中國水務地產集團有限公司
CHINA WATER PROPERTY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The board (the "Board") of directors (the "Directors") of China Water Property Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009, together with the comparative figures for the previous year. These results principally relate to the Group's businesses of package food and convenience frozen food products, seabuckthorn and related healthcare products for the year ended 31 December 2009. The business of the Group has focused primarily on property development and investment in the PRC since October 2009.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	**2009** *HK$'000*	2008 *HK$'000*
Turnover	*3*	**100,454**	239,632
Cost of sales		**(75,151)**	(196,163)
Gross profit		**25,303**	43,469
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	*3*	**–**	10,308
Other operating income	*3*	**3,734**	8,908
Selling and distribution expenses		**(21,055)**	(29,527)
Administrative expenses		**(66,121)**	(78,935)
Finance costs	*5*	**(34,963)**	(37,300)
Operating loss before impairment charges		**(93,102)**	(83,077)
Change in fair value of biological assets less estimated point-of-sales costs		**(23,284)**	(59,542)
Impairment on goodwill		**(69,904)**	(108,859)
Impairment on property, plant and equipment		**(39,888)**	–
Impairment on trade receivables		**(102,301)**	(41,538)
Write-off of inventories		**(6,681)**	(34,607)
Loss before tax		**(335,160)**	(327,623)
Income tax credit	*6*	**3,129**	1,342
Loss for the year		**(332,031)**	(326,281)

	Notes	2009 HK$'000	2008 HK$'000
Attributable to:			
Owners of the Company		**(316,294)**	(293,583)
Minority interests		**(15,737)**	(32,698)
Loss for the year		**(332,031)**	(326,281)
Dividends	7	**–**	–
Loss per share	8		
			(restated)
Basic		**(7.73) Cents**	(17.96) Cents
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Loss for the year	**(332,031)**	(326,281)
Other comprehensive income:		
Exchange differences arising on translation	**–**	11,098
Total comprehensive expense for the year (net of tax)	**(332,031)**	(315,183)
Total comprehensive expense attributable to:		
Owners of the Company	**(316,294)**	(282,485)
Minority interests	**(15,737)**	(32,698)
	(332,031)	(315,183)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	**2009** *HK$'000*	2008 *HK$'000*
NON-CURRENT ASSETS			
Prepaid lease payments		**2,877**	3,079
Property, plant and equipment		**157,467**	195,856
Biological assets		**4,560**	27,844
Intangible assets		**962**	1,014
Goodwill		**174,605**	73,480
Deferred tax assets		**3,918**	660
		344,389	301,933
CURRENT ASSETS			
Inventories		**33,048**	43,395
Properties under development		**412,168**	–
Trade and other receivables	*9*	**122,523**	162,763
Tax recoverable		**156**	2,010
Derivative financial instruments		**1,511**	6,864
Pledged bank deposits		**13,973**	15,294
Bank balances and cash		**164,646**	21,189
		748,025	251,515
CURRENT LIABILITIES			
Trade and other payables	*10*	**204,543**	44,929
Obligations under finance leases		**618**	3,999
Derivative financial instruments		**–**	1,831
Tax payable		**2,354**	302
Amounts due to minority shareholders of subsidiaries		**13,357**	5,652
Amount due to a shareholder		**20,420**	15,000
Borrowings		**241,575**	98,781
Convertible notes		**73,900**	–
		556,767	170,494
NET CURRENT ASSETS		**191,258**	81,021
TOTAL ASSETS LESS CURRENT LIABILITIES		**535,647**	382,954
NON-CURRENT LIABILITIES			
Obligations under finance leases		**377**	996
Borrowings		**137,875**	17,845
Convertible notes		**107,975**	262,156
		246,227	280,997
TOTAL NET ASSETS		**289,420**	101,957
CAPITAL AND RESERVES			
Share capital		**84,800**	6,919
Reserves		**167,910**	55,999
Equity attributable to owners of the Company		**252,710**	62,918
Minority interests		**36,710**	39,039
TOTAL EQUITY		**289,420**	101,957

Notes

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted the following new and revised standards, amendments and interpretations (the "new and revised HKFRSs") issued by the "HKICPA", which are or have become effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009, in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the Directors of the Company anticipate that the adoption of the new and revised HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented.

HKAS 1 (Revised) Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this financial report and corresponding amounts have been restated to conform to the new presentation. The Standard introduces the accounts of "Other comprehensive income/expense for the year" and "Total comprehensive income/expense for the year" into the consolidated statement of comprehensive income. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

HKFRS 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures.

HKFRS 8 Operating Segments

This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. Adoption of this Standard did not have any significant effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 Segment Reporting.

The Group has not early applied the following new standard, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendments)	Classification of Rights Issues[4]
HKAS 39 (Amendments)	Eligible Hedged Items[1]
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[7]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

3. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the amount received and receivable for goods sold, less returns and allowances.

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

	2009	2008
	HK$'000	*HK$'000*
Sales of goods to outside customers	**100,454**	239,632
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	**–**	10,308
Other operating income:		
Exchange gain	**1,589**	–
Gain on disposal of a subsidiary	**37**	–
Interest income from bank deposits	**227**	1,312
Net change in fair value of derivative financial instruments	**–**	5,033
Sundry income	**1,881**	2,563
	3,734	8,908
Total income	**104,188**	258,848

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal 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. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 nor the basis of measurement of segment profit or loss. Specifically, segment information reported externally was analysed on the basis of the types of goods supplied provided by the Group's operating divisions, which is the same information reported to the chief operating decision maker. The Group's operating and reportable segments under HKFRS 8 are as follows:

– Property Development Business Segment engages in development and investment of property project in the PRC.

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

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

Segment revenues and results

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

For the year ended 31 December 2009 and 2008

	Property Development Business		Wah Yuen Food Business		Seabuckthorn Business		Eliminations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
REVENUE										
External sales	**–**	–	**65,612**	200,913	**34,842**	38,719	**–**	–	**100,454**	239,632
Inter-segment sales	**–**	–	**38,800**	37,841	**–**	78	**(38,800)**	(37,919)	**–**	–
Total revenue	**–**	–	**104,412**	238,754	**34,842**	38,797	**(38,800)**	(37,919)	**100,454**	239,632
RESULT										
Segment operating results before impairment charges	**(2,822)**	–	**(25,243)**	(24,712)	**(12,986)**	(27,855)	**–**	–	**(41,051)**	(52,567)
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	**–**	–	**–**	–	**–**	10,308	**–**	–	**–**	10,308
Change in fair value of derivative financial instruments	**–**	–	**(5,303)**	–	**–**	–	**–**	–	**(5,303)**	–
Change in fair value of biological assets less estimated point-of-sales costs	**–**	–	**–**	–	**(23,284)**	(59,542)	**–**	–	**(23,284)**	(59,542)
Impairment on goodwill	**–**	–	**–**	–	**(69,904)**	(108,859)	**–**	–	**(69,904)**	(108,859)
Impairment on property, plant and equipment	**–**	–	**(39,888)**	–	**–**	–	**–**	–	**(39,888)**	–
Impairment on trade receivables	**–**	–	**(102,301)**	(41,538)	**–**	–	**–**	–	**(102,301)**	(41,538)
Write-off of inventories	**–**	–	**(6,589)**	(34,607)	**(92)**	–	**–**	–	**(6,681)**	(34,607)
Unallocated corporate income									**3,734**	8,908
Unallocated corporate expense									**(15,519)**	(12,426)
Loss from operations									**(300,197)**	(290,323)
Finance costs									**(34,963)**	(37,300)
Loss before tax									**(335,160)**	(327,623)
Income tax credit									**3,129**	1,342
Loss for the year									**(332,031)**	(326,281)

Segment assets and liabilities

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

As at 31 December 2009 and 2008

	Property Development Business		Wah Yuen Food Business		Seabuckthorn Business		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
ASSETS								
Goodwill	**174,605**	–	**–**	–	**–**	73,480	**174,605**	73,480
Biological assets	**–**	–	**–**	–	**4,560**	27,844	**4,560**	27,844
Properties under development	**412,168**	–	**–**	–	**–**	–	**412,168**	–
Others	**191,187**	–	**194,384**	310,049	**108,203**	105,592	**493,774**	415,641
Segment assets	**777,960**	–	**194,384**	310,049	**112,763**	206,916	**1,085,107**	516,965
Unallocated corporate assets							**7,307**	36,483
Consolidated total assets							**1,092,414**	553,448
LIABILITIES								
Segment liabilities	**502,070**	–	**74,374**	20,827	**49,908**	31,568	**626,352**	52,395
Unallocated corporate liabilities							**176,642**	399,096
Consolidated total liabilities							**802,994**	451,491
OTHER INFORMATION								
Additions to property, plant and equipment	**355**	–	**1,027**	27,615	**10,826**	2,220	**12,208**	29,835
Depreciation of property, plant and equipment	**93**	–	**6,175**	11,823	**4,204**	4,412	**10,472**	16,235
Write-off of intangible assets	**–**	–	**–**	–	**52**	–	**52**	–
Amortisation of prepaid lease payments	**–**	–	**179**	174	**23**	22	**202**	196

5. FINANCE COSTS

	2009	2008
	HK$'000	*HK$'000*
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	**7,400**	10,450
Interest expense on obligations under finance leases	**102**	466
Effective interest expense on convertible notes	**27,461**	26,384
	34,963	37,300

6. INCOME TAX CREDIT

	2009	2008
	HK$'000	*HK$'000*
The tax (credit) charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Over provision in prior years	**(80)**	(522)
PRC Enterprise Income Tax		
Current year	**29**	219
Under provision in prior years	**180**	–
Current tax charge (credit) for the year	**129**	(303)
Deferred tax credit for the year	**(3,258)**	(1,039)
Total income tax credit for the year	**(3,129)**	(1,342)

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

The new Corporate Income Tax Law in PRC increased the corporate income tax rate for foreign investment enterprises from previous preferential rates to 25% with effect from 1 January 2008. Companies established in the PRC before 16 March 2007 and previously taxed at the rate lower than 25% may be offered a gradual increase of tax rate to 25% within 5 years. Certain subsidiaries of the Company established in the PRC will enjoy preferential income tax rate from 2008 to 2011 and be taxed at the rate of 25% from 2012 when the preferential treatment expires.

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

	2009	2008
	HK$'000	*HK$'000*
Loss before tax	**(335,160)**	(327,623)
Tax at PRC Enterprise Income Tax rate of 25% (2008: 25%)	**(83,790)**	(81,906)
Tax effect of expenses not deductible for tax purposes	**91,761**	88,520
Tax effect of income not taxable for tax purposes	**(21,944)**	(10,341)
Tax effect on temporary differences not recognised	**(3,219)**	(787)
Under (over) provision in respect of prior year	**100**	(522)
Tax effect on tax losses not recognised	**8,485**	3,224
Utilisation of tax losses not previously recognised	**(49)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5,527**	470
Tax credit for the year	**(3,129)**	(1,342)

7. DIVIDENDS

The Directors do not recommend the payment of a dividend for the years ended 31 December 2009 and 2008.

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable is based on the loss attributable to the equity holders of approximately HK$316,294,000 (2008: HK$293,583,000) and on the weighted average number of ordinary shares of 4,091,644,726 (2008: (restated) 1,634,633,314) deemed to be in issue during the year. The loss per share for the year ended 31 December 2008 is restated due to the issuance of new shares upon open offer.

The calculation of basic and diluted loss per share is based on the following data:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Loss:		
Loss for the purpose of basic loss per share	**(316,294)**	(293,583)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**9,333**	26,384
Loss for the purpose of diluted loss per share	**(306,961)**	(267,199)

	2009	2008 (restated)
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic loss per share	**4,091,644,726**	1,634,633,314
Effect of dilutive potential ordinary shares:		
Share options	**6,183,084**	–
Convertible notes	**3,256,666,667**	1,285,648,018
Weighted average number of ordinary shares for the purposes of diluted loss per share	**7,354,494,477**	2,920,281,332

Diluted loss per share for the year ended 31 December 2009 and 2008 were not presented because the impact of the conversion of convertible notes and the exercise of share options was anti-dilutive.

9. TRADE AND OTHER RECEIVABLES

The Group adopts a general policy of allowing average credit periods ranging from 90 days to 180 days to its trade customers. However, for certain customers with long-established relationship and good past repayment histories, a longer credit period of up to one year may be granted.

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**128,215**	162,205
Less: Allowance for doubtful debts	**(102,301)**	(41,735)
Net trade receivables	**25,914**	120,470
Deposits, prepayments and other receivables	**96,609**	42,293
	122,523	162,763

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

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**12,850**	34,577
91 to 180 days	**1,709**	41,305
Over 180 days	**11,355**	44,588
Trade receivables	**25,914**	120,470

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

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

Movement in allowance for doubtful debts

	2009	2008
	HK$'000	*HK$'000*
Balance at beginning of the year	**41,735**	–
Additions arising from acquisition of a subsidiary	**–**	197
Amounts written off as uncollectible	**(41,735)**	–
Increase in allowance recognised in consolidated income statement	**102,301**	41,538
Balance at end of the year	**102,301**	41,735

10. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**6,966**	11,287
91 to 180 days	**723**	2,095
Over 180 days	**6,685**	5,859
Trade payables	**14,374**	19,241
Consideration payable for acquisition of a subsidiary	**48,864**	–
Construction payables	**92,208**	–
Interest payables	**22,074**	6,312
Other payables	**27,023**	19,376
	204,543	44,929

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

MANAGEMENT DISCUSSION AND ANALYSIS

To date, the Group primarily transforms and focuses on developing in medium to large property development projects in the provincial cities along the Yangtze River and also in second to third tier cities such as Hangzhou City, Wuhan City, Changsha City and Nanchang City. The Group has completed its acquisition of a property project – Future City in Wuhan, Hubei Province, the PRC in December 2009. The Group has also entered into strategic joint venture with both the PRC local governments in Nanchang City and Changsha City respectively for property development projects where the Group can take part in the high volume property segment and help leverage development capabilities through these collaborations at our transformation stage. Although the Group transformed in a relatively short space of time, both the initial and potential projects underpinned the well-diversified portfolio of projects covering a wide geographical area and has more to be acquired and developed in the pipeline.

The audited consolidated results of the Group for the year ended 31 December 2009 principally related to the Group's businesses of package food and convenience frozen food products, seabuckthorn and related healthcare products.

RESULTS SUMMARY

The Group has a consolidated turnover of approximately HK$100 million for the year ended 31 December 2009, representing a decrease of approximately 58% over the previous year. As most of the Group's market and customers had continued to weaken during the year against the background of deteriorating economic conditions, the Group suffered a fall in revenue as a result of containment measure in delivery of products through its tighten credit management policy. The Group considered this measure necessary and is in line with our diligent strategies with the prevailing weak economic conditions. In addition, the Group's focus was predominantly on cash management and alleviating the impact on settlement to bank creditors ahead of original schedule as a result of the contraction of credit market took its toll on the manufacturing sector in the first half of the year. These events had caused the Group to look closely at production plans, level of activities and cost efficiency in each of manufacturing sections in which the Group operates in the second half.

Although the Group adapted to these conditions by focusing costs management on which a profit margin of 25% achieved against 18% in last year, the overall operating result of the Group was negatively impacted by fall in revenue, low utilization of capacity and considerable imputed interests over the convertible notes of the Group. In light of these conditions, the impairment charges had been made following a comprehensive review of carrying values of assets for both seabuckthorn and food segment in the amount of HK$242 million in regards of biological assets, goodwill, fixed assets, trade receivables and inventories. The loss attributable to equity holders of the Company amounted to HK$316 million, compared to HK$294 million in last year. The basic loss per share amounted to HK7.73 cents, against basic loss per share of HK17.96 cents (restated) in 2008. The Board does not propose any final dividend for the year ended 31 December 2009.

BUSINESS REVIEW

The PRC Property Development Business

The resilience of PRC property market in the second half of 2009 and the housing prices rose rapidly in certain cities had concerned the central government to issue certain circulars to control the rapid increase in housing prices and cool down of the property market. The Group believes it is in the central government's interest to stabilize the PRC property market. Correspondingly, the urbanization process and the continuous increase of disposable income will continue to support the long-term growth of PRC property market, so the Group expects that the central government will maintain policies that will care for long-term healthy growth and keep potential bubbles under control in the market.

Since the inception in late 2009, the Group has expanded its initial and potential property projects in such second to third tier cities such as Wuhan, Hangzhou, Nanchang and Changsha.

During the year under review, the Group had successfully acquired the whole interest in Future City Project in Wuhan at a consideration of RMB200 million which was satisfied by cash of RMB60 million together with allotment and issue of consideration shares in the amount of RMB105 million upon the completion and also either by cash or consideration shares in the amount of RMB35 million five months after the completion. The Group's property segment has incurred the preliminary expenses and operating charges in the amount of HK$2.8 million during the year.

The recent pre-sales launches of Future City Project in first quarter 2010 have met with very favorable response and presold about 77% of the units offered with contracted sales amount of approximately RMB402 million. The project also attained a record high average selling price of RMB10,000 per square metre, well above similar properties in the area. The project revenue and proceeds will come on stream in 2010 and 2011, placing the Company in a stronger position in Wuhan to embark on its property development business. The remaining residential towers and retail podium with a total area of approximately 82,000 square metres will be launched in the remainder of 2010 when the Group obtains licenses from relevant governing authorities to enter into pre-sale activities. The location of Future City Project is sitting at the prime location in Wuhan City and will link to the adjacent mass transit railway station where two major lines intersect. There are several leading department store and universities across the area. The project is targeted to be completed in phases from 2010.

To date, the Group had entered into the agreement to acquire 60% equity interest in a property project company in Qiandao Lake of Hangzhou City, Zhejiang Province. This three-phased development project occupies a site area of 44,000 square metres and has expected gross floor area of 24,000 square metres comprising of 26 luxury lakefront detached villas and a club house with private docking facilities. The first phase consists of six villas with a club house which will be launched in 2010.

In addition, the Group had established the joint venture companies with local government in Changsha City and Nanchang City respectively into property development projects. The Nanchang Project, namely China Cultural & Arts Valley Project ("CCAV Project") in which the Group has a 80% equity interest, is located in a new-established residential and commercial district of Honggutan in Nanchang, which is the capital of Jiangxi Province and also the important economic and transport hub of southern district of China. The CCAV Project will be developed for properties in stage with types of villa, townhouse, low-rise apartment and commercial units with total site area of about 2 million square metres.

The Changsha Project is a joint venture project between the Group, Ningxiang Construction Department and a third party, the Company has a 55% equity interest in this project. The joint venture company will get various kinds of financial concessions in acquiring a parcel of land with about 333,500 square metres and in return promise to redevelop and refurnish the local government ecological leisure park in the area of 514,200 square metres, namely Yutan Park. The project will consist of 600,000 square metres high-rise residential apartment and 66,670 square metres commercial units.

Manufacturing Business

(i) Seabuckthorn and Related Healthcare Products

Being a leading manufacturer and provider of seabuckthorn-related products in the PRC, the Group has its own seabuckthorn cultivation bases in Erdos Plateau, Loess Plateau and seedling bases over a total area of about 340,000 hectares in Beijing, Inner Mongolia Autonomous Region, Shaanxi Province and Shanxi Province as well as Gansu Province.

Total revenue of seabuckthorn business segment decreased by HK$3.9 million, or 10% to HK$34.8 million for the year ended 31 December 2009. Revenue from seabuckthorn related healthcare products increased by 12% growth to HK$15 million while that from seabuckthorn cultivation decreased by 14% to HK$19.8 million which primarily due to the decrease of cultivation works as a result of the change in basin geography.

Despite the Group was striving to achieve the business targets through various measures and costs reduction efforts that drove improvement in gross profit margin at 25.8% against 9.5% in prior year, the seabuckthorn business over the year has been very subdued and recorded a segment loss of HK$13 million. In response to these depressed results the Group had conducted a commensurate review of the carrying value of assets and the segment result of seabuckthorn business was further impacted by impairment charges on goodwill of HK$70 million and fair value change in biological assets of HK$23 million.

The Group will continue to streamline the operating model of seabuckthorn business on the grounds that the visibility of turnaround and help to stanch operating losses in near term is uncertain even though the Group is keeping strenuous and renewed cost reduction measures in all aspects. During the year, the seabuckthorn business segment had taken place the restructuring through a disposal of a subsidiary so as to poise the Group to move in an entirely new direction.

With these sluggish conditions and temporary concerns, the Group will have a cautious view in the current trends of seabuckthorn business.

(ii) Packaged Food and Convenience Frozen Food Products

The Group's food products segment offers a wide variety of quality snack products in unique Asian flavours under the brand of "Wah Yuen" with which has over 50 years of brand building in Hong Kong and also "Rocco" and "采楓" brands in the PRC. The segment operates three production plants, which are located in Hong Kong and Huadu district of Guangzhou City.

During the year under review, the revenue of food business decreased by 67% to HK$65.6 million. The Group continued to take early and tough action to align overheads to a fall in revenue that achieved gross profit margin at 24.9% against 15% in prior year. This improvement, however, has been insufficient to offset the operating costs that the segment result was negatively impacted with a loss of HK$25 million in the year.

The Group had instigated containment measures in delivery of products as a result of the continuation of tough market conditions where the Group had seen certain retailers and distributors delayed or reassessed their orders and competition in our market intensified. Furthermore, the recessionary economic environment and the precipitous decline in consumption in first half also posted exceptional challenges to the market players. Although the negative publicity of food safety surrounded the PRC food industry stabilized, the stringent inspection requirement for all export companies in the PRC still affected the Group's export volume and shipment time in the first half.

These events, including the impact on settlement to bank creditors ahead of original schedule in food business segment as a result of the contraction of credit market in the first half, used the Group to reshape and reposition the food business segment during the year. As such, a commensurate review of the carrying value of assets has been undertaken and the segment result of food business was further impacted by impairment charges on inventories, fixed assets and trade receivables of HK$6.6 million, HK$40 million and HK$102 million respectively.

During the first half, the Group had alleviated the impact of early repayment to bank creditors over the food business segment and also managed the borrowings on a moderate level. The Group will plan to put the food business segment on a solid financial footing independently and take the business into a net cash position and to provide the segment with requisite cash and debt resources to trade through the current economic cycle itself.

Having taken swift action on cost, maintained the customer bases and rescheduled the financing in 2009, the Group believes that the food business will gradually correct its competencies and competitive advantages to benefit from any upturn in its industry in coming years.

FINANCIAL POSITION

The Group has strengthened its financial position by completing the open offers and placement to raise proceeds in aggregate of HK$330 million during the year.

The Group's bank deposits and cash amounted to HK$179 million as at 31 December 2009. The Group's net debt was increased by HK$37 million to HK$384 million, which was made up of HK$563 million in debts and HK$179 million in bank deposits and cash. The total debts as at 31 December 2009 included bank borrowings of HK$381 million and liability component of convertible notes of HK$182 million. The Group's bank borrowings bear a floating rate interest and were primarily denominated in Hong Kong dollar and Renminbi. The Renminbi borrowings were principally used to fund the Group's property development and food business in the PRC.

As at 31 December 2009, the Group's shareholders' equity increased four times to HK$252.7 million and the ratio of net debt to total equity was 1.52, against 5.76 in prior year.

FUTURE PLANS AND PROSPECTS

Our transformation from a food and health products manufacturer to a PRC property developer was all over in a relatively short space of time but our high calibre management team had endeavored to develop a well-diversified portfolio of projects which are available for development over the next few years. The near-term prospect for PRC property developers will be overshadowing by the uncertainty of further measures adopting by the PRC Government for the purpose of maintaining a consensus of economic growth. Correspondingly, the Group will enthuse in pursuing unique projects with attractive returns in the horizons over the second to third tier cities where the PRC Government is prompting to promote on housing segment development under the harmonious urbanizations. The Group is well on this way and also sees the way forward.

The national GDP growth in 2009 was 8.7% but it should be noted that certain provincial capitals were still growing at 16%. The Group realized that China is not a single-market country and these potential growth provincial capitals, being as the second to third tier cities, have huge populations and are well positioned for the next decade to replicate the economic success of the more mature coastal areas. These markets should still offer very compelling upside over the next few years.

The Group has also been committed to proactive capital management initiatives to deliver a strong balance sheet and financial flexibility by raising about HK$202 million by completing a placement in April 2010.

The Group will focus on the core competencies in property development segment in the PRC and these development activities will continue to provide the Group with leverage to the improving economic conditions. The Group will make considerable progress for the subordinate divisions and expect 2010 will be a year of their repositioning and a transition phase to earnings growth in 2011. The Group looks forward to leveraging these strengths to drive an improvement in shareholders returns going forward.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

Most of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars or Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact on the Group. The Group did not enter into new foreign currency forward contracts during the year ended 31 December 2009. The net change in fair value of derivative financial instruments of approximately HK$5.3 million released to the consolidated income statement was arisen from the foreign currency forward contracts signed in prior years. There was no material foreign exchange exposure to the Group during the year under review.

ACQUISITION OF SUBSIDIARY

On 19 October 2009, a subsidiary of the Group entered into the agreement to acquire the entire equity interest of Wealth Full Global Investments Limited, a company incorporated in the British Virgin Island, and its subsidiary namely 湖北阜城房地產開發有限公司 Hubei Fucheng Property Development Limited, a company established in the PRC engaging in the property development project in the Wuhan City, Hubei Province in the PRC (the "Acquisition"). The Acquisition has been completed in December 2009. The total consideration for the Acquisition was RMB200 million (equivalent to approximately HK$227.3 million) being settled by way of cash of RMB60 million and issue of the Company's new shares in the amount of RMB105 million upon the completion and also either by cash or Company's new shares in the amount of RMB35 million to be settled five months after the completion, resulting the goodwill arising from the Acquisition amounted to HK$174.6 million.

At 31 December 2009, properties under development with the carrying value of HK$412.2 million were recorded on the Group's consolidated statement of financial position.

CAPITAL EXPENDITURE

For the year ended 31 December 2009, capital expenditure of the Group amounted to approximately HK$11.9 million for the purchase of property, plant, equipment. All of the capital expenditure was financed by internal resources.

PLEDGE OF ASSETS

As at 31 December 2009, certain bank deposits, property, plant and equipment and prepaid lease payments with an aggregate carrying amount of approximately HK$200.6 million were pledged as security for certain banking facilities granted to the Group.

CONTINGENT LIABILITIES AND COMMITMENT

There were no contingent liabilities of the Group as at 31 December 2009. As at 31 December 2009, the Group had capital commitments in respect of its investment in two joint ventures and the construction of properties, contracted but not provided for in the consolidated financial statements, amounting to approximately HK$82.8 million and HK$125.9 million, respectively.

EVENTS AFTER THE END OF REPORTING YEAR

(a) On 31 March 2010, China Water Affairs Group ("CWAG"), the Company and the placing agent entered into the Top-up Placing and Subscription Agreement pursuant to which CWAG agreed to place up to 1,386,000,000 existing shares (the "Placing Shares") to placees at a price of HK$0.146 per placing share (the "Placing") and CWAG had conditionally agreed to subscribe for such number of subscription shares, equal to the number of Placing Shares, at a price of HK$0.146 per subscription share (the "Subscription"). The proceeds from the Subscription amounted to approximately HK$202.4 million. Details are included in the Company's announcement to shareholders dated 1 April 2010. The completion of the Placing and the Subscription took place on 9 April 2010 and 12 April 2010 respectively, as detailed in the Company's announcement to shareholders dated 12 April 2010.

(b) On 1 April 2010, China Water Real Property Limited, a wholly owned subsidiary of the Company, entered into the agreement to acquire 60% of the entire issued share capital of Hangzhou Pu Tian Property Development Co., Ltd., a PRC company principally engaged in property development business in Zhejiang Province at an aggregate consideration of approximately HK$170.5 million (equivalent to RMB150 million). The total consideration shall be settled by way of cash of HK$85.2 million (equivalent to RMB75 million) and issuing 583,748,444 shares of the Company at an issue price of HK$0.146. Further details of this transaction were set out in the Company's announcement dated 8 April 2010.

(c) On 15 April 2010, the Directors proposed an increase in authorised share capital from HK$200 million (divided into 20,000,000,000 ordinary shares of HK$0.01 each) to HK$500 million (divided into 50,000,000,000 ordinary shares of HK$0.01 each) by creating an additional 30,000,000,000 unissued ordinary shares of HK$0.01 each of the Company which, when issued, will rank pari passu with all existing ordinary shares of the Company. Such increase in authorised share capital is conditional upon the passing of an ordinary resolution by the shareholders of the Company at an extraordinary general meeting.

EMPLOYEES AND REMUNERATION POLICIES

At December 2009, the Group's total number of employees stood at approximately 625. Total staff costs for the year under review were approximately HK$33.8 million. The Group offers its workforce comprehensive remuneration and employees' benefits packages.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Except for the share placement by the Company in November 2009, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's ordinary shares during the financial year ended 31 December 2009.

MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, and after having made specific enquiry with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the year ended 31 December 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the principles and code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules for the year ended 31 December 2009.

AUDIT COMMITTEE

The audit committee had reviewed the audited financial statements for the year ended 31 December 2009 and had also discussed auditing, internal control and financial reporting matters including accounting practices and principles adopted by the Group.

By order of the Board
China Water Property Group Limited
But Ka Wai
Chairman

Hong Kong, 26 April 2010

As at the date of this announcement, the Board comprises Mr. But Ka Wai (Chairman), Ms. Wang Wenxia (Vice Chairman), Mr. But Chai Tong (Vice Chairman), Mr. Sun Zhen Yu and Mr. Ren Qian as executive Directors, Mr. Zhou Kun as non-executive Director and Mr. Chen Ziqiang, Mr. Tam Pei Qiang and Ms. Li Ling as independent non-executive Directors.