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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

KEY HIGHLIGHTS

- Contracted sales for the six months ended 30 June 2010 amounted to HK$710 million (equivalent to RMB625 million) with a total GFA of 53,100 square meters.
- Total assets increased to HK$2.2 billion (31 December 2009: HK$1.1 billion).
- Total net debt reduced to HK$126 million with a ratio of net debt to total equity of 21.7% (31 December 2009: HK$384 million, 152%).
- Total equity attributable to owners of the Company was HK$581 million (31 December 2009: HK$253 million).

INTERIM RESULT

The board (the "Board") of directors (the "Directors") of China Water Property Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010. These results principally relate to the Group's business of package food and convenience frozen food products, seabuckthorn and related healthcare products for the period ended 30 June 2010. The business of the Group has focused primarily on property development and investment in the PRC since October 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Notes	Six months ended 30 June 2010 (unaudited) HK$'000	2009 (unaudited) HK$'000
Turnover	3	**51,744**	50,943
Cost of sales		**(41,329)**	(39,046)
Gross profit		**10,415**	11,897
Other operating income		**516**	1,454
Selling and distribution expenses		**(14,793)**	(9,674)
Administrative expenses		**(36,320)**	(19,288)
Finance costs	4	**(13,382)**	(17,557)
Operating loss before impairment charges		**(53,564)**	(33,168)
Change in fair value of biological assets less estimated point-of-sales costs		**—**	(23,284)
Impairment on trade receivables		**—**	(19,571)
Loss before tax		**(53,564)**	(76,023)
Income tax (charge)/credit	5	**(22)**	38
Loss for the period		**(53,586)**	(75,985)
Loss for the period attributable to:			
Owners of the Company		**(48,293)**	(64,018)
Non-controlling interests		**(5,293)**	(11,967)
Loss for the period		**(53,586)**	(75,985)
Dividends	6	**—**	—
Loss per share	7	**HK Cents**	HK Cents
— Basic		**(0.50)**	(7.38)
— Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(53,586)**	(75,985)
Other comprehensive expense:		
Exchange differences arising on translation	**399**	(766)
Total comprehensive expense for the period (net of tax)	**(53,187)**	(76,751)
Total comprehensive expense attributable to:		
Owners of the Company	**(47,894)**	(64,784)
Non-controlling interests	**(5,293)**	(11,967)
	(53,187)	(76,751)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 (unaudited) HK$'000	31 December 2009 (audited) HK$'000
ASSETS			
Non-current Assets			
Prepaid lease payments		**2,793**	2,877
Property, plant and equipment		**151,570**	157,467
Biological assets		**4,560**	4,560
Intangible assets		**962**	962
Goodwill		**174,605**	174,605
Deferred tax assets		**3,918**	3,918
Deposit paid on acquisition of a subsidiary		**56,818**	—
		395,226	344,389
Current Assets			
Inventories		**35,857**	33,048
Properties under development		**1,172,619**	412,168
Trade and other receivables	*8*	**230,901**	122,523
Prepaid tax		**13,395**	156
Derivatives financial instruments		**—**	1,511
Pledged bank deposits		**13,974**	13,973
Bank balances and cash		**361,388**	164,646
		1,828,134	748,025
TOTAL ASSETS		**2,223,360**	1,092,414
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital		**122,376**	84,800
Reserves		**458,719**	167,910
Equity attributable to owners of the Company		**581,095**	252,710
Non-controlling interests		**167,785**	36,710
Total Equity		**748,880**	289,420

	Notes	30 June 2010 (unaudited) HK$'000	31 December 2009 (audited) HK$'000
Non-current Liabilities			
Obligations under finance leases		**239**	377
Borrowings		**239,837**	137,875
Convertible notes		**61,970**	107,975
Deferred tax liabilities		**111,603**	—
		413,649	246,227
Current Liabilities			
Trade and other payables	9	**126,577**	204,543
Obligations under finance leases		**275**	618
Tax payable		**2,354**	2,354
Amounts due to minority shareholders of subsidiaries		**76,434**	13,357
Amount due to a shareholder		**—**	20,420
Pre-sale deposits received		**656,182**	—
Borrowings		**172,501**	241,575
Convertible notes		**26,508**	73,900
		1,060,831	556,767
TOTAL LIABILITIES		**1,474,480**	802,994
TOTAL EQUITY AND LIABILITIES		**2,223,360**	1,092,414
NET CURRENT ASSETS		**767,303**	191,258
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,162,529**	535,647

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2009, except as described in note 2 below.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2010.

HKFRSs (Amendments)	Amendment to HKFRS 5 included in Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

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

The Group has not early adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK (IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 February 2010.
[3] Effective for annual periods beginning on or after 1 July 2010.
[4] Effective for annual periods beginning on or after 1 January 2011.
[5] Effective for annual periods beginning on or after 1 January 2013.

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

3. SEGMENT INFORMATION

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

The Group's operating segments are identified on the 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. 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 are as follows:

— Property Development Business Segment engages in development of property project in The People's Republic of China (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 six months ended 30 June 2010 and 2009

	Property Development Business Six months ended		Wah Yuen Food Business Six months ended		Seabuckthorn Business Six months ended		Eliminations Six months ended		Consolidated Six months ended	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
REVENUE										
External sales	**—**	—	**42,082**	38,850	**9,662**	12,093	**—**	—	**51,744**	50,943
Inter-segment sales	**—**	—	**12,445**	10,931	**—**	—	**(12,445)**	(10,931)	**—**	—
Total revenue	**—**	—	**54,527**	49,781	**9,662**	12,093	**(12,445)**	(10,931)	**51,744**	50,943
RESULT										
Segment operating results before impairment charges	**(14,030)**	—	**(10,894)**	(9,335)	**(10,017)**	(7,201)	**—**	—	**(34,941)**	(16,536)
Change in fair value of biological assets less estimated point-of-sales costs	**—**	—	**—**	—	**—**	(23,284)	**—**	—	**—**	(23,284)
Impairment on trade receivables	**—**	—	**—**	(19,571)	**—**	—	**—**	—	**—**	(19,571)
Unallocated corporate income									**516**	1,454
Unallocated corporate expense									**(5,757)**	(529)
Loss from operations									**(40,182)**	(58,466)
Finance costs									**(13,382)**	(17,557)
Loss before tax									**(53,564)**	(76,023)
Income tax (charge)/credit									**(22)**	38
Loss for the period									**(53,586)**	(75,985)

4. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	**20,175**	4,005
Interest expense on obligations under finance leases	**32**	65
Effective interest expense on convertible notes	**9,729**	13,487
Total finance costs	**29,936**	17,557
Less: Amount capitalised to properties under development	**(16,554)**	—
	13,382	17,557

5. INCOME TAX (CHARGE)/CREDIT

	For the six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
The tax charge (credit) comprises:		
Current tax:		
Hong Kong Profits Tax		
Current period	**—**	—
Over provision in prior years	**—**	(80)
PRC Enterprise Income Tax		
Current year	**22**	42
Under provision in prior years	**—**	—
Current tax charge (credit) for the period	**22**	(38)

The income tax expense for the period represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries in the PRC.

The subsidiaries located in other jurisdictions have no assessable profits for the period. No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for the period.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditures. No Land Appreciation Tax has been provided for as the Group has no recognised income from the sale or transfer of properties for the period.

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

7. 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 the Company approximately HK$48,293,000 (six months ended 30 June 2009: HK$64,018,000) and on the weighted average ordinary share of 9,607,527,011 (six months ended 30 June 2009: 866,912,753) deemed to be in issue during the period.

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

	For the six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Loss:		
Loss for the purpose of basic loss per share	**(48,293)**	(64,018)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**9,729**	13,487
Loss for the purpose of diluted loss per share	**(38,564)**	(50,531)

	For the six months ended 30 June	
	2010	2009
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic loss per share	**9,607,527,011**	866,912,753
Effect of dilutive potential ordinary shares:		
Share options	**77,748,406**	—
Convertible notes	**1,984,491,129**	1,133,666,667
Weighted average number of ordinary shares for the purposes of diluted loss per share	**11,669,766,546**	2,000,579,420

Diluted loss per share for the six months ended 30 June 2010 and 2009 were not presented because the impact of the conversion of convertible bonds and the exercise of share options was anti-dilutive.

8. 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.

	As at 30 June 2010 (unaudited) ***HK$'000***	As at 31 December 2009 (audited) *HK$'000*
Trade receivables	**15,885**	128,215
Less: Allowance for doubtful debts	**—**	(102,301)
Net trade receivables	**15,885**	25,914
Prepayments and other deposits	**156,605**	85,191
Other receivables	**58,411**	11,418
	230,901	122,523

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

	As at 30 June 2010 (unaudited) *HK$'000*	As at 31 December 2009 (audited) *HK$'000*
Within 90 days	**8,932**	12,850
91 to 180 days	**4,067**	1,709
Over 180 days but within one year	**2,886**	11,355
Trade receivables	**15,885**	25,914

The Group normally provides fully for all receivables overdue 365 days based on the estimations or past 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 recognized in the consolidated income statement accordingly. The balances of the allowance for doubtful debts are individually impaired trade receivables which had been overdue over 365 days or/and have no material transactions with the Group during the period. The Group does not hold any collateral over these balances.

9. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

	As at 30 June 2010 (unaudited) *HK$'000*	As at 31 December 2009 (audited) *HK$'000*
Within 90 days	**5,201**	6,966
91 to 180 days	**269**	723
Over 180 days	**5,072**	6,685
Trade payables	**10,542**	14,374
Deferred consideration payable for acquisition of subsidiaries	**68,182**	48,864
Construction payables	**29,976**	92,208
Interest payables	**13,211**	22,074
Other payables	**4,666**	27,023
	126,577	204,543

MANAGEMENT DISCUSSION AND ANALYSIS

The Company primarily 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 in the PRC. At present, the portfolio has expanded regional footprint with seven property development projects in five provinces in the PRC and covered a variety of property types of villa, townhouse, residential, commercial, office and hotel. The unaudited interim result of the Group for the six months ended 30 June 2010 principally related to the Group's subordinate divisions — food products business and seabuckthorn-related business. The business of the Group has focused primarily on property development and investment in the PRC since October 2009.

Results Summary

The projects of PRC property development division span major provincial cities in the PRC, comprising of Wuhan, Hangzhou, Changsha, Nanchang and Guangzhou. For the period ended 30 June 2010, the Group achieved the contracted sales of approximately RMB625 million with a total GFA of 53,100 square meters. The revenue from PRC property development business division is expected to come on stream in second half this year.

The consolidated turnover of the Group for the period ended 30 June 2010, which principally relate to the food products business and the seabuckthorn-related business, was HK$51.7 million, representing a increase of 1.6% over the same period last year. The overall gross profit margin fell to 20.1% as compared with the same period last year. The declines were largely due to slowdown in revenue growth and unfavorable utilization over the food products business and the seabuckthorn-related business during the period. The Group had continued to drive operational improvements through a focus on a better mix of products and customers, cost management as well as level of production activities. Nevertheless, the Group was operating at a loss during the period, mainly attributable to low utilization of capacity along with slowdown in revenue growth of the food products business and the seabuckthorn-related business.

The loss attributable to equity holders of the Company for the period ended 30 June 2010 amounted to HK$48 million, compared to HK$64 million in the same period last year. The basic loss per share amounted to HK0.50 cents, against basic loss per share of HK7.38 cents in same period in 2009.

The Board does not propose any interim dividend for the period ended 30 June 2010.

Business Review

The PRC Property Development Business

Facing an overheating economy and soaring property markets, the Central Government began to tighten monetary policy in early this year and is trying hard to introduce corrections to property price in second quarter through a variety of administrative measures such as reducing credit availability and accelerating construction of affordable housing. The effects of corrections at the first tier cities are more pronounced than the second to third tier cities in terms of transaction volume and property prices.

Even so, the property prices in some cities have not seen significant adjustments in the wake of the recent corrections, despite the fact that transaction volume has declined. The Central Government may welcome the moderate deceleration as a way to make the economy and property sector growth more sustainable.

During the six months ended 30 June 2010, the property segment has incurred the preliminary expenses and operating charges in the amount of HK$14 million. The Group presold 53,100 square meters of properties with a total contracted sales amount of approximately RMB625 million. The revenue recognition from contracted sales will take place in the late 2010. The details of contracted sales by project were as follows:

Project	**Location**	**Property type**	**Contracted sales GFA**	**Contracted sales amount**	**Interest attributable to the Group**
			Square meters	*RMB'000*	%
Future City	Wuhan	Residential	50,300	513,000	100%
Qiandao Lake Villa	Hangzhou	Villa	2,800	112,000	60%
Total			53,100	625,000	

During the reporting period, the Group had three property projects under construction with a total GFA of 287,100 square meters. The details of projects under construction were as follows:

Project	**Location**	**Property type**	**GFA under construction**	**Interest attributable to the Group**
			Square meters	%
Future City	Wuhan	Residential and Commercial	147,300	100%
Qiandao Lake Villa	Hangzhou	Villa	23,500	60%
Mei Lai International Centre	Hangzhou	Residential, Commercial and Office	116,300	60%
Total			287,100	

Additionally, both of each up-and-coming project in Nanchang City and Changsha City will proceed to land pre-purchase measures and target for acquisition through government-organized auction process in the second half this year. The project in Nanchang City, namely China Cultural & Arts Valley Project in which the Group has a 80% equity interest, will be developed for properties in stage with a multifaceted international arts hub and a large-scale low-density residential development with types of villa, townhouse, low-rise apartment and commercial facility in a vast area adjacent to Honggutan in Nanchang City.

The project in Changsha City, in which the Group has a 55% equity interest, will be developed for properties of residential and commercial units with an area of 600,000 square meters and 66,700 square meters, respectively. In the second half of this year, the Group will implement an urban-renewal project in Guangzhou City by transforming its existing industrial factories into residential units with an estimated GFA of 110,000 square meters. The Group will proceed to take part in government-organized auction process following the approval of land use alteration from local land bureau.

These projects under planning will contribute a considerable area to land resources available for property development in the second half this year.

Manufacturing Business

Seabuckthorn and Related Healthcare Products

During the period under review, the seabuckthorn-related business reported revenue of HK$9.6 million, which represented a decrease of HK$2.4 million, or 20% over the same period last year. The seabuckthorn-related business has been sluggish and its margins have been under pressure over the period, contributed to a gross profit margin at 16% and segment loss of HK$10 million.

Given the consistent efforts to return the seabuckthorn-related business to profitability in vain, the Group has concluded, it is not easy to improve its performance or reduce the operating loss in the foreseeable future. As recently announced, the Group had taken place the restructuring by entered into an agreement to dispose of the seabuckthorn-related business. The restructuring enables the Group to focus the resources and build on strengths in the property development business in the PRC that the Group serves. The Group will discontinue and withdraw from the seabuckthorn-related business upon the completion of restructuring.

Packaged Food and Convenience Frozen Food Products

Total revenue of food business segment during the period was HK$42 million which have been maintained at level close to the same period last year. The gross profit margin remained under pressure at a rate of 21%, though the Group has continued to align operations and resources to meet an increasingly competitive in its food business environment over the period. Despite these continued focuses, the Group has not better visibility in terms of the capability for turnaround and competency for growth of food business segment in the short term. The food business segment reported a segment loss of HK$10.9 million. The Group will have a cautious view with its negative result and may consider critically the advantages in restructuring.

Financial Position

The Group has strengthened its financial position by completing the placement to raise about HK$202 million during the period.

The Group's bank deposits and cash amounted to HK$375 million as at 30 June 2010. The Group's net debt was decreased by HK$258 million to HK$126 million, which was made up of HK$501 million in debts and HK$375 million in bank deposits and cash. The total debts as at 30 June 2010 included bank borrowings of HK$413 million and liability component of convertible notes of HK$88 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. In addition, the Group will continue to strengthen its borrowings profile in line with future development needs, as and when appropriate, will explore opportunities to diversify its funding base.

As at 30 June 2010, the equity interest attributable to the owners of the Company was increased by 2.3 times to HK$581 million (31 December 2009: HK$253 million) and the ratio of net debt to total equity was 21.7%, against 152% as at 31 December 2009.

Future Plans and Prospects

In recent, most of the provinces and regions in the PRC reported first-half gross domestic product growth exceeding the national level, certain second to third tier regions generally outperforming the first tier cities with higher growth rate. With rapid economic growing and urbanizing in the second to third tier cities, the demand for urban housing will be very strong for many years to come. The stable property prices and sound economic growth will be determining factors in the choice of the extent to which the Central Government adopts administrate measures. The Group is confident about the medium and long term future that its growing position, coupled with its excellent rapport with strategic partners and local governments in the PRC, will enable to take full advantage of opportunities that arise the regions along Yangtze River.

The Group is making progress on all of the operational priorities in these regions and this has had a very positive impact. Whilst the Group will contemplate the projects in more economically advanced areas and keep this possibility in perspective. These developments continue to build clear strategic goals and give great confidence that their full potential will be fully leveraged in the future. The Group's goal of the enhancing shareholder value remains paramount in the development and execution of these strategies.

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 for managing 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 six months ended 30 June 2010. There was no material foreign exchange exposure to the Group during the period under review.

ACQUISITIONS OF SUBSIDIARIES

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

(ii) On 15 May 2010, 湖北阜城房地產開發有限公司 (Hubei Funcheng Property Development Limited*, a wholly owned subsidiary of the Company, entered into the agreement to acquire 100% of the entire equity interest of 武漢凱越房地產開發有限公司, a PRC company principally engaging in a property development project in Wuhan City, the PRC. The transaction has been completed in July 2010. The total consideration for the transaction was approximately HK$56.8 million (equivalent to RMB50 million) being fully settled by way of cash.

(iii) On 21 May 2010, China Water Property (Hong Kong) Development Limited, a wholly owned subsidiary of the Company, entered into the agreement to acquire 60% of the entire issued share capital of HK Mei Lai International (Canada) Limited, a Hong Kong incorporated company principally engaging in investment holding of a property development project company in Hangzhou City, the PRC. The transaction has been completed in June 2010. The total consideration for the transaction was approximately HK$98.9 million (equivalent to RMB87 million) being settled by way of cash of HK$20.5 million (equivalent to RMB18 million) and issue of 392,045,454 new shares of the Company at an issue price of HK$0.15 upon the completion and issue of 130,681,818 new shares of the Company to be settled six months after the completion. Details of the transaction were set out in the circular of the Company dated 7 June 2010.

PLEDGE OF ASSETS

As at 30 June 2010, certain bank deposits, property, plant and equipment, prepaid lease payments and properties under development with an aggregate carrying amount of approximately HK$365 million were pledged as security for certain banking facilities granted to the Group.

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

CONTINGENT LIABILITIES AND COMMITMENTS

(i) As at 30 June 2010, the Group had total future minimum lease payments under noncancelable operating leases in respect of rented premises amounting to approximately HK$13,509,000.

(ii) As at 30 June 2010, the Group had capital commitments in respect of its share of capital contribution in three joint ventures engaged in the business of property development in the PRC and the properties development expenditures of approximately HK$124,173,000 and HK$271,210,000, respectively.

(iii) As at 30 June 2010, the Group had provided guarantees to banks for loans of approximately HK$87,492,000 in respect of the mortgage loans provided by the banks to purchasers of the properties the Group developed and sold. The guarantees are issued from the dates of grant of the relevant mortgage loans and released upon issuance of property ownership certificates.

EVENTS AFTER THE END OF REPORTING PERIOD

Subsequent to the reporting date, a wholly-owned subsidiary company of the Group, China Environment Water Holdings Limited, entered into the conditional sale and purchase agreement dated as of 21 July 2010 with 山合林(北京)水土保持技術有限公司 (Shan He Lin (Beijing) Water and Soil Conservation Technique Co., Limited*) in relation to dispose of 50% equity interest in Conseco Seabuckthorn Co., Ltd., a PRC company principally engaging in seabuckthorn cultivation in the PRC. The total consideration for the transaction was approximately RMB24,430,000 (equivalent to approximately HK$27,761,000). Details of the transaction were set out in the circular of the Company dated 11 August 2010.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the total number of employees of the Group was approximately 706. The total staff costs for the period under review were approximately HK$10.9 million (six months ended 30 June 2009: HK$10.7 million). The Group offers comprehensive remuneration and employees' benefits package to its employees.

INTERIM DIVIDEND

The Board resolved that the Company would not to declare the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

Except for the share placement by the Company in April 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's ordinary shares during the period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules (as amended from time to time by the Stock Exchange) as its own code of conduct for regulating securities transactions by Directors of the Company. Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the period, except for the rule 3.10(1) and rule 3.21 of the listing rules.

Reference is made to the announcement of the Company dated 28 June 2010 in relation to the retirement of Mr. Tam Pei Qiang, an independent non-executive Director and a member of the audit committee of the Company. Following Mr. Tam's retirement, the Company has only two independent non-executive Directors and two audit committee members, the number of which falls below the minimum number required under the Rules 3.10(1) and 3.21 of the Listing Rules.

On 16 August 2010, Ms. Li Ling, an independent non-executive Director, has resigned from her office and Mr. Chan Pok Hiu and Mr. Wong Chi Ming have been appointed as independent non-executive Directors and members of the audit committee of the Company. With the appointment of Mr. Chan Pok Hiu and Mr. Wong Chi Ming, the Company will have complied with the requirements under Rules 3.10(1) and 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange regarding having at least three independent non-executive Directors and the Audit Committee of the Company comprising a minimum of three members, in each case, at least one of them has the appropriate qualifications or accounting or related financial management expertise.

AUDIT COMMITTEE

The audit committee of the Company comprises three members namely Mr. Chen Ziqiang, Mr. Chan Pok Hiu and Mr. Wong Chi Ming who are independent non-executive Directors. The audit committee of the Company has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters with management relating to the preparation of unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2010.

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

Hong Kong, 27 August 2010

As at the date of this announcement, the Board comprises Mr. But Ka Wai (Chairman), Ms. Wang Wenxia (Vice Chairman) and Mr. Ren Qian as executive Directors, Mr. Zhou Kun as non-executive Director and Mr. Chen Ziqiang, Mr. Chan Pok Hiu and Mr. Wong Chi Ming as independent non-executive Directors.

* *For identification purpose only*