	(87,226)
At 31 December 2010	41,420	31,583	12,619	69,344	—	189	155,155
DEPRECIATION AND IMPAIRMENT							
At 1 January 2009	15,076	23,478	6,140	62,481	—	189	107,364
Provided for the year	1,819	1,544	438	6,671	—	—	10,472
Impairment	(8,608)	(7,211)	—	(42,688)	—	—	(58,507)
Eliminated on disposals	(118)	(2)	(1,046)	—	—	—	(1,166)
Eliminated on disposal of a subsidiary	—	(31)	—	—	—	—	(31)
At 31 December 2009 and 1 January 2010	8,169	17,778	5,532	26,464	—	189	58,132
Exchange difference	242	327	(11)	762	—	—	1,320
Provided for the year	1,700	2,143	1,248	6,056	—	—	11,147
Acquisition of subsidiaries *(note 39)*	—	49	569	—	—	—	618
Eliminated on disposals	—	(1)	—	—	—	—	(1)
Eliminated on disposal of a subsidiary *(note 44)*	(2,463)	(797)	(678)	(8,088)	—	—	(12,026)
At 31 December 2010	7,648	19,499	6,660	25,194	—	189	59,190
CARRYING VALUES							
At 31 December 2010	33,772	12,084	5,959	44,150	—	—	95,965
At 31 December 2009	63,024	10,082	3,173	71,077	10,111	—	157,467

Details of the pledged of properties, plant and equipment as at 31 December 2010 and 2009 are set out in note 40.

The carrying value of properties, plant and equipment of the Group held under finance leases included above is as follows:

	2010	2009
	HK$'000	*HK$'000*
Motor vehicles	152	847
Plant and machinery	—	10,820
	152	11,667

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	106,022	74,772
Amounts due from subsidiaries	1,312,376	424,385
Amounts due to subsidiaries	(708,281)	(116,884)
	710,117	382,273

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group pursuant to the group reorganisation undertaken in preparation for the listing of the Company's shares on the Stock Exchange in 2003 (the "Group Reorganisation").

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year from the end of reporting period. Accordingly, such amounts have been classified as non-current. The directors consider that the amounts due from subsidiaries approximate their fair value.

Particulars of the Company's principal subsidiaries as at 31 December 2010 are set out in note 47.

18. INVESTMENT PROPERTIES

	2010	2009
	HK$'000	*HK$'000*
At fair value		
At 1 January	—	—
Transfer from properties under construction	504,010	—
Change in fair value	478,343	—
At 31 December	982,353	—

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 at 31 December 2010 have been arrived at on the basis of a valuation carried out at that date by Norton Appraisals Limited, independent qualified professional valuers not connected to the Group. Norton Appraisals Limited is 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.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

19. GOODWILL

On 18 December 2009, the Group acquired 100% of the shares of China Water Property (Hong Kong) Group Limited (formerly named: Wealth Full Global Investment Limited), an unlisted company based in the PRC. It holds properties under development. The existing strategic management function and associated processes were acquired with the property, and as such, the Directors consider this transaction the acquisition of a business, rather than an asset acquisition.

Goodwill acquired through business combinations has been allocated to the property development cashgenerating unit ("CGU") which were reportable segments, for impairment testing. Goodwill allocated to the Seabuckthorn Business was fully impaired in 2009 and the Seabuckthorn Business has been disposed of during the year.

The amount of goodwill capitalised as an asset in the consolidated statement of financial position, arising from business combination and the carrying value of goodwill was allocated to cash generating units as follows:

	Seabuckthorn Business	Property Development Business	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2009	182,339	—	182,339
Acquisition of a subsidiary *(note 39(iv))*	—	174,605	174,605
Disposal of a subsidiary	(10,726)	—	(10,726)
At 31 December 2009 and 1 January 2010	171,613	174,605	346,218
Disposal of a subsidiary	(171,613)	—	(171,613)
At 31 December 2010	—	174,605	174,605
IMPAIRMENT			
At 1 January 2009	108,859	—	108,859
Disposal of a subsidiary	(7,150)	—	(7,150)
Impairment loss recognised	69,904	—	69,904
At 31 December 2009 and 1 January 2010	171,613	—	171,613
Disposal of a subsidiary	(171,613)	—	(171,613)
At 31 December 2010	—	—	—
CARRYING VALUES			
At 31 December 2010	—	174,605	174,605
At 31 December 2009	—	174,605	174,605

Impairment testing on Goodwill

Goodwill is assessed for impairment annually irrespective of whether there is any indication of impairment.

Property development

The goodwill tested for impairment is allocated to the group of CGUs that constitute Property Development Business and represents the portfolio premium paid on acquisition (that is, the amount paid in excess of the aggregate of the individual fair values of the portfolio). This reflects the cost saved by the Group were it to assemble such a portfolio itself.

The recoverable amount of property development unit have been determined based on a value in use calculation represented by the management using cash flow projections based on financial budgets covering a four-year period. The discount rate applied to the cash flow projections is 7.55%. Cash flow beyond the four-year period is determined by extrapolation from the average growth rate with specific risks relating to property development in the PRC. Other key assumptions for the value in use calculation relate to the estimation of cash receipts and outlays including budgeted sales and gross margin.

Impairment of the goodwill is tested using a value in use method. The key assumption used in testing the goodwill for impairment is that, on a disposal, a portfolio premium would be achieved over the aggregate of the individual fair values. The directors base this assumption on their observations of premium achieved in recent market transactions.

The value calculated by using the discount rate is higher than the carrying amount of the CGU, accordingly, the management of the Group determined that there is no impairment of its goodwill at 31 December 2010.

20. BIOLOGICAL ASSETS

	THE GROUP Seabuckthorn bushes	
	2010	**2009**
	HK$'000	*HK$'000*
At 1 January	4,560	27,844
Exchange difference	87	—
Disposal of a subsidiary *(note 44)*	(4,647)	—
Change in fair value less estimated point-of-sales costs of biological assets	—	(23,284)
At 31 December	—	4,560

Biological assets represented seabuckthorn bushes planted on land with Forest Tree Rights and situate in Inner Mongolia Autonomous Region, Shannxi Province and Shanxi Province.

21. INTANGIBLE ASSETS

The amount of intangible assets represent trademark fee, patent fee and development costs of seabuckthorn products:

THE GROUP	Trademark and patent	Development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
COST			
At 1 January 2009	196	818	1,014
Write-off during the year	(52)	—	(52)
At 31 December 2009 and 1 January 2010	144	818	962
Exchange difference	3	16	19
Disposal of a subsidiary *(note 44)*	(147)	(834)	(981)
At 31 December 2010	—	—	—

22. INVENTORIES

	THE GROUP 2010	2009
	HK$'000	*HK$'000*
Raw materials	4,073	9,294
Work in progress	—	2,923
Finished goods	5,778	20,831
	9,851	33,048

None of the inventories of the Group carried at net realisable value at the end of the reporting period.

23. INVENTORY OF PROPERTIES

	THE GROUP 2010	2009
	HK$'000	*HK$'000*
Beginning of the year	412,168	—
Construction costs incurred	744,061	—
Capitalisation of interest	38,235	—
Acquisition of subsidiaries	723,434	412,168
Disposal recognised in cost of sales	(467,789)	—
Transfer to investment properties	(504,010)	—
Exchange difference	12,096	—
End of the year	958,195	412,168

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Properties under development	818,972	412,168
Properties held for sale	139,223	—
	958,195	412,168

Inventory of properties are located in Mainland China and are located on land held under medium term lease or long term lease.

As at 31 December 2010, approximately HK$341,790,000 (2009: HK$181,320,000) of the Group's properties under development were pledged as collaterals for the Group's banking facilities (note 40).

Properties under development are expected to be completed and available for sale within twelve months after the end of the reporting period.

24. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Trade receivables	24,953	128,215
Less: Allowance for doubtful debts	—	(102,301)
	24,953	25,914
Prepayments for construction work	85,930	60,507
Receivables on disposal of subsidiaries	15,599	5,681
Refundable deposit placed on acquisition of a property development project in PRC	71,636	—
Other receivables, prepayments and other deposits	27,612	30,421
	225,730	122,523

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

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Within 90 days	10,303	12,850
91 to 180 days	1,437	1,709
Over 180 days	13,213	11,355
Trade receivables	24,953	25,914

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

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

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

Movement in allowance for doubtful debts

	2010	**2009**
	HK$'000	*HK$'000*
Balance at beginning of the year	102,301	41,735
Amounts written off as uncollectible	(102,301)	(41,735)
Increase in allowance recognised in consolidated income statement	—	102,301
Balance at end of the year	—	102,301

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2010	**2009**
	HK$'000	*HK$'000*
Financial assets		
Foreign currency forward contracts		
At 1 January	—	50
Realised loss on disposal	—	(50)
At 31 December	—	—
Exchange rate swap		
At 1 January	1,511	6,814
Realised on disposal	(1,511)	(5,303)
At 31 December	—	1,511
Total financial assets	—	1,511
Financial liabilities		
Foreign currency forward contracts		
At 1 January	—	(1,831)
Realised gain on disposal	—	1,831
At 31 December	—	—

26. CASH AND BANK BALANCES

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Cash and bank balances	263,602	164,646
Pledged bank deposits *(note 40)*	9,978	13,973
	273,580	178,619

Cash and bank balances carry interest at market rates which range from 0.01% to 2.75% (2009: 0.01% to 2.43%) per annum. The pledged fixed deposits carry interest rate 0.04% (2009: 0.03%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$9.98 million (2009: HK$13.97 million) have been pledged to secure bank overdrafts and short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant borrowings.

27. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Within 90 days	296,840	99,174
91 to 180 days	3,374	723
Over 180 days	7,469	6,685
Trade payables	307,683	106,582
Consideration payables for acquisition of a subsidiary	—	48,864
Interest payables	14,013	22,074
Other payables	55,688	27,023
	377,384	204,543

Trade payables principally comprise 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.

28. DEPOSITS RECEIVED FOR SALE AND LEASE OF PROPERTIES

The amounts which are expected to be realised in more than twelve months after the reporting date are classified under current liabilities as it is within the Group's normal operating cycle. The amounts that are expected by the management to be realised in the coming twelve months after the reporting date are HK$77,837,000 (2009: nil)

	THE GROUP	
	2010	**2009**
	HK$'000	*HK$'000*
Deposits received for sale of properties	60,006	—
Deposits received for lease of properties	17,831	—
	77,837	—

29. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	169	620	169	618
In the second to fifth year inclusive	—	377	—	377
	169	997	169	995
Less: Future finance charges	—	(2)	—	N/A
Present value of lease obligations	169	995	169	995
Less: Amount due for settlement within twelve months (shown under current liabilities)			(169)	(618)
Amount due for settlement after twelve months			—	377

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term is three years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

Finance lease obligations are denominated in Hong Kong dollars, same as the functional currency of the Group.

30. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts due to non-controlling shareholders of subsidiaries are unsecured, interest free and have no fixed terms of repayment.

31. AMOUNT DUE TO A SHAREHOLDER

	The Group		The Company	
	2010	2009	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unsecured and bearing interest at 8% per annum and fully settled in March 2011	50,000	—	50,000	—
Unsecured and non-interest bearing, with no fixed terms of repayment	2,246	—	1,714	—
	52,246	—	51,714	—

32. BORROWINGS

	THE GROUP	
	2010	2009
	HK$'000	*HK$'000*
Bank overdrafts	1,297	5,202
Bank loans	452,530	365,328
Other loans	11,765	8,920
	465,592	379,450
Analysis as:		
Secured *(note 40)*	453,827	365,328
Unsecured	11,765	14,122
	465,592	379,450
The maturity profile of the above borrowings is as follows:		
On demand or within one year	171,474	241,575
More than one year, but not exceeding two years	294,118	137,875
	465,592	379,450
Less: amount due within one year shown under current liabilities	(171,474)	(241,575)
	294,118	137,875

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

According to HK Int 5 which requires the classification of whole term loans containing the repayment on demand clause as current liabilities, the aggregate carrying amounts of HK$6,950,000 have been reclassified from non-current liabilities to current liabilities as at 31 December 2010.

The directors consider that the carrying amount of borrowings approximate their fair value.

33. CONVERTIBLE NOTES

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.

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

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

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

During the year ended 31 December 2008, the conversion price of 2010 Notes was adjusted from HK$1.43 to HK$1.44 effective from 28 November 2008 in accordance with the price reset mechanism. On 11 August 2009, the conversion price of 2010 Notes has been effectively adjusted from HK$1.144 to HK$0.4 as a result of the deed of alteration entered into between the Company and the noteholders on 14 July 2009.

During the year ended 31 December 2009, the conversion price of 2010 Notes was adjusted from HK$0.4 to HK$0.121 effective from 27 October 2009 on the completion of the open offer of 5,777,031,245 shares at a subscription price of HK$0.05, on 15 October 2009.

The conversion price of 2017 Notes was adjusted from HK$0.15 to HK$0.045 in accordance with the terms set out in the placing agreement.

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

	THE GROUP AND THE COMPANY		
	2017 Notes	**2010 Notes**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Liability component at 1 January 2009	128,207	133,949	262,156
Interest charge	9,332	18,129	27,461
Interest paid	(5,113)	(3,406)	(8,519)
Converted into ordinary shares	(24,451)	(20,466)	(44,917)
Redemption	—	(54,306)	(54,306)
Carrying amount at 31 December 2009 and 1 January 2010	107,975	73,900	181,875
Interest charge	5,702	5,996	11,698
Interest paid	(3,047)	(1,079)	(4,126)
Converted into ordinary shares	(48,458)	(5,670)	(54,128)
Redemption	—	(73,147)	(73,147)
	62,172	—	62,172

Analysis of current and non-current portion:

	2010	**2009**
	HK$'000	*HK$'000*
Current portion	—	73,900
Non-current portion	62,172	107,975
Total	62,172	181,875

34. SHARE CAPITAL

THE GROUP AND THE COMPANY

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2009	4,000,000,000	40,000
Increase during the year *(Note a)*	16,000,000,000	160,000
At 31 December 2009 and 1 January 2010	20,000,000,000	200,000
Increase during the year *(Note b)*	30,000,000,000	300,000
At 31 December 2010	50,000,000,000	500,000
Issued and fully paid:		
At 1 January 2009	691,937,500	6,919
Open offers *(Note c)*	6,122,999,995	61,230
Issue of shares on conversion of 2010 Notes *(Note d)*	100,144,628	1,002
Issue of shares on conversion of 2017 Notes *(Note e)*	511,111,110	5,111
Issue of shares on placing *(Note f)*	207,580,000	2,076
Issue of shares on acquisition of subsidiaries *(Note g)*	846,228,234	8,462
At 31 December 2009 and 1 January 2010	8,480,001,467	84,800
Issue of shares on exercise of share options *(Note h)*	60,113,268	601
Issue of shares on top-up placing *(Note i)*	1,386,000,000	13,860
Issue of shares on conversion of 2010 Notes *(Note j)*	37,190,082	372
Issue of shares on conversion of 2017 Notes *(Note k)*	1,444,444,443	14,444
Issue of shares on acquisition of subsidiaries *(Note l)*	1,106,475,716	11,065
At 31 December 2010	12,514,224,976	125,142

Notes:

(a) Pursuant to the ordinary resolution passed in the Extraordinary General Meeting of the Company held on 21 September 2009, the authorised share capital of the Company was increased from HK$40,000,000 to HK$200,000,000 by the creation of an additional 16,000,000,000 ordinary shares of HK$0.01 each.

(b) On 10 May 2010, an ordinary resolution was passed by the shareholders of the Company at the extraordinary general meeting to increase authorised share capital of the Company from HK$200,000,000 (divided into 20,000,000,000 ordinary shares) to HK$500,000,000 (divided into 50,000,000,000 ordinary shares) by creating an additional 30,000,000,000 unissued ordinary shares of the Company.

(c) On 1 April 2009, 345,968,750 shares were issued at HK$0.08 each on the basis of one rights share for every two existing shares. Pursuant to the right issue agreement, an amount of approximately HK$15,823,000 of the consideration for the issue of new shares was settled by the shareholder's loan and the remaining balance was settled by cash. On 15 October 2009, 5,777,031,245 shares were issued at HK$0.05 each on the basis of five rights shares for every one existing share.

(d) On 23 September 2009 and 18 December 2009, 2010 Notes with principal amount of HK$7,000,000 and HK$10,000,000 were converted into 17,500,000 and 82,644,628 ordinary shares at the conversion price of HK$0.4 and HK$0.121, respectively.

(e) During the year ended 31 December 2009, details of conversion of certain 2017 Notes were set out below:

Date	Principal amount of 2017 Notes converted	No. of ordinary shares issued	Conversion price per share
	HK$		*HK$*
22 June 2009	10,000,000	66,666,666	0.15
19 August 2009	5,000,000	33,333,333	0.15
18 November 2009	5,000,000	111,111,111	0.045
8 December 2009	13,500,000	300,000,000	0.045
		511,111,110	

(f) On 27 November 2009, 207,580,000 shares were issued by placing at HK$0.142 per share.

(g) On 23 December 2009, 846,228,234 shares were issued at HK$0.141 per share as partial consideration in exchange for the entire equity interest of a subsidiary (note 39 (iv)).

(h) On 11 February 2010 and 9 April 2010, 10,018,878 and 50,094,390 ordinary shares were issued for cash consideration of HK$530,000 and HK$6,903,007 respectively, upon exercise of share options at an exercise price of HK$0.0529 and HK$0.1378 respectively.

(i) On 12 April 2010, 1,386,000,000 ordinary shares were issued by the Company as a result of the top-up placing agreement dated 31 March 2010. Shares were issued at a price of HK$0.146 giving the gross proceeds of approximately HK$202,356,000.

(j) On 9 April 2010, 2010 Notes with principal amount of HK$4,500,000 were converted into 37,190,082 ordinary shares of the Company at the conversion price of HK$0.121.

(k) On 16 April 2010 and 20 May 2010, 2017 Notes with principal amount of HK$30,000,000 and HK$35,000,000 were converted into 666,666,666 and 777,777,777 ordinary shares of the Company respectively, at the conversion price of HK$0.045.

(l) On 25 June 2010 and 10 December 2010, 437,811,333 and 145,937,111 ordinary shares were issued by the Company at HK$0.146 per share, as partial consideration in acquisition of a subsidiary, Hangzhou Pu Tian Property Development Co., Ltd (note 39 (i)).

On 25 June 2010 and 24 December 2010, 392,045,454 and 130,681,818 ordinary shares were issued by the Company at HK$0.15 per share, as partial consideration in acquisition of a subsidiary, HK Mei Lai International (Canada) Limited (note 39 (iii)).

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

35. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 June 2003 for the primary purpose of providing incentives to encourage its participants to perform their best in achieving the goals of the Company and enjoy its result. The participants are any director and eligible employee of the Group; any entity in which any member of the Group holds any equity interest (the "Invested Entity");

any supplier of goods or services and customers to any member of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; any adviser or consultant to any area of business or business development of any member of the Group or any Invested Entity; any shareholders of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, as absolutely determined by the board.

The maximum number of securities which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme of the Group must not in aggregate exceed 10% of the shares in issue on 25 June 2003, being the date on which the Company's shares were listed on the Stock Exchange. For the purpose of calculating the above, options lapsed in accordance with the Scheme shall not be counted.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The period within which the shares must be taken up under an option of the Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK$1 is payable on acceptable of the options within 21 days from the date of grant. The subscription price is the highest of (i) the closing price of the shares quoted in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant which must be a business day; (ii) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share. The Scheme is valid for 10 years from 3 June 2003. No further options may be granted pursuant to the Scheme after 2 June 2013.

The following table discloses details of the Company's options under the Scheme held by employees and consultant and the movements during the year ended 31 December 2010:

Category	Date of grant	Exercise price *HK$*	Exercise period	At 1 January 2010	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	At 31 December 2010
Employees	18.7.2007	0.1378	18.7.2007 to 17.7.2010	60,113,268	—	—	(60,113,268)	—	—
	26.11.2007	0.1208	26.11.2007 to 25.11.2010	60,113,267	—	—	(38,071,736)	(22,041,531)	—
	14.12.2007	0.1118	14.12.2007 to 13.12.2010	20,037,756	—	—	(20,037,756)	—	—
	25.3.2008	0.0529	25.3.2008 to 24.3.2011	120,226,535	—	(10,018,878)	—	(36,067,960)	74,139,697
	3.11.2010	0.1004	3.11.2010 to 2.11.2020	—	284,752,000	—	—	—	284,752,000
Consultants	18.7.2007	0.1378	18.7.2007 to 17.7.2010	50,094,390	—	(50,094,390)	—	—	—
Total				310,585,216	284,752,000	(60,113,268)	(118,222,760)	(58,109,491)	358,891,697

The following table discloses details of the Company's options under the Scheme held by employees and consultant and the movements during the year ended 31 December 2009:

Category	Date of grant	Exercise price	Exercise period	At 1 January 2009	Adjustment due to change in exercise price	At 31 December 2009
		HK$				
Employees	18.7.2007	0.1378	18.7.2007 to 17.7.2010	6,500,000	53,613,268	60,113,268
	26.11.2007	0.1208	26.11.2007 to 25.11.2010	6,000,000	54,113,267	60,113,267
	14.12.2007	0.1118	14.12.2007 to 13.12.2010	2,000,000	18,037,756	20,037,756
	25.3.2008	0.0529	25.3.2008 to 24.3.2011	12,000,000	108,226,535	120,226,535
Consultants	18.7.2007	0.1378	18.7.2007 to 17.7.2010	5,000,000	45,094,390	50,094,390
Total				31,500,000	279,085,216	310,585,216

The Group issues equity-settled share-based payments to certain employees and consultant. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Options granted during the year of 2010 vested at the date of grant.

Total consideration received during the year from directors and employees for taking up the options granted amounted to HK$7,433,000 (2009: Nil). The Group recognised an expense of HK$16,073,000 for the year ended 31 December 2010 (2009: Nil) in relation to share options granted by the Company.

The fair value of the total options granted in the year measured as at the 3 November 2010 was HK$15,180,000. The following significant assumptions were used to derive the fair value using the Trinomial Option Pricing Model:

1. an expected volatility was 40.633%;
2. expected no annual dividend yield;
3. the estimated expected life of the options granted in range (10 years); and
4. the risk free rate was 2.133%.

The Trinomial Option Pricing Model requires the input of highly subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value estimated, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

36. RESERVES

THE COMPANY

	Share premium HK$'000	Contributed surplus HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009	85,883	71,463	58,645	8,820	(192,984)	31,827
Issue of shares on open offers	255,299	—	—	—	—	255,299
Issue of shares on conversion of convertible notes	49,599	—	(10,795)	—	—	38,804
Issue of shares on top-up placing	27,400	—	—	—	—	27,400
Issue of shares on acquisition of a subsidiary	110,856	—	—	—	—	110,856
Shares issue expenses	(6,013)	—	—	—	—	(6,013)
Release from redemption of convertible note	—	—	(909)	—	909	—
Share-based option expenses	—	—	—	1,859	—	1,859
Loss for the year	—	—	—	—	(355,836)	(355,836)
At 31 December 2009 and 1 January 2010	523,024	71,463	46,941	10,679	(547,911)	104,196
Issue of shares on conversion of convertible notes	59,676	—	(20,364)	—	—	39,312
Issue of shares on top-up placing	188,496	—	—	—	—	188,496
Shares issue expenses	(10,807)	—	—	—	—	(10,807)
Issue of shares on acquisition of subsidiaries	152,572	—	—	—	—	152,572
Release from redemption of convertible note	—	—	(1,143)	—	1,143	—
Share-based option expenses	—	—	—	16,073	—	16,073
Exercise of share options	9,127	—	—	(2,295)	—	6,832
Share options lapsed/expired	—	—	—	(7,963)	7,963	—
Loss for the year	—	—	—	—	(41,948)	(41,948)
At 31 December 2010	922,088	71,463	25,434	16,494	(580,753)	454,726

The contributed surplus represents the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the Group Reorganisation.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated losses which in aggregate amounted to approximately HK$455 million as at 31 December 2010 (2009: HK$104 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

37. DEFERRED TAX (ASSETS) LIABILITIES

The following are the Group's major deferred tax assets recognised and movements thereon during the current and prior reporting periods:

	Fair value gain on investment properties	Revaluation gain arising from business combination	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	—	—	690	(1,350)	(660)
Credit to the consolidated income statement for the year *(note 10)*	—	—	(568)	(2,690)	(3,258)
At 31 December 2009 and 1 January 2010	—	—	122	(4,040)	(3,918)
Acquisition of subsidiaries *(note 39 (i) & (iii))*	—	111,603	—	—	111,603
Charged (credit) to the consolidated income statement for the year *(note 10)*	119,585	(7,380)	200	4,025	116,430
At 31 December 2010	119,585	104,223	322	(15)	224,115

As at 31 December 2010, the Group had unused tax losses of HK$25,897,000 (2009: HK$24,482,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$90,000 (2009: asset of HK$3,918,000) of such losses. No deferred tax has been recognised in respect of the remaining HK$25,807,000 (2009: HK$24,482,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

38. RETIREMENT BENEFITS SCHEME

When the Mandatory Provident Fund Schemes Ordinance ("MPFO") came into effect in Hong Kong on 1 December 2000, The Group established a mandatory provident fund scheme with voluntary contributions (the "MPF Scheme") for its employees in Hong Kong.

Prior to the introduction of the MPF Scheme, the Group had operated a defined contribution scheme registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") for its qualified employees in Hong Kong. The ORSO Scheme discontinued in 2001 and the benefits of the employees were transferred to the MPF Scheme. The assets held under the ORSO Scheme which were held separately from those of the Group were also transferred directly to the MPF Scheme. For MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The amounts charged to the consolidated statement of comprehensive incomes represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes less forfeiture, if any, arising from employees leaving the Group prior to completion of their qualifying service period.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

As at the end of the reporting period, there was no significant amount of forfeited contributions available to reduce future contributions.

39. ACQUISITION OF SUBSIDIARIES

(i) On 1 April 2010, China Water Real Property Limited, a wholly owned subsidiary of the Company, entered into the agreement to acquire 60% of the entire equity interest of Hangzhou Pu Tian Property Development Co., Ltd (杭州普天房地產開發有限公司), a PRC company principally engaging in a property development project in Hangzhou City, the PRC. The transaction was completed in June 2010. The total consideration for the transaction was approximately HK$170.5 million (equivalent to RMB150 million) being settled partly in cash of HK$85.2 million (equivalent to RMB75 million) and partly by shares in two tranches. The first tranche, comprising 437,811,333 new shares at an issue price of HK$0.146 per share, was issued on completion of the transaction. The second tranche, comprising 145,937,111 new shares at an issue price of HK$0.146 per share, was issued on 10 December 2010, being six months after the completion. Details of the transaction were set out in the circular of the Company dated 20 April 2010.

Details of the net assets acquired in the business combination are as follows:

	Fair value
	HK$'000
Net assets acquired:	
Properties, plant and equipment	1,612
Inventory of properties	497,687
Deposits, prepayment and other receivables	37,819
Prepaid tax	2,033
Bank balances and cash	2,378
Borrowings	(90,909)
Trade and other payables	(2,923)
Deposits received from pre-sale of inventory of properties	(63,409)
Deferred tax liabilities	(100,198)
	284,090
Non-controlling interests	(113,636)
	170,454
Total consideration satisfied by:	
Cash paid	85,227
Consideration shares issued *(note 34 (l))*	85,227
Total consideration	170,454
Net cash outflow arising from acquisition:	
Cash consideration paid	85,227
Bank balances and cash acquired	(2,378)
Net cash outflow of cash and cash equivalents in respect of the acquisition	82,849

For the period between the date of acquisition and 31 December 2010, Hangzhou Pu Tian Property Development Co., Ltd contributed approximately HK$79,000,000 to the Group's consolidated turnover and profit of approximately HK$22,000,000 to the Group's profit for the year in consolidated income statement.

(ii) On 15 May 2010, Water Property Hubei Limited (formerly named: Hubei Fucheng Property Development Limited) (水務地產湖北有限公司(前稱：湖北阜城房地產開發有限公司)), a wholly owned subsidiary of the Company, entered into the agreement to acquire the entire equity interest of Wuhan Kai Yue Properties Development Limited (武漢凱越房地產開發有限公司), a PRC company principally engaging in a property development project in Wuhan City, the PRC. The transaction was completed in July 2010. The total consideration for the transaction was approximately HK$56.8 million (equivalent to RMB50 million) being fully settled by way of cash.

	Fair value
	HK$'000
Net assets acquired:	
Inventory of properties	33,513
Other receivables and prepayments	21,855
Tax recoverable	48
Bank balances and cash	2,469
Trade and other payables	(1,068)
	56,817
Total consideration satisfied by:	
Cash Paid	56,817
Net cash outflow arising from acquisition:	
Cash consideration paid	56,817
Bank balances and cash acquired	(2,469)
Net cash outflow of cash and cash equivalents in respect of the acquisition	54,348

Since the properties held are still under development, the acquisition has no profit, but loss of approximately HK$4,000,000 contributable to the operation results of the Group, and no revenue has been generated from Wuhan Kai Yue Properties Development Limited.

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

Details of the net assets acquired in the business combination are as follows:

	Fair value
	HK$'000
Net assets acquired:	
Properties, plant and equipment	1,786
Inventory of properties	192,234
Deposits, prepayment and other receivables	1,920
Bank balances and cash	902
Borrowings	(11,363)
Trade and other payables	(3,625)
Amount due to shareholders	(139,124)
Deferred tax liabilities	(11,405)
	31,325
Non-controlling interests	(12,530)
Assignment of partial amounts due to shareholders	80,069
	98,864
Total consideration satisfied by:	
Cash paid	20,454
Consideration shares issued *(note 34(l))*	78,410
Total consideration	98,864
Net cash outflow arising from acquisition:	
Cash consideration paid	20,454
Bank balances and cash acquired	(902)
Net cash outflow of cash and cash equivalents in respect of the acquisition	19,552

Since the properties held is still under development, the acquisition has no profit, but loss of approximately HK$2,000,000 contributable to the operation results of the Group, and no revenue has been generated from HK Mei Lai International (Canada) Limited and its subsidiary in Hangzhou.

(iv) On 18 December 2009, the Group completed the acquisition of the entire issued share capital of China Water Property (Hong Kong) Group Limited ("CWP (HK) Group") (formerly named: Wealth Full Global Investment Limited), a company incorporated in the British Virgin Islands for a total consideration of RMB200,000,000 (equivalent to approximately HK$227,273,000). CWP (HK) Group is principally engaged in development and sale of real estate, and provision of real estate consultancy service in the PRC.

Details of the net assets acquired and goodwill recognised in the business combination were as follows:

	Fair value
	HK$'000
Net assets acquired:	
Property, plant and equipment	355
Inventory of properties	412,168
Other receivables	60,507
Bank balances and cash	4,612
Trade and other payables	(106,793)
Bank borrowings	(318,181)
	52,668
Goodwill	174,605
	227,273
Total consideration satisfied by:	
Cash paid during the years ended 31 December 2009 and 2010	107,955
Consideration shares issued *(note 34(g))*	119,318
Total consideration	227,273
Net cash outflow of cash and cash equivalents in respect of the acquisition:	
Cash consideration paid	107,955
Bank balances and cash acquired	(4,612)
Net cash outflow of cash and cash equivalents in respect of the acquisition	103,343

40. PLEDGE OF ASSETS

As at the reporting date, the following assets were pledged by the Group to banks in order to secure general banking facilities granted to the Group, and their respective net book values are as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Land and buildings together with relevant land use rights situated in the PRC	341,790	181,320
Land and buildings situated in Hong Kong	191	449
Plant and machinery	—	4,906
Bank deposits	9,978	13,973
	351,959	200,648

The Company did not have any assets pledged as at the date of reporting period.

41. OPERATING LEASES COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	4,179	2,958	—	—
In the second to fifth years inclusive	2,844	2,981	—	—
More than five years	—	4,773	—	—
	7,023	10,712	—	—

Operating lease payments represent rentals payable by the Group for certain of its office and premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

42. CAPITAL COMMITMENTS

As at 31 December 2010, the Group had capital commitments in respect of its construction of properties, contracted but not provided in the consolidated financial statements, amounting to HK$161.2 million (2009: 125.9 million).

43. CONTINGENT LIABILITIES

Contingent liabilities at 31 December are analysed as follows:

	THE GROUP		THE COMPANY	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	—	—	58,725	100,325

The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities as their fair values cannot be reliably measured and their transaction price was HK$Nil.

As at 31 December 2010, the Group had provided guarantees to banks for loans of approximately HK$392 million in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

The Directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect as at 31 December 2010 and 31 December 2009.

44. DISPOSAL OF SUBSIDIARIES

(i) During the year, the Group disposed of its entire interests in Conseco Seabuckthorn.

The net assets of Conseco Seabuckthorn at the date of disposal are as follow:

	2010
	HK$'000
Net assets disposed of:	
Properties, plant and equipment	75,200
Prepaid lease payment	1,002
Intangible assets	981
Biological assets	4,647
Inventories	23,980
Trade and other receivables	5,509
Bank balances and cash	12,199
Trade and other payables	(27,696)
Other short-term borrowings	(15,924)
Amount due to minority shareholders of subsidiaries	(18,681)
Taxation payables	(2,399)
Other secured borrowings	(405)
	58,413
Non-controlling interests	(22,190)
Release of capital reserve	(848)
Release of translation reserve	(10,182)
	25,193
Gain on disposal	3,548
Total consideration	28,741
Consideration received in cash during the year	18,823
Less: cash disposed of	(12,199)
Net cash inflow arising on the disposal	6,624

(ii) During the year ended 31 December 2009, the Group disposed of its entire interests in Shanghai Worldbest Lanke Biological Product Sales Company Limited, a subsidiary of the Group.

The net liabilities of the subsidiary at the date of disposal were as follow:

	2009
	HK$'000
Property, plant and equipment	120
Inventories	258
Trade and other receivables	2,440
Tax recoverable	915
Bank balances and cash	27
Trade and other payables	(1,690)
Amount due to a fellow subsidiary	(6,650)
	(4,580)
Attributable goodwill	3,576
Waiver of amount due to a subsidiary of the Group	6,650
Gain on disposal of a subsidiary	37
Total consideration	5,683
Net cash outflow arising on the disposal	(27)

45. EVENT AFTER THE END OF REPORTING PERIOD

On 5 November 2010, the Group entered into the memorandum of understanding with Wuhan Hailuo Commercial Investment Management Co. Ltd. (武漢海螺商貿投資管理有限公司) (the "vender") in relation to the possible acquisition of the entire equity interest 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"), a PRC company principally holding the land use right in Wuhan Economic and Technological Development Zone in the PRC. A refundable deposit of HK$58,824,000 has been paid to the vendor by the Group and it is classified as deposit paid for acquisition of a subsidiary in the consolidated statement of financial position at 31 December 2010. Subsequently, on 6 January 2011, Water Property Hubei Limited (水務地產湖北有限公司), a wholly owned subsidiary of the Group, entered into the agreement with the vendor to acquire the entire equity interest of the Target Company at the consideration of RMB105,000,000. The legal procedure of the equity transfer is in progress up to the report date.

46. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules:

		2010	2009
	Notes	*HK$'000*	*HK$'000*
Rentals paid to:			
— Mr. But Ching Pui	*(i) & (iii)*	—	72
— Mr. But Ching Pui and Ms. Leung Wai Ling	*(i) & (iii)*	—	156
— Lucky Fair Investment Limited	*(ii) & (iii)*	147	180
— Tai Tung Supermarket Limited	*(ii) & (iii)*	235	288
— Mr. But Ka Wai and his family members	*(iii)*	—	300

Compensations to key management personnel:

The directors of the Group considered that they are the only key management personnel of the Group and their remuneration has been set out in note 9.

Notes:

(i) Mr. But Ching Pui and Ms. Leung Wai Ling resigned as directors on 19 June 2009.

(ii) Mr. But Ching Pui and his family members are the beneficial shareholders of the Company.

(iii) Rentals for premises were determined in accordance with the leases entered into between the Group and the related parties, on the basis of estimated market value.

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2010 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company	Principal activities
Directly hold:				
Wah Yuen Foods International Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Top Rainbow Investments Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD50,000	100%	Investment holding
Top Harbour Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD50,000	100%	Investment holding
China Water Property Investment Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD10,000	100%	Investment holding
In-directly hold:				
Wah Yuen Foods (China) Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Hong Kong Wah Yuen Foods Company Limited	British Virgin Islands/ Hong Kong	Ordinary share HK$1	100%	Investment holding
Wah Yuen Investment Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Wealthstar Investments Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
Wah Yuen Licensing Company Limited	Cook Islands/ Hong Kong	Ordinary shares HK$10	100%	Holding of trademarks
Honfine Company Limited	Hong Kong	Ordinary shares HK$10 Non-voting deferred shares HK$2 *Note (iii)*	100%	Distribution and marketing of snack foods products

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company	Principal activities
Wah Yuen Foods (Hong Kong) Company Limited	Hong Kong	Ordinary shares HK$1,000 Non-voting deferred shares HK$10,000,000 *Note (iii)*	100%	Manufacturing, distribution and marketing of snack food products and convenience frozen food products
Million Riches Development Limited	Hong Kong	Ordinary shares HK$100 Non-voting deferred shares HK$1,000,000 *Note (ii)*	100%	Distribution and marketing of snack foods products
Wah Yuen Foods Company Limited	Hong Kong	Ordinary shares HK$20	100%	Investment holding
Wah Yuen (Guangzhou) Foods Company Limited *Note (i)*	PRC	Registered and contributed capital USD5,700,000	100%	Manufacturing, distribution and marketing of snack food products
Rocco Foods Enterprises Company (Guangzhou) Limited *Note (i)*	PRC	Registered and contributed capital USD2,810,000	100%	Manufacturing, distribution and marketing of snack food products
Guangzhou Lekker Pet Foods Company Limited *Note (i)*	PRC	Registered and contributed capital HK$500,000	100%	Manufacturing, distribution and marketing of pet food products
Wide Spread Foods Company Limited *Note (i)*	PRC	Registered and contributed capital HK$500,000	100%	Dormant
China Environmental Water Holdings Limited	Hong Kong	Ordinary share HK$10	100%	Investment holdings
China Water Property Corporate Finance Limited (previously known as: Wah Yuen Health Products Company Limited)	Hong Kong	Ordinary share HK$10,000	100%	Investment holdings
深圳中水置業有限公司 (Shenzhen China Water Property Co. Ltd.*) (previously known as: 深圳高原聖果生物技有限公司 (Shenzhen Conseco Seabuckthorn Biotechnology Co. Ltd.*))	PRC	Registered and contributed capital RMB54,576,142	100%	Technical development of seabuckthorn products; remediation system development of water ecosystem protection; wholesale of commodity and packed food
Cedar Base International Limited	Hong Kong	Ordinary shares HK$10	100%	Technical development of seabuckthorn products

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company	Principal activities
China Water Property (Hong Kong) Development Limited (previously known as: Wah Yuen Foods Trading Limited)	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding
Karford Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
Waterports International Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
Hense Investments Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
China Water Real Property Limited (previously known as: Head Fame Properties Limited)	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding
Mega Famous Investment Limited	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding
China Water Property Group (Hong Kong) Limited	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding
China Water Property Research Limited	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding
China Water Property (Hong Kong) Group Limited (previously known as: Wealth Full Global Investments Limited)	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
上海聖恒投資有限公司 (Shanghai Shengheng Investment Co. Ltd.*)	PRC	Registered and contributed capital RMB15,000,000	51%	Investment holding and property development
榮成海御天城置業有限公司 (Rongcheng Haiyu Tiancheng Property Co. Ltd.*)	PRC	Registered and contributed capital RMB20,000,000	100%	Investment holding and property development
華園食品(上海)有限公司 (Wah Yuen Food (Shanghai) Co. Ltd.*)	PRC	Registered and contributed capital RMB5,000,000	51%	Distributing and marketing of snack food products

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company	Principal activities
水務地產湖北有限公司 (Water Property Hubei Co. Ltd.*) (previously known as: 湖北阜城房地產開發有限公司 (Hubei Fucheng Property Development Co. Ltd.*))	PRC	Registered and contributed capital RMB200,000,000	100%	Property development
Northern Sea Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
Create Capital Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
Angelink Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
HK Mei Lai International (Canada) Limited	Hong Kong	Ordinary shares HKD10,000	60%	Property development
杭州尼加拉置業有限公司 (Hangzhou Nijiala Realty Co. Ltd*)	PRC	Registered and contributed capital USD14,900,000	60%	Property development and sale of properties
杭州普天房地產開發有限公司 (Hangzhou Putian Real Property Development Co. Ltd*)	PRC	Registered and contributed capital RMB30,000,000	60%	Property development and sale of properties
武漢深茂業商業投資管理有限公司 (Wuhan Shenmaoye Commercial Investment Co. Ltd.*)	PRC	Registered and contributed capital RMB10,000,000	51%	Provision of management service for investment properties
武漢凱越房地產開發有限公司 (Wuhan Kaiyue Property Development Co. Ltd.*)	PRC	Registered and contributed capital RMB50,000,000	100%	Property development and sale of properties
武漢茂業國際酒店管理有限公司 (Wuhan Maoye International Hotel Management Co. Ltd.*)	PRC	Registered and contributed capital RMB1,000,000	100%	Provision of hotel management services
江蘇河海置業有限公司 (Jiangsu Hehai Property Co. Ltd*)	PRC	Registered and contributed capital RMB20,000,000	100%	Property development

(i) Wah Yuen (Guangzhou) Foods Company Limited, Rocco Foods Enterprises Company (Guangzhou) Limited, Guangzhou Lekker Pet Foods Company Limited, Wide Spread Foods Company Limited and Water Property Hubei Limited (formerly named: Hubei Fucheng Property Development Limited) are wholly foreign owned enterprises established in the PRC.

(ii) The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any of the respective companies' general meetings or to participate in any distribution on their winding up.

(iii) None of the subsidiaries had any debt securities outstanding as at 31 December 2010 or at any time during the year.

3. UNAUDITED CONSOLIDATED FINANCIAL RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2011

Set out below is the unaudited consolidated financial results of the Group and notes to the financial statements reproduced from the unaudited financial statements published in the Company's interim results announcement for the six months ended 30 June 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

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

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

Note: There were no items that are exceptional because of size, nature or incidence for the six months ended 30 June 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. GENERAL

The condensed consolidated financial statements have been prepared with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

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

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

New and revised Standards and Interpretations applied in the current period

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

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

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

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

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

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

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

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

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 1 — to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees and consolidating investees that were not previously consolidated.

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

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

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

3. SEGMENT INFORMATION

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

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

The Group's operating segments are as follows:

- Property Investment Business Segment engages in leasing of investment properties in the PRC.
- Property Development Business Segment engages in development of property project in The People's Republic of China (the "PRC").
- Wah Yuen Foods Business Segment engages in production and distribution of snack food, convenient frozen food and other food products.
- Seabuckthorn Business Segment engaged in cultivation of seabuckthorn, as well as manufacture, sales, research and development of seabuckthorn-related health products. The Group disposed its equity interest in a subsidiary engaging in Seabuckthorn Business and the disposal was completed in September 2010.

Segment revenues and results

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

For the six months ended 30 June 2011

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

For the six months ended 30 June 2010

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

4. FINANCE COSTS

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

5. INCOME TAX EXPENSE

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

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

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

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

6. DISCONTINUED OPERATION

Disposal of the Seabuckthorn Business

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

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

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

7. DIVIDENDS

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

8. EARNINGS (LOSSES) PER SHARE

From continuing and discontinued operations

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

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

From continuing and discontinued operation

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

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

9. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

10. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

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

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

4. STATEMENT OF INDEBTEDNESS

Borrowings

At the close of business on 31 July 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total borrowings of approximately HK$665,001,000 comprising secured bank loans of approximately HK$433,668,000, amount due to a shareholder of approximately HK$112,000,000, obligations under finance lease of approximately HK$100,000, unsecured amounts due to non-controlling shareholder of subsidiaries of approximately HK$55,755,000, unsecured convertible notes of approximately HK$63,478,000.

Securities and guarantees

As at 31 July 2011, the Group's borrowings were secured by the following:

(i) Charges on certain land and buildings situated in Hong Kong together with relevant land use rights situated in the PRC with an aggregate carrying value of approximately HK$354,467,000;

(ii) Charges on certain bank deposits of the Group with an aggregate carrying value of approximately HK$3,307,000; and

(iii) Corporate guarantees executed by certain members of the Group.

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

Commitments and contingent liabilities

As at 31 July 2011, the Group had total future minimum lease payments under noncancelable operating leases in respect of rented premises amounting to approximately HK$4,337,000.

As at 31 July 2011, the Group had capital commitments in connection with the property development activities amounted to approximately HK$116,126,000, primarily related to construction costs on projects under development and expenditures related to future property developments and investments.

As at 31 July 2011, the Group had provided guarantees to banks for loans of approximately HK$21,907,000 in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 July 2011.

Save as disclosed above, the directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 July 2011, up to and including in the Latest Practicable Date.

For the purpose of the above indebtedness statement, foreign currency accounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 31 July 2011.

5. MATERIAL CHANGE

The Directors confirm that save for the reduction in contingent liabilities, arising from the Group's provision of guarantees to banks for loans in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold, from approximately HK$392 million as at 31 December 2010 to approximately HK$22 million as at 31 July 2011, there is no material change in the financial or trading position or outlook of the Group since 31 December 2010, being the date to which the latest audited consolidated financial statements of the Group were made up.

6. WORKING CAPITAL

The Directors are of the opinion that, taking into account the cash flows generated from the operating activities, the financial resources available to the Group including internally generated funds, the available credit facilities and the estimated net proceeds from the Open Offer, the Group has sufficient working capital for at least the next twelve months from the date of this Circular.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited to illustrate the effect of the proposed Open Offer on the basis of two Offer Shares for every five Consolidated Shares held on the Record Date ("Open Offer") on the published consolidated net tangible assets of the Group as if the Open Offer had taken place on 30 June 2011.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the published consolidated net assets of the Group as at 30 June 2011, as extracted from the published interim report of the Group for the year ended 30 June 2011 which are published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.waterpropertygroup.com), after incorporating the unaudited pro forma adjustments described in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to equity holders of the Group following the Open Offer.

	Unaudited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2011	**Estimated net proceeds from the Open Offer**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company after completion of the Open Offer**	**Unaudited consolidated net tangible assets per share attributable to the equity holders of the Company as at 30 June 2011**	**Unaudited pro forma adjusted consolidated net tangible assets per share attributable to the equity holders of the Company after completion of the Open Offer**
	(Note 2)	*(Note 3)*		*(Note 4)*	*(Note 5)*
	HK$'000	*HK$'000*	*HK$'000*	*HK cents*	*HK cents*
Open Offer of 502,492,246 offer shares *(Note 1)*	1,064,254	249,246	1,313,500	84.72	74.68

Note:

1. The issue of not less than approximately HK$250 million before expenses by issuing 502,492,246 Offer Shares at the Subscription Price of HK$0.50 per Offer Share on the basis of two Offer Shares for every five Consolidated Shares held on the Latest Practicable Date. Details of the movement in number of issued Shares from 30 June 2011 up to the Latest Practicable Date is as follows:

	Number of issued Shares
As at 30 June 2011	12,562,306,151
Shares consolidation (10 in 1) on 19 September 2011	(11,306,075,536)
As at the Latest Practicable Date	1,256,230,615

2. The unaudited consolidated net tangible assets of the Group attributable to the equity holders of the Company is based on the unaudited consolidated statement of financial position of the Group as at 30 June 2011, the equity attributable to owners of the Company approximately HK$1,238,859,000 minus the goodwill approximately HK$174,605,000, the total amount is approximately HK$1,064,254,000, as extracted from both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.waterpropertygroup.com).

3. The calculation of estimated net proceeds of Open Offer is based on 502,492,246 Offer Shares at the Subscription Price of HK$0.50 per Offer Share, after deduction of the estimated related expenses of approximately HK$2,000,000.

4. The number of Shares used for the calculation of unaudited consolidated net tangible assets per Share as at 30 June 2011 and prior to the completion of the Open Offer and on the assumption that the share consolidation of 10 shares into 1 share had been completed as at 30 June 2011 is 1,256,230,615 Shares.

5. The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company after the completion of the Open Offer is calculated based on 1,758,722,861 Shares in issue upon completion of the Open Offer, which represents the 1,256,230,615 Shares in issue as at the Latest Practicable Date and 502,492,246 Offer Shares expected to be issued on the completion of the Open Offer.

6. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2011.

   This unaudited pro forma statement of adjusted consolidated net tangible assets have taken into account the change in net tangible assets arising from the movement of number of issued shares of the Company from 30 June 2011 up to the Latest Practicable Date, as specified in Note 1 above.

2. REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

恒 健 會 計 師 行
HLM & Co.
Certified Public Accountants

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The Board of Directors
China Water Property Group Limited
中國水務地產集團有限公司

Dear Sirs,

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of China Water Property Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix II of the circular dated 31 August 2011 (the "Circular"). The Unaudited Pro Forma Financial Information has been prepared by directors of the Company, for illustrative purpose only, to provide information about how the proposed Open Offer on the basis of two Offer Shares for every five Consolidated Shares (as defined in the Circular) held on the Record Date (as defined in the Circular) at the Subscription Price of HK$0.50 per offer share, might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the introduction and notes to the Unaudited Pro Forma Financial Information as set out in Section 1 of this Appendix.

Responsibilities

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you for the purpose of incorporation in the Circular. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, which is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29 (1) of Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetic nature, it may not give a true picture of the Group's financial position or results, and it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2010 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of Listing Rules.

Yours faithfully,

HLM & Co.
Certified Public Accountants

Hong Kong, 31 August 2011

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group and the Underwriter.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

SHARE CAPITAL

Authorised capital:		*HK$*
50,000,000,000	ordinary Existing Shares of HK$0.01 each (before the Share Consolidation)	500,000,000
5,000,000,000	ordinary Consolidated Shares of HK$0.10 each (after the Share Consolidation)	500,000,000
Issued and fully paid or credited as fully paid:		
1,256,230,615	ordinary Consolidated Shares of HK$0.10 each (assuming that the Share Consolidation having become effective)	125,623,061.50
502,492,246	Offer Shares to be issued	50,249,224.60
1,758,722,861	Consolidated Shares	175,872,286.10

As at the Latest Practicable Date, save for the 244,752,000 Share Options and the Convertible Bonds, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

All existing issued Shares rank pari passu in all respect as to return of capital, dividends and voting. Save for 30,056,634 Shares issued on 24 March 2011 upon exercise of the Share Options, no Shares have been issued since 31 December 2010, being the date on which the latest audited financial statements of the Company were made up.

All the Consolidated Shares to be in issue and the Offer Shares (when allotted and fully paid) to be issued rank pari passu in all respects with each other including as regards to dividends and voting rights. The Shares in issue are listed on the Stock Exchange.

No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

There is no arrangement under which future dividends are/will be waived or agreed to be waived.

As at the Latest Practicable Date, no share or loan capital of the Company or any members of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed to be issued or granted, except for the Share Options, the Convertible Bonds and the Offer Shares.

DISCLOSURE OF INTERESTS

(a) Director's and chief executive's interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives and their associates in the shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company or any of its associated corporations) and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or that was required to be recorded pursuant to 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 were as follows:

(i) Long positions in shares as at the Latest Practicable Date

Name of Director	Capacity	Number of ordinary shares	Total Number of ordinary shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficial owner	30,056,634	30,056,634	0.239%
Ms. Wang Wenxia	Beneficial owner	8,796,000	8,796,000	0.070%
Mr. Ren Qian	Beneficial owner	1,860,000	1,860,000	0.015%

(ii) Long positions in underlying shares as at the Latest Practicable Date

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficial owner	122,376,000 *(Note)*	0.974%
Ms. Wang Wenxia	Beneficial owner	122,376,000 *(Note)*	0.974%

Note: 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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Substantial shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

(i) Long positions in the Shares as at the Latest Practicable Date

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	3,598,015,504	28.641%
China Financial International Investments Limited		Interest of controlled corporation	1,135,294,216	9.037%
China Financial International Investments and Management Limited	(2)	Investment manager	1,135,294,216	9.037%

(ii) Long positions in the underlying shares as at the Latest Practicable Date

Name of substantial shareholders	*Note*	**Capacity/ Nature of interest**	**Number of underlying shares**	**Approximate percentage of shareholding** *(%)*
China Water Affairs Group Limited	(3)	Interest of controlled corporation	1,812,222,222	14.426%

Notes:

(1) These shares of the Company held by Sharp Profit and Good Outlook which are wholly owned subsidiaries of China Water. Therefore, China Water Affairs was deemed to be beneficially interested in the said shares of the Company held by Sharp Profit and Good Outlook for the purposes of the SFO.

(2) These shares of the Company were held by China Financial International Investments and Management Limited ("CFIIM") which is owned by as to 51% by Capital Focus Asset Management Limited ("Capital Focus"), 29% by China Financial International Investments Limited (Stock Code: 721) ("CFII"). Accordingly, for the purposes of the SFO, Capital Focus is deemed to have the same interests in the Company as CFIIM.

(3) 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. 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 and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

DIRECTORS' SERVICE CONTRACTS

Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian as the independent non-executive Directors who are proposed for re-election at the AGM have service contracts with the Company which are determinable by the Group within one year with payment of compensation, other than statutory compensation. There is a 3 years term of service contract entered into between Mr. Chan Pok Hiu, Mr. Wong Chi Ming, Mr. Wang Jian and the Company and they will be subject to retirement by rotation in accordance with the Articles and Listing Rules. Their remuneration are fixed at HK$3,000 per month, which is determined by the Board with reference to their duties and responsibilities with the Company, the Company's remuneration policy and the prevailing market conditions, and are subject to approval the remuneration committee of the Company. The remuneration of each of Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian is not variable although discretionary management bonus and/or share options under the share option scheme adopted by the Company may be granted subject to the determination of the Board and the approval of the remuneration committee of the Company.

Ms. Wang Wenxia ("Ms. Wang") has been appointed as the chief executive officer of the Company with effect from 17 January 2011 and Ms. Wang has also entered into the service agreement with the Company on 17 January 2011. The term of the service agreement will be for three years commencing from the date of the service agreement subject to compliance with the relevant provisions of the Listing Rules.

Ms. Wang shall be entitled to a salary of HK$300,000 per month, with housing allowance of not more than HK$50,000 per month, together with discretionary management bonus and such share options which may be granted under the share option scheme adopted by the Company to be determined by the Board. Ms. Wang's emolument has been reviewed by the remuneration committee of the Company.

Save as disclosed above, none of the Directors has service contract with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) have been entered into or amended within 6 months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

DIRECTORS' INTEREST IN ASSETS

None of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

DIRECTORS' INTEREST IN CONTRACT OR ARRANGEMENT

So far as the Directors are aware of, none of themselves or the substantial Shareholders (as defined in the Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	Qualifications
Ample Capital	a licensed corporation under the SFO licensed to conduct types 4, 6 and 9 regulated activities (Advising on Securities, Advising on Corporate Finance and Asset Management) under the SFO, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders
HLM	Certified Public Accountants

Each of Ample Capital and HLM has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respective appear.

Each of Ample Capital and HLM does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Ample Capital and HLM does not have any direct or indirect interests in any assets which have been, since 31 December 2010 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries after the date the two years immediately preceding the Announcement and are or may be material:

(a) the agreement for acquisition dated 19 October 2009 entered into between Highest Growth Holdings Limited as vendor and Mega Famous Investment Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of the entire equity interest of Wealth Full Global Investments Limited which owned the entire equity interest in 湖北阜城房地產開發有限公司 (Hubei Funcheng Property Development Limited*) at a total consideration of RMB200,000,000;

(b) on 31 March 2010, China Water Affairs Group Limited and Sharp Profit Investments Limited, the Company and Kingston Securities Limited entered into the top-up placing and subscription agreement up to 1,386,000,000 placing shares. The total subscription price was approximately HK$202.4 million;

(c) the agreement for acquisition dated 1 April 2010 entered into between 金成房地產集團有限公司 (Jin Cheng Property Group Co., Ltd.*), 周秋羊 (Zhou Qiuyang*) and 倪國明 (Ni Guoming*) as vendors and China Water Real Property Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of the 60% equity interest of 杭州普天房地產開發有限公司 (Hangzhou Pu Tian Property Development Co., Ltd.*) at a total consideration of RMB150,000,000;

(d) the agreement for acquisition dated 21 May 2010 entered into between 鄭廷玉 (Zheng Tingyu*) as vendor and China Water Property (Hong Kong) Development Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of the 60% equity interest of HK Mei Lai International (Canada) Limited which owned the entire equity interest in 杭州尼加拉置業有限公司 (Hangzhou Niagara Real Estates Co., Ltd.*) at a total consideration of RMB87,000,000;

(e) the sale and purchase agreement for disposal dated 21 July 2010 entered into between 山合林(北京)水土保持技術有限公司 (Shan He Lin (Beijing) Water and Soil Conservation Technique Co., Limited*) as purchaser and China Environmental Water Holdings Limited, a wholly owned subsidiary of the Company, as vendor in relation to the disposal of the 50% equity interest of Conseco Seabuckthorn Co., Ltd at a cash consideration of RMB24,430,000;

(f) the agreement for acquisition dated 6 January 2011 entered into between 武漢海螺商貿投資管理有限公司 (Wuhan Hailuo Commercial Investment Management Co. Ltd.*) as vendor and 水務地產湖北有限公司 (Water Property Hubei Limited*), a wholly owned subsidiary of the Company as purchaser in relation to the acquisition of the entire equity interest of 武漢市中南汽車配件配套有限責任公司 (Wuhan Zhong Nan Automobile Parts and Accessories Co. Ltd.*) at a total consideration of RMB105,000,000; and

(g) the Underwriting Agreement.

* *The English translation of Chinese names or words for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to amount approximately HK$2 million and are payable by the Company.

MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	Closing price of the Shares *(HK$)*
31 January 2011	0.115
28 February 2011	0.103
31 March 2011	0.107
29 April 2011	0.102
31 May 2011	0.098
30 June 2011	0.128
28 July 2011 (the Last Trading Day)	0.111
31 July 2011	Suspended
26 August 2011 (the Latest Practicable Date)	0.068

The highest and lowest prices at which the Shares have traded on the Stock Exchange in each of the previous twelve calendar months immediately prior to the Latest Practicable Date were as follows:

	Highest *HK$*	Lowest *HK$*
2010		
August	0.129	0.114
September	0.135	0.110
October	0.118	0.096
November	0.103	0.086
December	0.113	0.084
2011		
January	0.113	0.099
February	0.118	0.101
March	0.113	0.097
April	0.110	0.100
May	0.109	0.093
June	0.129	0.090
July	0.126	0.108
August (up to the Latest Practicable Date)	0.105	0.066

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing from 5 February 2011, being the date six months preceding the date of the Announcement, and ending on the Latest Practicable Date were HK$0.128 as quoted on 30 June 2011 and HK$0.068 as quoted on 26 August 2011 respectively.

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	Suite 6208, 62nd Floor Central Plaza 18 Harbour Road Wanchai, Hong Kong
Authorised representatives	Mr. Duan Chuan Liang Ms. Wang Wenxia
Company Secretary	Mr. Li Chi Chung
Legal advisor to the Company	*As to Hong Kong Law* Michael Li & Co 14th Floor, Printing House 6 Duddell Street Central Hong Kong *As to Cayman Islands law:* Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Auditors and reporting accounts	HLM & Co.
Underwriter	China Water
Principal share registrar	HSBC Trustee (Cayman) Limited P.O. Box 484, HSBC House 68 West Bay Road Grand Cayman, KY1-1106 Cayman Islands

Hong Kong branch share registrar	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal Bankers	Chiyu Banking Corporation Limited No. 78 Des Voeux Road Central, Hong Kong
	DBS Bank (Hong Kong) Limited 16th Floor, The Center, 99 Queen's Road Central, Hong Kong
	The Hongkong and Shanghai Banking Corporation Limited Level 10, HSBC Main Building, 1 Queen's Road Central, Hong Kong

PARTICULARS OF DIRECTORS

Executive Directors

Ms. Wang Wenxia ("Ms. Wang"), aged 51, is the Vice Chairman, an executive Director and chief executive officer of the Company. Ms. Wang was responsible for the overall strategic development, making decisions for investment projects and determining the direction of development of the Group. Ms. Wang holds a master degree in finance from Dongbei University of Finance and Economics. Ms. Wang currently holds senior management positions in various unlisted companies incorporated in the PRC. Ms. Wang has active experience at the management level in structured finance for nearly 20 years, including investment, merger and acquisition, asset management services. Ms. Wang also has management experience spanning various industries including real estate, mining, mineral processing, import and export etc.

Ms. Wang was the chairman, the executive director and the chief executive officer of China Financial International Investments Limited (Stock Code: 721), a company listed on the main board of the Stock Exchange during the past three year until her resignation on 17 January 2011.

Mr. Ren Qian ("Mr. Ren"), aged 51, was responsible for strategic development and properties management of the Group. Mr. Ren graduated from the North China University of Water Conservancy and Electronic Power majoring in Agricultural Water (農水系) in 1983 and obtained a Master of Business Administration from the Beijing Normal University in 2001. He has nearly 31 years of experience in the water resources management industry, the housing and urban-rural development industry and the real estate industry in the PRC. Mr. Ren was the secretary of the office minister of The Ministry of Water Resources of the PRC and The Ministry of Housing and Urban-Rural Development of the PRC respectively.

Mr. Ren was also the deputy mayor of The People's Government of Hebei Province, Langfang City and the deputy general manager of The Housing and Urban-Rural Development Huatong Real Estate Limited# (建設部華通置業有限公司). Prior to joining the Group, Mr. Ren was the senior advisor of the board chairman of Beijing Yinghe Real Property Company# (北京盈和房地產公司).

Non-executive Directors

Mr. Duan Chuan Liang, Mr. Duan, aged 48, is the Chairman of the Company and a non-executive Director. Mr. Duan was graduated from the North China College of Water Conservancy and Hydro Power with a bachelor degree, major in irrigation and water conservancy works. Mr. Duan had been working for the Ministry of Water Resources of the PRC Government for more than 10 years. Mr. Duan has approximately 20 years experience in water conservancy management, real estate development experience. Mr. Duan is the chairman and the executive director of China Water (Stock Code: 855), a company listed on the main board of the Stock Exchange and a director of numerous enterprises in the PRC. Mr. Duan was appointed as the Chairman and non-executive Director of the Company on 25 October 2010.

Mr. Zhou Kun ("Mr. Zhou"), aged 44, graduated from the Xian Institute of Industry# (西安輕工學院) majoring in fine arts technology in 1987. He has over 21 years of experience in media, advertising and real estate industry in Shenzhen of the PRC. Mr. Zhou was the art director of Shenzhen Legal System Newspaper# (深圳法制報) and the general manager of Shenzhen Xinli Chuanren Advertising Limited# (深圳市信立傳人廣告有限公司).

Independent non-executive Directors

Mr. Chan Pok Hiu ("Mr. Chan"), aged 43, is a seasoned investment banker with more than 17 years of proven track record. He has held many senior positions in various renowned international banks. While he has mainly focused his efforts on PRC deal making in recent years, he has accumulated vast experience in back office support, business management and risk control functions.

Mr. Chan has spent the last 6 years with Standard Bank Group. As a core member of Asia Originations Team at Standard Bank Asia Limited, Mr. Chan is responsible for originate, structure and distribute deals which cover product areas such as Investment Banking (i.e. lending), Global Markets (i.e. equities derivatives), Resource Banking (i.e. mining project financing) and Private Equities. Before joining Standard Bank, Mr. Chan had been the operations director and alternate chief executive for Fleet National Bank, Hong Kong Branch (now part of Bank of America), responsible for the overall policy-making, direction, co-ordination, planning and control of the Branch. Previously, Mr. Chan had been with Merrill Lynch (Asia Pacific) Limited, responsible for supporting the Equities Derivatives area. Prior to Merrill Lynch, he had been with UBS as an analyst. Mr. Chan started his professional career at Chase Manhattan Bank headquarters in New York, acting as internal auditor. Mr. Chan holds a BBA and a MBA degree from Baruch College of City University of New York. Mr. Chan was appointed as the independent non-executive Director of the Company on 16 August 2010.

Mr. Wong Chi Ming ("Mr. Wong"), aged 35, graduated from the Hong Kong Polytechnic University with a Bachelor of Arts Degree in Accountancy. He has over 10 years of extensive experience in the fields of audit, accounting, taxation and corporate finance. He is a member of the Hong Kong Institute of Certified Public Accountants. He is currently a practicing director of a Hong Kong based medium size certified public accountants firm. Mr. Wong was appointed as the independent non-executive Director of the Company on 16 August 2010.

Mr. Wang Jian ("Mr. Wang"), aged 40, graduated from the Jiangsu Yangzhou University with a bachelor degree in economics in 1992. Mr. Wang is currently the vice general manager of Shenzhen Zhong Ke Zhi Investment Guarantee Company Limited# (深圳中科智投資擔保有限公司). He was credit management of ICBC Yangzhou Branch, the vice president of Yangzhou Property Hua Li Company Limited# (揚州華利房地產集團有限公司), the general manager of Beijing Hua Ding Times Investments Company Limited# (北京華鼎時代投資有限公司) and chairman assistant of Shenzhen Hua Rong Investment Guarantee Company Limited# (深圳市華融擔保投資有限公司). He has 20 years of extensive experience in the fields of financial management, corporate finance, capital management, property development project financing and operational management. Mr. Wang was appointed as the independent non-executive Director of the Company on 21 April 2011.

The English translation of Chinese names or words in this biography is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

ADDITIONAL INFORMATION OF THE UNDERWRITER

As at the Latest Practicable Date, the board of the Underwriter comprises two executive Directors, being Mr. Duan Chuan Liang and Mr. Li Ji Sheng, four non-executive directors, being Mr. Chen Guo Ru, Mr. Wu Jiesi, Mr. Zhao Hai Hu and Mr. Zhou Wen Zhi, and four independent non-executive directors, being Ms. Huang Shao Yun, Ms. Liu Dong, Mr. Chau Kam Wing and Mr. Ong King Keung.

The registered office of China Water is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the China Water in Hong Kong is located at Suite 6408, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

As at the Latest Practicable Date, the Underwriter and the parties acting in concert with it hold the following Shares, convertible securities, warrants or options of the Company:

(a) China Water directly holds 787,706,172 Existing Shares (equivalent to approximately 78,770,617 Consolidated Shares), representing approximately 6.27% of the existing issued share capital of the Company;

(b) Good Outlook, a wholly owned subsidiary of China Water, holds 1,613,309,332 Shares (equivalent to approximately 161,330,933 Consolidated Shares), representing approximately 12.84% of the existing issued share capital of the

Company and is also holder of the Convertible Bonds issued by the Company with outstanding principal amount of HK$81,550,000 convertible into 1,812,222,222 Existing Shares at the existing conversion price of HK$0.045 per Existing Share;

(c) Sharp Profit, a wholly owned subsidiary of China Water, holds 1,197,000,000 Shares (equivalent to approximately 119,700,000 Consolidated Shares), representing approximately 9.53% of the existing issued share capital of the Company; and

(d) Mr. Duan is (i) the Chairman and non-executive Director of the Company; (ii) the chairman and executive director of China Water; (iii) the legal and beneficial owner of 30,056,634 Existing Shares (equivalent to approximately 3,005,663 Consolidated Shares), representing approximately 0.24% of the existing issued share capital of the Company and 122,376,000 share options granted under the share option scheme adopted by the Company; and (iv) the legal and beneficial owner of 322,874,301 shares of HK$0.01 each in the share capital of China Water, representing about 20.30% of the issued share capital of China Water.

Save as disclosed above, the Underwriter, directors of the Underwriter, and its parties acting in concert do not hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date. Save as disclosed above, the Underwriter and its parties acting in concert do not own any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company.

ADDITIONAL DISCLOSURES

(1) Save for the exercise of, directors of the Underwriter, 30,056,634 Share Options by Mr. Duan on 24 March 2011, none of the Underwriter and parties acting in concert with any of them have dealt in the Shares and convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period. The exercise of the Share Options by Mr. Duan took place before the negotiations and discussions of the Open Offer, the Whitewash Waiver, the Underwriting Agreement and the Set Off as disclosed herein and the Company has obtained a confirmation from the Executive under paragraph 3a of Schedule VI of the Takeovers Code that the exercise of the Share Options by Mr. Duan does not constitute disqualifying transaction for the purpose of the Whitewash Waiver.

(2) As at the Latest Practicable Date, no persons had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM to approve the Open Offer, the Whitewash Waiver and the Set Off.

(3) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between China Water or parties acting in concert with it and other person(s).

(4) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Underwriter or parties acting in concert with it; and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Open Offer the Underwriting Agreement, the Set Off and the Whitewash Waiver.

(5) As at the Latest Practicable Date, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of any of its subsidiaries; nor (iii) any adviser to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code) had any shareholding interest in the Company and/or had dealt in the Shares and convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

(6) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(7) As at the Latest Practicable Date, no Shares and convertible securities, warrants, options or derivatives in respect of the Shares of the Company were managed on a discretionary basis by any fund managers connected with the Company, nor did any such fund managers deal in any Shares and convertible securities, warrants, options or derivatives in respect of the Shares of the Company during the Relevant Period.

(8) As at the Latest Practicable Date, save for the Underwriting Agreement and the China Water Undertaking, there was no agreement, arrangement or undertaking between any of the Directors and any other person which is conditional or dependent on the outcome or the completion of or otherwise connected with the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the Set Off.

(9) As at the Latest Practicable Date, save for the Underwriting Agreement and the China Water Undertaking, the Board had not received any information from any substantial Shareholders of their voting intention in respect of the resolutions in relation to the Open Offer, the Underwriting Agreement, the Set Off and the Whitewash Waiver at the EGM or intention to take up the Shares and convertible securities, warrants, options or derivatives in respect of the Shares of the Company to be provisionally allotted or offered to them under the Open Offer. Mr. Ren Qian, being Director of the Company, has expressed his voting intention to approve the Open Offer, the Underwriting Agreement, the Set Off and the Whitewash Waiver at the EGM. Ms. Wang Wenxia was involved in the negotiations on behalf of the Company with China Water in relation to the Underwriting Agreement, the Open Offer, the Set Off and the Whitewash Waiver. Accordingly, Ms. Wang Wenxia will abstain from voting at the EGM in respect of the resolutions approving the Open Offer, the Set Off and the Whitewash Waiver.

(10) As at the Latest Practicable Date, there was no contract or arrangement entered into by the Underwriter and parties acting in concert with it in which the Directors has a material interest.

(11) As at the Latest Practicable Date, no benefit had been given or would be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

(12) There is no agreement, undertaking, understanding and arrangement that any Shares and convertible securities, warrants, options or derivatives in respect of the Shares acquired in pursuance of the Open Offer will be transferred, charged or pledged to any other persons.

(13) As at the Latest Practicable Date, no Shares have been borrowed or lent by (i) the Underwriter and parties acting in concert with any of it; or (ii) the Company and the Directors.

(14) None of the Directors have any interest in the shares and convertible securities, warrants, options or derivatives in respect of the shares of the Underwriter nor dealt in the shares and convertible securities, warrants, options or derivatives in respect of the shares of the Underwriter during the Relevant Period.

(15) As at the Latest Practicable Date, the Company did not have any interest in the shares and convertible securities, warrants, options or derivatives in respect of the shares of China Water and had no dealings in the shares and convertible securities, warrants, options or derivatives in respect of the shares of China Water during the Relevant Period.

(16) Save as disclosed in the section headed Disclosure of Interests, none of the Directors have any interests in the Shares and convertible securities, warrants, options or derivatives in respect of the Shares of the Company.

(17) Save for the exercise of Share Options by Mr. Duan as disclosed in paragraph (1) above, none of the Directors had dealt for value in the Shares and convertible securities, warrants, options or derivatives in respect of the Shares of the Company or the Underwriter during the Relevant Period.

(18) Save for the exercise of Share Options by Mr. Duan as disclosed in paragraph (1) above, as at the Latest Practicable Date, none of the directors of China Water had any interest in the Shares and convertible securities, warrants, options or derivatives in respect of the Shares of the Company or had dealt in the Shares and convertible securities, warrants, options or derivatives in respect of the Shares of the Company during the Relevant Period.

(19) Saved for the Underwriting Agreement and the China Water Undertaking, there were no contract or agreement entered into by Underwriter or any member of the Group subsisting as at the Latest Practicable Date in which any of the Directors has a material personal interest or which is significant in relation to the business of the Group as a whole.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours from 9:30 a.m to 5:00 p.m on any weekday (except for public holidays) at the head office and principal place of business of the Company in Hong Kong at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong; (ii) on the website of the Company (http://www.waterpropertygroup.com), and (iii) on the website of the SFC (www.sfc.hk), from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the years ended 31 December 2008, 2009 and 2010 respectively and the interim results announcement of the Company for the six months ended 30 June 2011;

(c) the material contracts as referred to in the paragraph headed "Material contracts" in this appendix;

(d) the service contracts as referred to in the paragraph headed "Directors' Service Contract" in this appendix;

(e) the written consents referred to in the paragraph headed "Qualifications and consents of experts" in this appendix;

(f) the letter from HLM in respect of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on pages 141 to 142 of this circular;

(g) the letter from the Independent Board Committee, the text of which is set out on pages 28 to 29 of this circular; and

(h) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 30 to 45 of this circular.

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)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of China Water Property Group Limited (the "**Company**") will be held at 10:30 a.m. on Friday, 16 September 2011 at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendments, the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** subject to and conditional upon, among others, the granting by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the issued ordinary shares of the Company consolidated in the manner as set out in paragraph (a) of this resolution below (the "**Share Consolidation**"):

   (a) with effect from the day immediately following the date on which this resolution is passed, being a day on which shares are traded on the Stock Exchange, every ten issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company be consolidated into one share of HK$0.10 (each a "**Consolidated Share**"), such Consolidated Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company;

   (b) the directors of the Company (the "**Directors**") be and are generally authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary, desirable or expedient to give effect to the foregoing arrangements for the Share Consolidation."

2. "**THAT**

   (a) subject to and conditional upon fulfillment of the conditions of the Underwriting Agreement (as defined below), the Open Offer (as defined below) (including the absence of excess application and the alternative arrangement) and the transactions contemplated thereunder be and are hereby approved;

   For the purpose of this resolution, "**Open Offer**" means the proposed issue by way of open offer of 502,492,246 new Consolidated Shares as offer shares (the "**Offer Shares**") at a subscription price of HK$0.50 per Offer Share to the qualifying shareholders (the "**Qualifying Shareholders**") of the Company whose names appear on the date by reference to which entitlement under the Open Offer will be determined (other than those shareholders (the "**Prohibited Shareholders**") with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of two (2) Offer Shares for every five (5) Consolidated Share then held and otherwise pursuant to and subject to the fulfillment of the conditions of terms set out in the underwriting agreement (the "**Underwriting Agreement**" including all supplemental agreements relating thereto) (a copy of which have been produced to this Meeting marked "A" and signed by the chairman of this Meeting for the purpose of identification) dated 28 July 2011 and made between the Company and China Water Affairs Group Limited as underwriter (the "**Underwriter**" or "**China Water**");

(b) the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to the Open Offer notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to the Prohibited Shareholders as they deem necessary, desirable or expedient to having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong;

(c) the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the arrangements for taking up of the unsubscribed Offer Shares, if any, by China Water) be and are hereby approved, confirmed and ratified;

(d) the absence of any arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and are hereby approved, confirmed and ratified; and

any Director be and hereby authorised to sign or execute such documents and do all acts and things in connection with the allotment and issue of the Offer Shares, the implementation of the Open Offer and the Underwriting Agreement, the exercise or enforcement of any of the Company's rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as he may in his discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders."

3. "**THAT** the terms of the application for a waiver (the "**Whitewash Waiver**") granted or to be granted by the Executive Director (the "**Executive**") of the Corporate Finance Division of the Securities and Futures Commission to China Water and parties acting in concert with it pursuant to Note 1 on the

Dispensations from Rule 26 of the Code (the "**Takeovers Code**") on Takeovers and Mergers of Hong Kong from an obligation to make a general mandatory offer for the shares of the Company not already owned by them as a result of the Open Offer be and are hereby approved and the Directors be and are hereby authorised to do all such things and acts and execute all documents which they consider necessary, desirable or expedient to implement or to give effect to any matters relating to or in connection with the Whitewash Waiver."

4. "**THAT** the subscription price payable by China Water and its associates (other than Mr. Duan Chuan Liang) for the Offer Shares to which each of them is entitled under the Open Offer and the underwritten shares to be taken by China Water as underwriter in the Open Offer to be settled by way of the set off (the "**Set Off**") against the loan (the "**Loan**") of HK$112 million indebted by the Company to China Water in first place and the remaining balance of the subscription price (if any) in cash and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified and any of the Directors be and are hereby authorised to do all such things and acts and execute all documents which they consider necessary, desirable or expedient to implement or to give effect to any matters relating to or in connection with the Set Off and the Underwriting Agreement."

By the order of the Board
China Water Property Group Limited
Wang Wenxia
Vice Chairman and Chief Executive Officer

Hong Kong, 31 August 2011

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

Principal place of business in Hong Kong:
Suite 6208, 62nd Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more (if he is a holder of more than one share) proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. Whether or not you intend to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish and in such event, the proxy shall be deemed to be revoked.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

4. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.