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)

2012
ANNUAL REPORT


未来城大酒店
FUTURE CITY HOTEL

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Duan Chuan Liang
Ms. Wang Wenxia

AUDITOR

HLM CPA Limited
Certified Public Accountants

WEBSITE

www.waterpropertygroup.com

REGISTERED OFFICE

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

PRINCIPAL BANKERS

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

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

The Hongkong and Shanghai Banking Corporation Limited
Level 10, HSBC Main Building
No. 1 Queen's Road Central, Hong Kong

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

CORPORATE PROFILE

China Water Property Group Limited ("Group" or "CWP") is dedicated to the core businesses in property investment, property development, hotel business and property management in the People's Republic of China ("PRC"). CWP develops a diverse property portfolio of residential properties, office buildings, shopping malls and hotels in second-to-third tier cities, mostly along Yangtze River in the PRC, as its focus.

With continuous enhancement of strategic advantages in major second-to-third tier cities, like Wuhan and Hangzhou, CWP keeps on exploring profitable projects in other prime and strategic locations.

Taking niche marketing with quality properties in prime and strategic locations in the PRC as its priority, CWP will grow its earnings potential by building up the strength of its premium assets, maintaining high standards of its operational performance and exploring prospects for sustainable development, and deliver superior returns to shareholders.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the result of China Water Property Group Limited ("CWP") and its subsidiaries for the year ended 31 December 2012.

In 2012, the global economy and financial market were still overshadowed. Domestically, administrative policies and real estates control measures were continuously held firmly in the property market of the People's Republic of China (the "PRC"). Facing these challenges and uncertainties, CWP adhering the formulated strategy firmly set by the Board focuses on developing quality properties and providing quality services in prime and strategic second-to-third tier cities, mostly along Yangtze River.

Year 2012 marked a milestone for CWP development. During the year, with shareholders' approval at extraordinary general meeting held on 26 June 2012, CWP successfully restructured its underperforming foods business. After which, CWP is able to principally concentrate its resources in its core businesses of property development, property investment, hotel business and property management.

Over the years, CWP successfully develops a well-diversified portfolio including residential properties, shopping malls, office buildings, villa and hotels creating a steady cash inflow to the Group, enabling CWP to maintain healthy balance sheet and modest gearing even in the volatile and doubtful economic environment.

Looking forward to a new financial year, the overall global economic environment is yet clouded by uncertainties. Domestically, central government extends its efforts on monetary policy to maintain stable development of Chinese economy, to promote domestic market demand and to accelerate urbanisation. In PRC property market, the participants start to show adaptation to the marco-economic control measures, it is expected these measures to remain in place in 2013. A fine turning process in fostering the healthy development of the PRC property market still takes a period of time. 2013 will be a year full of challenges and opportunities. CWP remains cautious about the market conditions and adopts a balanced approach including strict capital management initiatives. I expect the diversified property portfolio with our adopted management philosophy can steer CWP to grow stronger.

On behalf of the Board, I would like to express my heartfelt gratitude to all employees for their diligence and all of our shareholders, investors and business partners for their continuous support over the year.

Duan Chuan Liang
Chairman

Hong Kong, 26 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

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

In 2012, global economy was still overshadowed and real estate control measures in the PRC property market were still implemented. With the macro-economic tightening policies being in place firmly throughout the year, the property market was stable. Amid these market conditions, the Group keeps its adopted flexible and balanced approach, controlling the progress of projects in development and sales as well as acquisition of new projects.

RESULT SUMMARY

The consolidated turnover of the Group from continuing operations increased by 98% from HK$136.9 million (restated) for the year ended 31 December 2011 to HK$271.4 million for the year ended 31 December 2012. The revenues from properties sales were HK$180.1 million mainly arising from sales of the Future Mansion in Wuhan. The revenues from property leasing, hotel business and property management business were HK$51.3 million, HK$33.0 million and HK$6.9 million respectively.

The overall gross profit from continuing operations increased by 27% to HK$90.9 million in 2012 from HK$71.8 million (restated) in 2011, while the gross profit margin decreased to 33% in 2012 from 52% (restated) in 2011. The Group also had aggregate fair value gains on revaluation of various investment properties of HK$282.8 million for the year ended 31 December 2012 which represented the fair value changes of the Future City Shopping Centre in Wuhan, commercial part of Mei Lai International Centre in Hangzhou and land parcels in Guangzhou.

During the year ended 31 December 2012, foods business was discontinued. The result from discontinued operation reflected the net loss of HK$43.4 million.

The profit attributable to the owners of the Company increased by 47% to HK$49.1 million for the year ended 31 December 2012 from HK$33.4 million (restated) in 2011. Basic earnings per share attributable to the equity holders of the Company increased to HK2.75 cents compared with HK2.38 cents (restated) in 2011. The Board does not propose any final dividend for the year ended 31 December 2012.

BUSINESS REVIEW

The PRC Property Development Business

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

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group recorded gross floor area ("GFA") of 13,954 square meters sold with an average selling price of HK$12,900 per square meter. Future Mansion recorded property sales of approximately HK$175.7 million, representing GFA of 13,540 square meter sold, while the remaining 414 square meters sold were from Future City in Wuhan contributing approximately HK$4.5 million property sales.

During the year, the Group completed an acquisition of 100% equity interest in a project company in the WEDZ in Wuhan, which is the third prime property project in Wuhan.

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

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

The PRC Property Investment Business

Wuhan Future City Commercial Property Management Company* ("Commercial Company") was formed by the Group to operate the Future City Shopping Centre ("Shopping Centre") owned by the Group, which held its grand opening in late August 2011. The Shopping Centre has total leasable area of approximately 55,362 square meters with car park included. The Shopping Centre now becomes a fashionable, dynamic and international shopping centre to cater the growing demand from the surrounding business centres and university region (more than twenty universities and tertiary education institutions including Wuhan University and Wuhan University of Technology) with 1,000,000 students and residential consumers. During the year ended 31 December 2012, the rental income arising from the Shopping Centre was approximately HK$51.3 million and the average occupancy rate is around 90%. As at 31 December 2012, the fair value of the Shopping Centre recorded HK$1,424.7 million. The operation of the Shopping Centre provided a steady cash inflow to the Group in addition to the possible capital appreciation.

During the year ended 31 December 2012, Hangzhou Mei Lai Commercial Property Management Company* was formed by the Group to prepare the operation of the commercial part of Mei Lai International Centre in Yuhang district of Hangzhou. This commercial part is expected to hold its grand opening in mid-to-late 2013. The commercial part has approximately 57,200 square meters with car park included. Mei Lai International Centre is located in new Central Business District in Yuhang district of Hangzhou and adjacent to the south station of Shanghai-Hangzhou High-speed Railway and also the terminal of Hangzhou metro line No. 1, which is already in use in late 2012, it is expected Mei Lai International Centre can meet the increasing needs from residential and office customers nearby. As at 31 December 2012, the fair value of the commercial part of Mei Lai International Centre recorded HK$423.5 million.

Further, upon the foods business discontinued by the Group in mid 2012, the industrial land in Guangzhou was held as investment properties under redevelopment. With reference to the announcement made by the Company dated 7 February 2013, by end of 2012, the application to amend the use of land in Guangzhou applying the use to amend from industrial use to residential-commercial use made by the Group in previous year has in principle been approved by the relevant

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

PRC authorities. As a result, the value of the land increased significantly. As at 31 December 2012, the fair value of the land recorded HK$230.9 million. Applications for land use right of the investment properties under redevelopment in the PRC are still in the progress at 31 December 2012. In spite of the above, the Directors of the Company are of the opinion that the Group has acquired the beneficial title of those properties and legal titles document will be obtained in due time. Following the receipt of formal approval documents, the Group will consider the use of the land to maximise the shareholders' value.

The PRC Hotel Business

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

During the year ended 31 December 2012, the revenue arising from Future City Hotel was approximately HK$33.0 million and the average occupancy rate is around 65%.

The PRC Property Management Business

Wuhan Future City Property Management Company* ("Property Company"), a wholly owned subsidiary of the Group, provides residents and tenants with safe, modern, comfortable and high quality property management services. The servicing areas reached 145,273 square meters.

During the year ended 31 December 2012, the revenue from property management was approximately HK$6.9 million.

Discontinued Operation — Wah Yuen Foods Business

Packaged Food and Convenience Frozen Food Products

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

Given the consistent efforts to return the foods business to profitability in vain, the Group had taken place the restructuring to discontinue the foods business during the year. The related disposal was completed in July 2012 and therefore its operating result has been classified as discontinued operation for current and prior years. The result from discontinued operation reflected the net loss of approximately HK$43.4 million. The net loss from discontinued operation include impairment charges on property, plant and equipment, inventories and receivables after the comprehensive review of carrying values were charged to the income statement as a loss for the year from discontinued operation.

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MANAGEMENT DISCUSSION AND ANALYSIS

WUHAN CITY, HUBEI
Future City

Future City is a large-scale integrated composite development located at Luo Shi Road South within close proximity to the Luoyu Road shopping belt and the upcoming stations of metro line No. 2 and 7, in which line No. 2 was completed and in use in late 2012. Future City is situated in the heart of business and commercial centre of Hongshan District in Wuhan City, convenient to East Lake, Wuhan University, Wuhan University of Technology and other landmarks in the neighbourhood with 1,000,000 students and residential consumers. Future City covers a total site area of 22,313 square meters with a total GFA of approximately 145,273 square meters and comprises of five high-rise residential towers, a four-story premier shopping centre and parking spaces. The project is completed stepwisely in 2010 and 2011 and the shopping centre is operated in 2011.

WUHAN CITY, HUBEI
Future Mansion

Future Mansion is located at a prime location at Wuluo Road in Hongshan District in Wuhan City, just 600 meters from Future City project. It is near the conjunction of metro line No. 2 and 7, in which line No. 2 was completed and in use in late 2012. It has a total site area of 5,852 square meters and been developed for a composite building of residential apartments and retail shops with GFA of approximately 44,537 square meters. The project is completed and under sale in 2012.

WUHAN CITY, HUBEI
WEDZ Future City

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

MANAGEMENT DISCUSSION AND ANALYSIS

HANGZHOU CITY, ZHEJIANG
Mei Lai International Centre

Mei Lai International Centre is strategically located in Yuhang District, which is designated as part of the new Central Business Centre of Hangzhou City, delineated in the southern of intersection of Yingbin Road, Wengmei Road and Nanyuan Street. The integrated complex occupies a total site area of 16,448 square meters and is adjacent to the south station of Shanghai-Hangzhou High-speed Railway and also the terminal of Hangzhou metro line No. 1, which is already in use in late 2012. The total planned GFA of approximately 116,222 square meters, the development comprises of grade-A office block with work loft setting and two high-rise premium apartment towers and a comprehensive commercial complex. The project is under construction and planned to complete during 2013.

HANGZHOU CITY, ZHEJIANG
Qiandao Lake Villa

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

GUANGZHOU, GUANGDONG
Huadu Project

This will be an urban-renewal project in Huadu in Guangzhou City by transforming the Group's existing industrial factories into residential properties. The location abuts to local government office and prime administration centre of Huadu, enjoying supreme transportation network. The site occupies an area of approximately 28,478 square meters with total planned GFA of approximately 110,000 square meters. It could be developed into high-rise residential units and low-density townhouse. The project is undetermined, subject to government-organised auction process and the market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

NANJING, JIANGSU
Hohai Project

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

FINANCIAL REVIEW

Turnover

Turnover of the Group for the year increased to HK$271.4 million from HK$136.9 million (restated), an increase of 98% compared with last year. The revenue of property development increased from HK$111.0 million in 2011 to HK$180.1 million in 2012. The increase was mainly due to increase in revenue from sales of properties, in which the total GFA recognised during the year was 13,954 square meters, representing an increase of 39% compared with GFA recognised in last year.

The revenue from property leasing increased from HK$24.5 million in 2011 to HK$51.3 million in 2012, while revenue from hotel business and property management business increased from HK$0.8 million in 2011 to HK$33.0 million in 2012 and from HK$0.6 million in 2011 to HK$6.9 million in 2012 respectively. The increase was mainly because full year operation was recorded in 2012 compared with only a few months' operation in late 2011 for these businesses.

Cost of Sales

The cost of sales increased from HK$65.1 million (restated) in 2011 to HK$180.5 million in 2012, primarily due to the increase in total GFA recognised in 2012. The cost of properties sold included development costs, land costs and borrowing costs.

During the year, the Group's cost of sales was also attributable by property investment segment of HK$5.4 million, an increase of HK$2.4 million compared with 2011, and by hotel business and property management business of HK$39.9 million and HK$4.3 million respectively, an increase of HK$36.5 million and HK$4.1 million compared with 2011 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

The gross profit increased by HK$19.1 million from HK$71.8 million (restated) in 2011 to HK$90.9 million in 2012. The Group has a gross profit margin of 33% in 2012, as compared with 52% (restated) in 2011. The decrease in the gross profit margin was primarily a result of the administrative policies in the PRC property market and also the marco-economic environment in the PRC. An increment in average construction cost also affects the margin.

Other Operating Income

Other operating income decreased by 70% to HK$1.7 million in 2012 from HK$5.6 million (restated) in 2011. This decrease was primarily due to a decrease in exchange gain.

Change In Fair Value of the Investment Properties

There was an aggregate gain of HK$282.8 million in 2012 arising from change in fair value of the Future City Shopping Centre in Wuhan, commercial part of Mei Lai International Centre in Hangzhou and land parcels in Guangzhou.

Selling and Distribution Expenses

The selling and distribution expenses increased by 150% to HK$17.8 million in 2012 from HK$7.1 million (restated) in 2011, primarily due to a significant increase in promotion and advertising expenses arising from sales of properties during the year.

Administrative Expenses

The administrative expenses decreased by 2% to HK$120.0 million in 2012 from HK$122.6 million (restated) in 2011, primarily due to less one-off bonus while leveled by the increase in administrative expenses in full year operation of certain PRC business operations compared with a few months' operation in last year.

Finance Costs

The finance costs increased by 73% to HK$39.7 million in 2012 from HK$22.9 million (restated) in 2011. As the Group completed the development of Future City in Wuhan during 2011, finance cost from relevant bank borrowings taken as capitalised costs decreased in 2012.

Income Tax Expense

The income tax increased by 64% to HK$87.8 million in 2012 from HK$53.4 million (restated) in 2011. The increase was primarily attributable to deferred tax provided in relation to the fair value change of investment properties, an increase in provision for enterprise income tax and also land appreciation tax, which were contributed by the increase in sales of residential properties and profit arising from the properties sold.

MANAGEMENT DISCUSSION AND ANALYSIS

Discontinued Operation

The result from Wah Yuen foods business was classified as discontinued operation. For the year ended 31 December 2012, the result from discontinued operation reflected the net loss of HK$43.4 million, a decrease by 10% with the loss of HK$48.1 million in 2011.

Profit Attributable to Owners of the Company

The profit attributable to the owners of the Company for the year increased by 47% to HK$49.1 million in 2012 from HK$33.4 million in 2011.

Financial Position

The Group has strengthened its financial position by share placement to raise about HK$30 million during the year.

Total bank deposits and cash of the Group amounted to HK$176.9 million as at 31 December 2012. The Group's net debt was increased by HK$327.9 million to HK$720.4 million, which was made up of HK$897.3 million in debts and HK$176.9 million in bank deposits and cash. The total debts as at 31 December 2012 included short-term borrowings of HK$364.4 million, long-term borrowings of HK$466.0 million and liability component of convertible notes of HK$66.9 million. The Group's bank borrowings bear floating rate and were primarily denominated in Hong Kong dollar and Renminbi. The Renminbi borrowings were principally used to support the Group's property development in the PRC.

The total assets of the Group increased by HK$742.1 million, or 22%, from HK$3,387.3 million in 2011 to HK$4,129.4 million in 2012. The Group had net current assets of HK$469.0 million, consisting of HK$1,783.0 million of current assets and HK$1,314.0 million of current liabilities. The net current assets decreased by HK$28.9 million from the net current assets of HK$497.9 million as at 31 December 2011.

As at 31 December 2012, the Group's shareholders' equity increased by 6% from HK$1,512.3 million to HK$1,599.0 million and the ratio of net debt to total shareholders' equity was 45%, compared 26% as at 31 December 2011.

FUTURE PLANS AND PROSPECTS

In 2013, the PRC property market is yet to be uncertain and undergoing a fine tuning process before reaches balanced structure. Meanwhile, central government extends its efforts on monetary policy to maintain stable development of Chinese economy, to promote domestic market demand and to accelerate urbanisation. The Group remains positive in the PRC property market. Having a diverse portfolio of properties including residential properties, shopping malls, office buildings, villas and hotels, the Group has a strong foundation to mitigate operating risks in challenging environment while is able grasp market opportunities.

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

MANAGEMENT DISCUSSION AND ANALYSIS

With a management team comprised of property development expertise, commercial property professionals and hotel management team and the strong supports from shareholders, the Group is confident and positive about bringing superior values to shareholders with its business strategies and competitive edges and to enhance its brand and reputation in the PRC property market. The Group will balance the development and growth with its resources, and keep a healthy and sound financial position.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE AND INTEREST RATE

The Group principally operates the property investment, property development, hotel business and property management in the PRC and most of the transactions are settled in Renminbi. The conversion of Renminbi into foreign currencies or Hong Kong dollars is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. The usual treasury policy of the Group is to manage significant currency exposure and minimise currency risk whenever it may have material impact on the Group. The Group did not engage in hedging activities designed or intended to manage currency risk during the year ended 31 December 2012.

The Group is exposed to interest rate risks, primarily related to the borrowings with floating interest rates as at 31 December 2012. The Group undertook primarily debt obligations to support its property development and general working capital needs. The fluctuations in interest rates affect the cost of financing and may lead to fluctuations in the fair value of the debt obligations of the Group. The results of the Group are also affected by changes in interest rates due to the impact such changes have on interest income from the bank deposits.

PLEDGE OF ASSETS

As at 31 December 2012, certain bank deposits, certain land and buildings together with relevant land use rights and certain investment properties with an aggregate carrying amount of approximately HK$2,597.8 million were pledged as security for certain banking facilities granted to the Group.

CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2012, the Group had capital commitments in connection with the property development activities amounted to HK$111.7 million, primarily related to construction costs on projects under development and expenditures related to future property developments and investments.

The Group had capital commitments in respect of its prepayment of acquisition of an intangible asset, authorised but not contracted in the consolidated financial statements, amounting to not more than HK$239 million.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the total number of employees stood at approximately 412. Total staff costs for the year under review were approximately HK$50.2 million. The Group offers its workforce comprehensive remuneration and employees' benefits packages.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

MR. DUAN CHUAN LIANG ("MR. DUAN")

— Chairman and non-executive Director

Mr. Duan, aged 49, was appointed as the Chairman and non-executive Director of the Company on 25 October 2010. 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 People's Republic of China (the "PRC") Government for more than 10 years. Mr. Duan has over 20 years experience in water conservancy management, real estate development experience.

Mr. Duan is the chairman and the executive director of China Water Affairs Group Limited ("China Water Affairs") (Stock Code: 855), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a director of numerous enterprises in the PRC. As at 31 December 2012, China Water Affairs holds 787,091,136 issued Shares of the Company (each a "Share"), representing approximately 43.52% of the total issued share capital of the Company.

MS. WANG WENXIA ("MS. WANG")

— Vice Chairman, Executive Director and Chief Executive Officer

Ms. Wang, aged 53, was appointed as the Vice Chairman, an executive Director and chief executive officer (the "CEO") 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 over 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 years until her resignation on 17 January 2011.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

MR. REN QIAN ("MR. REN")

— Executive Director

Mr. Ren, aged 52, was appointed as the executive Director on 30 July 2009. He 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 in 1983 and obtained a Master of Business Administration from the Beijing Normal University in 2001. He has over 30 years 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).

MR. ZHOU KUN ("MR. ZHOU")

— Non-executive Director

Mr. Zhou, aged 45, was appointed as the non-executive Director on 30 July 2009. He was graduated from the Xian Institute of Industry# (西安輕工學院) majoring in fine arts technology in 1987. He has over 20 years 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).

MR. CHAN POK HIU ("MR. CHAN")

— Independent non-executive Director

Mr. Chan, aged 45, was appointed as the independent non-executive Director on 16 August 2010. He was a seasoned investment banker with more than 18 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 worked in Standard Bank Group for 6 years. Mr. Chan 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.

DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

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. WONG CHI MING ("MR. WONG")

— Independent non-executive Director

Mr. Wong, aged 36, was appointed as the independent non-executive Director on 16 August 2010. He was graduated from the Hong Kong Polytechnic University with a Bachelor of Arts Degree in Accountancy. He has over 10 years 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. WANG JIAN ("MR. WANG")

— Independent non-executive Director

Mr. Wang, aged 42, was appointed as the independent non-executive Director on 21 April 2011. He was graduated from the Jiangsu Yangzhou University with a bachelor degree in economics in 1992. Mr. Wang is currently the vice president of the Shenzhen City Jin Ruige Finance Guarantee Company Limited# (深圳市金瑞格融資擔保有限公司). He has served as the Industrial and Commercial Bank of China Yangzhou branch credit manager, 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 vice general manager of Shenzhen Zhong Ke Zhi Investment Guarantee Company Limited# (深圳中科智投融資擔保有限公司). He has over 20 years extensive experience in financial management, corporate finance, capital management, property development project financing and corporate operational management.

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.

DIRECTORS' REPORT

The directors of the Company (each a "Director") present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in Note 45 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2012 are set out in the consolidated income statement on page 35 of this report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2012.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 127 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 16 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in Note 18 to the consolidated financial statements. Further details of the Group's major properties are set out on page 128 of this report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 32 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of the movements in convertible notes during the year are disclosed in Note 30 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity from pages 41 to 42 of this report and Note 33 to the consolidated financial statements, respectively.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company is HK$614.6 million as at 31 December 2012, which comply with the Companies Law of the Cayman Islands.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association", each an "Article"), or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OF REDEMPTION OF THE COMPANY'S SHARES

Except the shares placement made in June 2012 by the Company, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's ordinary shares during the financial year ended 31 December 2012.

DIRECTORS

The Directors during the year and up to the date of this report were:

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

In accordance with Article 108, Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian shall retire from their office by rotation at the forthcoming annual general meeting. Being eligible, each of Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian will offer himself for re-election as independent non-executive Director at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian as the independent non-executive Directors have service contracts with the Company which is determinable by the Group within one year with payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

Ms. Wang Wenxia ("Ms. Wang") has been appointed as the chief executive officer ("CEO") 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 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 are granted under the share option scheme adopted by the Company to be determined by the Board. Ms. Wang's emolument is reviewed by the remuneration committee of the Company.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") from each of the independent non-executive Directors, namely Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian for the year ended 31 December 2012 and as the date of this report, the Company still considers the independent non-executive Directors to be independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out from pages 14 to 16 of this annual report.

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

As at 31 December 2012, the interests and short positions of each Director and the chief executives of the Company in the shares and the underlying shares of the Company and any associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) Long positions in shares as at 31 December 2012

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

DIRECTORS' REPORT

(ii) Long positions in underlying shares as at 31 December 2012

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

Notes:

(1) The personal interests of Mr. Duan Chuan Liang comprise 4,207,928 ordinary shares and 12,795,263 outstanding share options.

(2) The personal interests of Ms. Wang Wenxia comprise 1,231,440 ordinary shares and 12,795,263 outstanding share options.

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

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

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be maintained under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

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

Category	Date of grant	Exercise price (HK$)	Exercise period	Number of share options					
				As at 1 January 2012	Granted during the year	Exercised during the year	Expired during the year	Lapsed during the year	As at 31 December 2012
Directors	03/11/2010	0.9602	03/11/2010 to 02/11/2020	25,590,526	–	–	–	–	25,590,526

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and the related parties or other companies in which the Directors had beneficial interest are set out in Note 44 to the consolidated financial statements.

Saved as disclosed above, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2012, the Company had been notified of the following substantial shareholders' interests and short positions in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital.

(i) Long positions in the shares as at 31 December 2012

Name of substantial Shareholders	Note	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding (%)
China Water Affairs Group Limited	(1)	Beneficial owner and interest of controlled corporation	787,091,136	43.52%
China Financial International Investments Limited	(2)	Beneficial owner	193,639,429	10.71%
China Financial International Investments and Managements Limited	(3)	Investment manager	193,639,429	10.71%

(ii) Long positions in the underlying shares as at 31 December 2012

Name of substantial Shareholders	Note	Capacity/ Nature of interest	Number of underlying shares	Approximate percentage of shareholding (%)
China Water Affairs Group Limited	(4)	Interest of controlled corporation	215,683,681	11.92%

DIRECTORS' REPORT

Notes:

(1) These shares (the "Shares") of the Company held by Sharp Profit Investments Limited ("Sharp Profit") and Good Outlook Investments Limited ("Good Outlook") which are wholly owned subsidiaries of China Water Affairs Group Limited ("China Water Affairs"). Therefore, China Water Affairs was deemed to be beneficially interested in the said Shares held by Sharp Profit and Good Outlook for the purposes of the SFO.

(2) These Shares were held by Global Business Investment Enterprises Limited, a wholly owned subsidiary of China Financial International Investments Limited (Stock Code: 721) ("CFIIL"). Therefore, CFIIL was deemed to be beneficially interested in the said Shares held by Global Business Investment Enterprises Limited for the purposes of the SFO.

(3) These Shares were held by China Financial International Investments and Managements Limited ("CFIIM") which is owned by to 51% by Capital Focus Asset Management Limited ("Capital Focus"), 29% by CFIIL. Accordingly, for the purposes of the SFO, Capital Focus is deemed to have the same interests in the Company as CFIIM.

(4) Convertible notes in the principal amount of HK$81,550,000 carrying the rights to subscribe for Shares at conversion price of HK$0.045 per share was issued by the Company to Good Outlook on 13 November 2007 to satisfy part of the consideration of the acquisition of the entire issued share capital of China Environmental Water Holdings Limited. If the conversion rights attached to the convertible notes had been fully exercised, 1,812,222,222 Shares would be issued at the conversion price of HK$0.045 per share.

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

Save as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO as at 31 December 2012.

CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in Note 44 to the consolidated financial statements. Certain details of which had been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The audit committee comprises three independent non-executive Directors, namely Mr. Wong Chi Ming (chairman of the audit committee), Mr. Chan Pok Hiu and Mr. Wang Jian.

The audit committee is satisfied with its review and the audit fees, the independence of the auditors and recommended to the Board the appointment of the Auditors in 2013 at the forthcoming annual general meeting. The audit committee is accountable to the Board and the primary duties of the audit committee including the review and supervision of the Group's financial reporting process and internal controls.

DIRECTORS' REPORT

The Group's annual results for the year ended 31 December 2012 have been reviewed by the audit committee, which was of the opinion that the preparation of such annual results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

MAJOR CUSTOMERS AND SUPPLIERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 19% and 9% for the Group's total purchases for the year ended 31 December 2012 respectively.

The aggregate sales attributable to the five largest customers of the Group accounted for less than 30% of the Group's total sales for the year ended 31 December 2012.

At no time during the year did a Director, an associate of a Director, within the meaning of the Listing Rules, or a Shareholder which to the knowledge of the Directors owns more than 5% of the Company's share capital, have any interest in the Group's five largest suppliers and five largest customers.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

AUDITORS

The consolidated financial statements for the years ended 31 December 2010 and 2011 were audited by HLM & Co.. On 16 January 2013, HLM & Co. resigned as the auditor due to change of entity status from partnership to limited company.

The consolidated financial statements for the year ended 31 December 2012 were audited by HLM CPA Limited who will retire and seek for re-election at the forthcoming annual general meeting.

On behalf of the Board

Duan Chuan Liang
Chairman

Hong Kong, 26 March 2013

CORPORATE GOVERNANCE REPORT

The Company is committed to the principles of corporate governance and corporate responsibility consistent with prudent management. It is the belief of the Board that such commitment will in the long term serve to enhance shareholders' value. The Board has set up procedures on corporate governance that comply with the requirements of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules. In October 2011, the Stock Exchange published its consultation conclusions on the review of the CG Code (renamed as the Corporate Governance Code (the "Revised CG Code")) and associated Listing Rules (the "Revised Listing Rules") setting out the amendments that are to be made in 2012. The Board has reviewed the Revised CG Code and the Revised Listing Rules and their impact to the Company and taken measures to comply with the Revised CG Code and the Revised Listing Rules.

Throughout the year ended 31 December 2012, the Company has complied with all code provisions as set out in the CG Code and the Revised CG Code, except for certain deviations which are described below.

BOARD OF DIRECTORS

1. The Board

The Company is managed through the Board which currently comprises seven Directors, comprising Ms. Wang Wenxia (Vice Chairman and Chief Executive Officer) and Mr. Ren Qian as executive Directors; Mr. Duan Chuan Liang (Chairman) and Mr. Zhou Kun as non-executive Directors and Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian as independent non-executive Directors. Non-executive Directors (including independent non-executive Directors) comprise more than 71% of the Board, of which independent non-executive Directors make up more than 42%. The Company has compiled with the Revised Listing Rules requirement of independent non-executive directors representing at least one-third of the Board on or before 31 December 2012. The names and biographical details of the Directors of the Company, and the relationship amongst them, if any, are set out on pages 14 to 16 of this annual report.

The Board is responsible for setting the strategic direction and policies of the Group and supervising the management. Some functions including, inter alia, the monitoring and approval of material transactions, matters involving a conflict of interest for a substantial shareholder or Director of the Company, the approval of the interim and final results, other disclosures to the public or regulators and the internal control system are reserved by the Board and the decisions relating to such matter shall be subject to the decision of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the respective Directors and the leadership of the chief executive officer.

There are agreed procedures for the Directors, upon reasonable request, to seek independent professional advice at the Company's expense in appropriate circumstances.

The Board conducts scheduled meetings on a regular basis. Ad-hoc meetings are convened when circumstances require; the Board had met four times for the year ended 31 December 2012 and considered, reviewed and approved significant matters including the connected transaction, private placing, the 2011 annual results and the 2012 interim results of the Group.

Non-executive Directors and independent non-executive Directors are selected with the necessary skills and experience to provide strong independent element on the Board and to exercise independent judgment. At least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise as provided under Rule 3.10 of the Revised Listing Rules.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established an audit committee, a remuneration committee and a nomination committee. Detailed descriptions of each of these committees are set out below. All of these committees adopt, as far as practicable, the principles, procedures and arrangements of the Board in relation to the scheduling and proceeding of meetings, notice of meetings and inclusion of agenda items, records and availability of minutes.

2. Appointment, Re-election and Removal of Directors

At each annual general meeting of the Company ("AGM"), one-third of the Directors are required to retire from office by rotation. As at 31 December 2012, all independent non-executive Directors are appointed for a fixed term not exceeding three years and all non-executive Directors are subject to the requirements of retirement by rotation and re-election by Shareholders at the AGM in accordance with the Company's articles of association (the "Articles").

The names and biographical details of the Directors who will offer themselves for election or re-election at the forthcoming AGM are set out in the circular to Shareholders to assist Shareholders in making an informed decision on their elections.

Since the Company establishes a nomination committee participating in the appointment of new Directors. In evaluating whether an applicant is suitable to act as a Director, the nomination committee will consider the experience and skills of the applicant; as well as personal ethics, integrity and the willingness to commit time in the affairs of the Group. Where the applicant is appointed as an independent non-executive Director, the Board will also consider his independence. During the year ended 31 December 2012, the Board had also reviewed and made recommendations in respect of the re-appointments of retiring Directors, which were approved by the Shareholders at the last AGM.

Newly appointed Director(s) will be given an induction on the information of the Group and a manual on the duties and responsibilities as a director of a listed company both under the Revised Listing Rules and applicable laws. The Company has arranged appropriate insurance cover in respect of legal action against the Directors and officers.

3. Chairman and Chief Executive Officer

The Group is committed to achieving high standards of corporate governance. Throughout the year ended 31 December 2012, the Company had applied the principles and complied with the requirements set out in the CG Code in Appendix 14 of the Revised Listing Rules:

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The chairman of the Company (the "Chairman") is Mr. Duan Chuan Liang and the chief executive officer of the Company is Ms. Wang Wenxia. Their respective responsibilities are clearly defined and set out in writing.

CORPORATE GOVERNANCE REPORT

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues at the Board meetings.

Ms. Wang Wenxia focuses on implementing objectives, policies and strategies approved and delegated by the Board. She is in charge of the Company's management and operating in property business. She is also responsible for developing strategic plans and formulating the Company practices and procedures, business objectives, and risk assessment for the Board's approval.

BOARD COMMITTEES

1. Audit Committee ("AC")

The AC comprises three independent non-executive Directors, namely Mr. Wong Chi Ming (AC Chairman), Mr. Chan Pok Hiu and Mr. Wang Jian. The company secretary (the "Company Secretary") of the Company serves as the secretary of the AC and minutes of the meetings are sent to the members of the AC within a reasonable time after the meetings. The quorum necessary for the transaction of business by the AC is two.

At least one of the members of the AC has appropriate professional qualifications or accounting or related financial management expertise as required under the Revised Listing Rules. None of the members of the AC was a former partner of the Company's existing external auditor within one year immediately prior to the dates of their respective appointments. All members have appropriate skills and experience in reviewing financial statements as well as addressing significant control and financial issues of the Company.

The Board expects the members of the AC to exercise independent judgment and delegates the responsibilities of the corporate governance functions to the AC in order to comply with the requirement of the Revised CG Code. In February 2012, the Board adopted a revised terms of reference of the AC which include the amendments in line with the requirements of the Revised CG Code. Under its revised terms of reference, the AC has been delegated the corporate governance functions of the Board to monitor, procure and manage corporate compliance within the Group.

The operations of the AC are regulated by its terms of reference. The main duties of the AC include:

- to review and supervise the Group's financial reporting process including the review of interim and annual results of the Group;
- to review the external auditors' appointment, remuneration and any matters relating to resignation or termination;
- to examine the effectiveness of the Group's internal control which involves regular review in various corporate structures and business process;

CORPORATE GOVERNANCE REPORT

- to realise corporate objective and strategy by taking into account the potential risk and the nature of its urgency in order to ensure the effectiveness of the Group's business operations. The scope of such reviews includes finance, operations, regulatory compliance and risk management;

Works performed during the year included:

(i) considered and approved the terms of engagement of the external auditor and their remuneration;

(ii) reviewed the annual financial statements for the year ended 31 December 2011 and the interim financial statements for the six months ended 30 June 2012;

(iii) reviewed the the Group's internal control system; and

(iv) reviewed the Company's policies and practices on corporate governance.

The revised terms of reference setting out the AC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The AC met twice times during the year ended 31 December 2012 with an attendance rate of 100% and reviewed the interim results of the Group for the six months ended 30 June 2012 and the annual results of the Group for the year ended 31 December 2011. The AC had also reviewed the Group's audited annual results of the year ended 31 December 2012. The Company Secretary keeps all the minutes of the AC meeting.

2. Remuneration Committee ("RC")

The RC comprises three independent non-executive Directors namely, Mr. Chan Pok Hiu (RC Chairman), Mr. Wong Chi Ming and Mr. Wang Jian. The Company Secretary serves as the secretary of the RC and minutes of the meetings are sent to the members of the RC within a reasonable time after the meetings. The quorum necessary for the transaction of business by the RC is two.

In February 2012, the Board adopted a revised terms of reference of the RC which include the amendments in line with the requirements of the Revised CG Code. The RC has adopted the model that it will review the proposals made by the management on the remuneration of executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the RC.

Major responsibilities and functions of the RC are:

- to make recommendations to the Board on the issuer's policy and structure for all remuneration of Directors and Senior Management;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

- to review and approve the compensation payable to executive Directors and Senior Management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;

CORPORATE GOVERNANCE REPORT

- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

- to do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board.

Works performed during the year included:

(i) reviewed and approved the remuneration of all executive Directors of the Company for the year of 2012 and bonus payment for the year of 2011; and

(ii) reviewed the level of Directors' fees and made recommendations on the Directors' fees for the year ended 31 December 2012.

The revised terms of reference setting out the RC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The RC met once time during the year ended 31 December 2012 with an attendance rate of 100% and reviewed its terms of reference, the remuneration policy of the Group and the remuneration packages of Directors and senior management.

3. Nomination Committee ("NC")

The NC comprises three independent non-executive Directors, namely Mr. Chan Pok Hiu (NC Chairman), Mr. Wong Chi Ming and Mr. Wang Jian. The Company Secretary serves as the secretary of the NC and minutes of the meeting is sent to the members of the NC within a reasonable time after the meeting. The quorum necessary for the transaction of business by the NC is two.

The NC was formed on 16 September 2005. The Company formulated written terms of reference for the NC and the adopted terms of reference are in compliance with the code provision in the CG Code.

The operations of the NC are regulated by its terms of reference,. The main duties of the NC include:

- to implement the nomination policy laid down by the Board;

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

- to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for directors in particular the chairman and the chief executive officer; and

- to report to the Board the findings and recommendations of the committee at the next meeting of the Board following each NC meeting.

CORPORATE GOVERNANCE REPORT

Works performed during the year included:

- To make recommendations to the Board in respect of the re-appointment and re-election of retiring Directors at 2012 annual general meeting.

The revised terms of reference setting out the NC's authority and its duties and responsibilities are available on the Company's website and on the Stock Exchange website.

The NC met once time during the year ended 31 December 2012 with an attendance rate of 100%. To review its terms of reference and re-election of retiring Directors, the nomination procedures basically follow the Article 111 which empowers the Board from time to time and at any time to appoint any person as director either to fill a casual vacancy or as an addition to the Board.

ATTENDANCE AT MEETINGS

During the year under review, the attendance records of the Directors at Board Meetings, Audit Committee Meetings, Remuneration Committee Meeting, Nomination Committee Meeting, the 2012 AGM and extraordinary general meeting ("EGM") are as follows:

	Number of meetings attended/held					
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	2012 AGM	EGM
Number of meetings held	4	2	1	1	1	1
Executive Directors						
Ms. Wang Wenxia	4/4	N/A	N/A	N/A	1/1	1/1
Mr. Ren Qian	4/4	N/A	N/A	N/A	1/1	1/1
Non-executive Directors						
Mr. Duan Chuan Liang *(Chairman)*	4/4	N/A	N/A	N/A	0/1	0/1
Mr. Zhou Kun	4/4	N/A	N/A	N/A	1/1	1/1
Independent non-executive Directors						
Mr. Chan Pok Hiu *(RC and NC Chairman)*	4/4	2/2	1/1	1/1	1/1	1/1
Mr. Wong Chi Ming *(AC Chairman)*	4/4	2/2	1/1	1/1	0/1	1/1
Mr. Wang Jian	4/4	2/2	1/1	1/1	1/1	1/1

During the year ended 31 December 2012, the Company has applied the principles of, and complied with, the applicable code provisions of the Revised CG Code as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

(1) Code Provision A.6.7

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

CORPORATE GOVERNANCE REPORT

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

(2) Code Provision E.1.2

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

Due to another business engagement, Mr. Duan Chuan Liang, the Chairman of the Board, was unable to attend the 2012 AGM. However, Ms. Wang Wenxia, the Vice Chairman and executive Director of the Company, took the chair of that meeting, one non-executive Director and independent non-executive Directors, being the delegate of the audit, remuneration and nomination committees of the Company were present thereat to be available to answer any question to ensure effective communication with the Shareholders.

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

INDUCTION PROGRAMME AND TRAINING FOR BOARD MEMBERS

Each newly appointed Director receives a comprehensive and formal induction to ensure that he/she has an appropriate understanding of (i) the business and operations of the Group; (ii) his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements; (iii) the corporate governance code of the Company and (iv) the Model Code for Securities Transactions by Directors of Listed Issuers.

The Directors are committed to complying with code provision A.6.5 of the Revised CG Code on Directors' training effective from 1 April 2012. All Directors have participated in continuous professional development to develop and refresh their knowledge and skills for the year of the Company.

COMPANY SECRETARY

The Company Secretary, Mr. Yeung Tak Yip, is responsible to the Board for ensuring that the Board procedures are followed and the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraised of the relevant legislative, regulatory and corporate governance developments relating to the Group and facilitating the induction and professional development of Directors.

The Company Secretary reports to the Chairman and the chief executive officer, plays an essential role in the relationship between the Company and its shareholders, and assists the Board in discharging its obligations to shareholders pursuant to the Revised Listing Rules.

During the year under review, Mr. Yeung has attended relevant professional seminars to update his skills and knowledge. He has complied with the Revised Listing Rules to take no less than 15 hours of relevant professional training in each financial year.

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules (as amended from time to time by the Stock Exchange) as its own code of conduct for regulating securities transactions by Directors.

Having made specific enquiries to all Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2012.

ACCOUNTABILITY AND AUDIT

1. Financial Reporting

The Board acknowledges its responsibility for preparing the Group's accounts which gives a true and fair view of the state of affairs of the Group on a going concern basis, with supporting assumption or qualification as necessary.

In preparing the accounts for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable.

The management provides explanation and information to the Board as to enable the Board to make informed assessments of the financial and other information put before the Board for approval.

The Board endeavours to ensure the making balanced, clear and understandable assessments of the Group's position and prospects and extending the coverage of such information to include annual, interim reports, price-sensitive announcements and financial disclosures as required under the Revised Listing Rules, reports to regulators as well as any information that is required to be disclosed pursuant to statutory requirements.

2. Auditors and their Remuneration

For the year ended 31 December 2012, the total remuneration in respect of audit service paid and payable to the Company's auditor, HLM CPA Limited, amounted to HK$1,050,000. Non-audit service fee in relation to financial reporting reviews and connected transaction in disposal of subsidiaries and certain PRC machineries and inventories of the Group for the year paid and payable to the Company's former auditor, HLM & Co., amounted to HK$150,000.

COMMUNICATION WITH SHAREHOLDERS

The Company strives to convey to Shareholders pertinent information in a clear, detailed, timely manner and on a regular basis and to take into consideration their views and inputs, and to address the Shareholders concerned. Their views are communicated to the Board comprehensively.

1. Disclosure of information on Company's website

The Company communicates with the Shareholders through the publication of annual, interim reports, circulars, results announcements and press releases. All communications to Shareholders are also available on the Company's website at www.waterpropertygroup.com.

2. General meetings

The Company had provided sufficient notice for Shareholders on all general meetings of the Company. The AGM provides a useful platform for Shareholders to exchange views with the Board. The Chairman and the Board members are available to answer Shareholders' questions.

CORPORATE GOVERNANCE REPORT

3. Voting by poll

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

All votes of the Shareholders at a general meeting must be taken by poll according to the Revised Listing Rules. The chairman of the meeting will therefore demand a poll for every resolution put to the vote of the AGM pursuant to the Article.

INVESTOR RELATIONS

The Board recognises that effective communication with investors is the key to establish investor confidence and to attract new investors.

1. Results announcement

Annual reports and interim reports are prepared and issued to all Shareholders within the prescribed period stipulated by the Revised Listing Rules. All results announcements and reports are posted on the Company's website and the Stock Exchange's website. The Company can still provide the Shareholders and investors with an adequate degree of transparency and information of the financial position of the Company.

2. Regularly release corporate information

The Group regularly releases corporate information such as the latest news of the Group's developments on its Company's website. The public are welcome to give their comments and make their enquiries through the Company's website, the management will give their prompt response.

3. Shareholders Right

(i) Convene an Extraordinary General Meeting

The Directors may, whenever they think fit, convene an extraordinary general meeting of the Company (the "EGM"). The EGM shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the Company Secretary for the purpose of requiring an EGM to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

(ii) Send Enquiries to the Board

Enquiries of shareholders can be sent to the Company by post to the Company's Hong Kong head office at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. Shareholders can also make enquiries with the Board directly at the general meetings.

(iii) Make proposals at General Meetings

Pursuant to the Articles (as amended from time to time), the Shareholders who wish to move a resolution may by means of requisition convene an EGM follow the procedures as set out above.

INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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2-12 Queen's Road West, Hong Kong.
香港皇后大道西2-12號聯發商業中心305室
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TO THE MEMBERS OF CHINA WATER PROPERTY GROUP LIMITED
中國水務地產集團有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Water Property Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 126, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM CPA Limited
Certified Public Accountants
Ng Fai Fiona
Practising Certificate Number P04986

Hong Kong, 26 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	NOTES	**2012 HK$'000**	2011 HK$'000 (restated)
Continuing operations			
Turnover	7a	**271,374**	136,901
Cost of sales		**(180,517)**	(65,143)
Gross profit		**90,857**	71,758
Fair value gain in respect of investment properties revaluation	18	**282,779**	205,125
Other operating income	7b	**1,699**	5,595
Selling and distribution expenses		**(17,772)**	(7,122)
Administrative expenses		**(120,001)**	(122,588)
Finance costs	8	**(39,689)**	(22,873)
Profit before tax		**197,873**	129,895
Income tax expense	10	**(87,785)**	(53,362)
Profit for the year from continuing operations	11	**110,088**	76,533
Discontinued operation			
Loss for the year from discontinued operation	12	**(43,428)**	(48,130)
Profit for the year		**66,660**	28,403

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	NOTE	2012 HK$'000	2011 HK$'000 (restated)
Profit for the year attributable to:			
Owners of the Company			
Profit for the year from continuing operations		**91,906**	81,055
Loss for the year from discontinued operation		**(42,816)**	(47,682)
Profit for the year attributable to owners of the Company		**49,090**	33,373
Non-controlling interests			
Profit (loss) for the year from continuing operations		**18,182**	(4,522)
Loss for the year from discontinued operation		**(612)**	(448)
Profit (loss) for the year attributable to non-controlling interests		**17,570**	(4,970)
Profit for the year		**66,660**	28,403
		HK Cents	HK Cents (restated)
Earnings per share	14		
From continuing and discontinued operations			
Basic		**2.75**	2.38
Diluted		**2.70**	2.31
From continuing operations			
Basic		**5.15**	5.78
Diluted		**4.84**	5.25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	**66,660**	28,403
Other comprehensive income:		
Exchange differences arising on translation	**12,670**	35,085
Fair value gain in respect of properties prior to its reclassification as investment properties	**7,930**	–
Deferred taxation recognised on fair value change of properties prior to its reclassification as investment properties	**(1,983)**	–
Other comprehensive income for the year	**18,617**	35,085
Total comprehensive income for the year (net of tax)	**85,277**	63,488
Total comprehensive income (expense) attributable to:		
Owners of the Company	**67,707**	68,458
Non-controlling interests	**17,570**	(4,970)
	85,277	63,488

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
ASSETS			
Non-Current Assets			
Prepaid lease payments	15	**–**	1,616
Property, plant and equipment	16	**69,964**	132,887
Investment properties	18	**2,079,012**	1,339,024
Goodwill	19	**174,605**	174,605
Prepayment for acquisition of an intangible asset	20	**22,724**	–
Deposit paid on acquisition of a subsidiary	37	**–**	121,951
		2,346,305	1,770,083
Current Assets			
Inventories	21	**938**	4,503
Inventory of properties	22	**1,456,297**	1,213,864
Trade and other receivables	23	**148,614**	245,179
Prepaid tax		**257**	156
Pledged bank deposits	24	**51,953**	3,307
Bank balances and cash	24	**124,986**	150,186
		1,783,045	1,617,195
TOTAL ASSETS		**4,129,350**	3,387,278
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	32	**180,872**	175,872
Reserves		**1,418,157**	1,336,450
Equity attributable to owners of the Company		**1,599,029**	1,512,322
Non-controlling interests		**169,316**	136,931
TOTAL EQUITY		**1,768,345**	1,649,253

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current Liabilities			
Deferred tax liabilities	35	**388,708**	280,444
Borrowings — due after one year	29	**466,049**	128,049
Convertible notes	30	**66,932**	64,464
Deposits received for sale and lease of properties — non-current portion	26	**113,578**	123,706
Deferred income — non-current portion	31	**11,665**	22,114
		1,046,932	618,777
Current Liabilities			
Trade and other payables	25	**523,488**	323,167
Deposits received for sale and lease of properties — current portion	26	**220,139**	122,244
Tax payable		**27,212**	118,910
Amounts due to non-controlling shareholders of subsidiaries	27	**10,354**	58,962
Amounts due to related parties	28	**162,766**	114,298
Borrowings — due within one year	29	**364,354**	353,478
Deferred income — current portion	31	**5,760**	28,189
		1,314,073	1,119,248
TOTAL LIABILITIES		**2,361,005**	1,738,025
TOTAL EQUITY AND LIABILITIES		**4,129,350**	3,387,278
NET CURRENT ASSETS		**468,972**	497,947
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,815,277**	2,268,030

The consolidated financial statements on pages 35 to 126 were approved and authorised for issue by the board of directors on 26 March 2013 and are signed on its behalf by:

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

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current asset			
Interests in subsidiaries	17	**918,313**	892,766
Current assets			
Other receivables		**231**	681
Pledged bank deposit		**50,000**	–
Bank balances		**6,761**	14,274
		56,992	14,955
TOTAL ASSETS		**975,305**	907,721
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	32	**180,872**	175,872
Reserves	33	**614,636**	609,810
TOTAL EQUITY		**795,508**	785,682
Non-current liability			
Convertible notes	30	**66,932**	64,464
Current liabilities			
Other creditors and accruals		**21,165**	27,784
Amount due to a shareholder	28	**–**	9,791
Borrowing — due within one year	29	**91,700**	20,000
		112,865	57,575
TOTAL LIABILITIES		**179,797**	122,039
TOTAL EQUITY AND LIABILITIES		**975,305**	907,721
NET CURRENT LIABILITIES		**(55,873)**	(42,620)
TOTAL ASSETS LESS CURRENT LIABILITIES		**862,440**	850,146

The financial statements on pages 35 to 126 were approved and authorised for issue by the board of directors on 26 March 2013 and are signed on its behalf by:

Duan Chuan Liang
DIRECTOR

Wang Wenxia
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital HK$'000	Share premium HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Special reserve HK$'000	PRC statutory reserve HK$'000	Property revaluation reserve HK$'000	Translations reserve HK$'000	Accumulated profits HK$'000	Attributable to owners of the Company HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2011	125,142	922,088	25,434	16,494	10,816	25,565	–	20,904	48,758	1,195,201	160,366	1,355,567
Profit (loss) for the year	–	–	–	–	–	–	–	–	33,373	33,373	(4,970)	28,403
Translation exchange differences	–	–	–	–	–	–	–	35,085	–	35,085	–	35,085
Total comprehensive Income (expense) for the year	–	–	–	–	–	–	–	35,085	33,373	68,458	(4,970)	63,488
Disposal of subsidiaries	–	–	–	–	–	–	–	(1,934)	–	(1,934)	(14,180)	(16,114)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(1,691)	(1,691)	(4,285)	(5,976)
Open offer	50,249	200,997	–	–	–	–	–	–	–	251,246	–	251,246
Shares issue expenses	–	(1,739)	–	–	–	–	–	–	–	(1,739)	–	(1,739)
Exercise of share options	481	3,525	–	(1,225)	–	–	–	–	–	2,781	–	2,781
Share options lapsed/expired	–	–	–	(2,221)	–	–	–	–	2,221	–	–	–
As 31 December 2011 and 1 January 2012	175,872	1,124,871	25,434	13,048	10,816	25,565	–	54,055	82,661	1,512,322	136,931	1,649,253
Profit for the year	–	–	–	–	–	–	–	–	49,090	49,090	17,570	66,660
Translation exchange differences	–	–	–	–	–	–	–	12,670	–	12,670	–	12,670
Fair value gain in respect of properties prior to its reclassification as investment properties	–	–	–	–	–	–	7,930	–	–	7,930	–	7,930
Deferred taxation recognised on fair value change of properties prior to its reclassification as investment properties	–	–	–	–	–	–	(1,983)	–	–	(1,983)	–	(1,983)
Total comprehensive income for the year	–	–	–	–	–	–	5,947	12,670	49,090	67,707	17,570	85,277
Issue of shares	5,000	25,000	–	–	–	–	–	–	–	30,000	–	30,000
Disposal of subsidiaries	–	–	–	–	(11,000)	–	–	–	–	(11,000)	–	(11,000)
Incorporation of a non-wholly owned subsidiary	–	–	–	–	–	–	–	–	–	–	14,815	14,815
As 31 December 2012	180,872	1,149,871	25,434	13,048	(184)	25,565	5,947	66,725	131,751	1,599,029	169,316	1,768,345

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

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 2012

	NOTE	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Profit before tax from continuing operations		**197,873**	129,895
Loss before tax from discontinued operation	12	**(43,242)**	(47,993)
		154,631	81,902
Adjustments for:			
Interest expenses		**40,268**	24,029
Interest income		**(663)**	(2,091)
Depreciation of property, plant and equipment		**20,138**	11,438
Amortisation of prepaid lease payments		**97**	189
Loss on disposals of property, plant and equipment		**3,774**	512
Gain on disposal of subsidiaries		**(20,904)**	(1,088)
Fair value gain in respect of investment properties revaluation		**(282,779)**	(205,125)
Impairment on property, plant and equipment		**31,791**	30,000
Write-off of inventories		**62**	1,128
Write-off of trade and other receivables		**26,320**	10,300
Operating cash flows before movements in working capital		**(27,265)**	(48,806)
(Increase) decrease in inventories		**(877)**	4,580
Increase in inventory of properties		**(319,431)**	(230,581)
Decrease (increase) in trade and other receivables		**65,260**	(40,958)
Increase (decrease) in trade and other payables		**190,101**	(55,347)
Increase in deposits received for sale and lease of properties		**84,731**	165,265
(Decrease) increase in deferred income		**(33,499)**	50,303
Cash used in operations		**(40,980)**	(155,544)
Interest paid		**(85,958)**	(47,865)
Income tax paid		**(110,511)**	(9,855)
NET CASH USED IN OPERATING ACTIVITIES		**(237,449)**	(213,264)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Additions of investment properties		**(85,604)**	(108,801)
Payment for acquisition of an intangible asset		**(22,724)**	–
Net cash outflow on acquisition of subsidiaries	37	**(5,996)**	–
Purchase of property, plant and equipment		**(2,005)**	(77,427)
Net cash inflow on disposal of subsidiaries	38	**7,714**	5,126
Interest received		**663**	2,091
Deposit paid for acquisition of a subsidiary	37	**–**	(60,975)
Acquisition of additional interests in a subsidiary		**–**	(5,976)
Proceed from disposal of property, plant and equipment		**–**	575
NET CASH USED IN INVESTING ACTIVITIES		**(107,952)**	(245,387)
FINANCING ACTIVITIES			
New borrowings raised		**797,370**	293,170
Advances from related parties		**47,178**	174,052
Proceeds from issue of new shares		**30,000**	139,246
Contribution from non-controlling shareholders of a subsidiary		**14,815**	–
Repayment of borrowings		**(471,190)**	(293,036)
(Repayment to) advances from non-controlling shareholders of subsidiaries		**(49,336)**	13,555
Proceeds from exercise of share options		**–**	2,781
Shares issue expenses		**–**	(1,739)
Repayment of finance leases		**–**	(169)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**368,837**	327,860
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**23,436**	(130,791)
Effect of foreign exchange rate changes		**1,269**	10,742
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**152,234**	272,283
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**176,939**	152,234
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**124,986**	150,186
Pledged bank deposits		**51,953**	3,307
Bank overdrafts		**–**	(1,259)
		176,939	152,234

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 (the "Stock Exchange") 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, to as the "Group") are property investment, property development, hotel business and property management in the PRC. The Group was also engaged in production and distribution of snack food, convenient frozen food and other food products which was discontinued in current year (Details are set out in Note 12). Accordingly, the comparative figures of the consolidated income statement for the year ended 31 December 2011 and related notes have been restated.

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

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

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset;
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters; and
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[2]
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans[2]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009–2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The Directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The Directors anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as 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 2015, with earlier application permitted.

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

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

New and revised standards on consolidation, joint arrangements, associates and disclosures

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

Key requirements of these five standards are described below.

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

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. HK (SIC)-Int 13 Jointly Controlled Entities — Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

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

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The Directors anticipate that the application of these five standards may not have a significant impact on amounts reported in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The Directors anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

HKFRS 13 Fair Value Measurement

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

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Directors anticipate that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HKAS 19 (as revised in 2011) Employee Benefits

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application. The Directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

HK(IFRIC)-Int 20 Stripping Costs in the Production Phase of a Surface Mine

HK(IFRIC)-Int 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). Under the interpretation, the costs from this waste removal activity ("stripping") which provide improved access to ore is recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with HKAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part. The directors anticipate that the application of the amendments will have no effect on the Group as the Company is not engaged in mining industry.

HK(IFRIC)-Int 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply HK(IFRIC)-Int 20 for the first time. However, HK(IFRIC)-Int 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties 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 in line with those used by other members of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the net assets attributable to the change in interests and the fair value of the consideration paid or received is recognised directly in accumulated profits and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts of fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* of, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

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, except that:

- deferred tax assets or liabilities and assets or liabilities 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 share-based payment arrangements of the acquiree or share-based payment arrangement of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); 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 re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed 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 that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

When the consideration transferred by the Group 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 made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) 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. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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 at that date.

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 that are expected to benefit from the synergies of the combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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. For goodwill arising on an acquisition in a reporting period, the cash generating unit to which goodwill has been allocated is tested for impairment before the end of the reporting period. 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 amount of 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.

Rental income from operating lease is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant lease.

Hotel operation income is recognised upon the provision of services and the utilisation by guests of the hotel facilities.

Management service income is recognised when management services are provided.

Deferred income

Receipts in advance from long-term leases are credited to a deferred income account and are credited to the profit or loss on a straight-line basis over the period of the leases.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, 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 property, 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 recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 property, 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.

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 arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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 or loss in the period in which the property is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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 and loss.

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.

Inventory of properties

Inventory of properties included 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 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.

Financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 the following specified categories: financial assets "at fair value through profit or loss" (FVTPL) and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at FVTPL *(Continued)*

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 *Financial Instruments: Recognition and Measurement* 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. Subsequent to initial recognition, loan and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, expect for short-term receivables when the recognition of interest would be immaterial.

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 considered to be impaired when 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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. Objective 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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.

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.

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
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at FVTPL *(Continued)*

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 designated 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, amounts due to non-controlling shareholders of subsidiaries and amounts due to related parties) are subsequently measured at amortised cost using the effective interest method.

Convertible notes

Convertible notes issued by the Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible notes *(Continued)*

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 share premium. Where the conversion option remains unexercised at the maturity date of the convertible notes, the balance recognised in convertible notes equity reserve will be transferred to accumulated profits. 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 are amortised over the lives of the convertible notes using the effective interest method.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition *(Continued)*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or 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 time value of money 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 subsequent reporting period, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity settled share-based payment transactions *(Continued)*

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 accumulated profits.

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 with finite useful lives 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.

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. When 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. When 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.

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 its 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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 property, 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.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement 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 base 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint 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 each 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 and deferred tax are 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 are 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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

- 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).

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 operation, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 intended 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.

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.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash at banks and cash 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 property, 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 property, 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Estimated impairment on property, plant and equipment

Property, 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 property, 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 2012, the Group recognised HK$31,791,000 impairment loss for certain property, plant and equipment (2011: HK$30,000,000).

(c) Allowance for doubtful debts

The Group's provision policy for bad and doubtful debts is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment 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 2012, the carrying amount of trade receivable is approximately HK$7,676,000 (2011: approximately HK$20,702,000) (net of allowance for doubtful debts of approximately of none (2011: nil)).

(d) 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 2012, the carrying amount of goodwill is approximately HK$174,605,000 (2011: approximately HK$174,605,000), net of accumulated impairment loss of none (2011: nil). Details of the recoverable amount calculation are disclosed in Note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other receivables, trade and other payables, amounts due to non-controlling shareholders of subsidiaries, amounts due to related parties and convertible notes. 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 assets and liabilities 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 2012 HK$'000	**Liabilities 2012 HK$'000**	Assets 2011 HK$'000	Liabilities 2011 HK$'000
Renminbi ("RMB")	**261,647**	**1,413,930**	365,261	575,330

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB against HK$.

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the HK$, the effect in the other comprehensive income for the year is as follows:

	2012 HK$'000	2011 HK$'000
Increase/decrease in other comprehensive income	**57,614**	10,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 following table details the Group's contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities based on the earliest date on which the Group be required to pay. 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. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	2012							
	Weighted average interest rate	Within 1 month or on demand HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cashflow HK$'000	Carrying amount HK$'000
Trade and other payables	N/A	523,488	–	–	–	–	523,488	523,488
Amounts due to non-controlling shareholders of subsidiaries	N/A	10,354	–	–	–	–	10,354	10,354
Amounts due to related parties	11.4%	1,545	3,090	176,671	–	–	181,306	162,766
Borrowings	7.1%	4,916	12,246	242,103	798,389	–	1,057,654	830,403
Convertible notes	7.55%	–	–	–	–	81,960	81,960	66,932
		540,303	15,336	418,774	798,389	81,960	1,854,762	1,593,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk management *(Continued)*

	2011							
	Weighted average interest rate	Within 1 month or on demand HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cashflow HK$'000	Carrying amount HK$'000
Trade and other payables	N/A	323,167	–	–	–	–	323,167	323,167
Amounts due to non-controlling shareholders of subsidiaries	N/A	58,962	–	–	–	–	58,962	58,962
Amounts due to related parties	11.66%	69,442	2,121	56,093	–	–	127,656	114,298
Borrowings	6.8%	7,876	5,425	390,677	137,455	–	541,433	481,527
Convertible notes	7.55%	–	–	–	–	81,895	81,895	64,464
		459,447	7,546	446,770	137,455	81,895	1,133,113	1,042,418

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 2012 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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk management

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 date. 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 2012 would decrease/increase by approximately HK$6,537,000 (2011: decrease/increase by approximately HK$3,152,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Fair values measurement

(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 2012 and 2011, there were no financial instruments carried at any level of the fair value hierarchy.

(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 2012 and 2011.

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) Bank balances and cash, pledged bank deposits, trade and other receivables, trade and other payables, amounts due to related parties and amounts due to non-controlling shareholders of subsidiaries.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Estimation of fair value *(Continued)*

(ii) Borrowings

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

(iii) Interest rates used for determining fair value

The Group uses the appropriate market yield curve or benchmark rate as of 31 December 2012 plus an appropriate constant credit spread to calculate the fair value of its interest bearing debt.

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.

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 2012, the Group's strategy remained unchanged as compared to that of 2011. Management of the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowing divided by total equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital risk management *(Continued)*

The management considers the gearing ratio at the end of reporting period is as follows:

	2012 HK$'000	2011 HK$'000
Borrowings, net of bank balances and cash	**653,464**	328,034
Convertible notes	**66,932**	64,464
Total debts	**720,396**	392,498
Total assets	**4,129,350**	3,387,278
Total debts to total assets ratio	**0.17**	0.12

The increase in the gearing ratio is resulted primarily from the new borrowings raised for operations.

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 consolidated financial statements.

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

The Group's operating segments are as follows:

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

— Property Development Business Segment engaged in development of property project in the PRC

— Hotel Business Segment engaged in operating hotels in the PRC

— Property Management Business Segment engaged in provision of property management services in the PRC

The Group involved in production and distribution of snack food, convenient frozen food and other food product (the "discontinued operation"). This operation was discontinued with effect from 11 June 2012.The segment information reported does not include the discontinued operation which is set out in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results

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

For the year ended 31 December 2012

Continuing operations

	Property Investment Business HK$'000	Property Development Business HK$'000	Hotel Business HK$'000	Property Management Business HK$'000	Total HK$'000
TOTAL REVENUE AND EXTERNAL SALES	51,343	180,140	33,034	6,857	271,374
RESULT					
Segment operating results before impairment	26,350	(6,608)	(13,310)	953	7,385
Fair value gain in respect of investment properties revaluation	282,779	–	–	–	282,779
Unallocated corporate income					236
Unallocated corporate expense					(52,838)
Profit from operations					237,562
Finance costs					(39,689)
Profit before tax					197,873
Income tax expense					(87,785)
Profit for the year					110,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended 31 December 2011

Continuing operations

	Property Investment Business HK$'000	Property Development Business HK$'000	Hotel Business HK$'000	Property Management Business HK$'000	Total HK$'000 (restated)
TOTAL REVENUE AND EXTERNAL SALES	24,513	111,010	789	589	136,901
RESULT					
Segment operating results before impairment	8,324	23,254	(8,618)	(2,192)	20,768
Fair value gain in respect of investment properties revaluation	205,125	–	–	–	205,125
Unallocated corporate income					2,491
Unallocated corporate expense					(75,616)
Profit from operations					152,768
Finance costs					(22,873)
Profit before tax					129,895
Income tax expense					(53,362)
Profit for the year					76,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

Continuing operations

	Property Investment Business		Property Development Business		Hotel Business		Property Management Business		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (restated)
ASSETS										
Goodwill	**–**	–	**174,605**	174,605	**–**	–	**–**	–	**174,605**	174,605
Inventory of properties	**–**	–	**1,456,297**	1,213,864	**–**	–	**–**	–	**1,456,297**	1,213,864
Investment properties	**2,079,012**	1,339,024	**–**	–	**–**	–	**–**	–	**2,079,012**	1,339,024
Other assets	**2,050**	12,483	**290,472**	451,112	**60,139**	67,089	**1,045**	1,788	**353,706**	532,472
Segment assets	**2,081,062**	1,351,507	**1,921,374**	1,839,581	**60,139**	67,089	**1,045**	1,788	**4,063,620**	3,259,965
Assets relating discontinued operation									**–**	103,547
Unallocated corporate assets									**65,730**	23,766
Consolidated assets									**4,129,350**	3,387,278
LIABILITIES										
Segment liabilities	**161,288**	222,097	**1,859,005**	1,311,632	**3,345**	–	**2,262**	6,185	**2,025,900**	1,539,914
Liabilities relating to discontinued operation									**–**	31,324
Unallocated corporate liabilities									**335,105**	166,787
Consolidated liabilities									**2,361,005**	1,738,025
OTHER INFORMATION										
Additions to property, plant and equipment	**70**	423	**619**	10,198	**1,047**	64,569	**269**	262	**2,005**	75,452
Depreciation of property, plant and equipment	**173**	67	**3,458**	2,844	**9,460**	745	**50**	18	**13,141**	3,674
Additions to investment properties	**431,419**	111,742	**–**	–	**–**	–	**–**	–	**431,419**	111,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

6. SEGMENT INFORMATION *(Continued)*

Geographical Information

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

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

	Revenue from external customer		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000 (restated)	**HK$'000**	HK$'000 (restated)
Hong Kong	**–**	–	**1,940**	1,854
The PRC	**271,374**	136,901	**2,344,365**	1,768,229
	271,374	136,901	**2,346,305**	1,770,083

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 2012 and 2011, no single external customers accounted for 10% or more of the Group's consolidated turnover.

7. TURNOVER AND OTHER OPERATING INCOME

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

	2012	2011
	HK$'000	HK$'000 (restated)
(a) Turnover		
Sales of properties	**180,140**	111,010
Rental income	**51,343**	24,513
Hotel operation income	**33,034**	789
Property management income	**6,857**	589
	271,374	136,901
(b) Other operating income:		
Exchange gain	**–**	3,295
Interest income from bank deposits	**636**	1,433
Sundry income	**1,063**	867
	1,699	5,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

8. FINANCE COSTS

Continuing operations

	2012 HK$'000	2011 HK$'000 (restated)
Interest expenses on bank loans, overdrafts and other borrowings wholly repayable within five years	**83,186**	32,122
Effective interest expense on convertible notes	**4,915**	4,738
	88,101	36,860
Less: amounts capitalised in the cost qualifying assets (Note 22)	**(48,412)**	(13,987)
	39,689	22,873

The weighted average capitalisation rate on funds borrowed generally is 3.96 % per annum (2011: 2.27% per annum)

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2012 HK$'000	2011 HK$'000 (restated)
Directors' fees	**897**	588
Salaries and allowances	**10,226**	9,629
Discretionary bonuses	**5,000**	25,477
Retirement benefit scheme contributions	**28**	24
	16,151	35,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments

For the year ended 31 December 2012

Name of Director	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
EXECUTIVE DIRECTORS					
Ms. Wang Wenxia	165	4,440	2,200	14	6,819
Mr. Ren Qian	165	–	–	–	165
NON-EXECUTIVE DIRECTORS					
Mr. Duan Chuan Liang	270	5,416	2,800	14	8,500
Mr. Zhou Kun	90	370	–	–	460
INDEPENDENT NON-EXECUTIVE DIRECTORS					
Mr. Chan Pok Hiu	69	–	–	–	69
Mr. Wong Chi Ming	69	–	–	–	69
Mr. Wang Jian	69	–	–	–	69
	897	10,226	5,000	28	16,151

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2011

Name of Director	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
EXECUTIVE DIRECTORS					
Ms. Wang Wenxia	120	4,373	10,000	12	14,505
Mr. Ren Qian	120	–	–	–	120
NON-EXECUTIVE DIRECTORS					
Mr. Duan Chuan Liang	180	4,869	15,477	12	20,538
Mr. Zhou Kun	60	387	–	–	447
INDEPENDENT NON-EXECUTIVE DIRECTORS					
Mr. Chan Pok Hiu	36	–	–	–	36
Mr. Wong Chi Ming	36	–	–	–	36
Mr. Wang Jian (note i)	25	–	–	–	25
Mr. Chen Ziqiang (note ii)	11	–	–	–	11
	588	9,629	25,477	24	35,718

notes:

(i) Appointed on 21 April 2011

(ii) Resigned on 21 April 2011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 December 2012 included two (2011: two) directors of the Company. The emoluments of the remaining three (2011: three) individuals are as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	**2,536**	2,564
Retirement benefit schemes contributions	**41**	60
	2,577	2,624

Their emoluments were within the following bands:

	2012 Number of employees	2011 Number of employees
HK$ Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$2,000,000	**1**	1
	3	3

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. INCOME TAX EXPENSE

Continuing operations

	2012 HK$'000	2011 HK$'000 (restated)
The tax charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	**–**	–
Under provision of prior year	**–**	–
PRC Enterprise Income Tax ("EIT")		
Current year	**6,674**	6,084
Over provision of prior year	**–**	(15,432)
Land Appreciation Tax ("LAT") in the PRC	**10,416**	11,429
Current tax charge for the year	**17,090**	2,081
Deferred tax charge for the year (Note 35)	**70,695**	51,281
	87,785	53,362

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessables profit arising in Hong Kong for both years.

The Group's PRC EIT is calculated based on the applicable tax rates on assessable profits, if applicable. PRC LAT is levied at the applicable tax rate on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2012 HK$'000	2011 HK$'000 (restated)
Profit before tax from continuing operations	**197,873**	129,895
Tax at PRC EIT rate of 25% (2011: 25%)	**49,468**	32,473
Tax effect of expenses not deductible for tax purposes	**28,080**	15,003
Tax effect of income not taxable for tax purposes	**(5,277)**	(885)
Net over provision in respect of prior year	**–**	(15,433)
Tax effect on tax losses not recognised	**2,727**	5,043
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,371**	5,732
LAT	**10,416**	11,429
Tax charge for the year (relating to continuing operations)	**87,785**	53,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. INCOME TAX EXPENSE *(Continued)*

Continuing operations *(Continued)*

Income tax recognised directly in consolidated statement of changes in equity.

	2012 HK$'000	2011 HK$'000
Current tax:	–	–
Deferred tax:		
Attributable to the owners of the Company:		
Deferred tax recognised on fair value change of properties on classification to investment properties	1,983	–
Total income tax recognised directly in equity	1,983	–

11. PROFIT FOR THE YEAR

Continuing operations

	2012 HK$'000	2011 HK$'000 (restated)
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	50,170	63,722
Retirement benefits scheme contributions, including contributions for directors	512	1,587
Total staff costs	50,682	65,309
Auditors' remuneration	1,200	1,014
Amortisation of prepaid lease payments	93	–
Depreciation of property, plant and equipment	19,053	4,084
Loss on disposal of property, plant and equipment	3,774	514
Write-off of trade and other receivables	3,568	5,682
Operating lease rental expense in respect of rented premises	26,384	9,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

11. PROFIT FOR THE YEAR *(Continued)*

Continuing operations *(Continued)*

	2012 HK$'000	2011 HK$'000
Gross rental income from investment properties	**(51,343)**	(24,513)
Less: Direct operating expenses from investment properties that generate rental income during the year	**5,475**	3,294
	(45,868)	(21,219)

12. DISCONTINUED OPERATION

On 24 April 2012, the subsidiaries of the Company entered into a sale and purchase agreement (the "Agreement") to dispose of their equity interests in Honfine Company Limited, Wah Yuen Foods (Hong Kong) Company Limited, Million Riches Development Limited and Wah Yuen Licensing Company Limited (hereafter collectively refer as "Sale Companies"), which are principally engaged in the distribution of food products, and dispose of machineries and inventories of certain subsidiaries of the Company, which are related to the production of food products and are mainly related to the business of the Sale Companies (collectively refer to as "Disposal Group"), to Auto Success Limited, a connected person of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") at a consideration of HK$25,000,000, subject to adjustments. (the "Disposals")

The Disposals were completed on 25 July 2012, on which the control of Sale Companies were passed to Auto Success Limited and the adjusted consideration was HK$16,336,000. In accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the Disposals constitute discontinued operation of Wah Yuen foods business, therefore the comparative figures for the year ended 31 December 2011 have been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

12. DISCONTINUED OPERATION *(Continued)*

The results of the discontinued operation for the period/year, which had been included in the profit or loss, were as follows:

	1.1.2012 to 25.7.2012 HK$'000	1.1.2011 to 31.12.2011 HK$'000
Turnover	**12,099**	40,615
Cost of sales	**(10,241)**	(32,629)
Gross profit	**1,858**	7,986
Selling, distribution and administrative expenses	**(10,870)**	(19,742)
Other operating income	**50**	665
Finance costs	**(579)**	(1,156)
Impairment on property, plant and equipment	**(31,791)**	(30,000)
Write-off of inventories	**(62)**	(1,128)
Write-off of trade and other receivables	**(22,752)**	(4,618)
Loss before tax from discontinued operation	**(64,146)**	(47,993)
Income tax expense	**(186)**	(137)
Loss for the period/year from discontinued operation	**(64,332)**	(48,130)
Net gain on disposal from discontinued operation (Note 38)	**20,904**	–
Total loss for the period/year for discontinued operation	**(43,428)**	(48,130)
Attributable to:		
Owners of the Company	**(42,816)**	(47,682)
Non-controlling interests	**(612)**	(448)
	(43,428)	(48,130)
Loss for the period/year from discontinued operation has been arrived at after charging (crediting):		
Staff costs	**3,160**	5,087
Retirement benefits scheme contributions	**66**	487
	3,226	5,574
Auditors' remuneration	**–**	–
Depreciation of property, plant and equipment	**153**	6,733
Amortisation of prepaid lease payments	**4**	189
Interest income	**(50)**	(658)
Other information:		
Additions of property, plant and equipment	**–**	1,977
Cash flows from discontinued operation:		
Net cash inflow from operating activities	**1,666**	9,213
Net cash inflow from investing activities	**3,335**	6,684
Net cash outflow from financing activities	**(6,609)**	(13,150)
Cash (outflow)inflow from discontinued operation	**(1,608)**	2,747

The carrying amounts of the assets and liabilities of Sale Companies at the date of disposal are disclosed in Note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. DIVIDENDS

The Directors do not recommend the payment of a dividend for the years ended 31 December 2012 and 2011.

14. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable is based on the earnings attributable to the owners of the Company of approximately HK$49,090,000 (2011: approximately HK$33,373,000) and on the weighted average ordinary share of 1,784,065,327 (2011: 1,403,163,593 shares) deemed to be in issue during the year.

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

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
		(restated)
Earnings:		
Earnings for the purpose of basic earnings per share	**49,090**	33,373
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**4,915**	3,956
Earnings for the purpose of diluted earnings per share	**54,005**	37,329

	2012	2011
	share(s)	share(s)
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,784,065,327**	1,403,163,593
Effect of dilutive potential ordinary shares:		
Convertible notes	**215,683,682**	215,683,682
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,999,749,009**	1,618,847,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. EARNINGS PER SHARE *(Continued)*

From continuing operations

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
		(restated)
Profit for the year attributable to owners of the Company:	**49,090**	33,373
Less:		
Loss for the year from discontinued operation	**(42,816)**	(47,682)
Earnings for the purpose of basic earnings per share	**91,906**	81,055
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**4,915**	3,956
Earnings for the purpose of diluted earnings per share	**96,821**	85,011

From discontinued operation

For the year ended 31 December 2012, basic loss per share for the discontinued operation was HK2.40 cents (2011: HK3.40 cents), based on the loss for the year from the discontinued operation of approximately HK$42,816,000 (2011: approximately HK$47,682,000) and the denominators detailed above for basic loss per share. Diluted loss per share was not presented because the impact of the conversion of convertible notes and the exercise of share options were anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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:

	2012 HK$'000	2011 HK$'000
COST		
At 1 January	**4,025**	3,896
Exchange difference	**45**	129
Surplus on revaluation on reclassification and transfer	**5,564**	–
Transfer to investment properties (Note 18)	**(9,259)**	–
Derecognised on disposal of a subsidiary (Note 38)	**(375)**	–
At 31 December	**–**	4,025
ACCUMULATED AMORTISATION		
At 1 January	**2,409**	2,145
Exchange difference	**28**	75
Reverse of amortisation on revaluation	**(2,366)**	–
Derecognised on disposal of a subsidiary (Note 38)	**(168)**	–
Amortisation for the year	**97**	189
At 31 December	**–**	2,409
CARRYING VALUES		
At 31 December	**–**	1,616

The land use rights and leasehold land of the Group as at 31 December 2011 are held on medium term leases and situated on:

	2012 HK$'000	2011 HK$'000
Hong Kong	**–**	211
The PRC	**–**	1,405
	–	1,616

The valuation was made by RHL Appraisal Limited, independent qualified professional valuers not connected to the Group. RHL Appraisal Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The fair value gain on revaluation of approximately HK$7,930,000 was recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings HK$'000	Furniture and equipment HK$'000	Leasehold Improvement for hotel operation HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Loose tools and moulds HK$'000	Total HK$'000
COST							
At 1 January 2011	41,420	31,583	–	12,619	69,344	189	155,155
Exchange difference	1,450	595	–	283	2,305	–	4,633
Additions	–	2,713	63,362	11,354	–	–	77,429
Disposals	–	(6)	–	(1,137)	(1,564)	–	(2,707)
Derecognised on disposal of subsidiaries	–	(977)	–	–	–	–	(977)
At 31 December 2011 and 1 January 2012	42,870	33,908	63,362	23,119	70,085	189	233,533
Exchange difference	507	282	793	146	787	–	2,515
Additions	209	1,796	–	–	–	–	2,005
Disposals	–	(189)	–	(57)	(9,195)	–	(9,441)
Derecognised on disposal of subsidiaries	(2,953)	(16,004)	–	(4,470)	(40,251)	(189)	(63,867)
At 31 December 2012	40,633	19,793	64,155	18,738	21,426	–	164,745
DEPRECIATION AND IMPAIRMENT							
At 1 January 2011	7,648	19,499	–	6,660	25,194	189	59,190
Exchange difference	378	246	6	98	910	–	1,638
Provide for the year	1,204	2,487	745	2,901	4,101	–	11,438
Eliminated on disposals	–	(2)	–	(400)	(1,218)	–	(1,620)
Impairment losses recognised in profit or loss	11,510	2,722	–	–	15,768	–	30,000
At 31 December 2011 and 1 January 2012	20,740	24,952	751	9,259	44,755	189	100,646
Exchange difference	236	150	9	48	472	–	915
Provide for the year	1,243	3,239	9,165	3,156	3,335	–	20,138
Eliminated on disposals	–	(14)	–	(57)	(5,596)	–	(5,667)
Derecognised on disposal of subsidiaries	(1,860)	(15,821)	–	(4,470)	(30,702)	(189)	(53,042)
Impairment loss recognised in profit or loss upon discontinued operation	20,029	2,477	–	123	9,162	–	31,791
At 31 December 2012	40,388	14,983	9,925	8,059	21,426	–	94,781
CARRYING VALUES							
At 31 December 2012	245	4,810	54,230	10,679	–	–	69,964
At 31 December 2011	22,130	8,956	62,611	13,860	25,330	–	132,887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rate per annum:

Buildings	Over the relevant lease terms, or 20 years, whichever is the shorter
Furniture and equipment	16%–20%
Leasehold improvement for hotel operation	14%
Motor vehicles	20%–30%
Plant and machinery	8%–10%
Loose tools and moulds	10%

Details of the pledged of property, plant and equipment as at 31 December 2012 and 2011 are set out in Note 39.

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**74,772**	74,772
Amounts due from subsidiaries	**1,290,685**	1,268,841
Amounts due to subsidiaries	**(447,144)**	(450,847)
	918,313	892,766

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 2012 and 2011 are set out in Note 45.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. INVESTMENT PROPERTIES

	Investment properties in the PRC HK$'000	Investment properties under redevelopment in the PRC HK$'000	Investment properties under development in the PRC HK$'000	Total HK$'000
At fair value				
At 1 January 2011	982,353	–	–	982,353
Transferred from inventory of properties	2,941	–	–	2,941
Addition	108,801	–	–	108,801
Fair value change recognised in profit or loss	205,125	–	–	205,125
Exchange difference	39,804	–	–	39,804
At 31 December 2011 and 1 January 2012	1,339,024	–	–	1,339,024
Transfer from prepaid lease payments (Note 15)	**–**	**9,259**	**–**	**9,259**
Transferred from inventory of properties (Note 22)	**–**	**–**	**345,815**	**345,815**
Additions	**16,345**	**69,259**	**–**	**85,604**
Fair value change recognised in profit or loss	**52,792**	**152,345**	**77,642**	**282,779**
Exchange difference	**16,531**	**–**	**–**	**16,531**
At 31 December 2012	**1,424,692**	**230,863**	**423,457**	**2,079,012**

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, investment properties under redevelopment and investment properties under development in the PRC are approximately HK$1,424,692,000, HK$230,863,000 and HK$423,457,000, respectively, at 31 December 2012. The fair values have been arrived at on the basis of a valuation carried out at that date by Peak Vision Appraisals Limited, an independent qualified professional valuers not connected to the Group. Peak Vision Appraisals Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experience in the valuation of properties in relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

Approval-in-principle has been given to the Group to change the use of the land in Guangzhou from industrial use to residential-commercial use. As a result, the land has been reclassified as investment property under redevelopment. The payment of 30% of the market value of the land interest after the change in use is effected. The application was still in progress at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. INVESTMENT PROPERTIES *(Continued)*

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.

Details of the pledged investment properties as at 31 December 2012 and 2011 are set out in Note 39.

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 properties, and as such, the Directors consider this transaction the acquisition of a business, rather than an asset acquisition.

The amount of goodwill arising from business combination was capitalised as an asset in the consolidated statement of financial positions, and the carrying value of goodwill was as follows:

	Property Development Business HK$'000
COST	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	174,605
IMPAIRMENT	
At 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012	–
CARRYING VALUES	
At 31 December 2012	174,605
At 31 December 2011	174,605

Impairment testing on Goodwill

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. GOODWILL *(Continued)*

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 9.23 %. Cash flow beyond the five-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 was 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 the goodwill at 31 December 2012.

20. PREPAYMENT FOR ACQUISITION OF AN INTANGIBLE ASSET

The Group entered into an agreement with an independent third party, who granted a construction right to the Group, to construct at her own cost a hotel which is located at Nanjing, the PRC, in return for the grant of an operational right of the hotel for a period of thirty years upon the completion of hotel construction. The construction has been started and is expected to last for two to three years. The payments made in the hotel construction will be reclassified as hotel operation right upon completion of the hotel construction.

21. INVENTORIES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Raw materials	**–**	3,415
Finished goods	**–**	1,088
Consumables	**938**	–
	938	4,503

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. INVENTORY OF PROPERTIES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Beginning of the year	**1,213,864**	958,195
Construction costs incurred	**301,034**	288,959
Capitalisation of interest (Note 8)	**48,412**	13,987
Acquisition of a subsidiary	**352,063**	–
Disposal of a subsidiary	**–**	(7,970)
Disposal recognised in cost of sales	**(122,929)**	(58,378)
Transfer to investment properties (Note 18)	**(345,815)**	(2,941)
Exchange difference	**9,668**	22,012
	1,456,297	1,213,864

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Properties under development	**1,159,688**	1,116,903
Properties held for sale	**296,609**	96,961
	1,456,297	1,213,864

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

Details of the pledged inventories of properties as at 31 December 2012 and 2011 are set out in Note 39.

The amounts which are expected to be realised in more than twelve months after the reporting date are classified as under current assets as it is within the Group's normal operating cycle.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Trade receivables	**7,676**	20,702
Less: Allowance for doubtful debts	**–**	–
	7,676	20,702
Prepayments for construction work	**103,841**	46,948
Receivable on disposal of subsidiaries	**2,731**	1,682
Refundable deposit placed on acquisition of a property development project in the PRC	**–**	74,256
Other receivables, prepayments and other deposits (note)	**34,366**	101,591
	148,614	245,179

Other receivables, prepayments and other deposits included an amount of approximately HK$12,690,000 (2011: approximately HK$8,362,000) for the repair and maintenance and utility deposit paid to the government and electricity company respectively.

As at 31 December 2011, other receivables, prepayments and other deposits also included an amount of approximately HK$ 71,583,000 for the land development cost payment paid on behalf of Wuhan Zhong Nan Automobile Parts and Accessories Co. Ltd (武漢市中南汽車配件配套有限責任公司) (the "Target Company") to develop the land held by the Target Company. The acquisition of the Target Company is completed in May 2012, the amount is included in the inventory of properties at the date of completion.

An aging analysis of trade receivables based on invoice date is as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**7,196**	12,931
91 to 180 days	**229**	1,224
Over 180 days	**251**	6,547
	7,676	20,702

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

For the property investment business, the credit period is between one to three months for major customers.

The average credit period on sales of goods was 90 days. The Group normally provides fully for those receivables overdue over 365 days and has no material transactions with the Group during the year. Allowances for doubtful debts are recognised based on estimated irrecoverable amounts determined by reference to past default experiences of the counterparty and an analysis of the counterparty's current financial position. When the Group was satisfied that no recovery of the amount owing is possible, the amount considered irrecoverable was written off against the financial asset and provided for in the profit or loss accordingly and have no material transactions with the Group during the year. The Group did not hold any collateral over these balances.

The following table shows the amount of receivable which are past due but not impaired as the balances related to debtors with sound repayment history and there has not been a significant change in credit quality and the amounts are still considered recoverable.

Age of receivables that are past due but not impaired

	2012 HK$'000	2011 HK$'000
Overdue by:		
1–30 days	**229**	1,224
31–60 days	**251**	6,547
	480	7,771

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in allowance for doubtful debts

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Balance at beginning of the year	**–**	–
Amounts written off as uncollectible	**–**	–
Balance at end of the year	**–**	–

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Bank balances and cash	**124,986**	150,186
Pledged bank deposits (Note 39)	**51,953**	3,307
	176,939	153,493

Bank balances carry interest at rates which range from 0.01% to 0.35% (2011: 0.01% to 0.50%) per annum. The pledged bank deposits carry interest rate of 0.02% (2011: 0.02%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables based on the invoice date is as follows:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**179,664**	71,626
91 to 180 days	**70**	69,372
Over 180 days	**25,944**	9,657
Trade payables	**205,678**	150,655
Interest payables	**19,136**	18,882
Accrued expenses	**19,674**	15,202
Other tax payable	**27,340**	5,725
Properties under redevelopment consideration payable (note a)	**69,259**	–
Other payables (note b)	**182,401**	132,703
	523,488	323,167

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

The average credit period of trade payable is three to six months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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

notes:

(a) The amount represented consideration payable to relevant PRC authorities for the change of the use of land located in Guangzhou from industrial use to commercial-residential use. To the best knowledge and information to Directors and in accordance with the relevant requirement, a consideration payable is based on 30% of the market value of the land, which is determined by the relevant PRC authorities.

(b) The other payables included approximately HK$137,318,000 and HK$9,630,000 (2011: approximately HK$87,805,000 and HK$nil), being advances from independent third parties and deposit received from vendor for construction work respectively. The amounts from independent third parties are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

26. DEPOSITS RECEIVED FOR SALE AND LEASE OF PROPERTIES

The amounts which are expected to be realised within twelve months after the reporting date are classified under current liabilities as it is within the Group's normal operating cycle.

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Deposits received for sale of properties	**207,775**	108,242
Deposits received for lease of properties	**125,942**	137,708
	333,717	245,950
Less: Amounts shown under current liabilities	**(220,139)**	(122,244)
Amounts shown under non-current liabilities	**113,578**	123,706

27. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying amount of amounts due approximate to their fair value.

28. AMOUNT(S) DUE TO RELATED PARTIES/A SHAREHOLDER

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Shareholder				
Unsecured and interest bearing at 8% per annum and repayable within one year	**–**	5,000	**–**	5,000
Unsecured and non-interest bearing, and repayable on demand	**–**	4,791	**–**	4,791
Shareholder's subsidiaries				
Unsecured and interest bearing at 12–15% per annum and repayable within one year	**162,766**	104,507	**–**	–
	162,766	114,298	**–**	9,791

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. BORROWINGS

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank overdrafts	**–**	1,259	**–**	–
Bank loans	**786,144**	457,829	**91,700**	–
Other loans	**44,259**	22,439	**–**	20,000
	830,403	481,527	**91,700**	20,000
Analysis as:				
Secured	**744,444**	459,088	**50,000**	–
Unsecured	**85,959**	22,439	**41,700**	20,000
	830,403	481,527	**91,700**	20,000
Carrying amount repayable				
Within one year	**364,354**	353,478	**91,700**	20,000
More than one year, but not exceeding two years	**55,556**	–	**–**	–
More than two years, but not more than five years	**410,493**	128,049	**–**	–
	830,403	481,527	**91,700**	20,000
Less: Amounts due within one year shown under current liabilities	**(364,354)**	(353,478)	**(91,700)**	(20,000)
	466,049	128,049	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. BORROWINGS *(Continued)*

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

According to HK Int 5 which requires the classification of whole term loans containing the repayable on demand clause as current liabilities, a carrying amount of HK$33,500,000 of the term loans have been classified as current liabilities as at 31 December 2012.

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

The exposure of the Group's fixed rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	2012 **HK$'000**	2011 HK$'000
Fixed rate borrowing:		
— Within one year	**44,259**	30,307

The variable interest rate borrowings are reset from a month to a year depending on the loan agreement.

Fixed rate borrowings carry interest rate at rates which range from 8% to 20% (2011: 6%–20%) per annum, while the variable rate borrowings carry interest rate at rates which range from 6.56% to 8.31% (2011: 7.98%–8.31%) per annum.

The Group's borrowings that are denominated in currencies other functional currencies of the relevant group entities are set out below:

	2012 **RMB'000**	2011 RMB'000
Currency–RMB	**598,350**	372,000

30. CONVERTIBLE NOTES

Convertible notes due on 13 November 2017

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

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

The fair value of the liability component was determined at issuance of the convertible 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 is 7.55% per annum. The movement of the liability component of 2017 Notes for the year are set out below:

Carrying amount of liability components of 2017 Notes

	THE GROUP AND THE COMPANY HK$'000
At 1 January 2011	
Interest-charged	62,172
Interest paid	4,738
	(2,446)
As 31 December 2011 and 1 January 2012	64,464
Interest charged	4,915
Interest paid	(2,447)
At 31 December 2012	66,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. DEFERRED INCOME

	2012 HK$'000	2011 HK$'000
Arising from rental income	**17,425**	50,303
Analysed for reporting purpose as		
Current liabilities	**5,760**	28,189
Non-current liabilities	**11,665**	22,114
	17,425	50,303

32. SHARE CAPITAL

	THE GROUP AND THE COMPANY		
	Number of ordinary shares HK$0.01 each	Number of ordinary shares HK$0.1 each	Amount HK$'000
Authorised:			
At 1 January 2011	50,000,000,000	–	500,000
Share consolidation (note a)	(50,000,000,000)	5,000,000,000	–
At 31 December 2011, 1 January 2012 and 31 December 2012	–	5,000,000,000	500,000
Issued and fully paid:			
At 1 January 2011	12,514,224,976	–	125,142
Issue of shares upon exercise of share options (note b)	48,081,174	–	481
Shares consolidation (note a)	(12,562,306,150)	1,256,230,615	–
Open offers (note c)	–	502,492,246	50,249
At 31 December 2011 and 1 January 2012	–	1,758,722,861	175,872
Issue of shares (note d)	–	50,000,000	5,000
At 31 December 2012	–	1,808,722,861	180,872

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. SHARE CAPITAL *(Continued)*

notes:

(a) Pursuant to the ordinary resolution passed in the Extraordinary General Meeting of the Company held on 16 September 2011, 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").

(b) On 24 March 2011 and 30 June 2011, 43,081,174 and 5,000,000 ordinary shares were issued for cash consideration of HK$2,278,994 and HK$502,000 respectively, upon exercise of share options at an exercise price of HK$0.0529 and HK$0.1004 respectively.

(c) On 24 October 2011, 502,492,246 Consolidated Shares were issued at HK$0.50 each on the basis of two shares for every five Consolidated Shares. Pursuant to the open offer agreement, an amount of HK$112,000,000 of the consideration for the issue of Consolidated Shares was settled by the shareholder's loan and the remaining balance was settled by cash.

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

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

33. 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 2011	922,088	71,463	25,434	16,494	(580,753)	454,726
Issue of shares on open offer	200,997	–	–	–	–	200,997
Shares issue expenses	(1,739)	–	–	–	–	(1,739)
Exercise of share options	3,525	–	–	(1,225)	–	2,300
Share options lapsed/expired	–	–	–	(2,221)	2,221	–
Loss for the year	–	–	–	–	(46,474)	(46,474)
At 31 December 2011 and 1 January 2012	1,124,871	71,463	25,434	13,048	(625,006)	609,810
Issue of shares	25,000	–	–	–	–	25,000
Loss for the year	–	–	–	–	(20,174)	(20,174)
At 31 December 2012	1,149,871	71,463	25,434	13,048	(645,180)	614,636

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 of share premium, contributed surplus, convertible notes equity reserve, share options reserve and accumulated losses which in aggregate amounted to approximately HK$615 million as at 31 December 2012 (2011: approximately HK$610 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 retained earnings or other reserves, including the share premium account, of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. 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.

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For the year ended 31 December 2012

34. SHARE OPTION SCHEME *(Continued)*

The following table discloses details of the Company's options under the Scheme held by directors and employees and the movements during the year ended 31 December 2012:

Category	Date of grant	Exercise price HK$	Exercisable period	At 1 January 2012	Exercised during the year	Expired during the year	Lapsed during the year	Outstanding at 31 December 2012
Directors	03.11.2010	0.9602	03.11.2010 to 02.11.2020	25,590,526	–	–	–	25,590,526

The following table discloses details of the Company's options under the Scheme held by directors and employees and the movements during the year ended 31 December 2011:

Category	Date of grant	Exercise price January 2011 HK$	Exercise price Adjusted on 24 October 2011 (note)	Exercisable period	At 1 January 2011	Exercised during the year	Expired during the year	Lapsed during the year	Outstanding before adjustment	Adjusted outstanding at 31 December 2011
Directors/ Employees	25.03.2008	0.0529	N/A	25.03.2008 to 24.03.2011	74,139,697	(43,081,175)	(31,058,522)	–	–	–
	03.11.2010	0.1004	0.9602	03.11.2010 to 02.11.2020	284,752,000	(5,000,000)	–	(35,000,000)	244,752,000	25,590,526
Total					358,891,697	(48,081,175)	(31,058,522)	(35,000,000)	244,752,000	25,590,526

note: The exercise price and the number of shares options outstanding at 31 December 2011 have been adjusted to reflect the effect of the share consolidation and open offer.

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.

During the year ended 31 December 2011, total consideration received from employees for exercise the option and taking up the options granted amounted to HK$2,781,000 and HK$nil respectively. The Group did not incurred share option expense for the year ended 31 December 2012 in relation to share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

34. SHARE OPTION SCHEME *(Continued)*

The fair value of the total options granted in the year measured as at 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.

35. DEFERRED TAX LIABILITIES

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

	Revaluation on investment properties HK$'000	Revaluation gain arising from business combination HK$'000	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2011	119,585	104,223	322	(15)	224,115
Exchange difference	5,001	–	–	–	5,001
Changed to the consolidated income statement for the year — discontinued operation	–	–	32	15	47
Charged to the consolidated income statement for the year (Note 10)	51,281	–	–	–	51,281
At 31 December 2011 and 1 January 2012	175,867	104,223	354	–	280,444
Exchange difference	2,170	–	–	–	2,170
Acquisition of a subsidiary	–	33,770	–	–	33,770
Disposal of subsidiaries	–	–	(354)	–	(354)
Charged to the consolidated income statement for the year (Note 10)	70,695	–	–	–	70,695
Charged to the consolidated other comprehensive income for the year	1,983	–	–	–	1,983
At 31 December 2012	250,715	137,993	–	–	388,708

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For the year ended 31 December 2012

35. DEFERRED TAX LIABILITIES *(Continued)*

As at 31 December 2012, the Group had unused tax losses of HK$nil (2011: HK$27,273,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses (2011: HK$nil). No deferred tax has been recognised in respect of the remaining HK$nil (2011: HK$27,273,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

Pursuant to the PRC Corporate Income Tax Law dependent upon the nationality and domicile of the foreign investors, a 5% to 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement has become effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rates range from 5% to 10%.

At 31 December 2012, the unrecognised deferred tax liabilities were approximately HK$10,871,000 (2011: approximately HK$12,103,000), relating to withholding tax that would be payable for undistributed profits of PRC subsidiaries, as the Directors consider that the timing for reversed of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. The total undistributed profits of theses PRC subsidiaries as at 31 December 2012 amounted to approximately HK$108,717,000 (2011: approximately HK$121,030,000).

36. 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 income statement 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. BUSINESS COMBINATION

(a) Acquisition of a subsidiary

On 6 January 2011, Water Property Group Hubei Limited* (水務地產湖北集團有限公司 (前稱 "水務地產湖北有限公司")), a wholly owned subsidiary of the Company, entered into an agreement with Wuhan Hailuo Commercial Investment Management Co. Ltd.* (武漢海螺商貿投資管理有限公司) to acquire 100% of the entire equity interest of Target Company, a PRC company principally holding a land use right in Wuhan Economic and Technological Development Zone. Deposit in the sum of HK$121,951,000 was paid on entering into the acquisition agreement.

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

	31 May 2012 HK$'000
The fair values of the identified assets and liabilities of the Target Company recognised at the date of acquisition are as follows:	
Inventory of properties	352,063
Bank balances	177
Other payables	(29,159)
Amounts due to the acquirer	(141,325)
Borrowings	(18,355)
Deferred tax liabilities	(33,770)
Total identifiable net assets at fair value	129,631
Total consideration satisfied by:	
Deposit paid on acquisition of a subsidiary	121,951
Exchange difference	1,507
Cash paid on acquisition of a subsidiary	6,173
	129,631
Net cash outflow arising on acquisition:	
Cash consideration paid	(6,173)
Bank balances acquired	177
Net cash outflow of cash and cash equivalents in respect of the acquisition	(5,996)

* For identification purposes only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. BUSINESS COMBINATION *(Continued)*

(a) Acquisition of a subsidiary *(Continued)*

The Group incurred transaction cost of approximately HK$28,000 which have been expensed for the year ended 31 December 2012 and included in the consolidated income statement.

Impact of acquisitions on the results of the Group

Included in the profit for the year ended 31 December 2012 was approximately loss of HK$385,000 due to the additional business generated by the Target Company. And the Target Company did not generate any revenue since acquisition.

Had these business combinations been effected at 1 January 2012, the revenue of the Group from continuing operations would have been approximately HK$271.4 million, and the profit for the year from continuing operations would have been approximately HK$109.9 million. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

(b) Acquisition of additional interests in a subsidiary

During the year ended 31 December 2011, the Group acquired a further 49% equity interest in 武漢未來城商業物業管理有限公司, which engages in provision of management service for investment properties, thus increasing the Group's equity interest therein from 51% to 100% by acquiring the capital from its non-controlling shareholder. The difference of HK$1,691,000 between the proportionate share of the carrying amount of its net assets and the consideration paid for the additional interest has been debited to accumulated profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. DISPOSAL OF SUBSIDIARIES

(i) During the year ended 31 December 2012, the Group disposed of its entire interests in Sales Companies and related assets as stated in Note 12.

The net assets of the Disposal Group at the date of disposal were as follow:

Net assets disposed of	2012 HK$'000
Property, plant and equipment	10,825
Prepaid lease payment	207
Inventories	4,417
Trade and other receivables	8,568
Bank balances and cash	891
Trade and other payables	(18,089)
Taxation payables	(33)
Deferred tax liabilities	(354)
	6,432
Release of special reserve	(11,000)
Gain on disposal (note)	20,904
Total consideration	16,336

	2012 HK$'000
Consideration received in cash	16,336
Less: consideration received in advance	(5,000)
Less: other receivable	(2,731)
Less: cash disposed of	(891)
Net cash inflow arising on the disposal	7,714

note: With reference to the announcement dated 24 May 2012, a gain on disposal of subsidiaries, machineries and inventories of approximately HK$400,000 was stated. The net gain of HK$20,904,000 recorded in consolidated result included valuation surplus from property, plant and equipment and prepaid lease payment and release of special reserve, which gave rise the difference with the amount stated in the announcement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. DISPOSAL OF SUBSIDIARIES *(Continued)*

(ii) During the year ended 31 December 2011, the Group disposed of its entire interests of 80% and 72% of investment of 南昌華夏藝術谷文化產業發展有限公司 ("南昌華夏") and 長沙中水建達基礎設施建設有限公司 ("長沙中水") respectively.

The net assets of the subsidiaries at the date of disposal were as follows:

Net assets disposed of

	南昌華夏 HK$'000	長沙中水 HK$'000	2011 Total HK$'000
Property, plant and equipment	924	53	977
Other receivables	9,233	1,975	11,208
Inventory of properties	–	7,970	7,970
Bank balances and cash	1,617	34,685	36,302
Other payables	–	(3)	(3)
	11,774	44,680	56,454
Non-controlling interests	(2,273)	(11,907)	(14,180)
Release of translation reserve	(411)	(1,523)	(1,934)
	9,090	31,250	40,340
Gain on disposal	–	1,088	1,088
Total consideration	9,090	32,338	41,428

	2011 Total HK$'000
Consideration received in cash	41,428
Less: cash disposed of	(36,302)
Net cash inflow arising on the disposal	5,126

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For the year ended 31 December 2012

39. PLEDGE OF ASSETS

At the end of the reporting period, 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:

	THE GROUP		THE COMPANY	
	2012 **HK$'000**	2011 HK$'000	**2012** **HK$'000**	2011 HK$'000
Land and buildings together with relevant land use rights situated in the PRC	**466,844**	354,776	**–**	–
Investment properties situated in the PRC	**1,424,692**	1,339,204	**–**	–
Investment properties under development situated in the PRC	**423,457**	–	**–**	–
Investment properties under redevelopment situated in the PRC	**230,863**	–	**–**	–
Land and buildings situated in Hong Kong	**–**	159	**–**	–
Bank deposits	**51,953**	3,307	**50,000**	–
	2,597,809	1,697,446	**50,000**	–

40. OPERATING LEASES

The Group as lessee

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

	THE GROUP	
	2012 **HK$'000**	2011 HK$'000
Within one year	**25,328**	22,123
In the second to fifth years inclusive	**118,684**	112,867
More than five years	**–**	19,156
	144,012	154,146

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

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For the year ended 31 December 2012

40. OPERATING LEASES *(Continued)*

The Group as lessor

Property rental income earned during the year was HK$51,343,000 (2011: HK$24,513,000). The properties are expected to generate rental yield of 3.77% (2011: 1.83%) on an ongoing basis. All of the properties held have committed tenants within next six years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Within one year	**50,775**	60,594
In the second to fifth years inclusive	**135,794**	184,812
More than five years	**38,407**	75,701
	224,976	321,107

41. CAPITAL COMMITMENTS

As at 31 December 2012, the Group had capital commitments in respect of its construction of properties, contracted but not provided in the consolidated financial statements, amounting to HK$111.7 million (2011: HK$104.5 million).

The Group had capital commitments in respect of its prepayment for acquisition of an intangible asset, authorised but not contracted in the consolidated financial statements, amounting to not more than HK$239 million.

42. CONTINGENT LIABILITIES

Contingent liabilities at the end of the reporting period are analysed as follows:

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	**–**	–	**103,704**	48,725

The Company has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities as their fair value cannot be reliably measured and transaction was minimal.

The Directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect at 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

43. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2012, an amount of HK$141.3 million of prepayment was recognised in inventories of properties upon completion of the acquisition of Wuhan Zhong Nan Automobile Parts and Accessories Co., Ltd. as set out in Note 37.

44. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Compensation to key management personnel:

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

(b) (i) Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following transactions with related parties:

	Finance cost (note i)		Amounts due to related parties (Interest bearing) (note ii)		Amounts due to related parties (Non-interest bearing) (note iii)	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Shareholder	**6,201**	10,439	**–**	5,000	**–**	4,791
Shareholder's subsidiaries	**14,881**	2,678	**137,962**	104,507	**24,804**	–
Non-controlling interest	**–**	–	**–**	–	**10,354**	58,962
	21,082	13,117	**137,962**	109,507	**35,158**	63,753

Notes:

(i) The interest is derived from the convertible bond and amount due to related party, the interest rate is ranged from 7.55%–15% p.a. (2011:7.55%–15% p.a.).

(ii) The amount is unsecured, interest bearing and repayable on demand. No guarantees have been given or received.

(iii) The amount is unsecured, non-interest bearing and repayable on demand. No guarantees have been given or received.

(ii) During the year, the Group had disposed certain subsidiaries, inventories and machineries to connected persons (pursuant to the Listing Rules). Details of the transaction are disclosed in Notes 12 and 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/registered attributable to the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activities
Directly held:							
Wah Yuen Foods International Limited 華園食品國際有限公司	British Virgin Islands	Ordinary shares USD1,100	**100%**	100%	**100%**	100%	Investment holdings
Top Rainbow Investments Limited	British Virgin Islands	Ordinary shares USD50,000	**100%**	100%	**100%**	100%	Investment holdings
Top Harbour Development Limited	British Virgin Islands	Ordinary shares USD50,000	**100%**	100%	**100%**	100%	Investment holdings
China Water Property Investment Limited 中國水務地產投資有限公司	British Virgin Islands	Ordinary shares USD10,000	**100%**	100%	**100%**	100%	Investment holdings
Indirectly held:							
Wah Yuen Foods (China) Limited 華園食品(中國)有限公司	British Virgin Islands	Ordinary shares USD1,000	**100%**	100%	**100%**	100%	Investment holdings
Hong Kong Wah Yuen Foods Company Limited 香港華園食品廠有限公司	British Virgin Islands	Ordinary share HK$1	**100%**	100%	**100%**	100%	Investment holdings
Wah Yuen Investment Limited 華園投資有限公司	British Virgin Islands	Ordinary shares USD1,000	**100%**	100%	**100%**	100%	Investment holdings
Wealthstar Investments Limited 裕星投資有限公司	British Virgin Islands	Ordinary share USD1	**100%**	100%	**100%**	100%	Investment holdings
Wah Yuen Licensing Company Limited 華園商標有限公司	Cook Islands	Ordinary share HK$10	**–**	100%	**–**	100%	Holding of trademarks *(note iv)*
Honfine Company Limited 朗耀有限公司	Hong Kong	Ordinary shares HK$10 Non-voting deferred shares HK$2 note (ii)	**–**	100%	**–**	100%	Distribution and marketing of snack foods products *(note iv)*

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For the year ended 31 December 2012

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/registered attributable to the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activities
Wah Yuen Foods (Hong Kong) Company Limited 華園食品(香港)有限公司	Hong Kong	Ordinary shares HK$1,000 Non-voting deferred shares HK$10,000,000 note (ii)	**–**	100%	**–**	100%	Manufacturing, distribution and marketing of snack food products and convenience frozen food products *(note iv)*
Million Riches Development Limited 裕億發展有限公司	Hong Kong	Ordinary shares HK$100 Non-voting deferred shares HK$1,000,000 note (ii)	**–**	100%	**–**	100%	Investment holdings *(note iv)*
Wah Yuen Foods Company Limited 華園食品廠有限公司	Hong Kong	Ordinary shares HK$20	**100%**	100%	**100%**	100%	Investment holdings
Wah Yuen (China) Investment Limited 華園(中國)投資有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
Wah Yuen (Guangzhou) Foods Company Limited 華園(廣州)食品有限公司 note (i)	PRC	Registered and contributed capital USD5,700,000	**100%**	100%	**100%**	100%	Manufacturing, distribution and marketing of snack food products
Rocco Foods Enterprises Company (Guangzhou) Limited 廣州樂高食品企業有限公司 note (i)	PRC	Registered and contributed capital USD2,810,000	**100%**	100%	**100%**	100%	Manufacturing, distribution and marketing of snack food products
Guangzhou Lekker Pet Foods Company Limited 廣州市俐嘉寵物食品有限公司 note (i)	PRC	Registered and contributed capital HK$500,000	**100%**	100%	**100%**	100%	Manufacturing, distribution and marketing of pet food products
Wide Spread Foods Company Limited 廣州宏嘉食品有限公司 note (i)	PRC	Registered and contributed capital HK$500,000	**–**	100%	**–**	100%	Dormant *(note v)*

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/registered attributable to the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activities
China Environmental Water Holdings Limited 中國水環境控股有限公司	Hong Kong	Ordinary shares HK$10	**100%**	100%	**100%**	100%	Investment holdings
China Water Property Corporate Finance Limited 中國水務地產企業財務有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
深圳中水置業有限公司	PRC	Registered and contributed capital RMB80,000,000	**100%**	100%	**100%**	100%	Investment holdings
Cedar Base International Limited 易達興業國際有限公司	Hong Kong	Ordinary shares HK$10	**–**	100%	**–**	100%	Dormant *(note v)*
China Water Property (Hong Kong) Development Limited 中國水務地產(香港)發展有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
China Water Property (Hong Kong) Investment Limited 中國水務地產(香港)投資有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
Karford Development Limited 卡富發展有限公司	British Virgin Islands	Ordinary share USD1	**100%**	100%	**100%**	100%	Investment holdings
Waterports International Limited	British Virgin Islands	Ordinary share USD1	**100%**	100%	**100%**	100%	Investment holdings
Hense Investments Limited 康士投資有限公司	British Virgin Islands	Ordinary share USD1	**100%**	100%	**100%**	100%	Investment holdings
China Water Real Property Limited 中國水務房地產有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
Mega Famous Investment Limited 百榮投資有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	**100%**	100%	Investment holdings

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45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/registered attributable to the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activities
China Water Property Group (Hong Kong) Limited 中國水務地產集團(香港)有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
China Water Property Research Limited 中國水務地產開發有限公司	Hong Kong	Ordinary shares HK$10,000	**100%**	100%	**100%**	100%	Investment holdings
China Water Property (Hong Kong) Group Limited 中國水務地產(香港)集團有限公司	British Virgin Islands	Ordinary share USD1	**100%**	100%	**100%**	100%	Investment holdings
China Water Property Development Limited 中國水務地產發展有限公司	Hong Kong	Ordinary share HK$1	**100%**	100%	**100%**	100%	Investment holdings
上海聖恒投資有限公司	PRC	Registered and contributed capital RMB15,000,000	**51%**	51%	**51%**	51%	Investment holding and property development
華園食品(上海)有限公司	PRC	Registered and contributed capital RMB10,000,000	**–**	51%	**–**	51%	Distributing and marketing of snack food products *(note v)*
水務地產湖北集團有限公司 (previously known as: 水務地產湖北有限公司)	PRC	Registered and contributed capital RMB200,000,000	**100%**	100%	**100%**	100%	Property development
Northern Sea Development Limited	British Virgin Islands	Ordinary share USD1	**100%**	100%	**100%**	100%	Investment holdings
Create Capital Development Limited	British Virgin Islands	Ordinary share USD1	**100%**	100%	**100%**	100%	Investment holdings
Angelink Development Limited	British Virgin Islands	Ordinary share USD1	**100%**	100%	**100%**	100%	Investment holdings
HK Mei Lai International (Canada) Limited 香港美來國際(加拿大)有限公司	Hong Kong	Ordinary shares HKD10,000	**60%**	60%	**60%**	60%	Investment holdings

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For the year ended 31 December 2012

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/registered attributable to the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activities
杭州尼加拉置業有限公司	PRC	Registered and contributed capital USD14,900,000 (note i)	**60%**	60%	**60%**	60%	Property development and sale of properties
杭州美萊商業企業管理有限公司	PRC	Registered and contributed capital RMB30,000,000	**60%**	–	**60%**	–	Provision of management services
杭州普天房地產開發有限公司	PRC	Registered and contributed capital RMB30,000,000 (note i)	**60%**	60%	**60%**	60%	Property development and sale of properties
杭州悅湖莊酒店管理有限公司	PRC	Registered and contributed capital RMB1,000,000	**60%**	60%	**60%**	60%	Provision of hotel operation
淳安悅湖莊酒店有限公司	PRC	Registered and contributed capital RMB1,000,000	**60%**	–	**60%**	–	Provision of hotel operation
武漢未來城商業物業管理有限公司	PRC	Registered and contributed capital RMB10,000,000	**100%**	100%	**100%**	100%	Provision of management service
武漢凱越房地產開發有限公司	PRC	Registered and contributed capital RMB50,000,000	**100%**	100%	**100%**	100%	Property development and sale of properties
武漢未來城大酒店管理有限公司	PRC	Registered and contributed capital RMB1,000,000	**100%**	100%	**100%**	100%	Provision of hotel operation
江蘇河海置業有限公司	PRC	Registered and contributed capital RMB20,000,000	**100%**	100%	**100%**	100%	Property development
武漢未來城科技孵化器有限責任公司	PRC	Registered and contributed capital RMB1,000,000	**100%**	–	**100%**	–	Provision of management service
武漢市中南汽車配件配套有限責任公司	PRC	Registered and contributed capital RMB50,000,000	**100%**	–	**100%**	–	Property development and sale of properties

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/registered attributable to the Group 2012	2011	Proportion of voting power held 2012	2011	Principal activities
武漢未來城物業管理有限公司	PRC	Registered and contributed capital RMB500,000	100%	100%	100%	100%	Provision of management service
廣東中水地產開發有限公司	PRC	Registered and contributed capital RMB20,000,000	100%	100%	100%	100%	Property development and sale of properties

(i) Wah Yuen (Guangzhou) Foods Company Limited, Rocco Foods Enterprises Company (Guangzhou) Limited, Guangzhou Lekker Pet Foods Company Limited, Wide Spread Foods Company Limited, Hangzhou Niagra Real Estates Co. Ltd and Water Property Group Hubei Limited are wholly foreign owned enterprises established in the PRC.

Hangzhou Pu Tian Property Development Co., Ltd. is sino-foreign joint venture enterprise 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 during the year or at the end of reporting period.

(iv) During the year ended 31 December 2012, companies including Honfine Company Limited, Wah Yuen Foods (Hong Kong) Company Limited, Wah Yuen Licensing Company Limited and Million Riches Development Limited, were disposed of.

(v) During the year ended 31 December 2012, companies including Cedar Base International Limited, 上海聖恒投資有限公司, 華園食品(上海)有限公司 and Wide Spread Foods Company Limited were deregistered.

The above table lists the subsidiaries of the Group which, in the opinions of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

46. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2008* HK$'000	2009* HK$'000	2010* HK$'000	2011 HK$'000 (restated)	**2012 HK$'000**
Continuing operations					
Turnover	239,632	100,454	990,841	136,901	**271,374**
(Loss) profit from operations	(290,323)	(300,197)	802,769	152,768	**237,562**
Finance costs	(37,300)	(34,963)	(22,890)	(22,873)	**(39,689)**
(Loss) profit before tax	(327,623)	(335,160)	779,879	129,895	**197,873**
Income tax credit (expenses)	1,342	3,129	(265,776)	(53,362)	**(87,785)**
	(326,281)	(332,031)	514,103	76,533	**110,088**
Discontinued operation	–	–	(7,299)	(48,130)	**(43,428)**
(Loss) profit before non-controlling interests	(326,281)	(332,031)	506,804	28,403	**66,660**
Non-controlling interests	32,698	15,737	2,730	4,970	**(17,570)**
(Loss) profit for the year attributable to owners of the Company	(293,583)	(316,294)	509,534	33,373	**49,090**
(Losses) earnings per share (expressed in HK cents per share) from continuing and discontinued operations				(restated)	
— Basic	(17.96)	(7.73)	44.34	2.38	**2.75**
— Diluted	N/A	N/A	38.39	2.31	**2.70**

ASSETS AND LIABILITIES

	Year ended 31 December				
	2008* HK$'000	2009* HK$'000	2010* HK$'000	2011 HK$'000	**2012 HK$'000**
Total assets	553,448	1,092,414	2,781,054	3,387,278	**4,129,350**
Total liabilities	(451,491)	(802,994)	(1,425,487)	(1,738,025)	**(2,361,005)**
Non-controlling interests	(39,039)	(36,710)	(160,366)	(136,931)	**(169,316)**
Equity attributable to owners of the Company	62,918	252,710	1,195,201	1,512,322	**1,599,029**

* The result for each of the year from 2008-2009 have not been re-presented for the discontinued operation in 2010 and the result of 2008–2010 have not been re-presented for the discontinued operation in 2012.

PROPERTIES PARTICULARS

Property held by the Group at 31 December 2012 is set out below.

	Property	Type	Lease Term	Gross Floor Area (Square Metres)	Stage of Completion	Interest attributable to the Group	Anticipated Completion
1.	Future City Situated on No. 147, Luo Shi Road South, Hongshan District, Wuhan City, Hubei Province, the PRC	Residential/ Commercial/ Hotel	Medium	145,273	Completed	100%	–
2	Future Mansion Situated on No. 378, Wu Luo Road, Hongshan District, Wuhan City, Hubei Province, the PRC	Residential	Medium	44,537	Completed	100%	–
3	Qiandao Lake Villa Situated on She Lou Shang Xia Ling, Wangzhai Township, Qiandao Lake, Hangzhou City, Zhejiang Province, the PRC	Residential	Medium	33,493	In progress	60%	2010 to 2014 will be completed in phases
4	Mei Lai International Centre Situated on Southern side of intersection of Ying Bin Road and Weng Mei Road, Nanyan Street, Yuhang District, Hangzhou City, Zhejiang Province, the PRC	Commercial	Medium	116,222	In progress	60%	2013
5	WEDZ Future City Land Lot No. 19C2 located at Wuhan Economic and Technological Development Zone, Wuhan City, Hubei Province, the PRC	Residential/ Commercial	Medium	91,872	In progress	100%	2014 to 2015