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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Water Property Group Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

MAJOR AND CONNECTED TRANSACTION FOR DISPOSAL OF 50% EQUITY INTEREST OF CONSECO SEABUCKTHORN CO., LTD.

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

Quam  **華富嘉洛**
CAPITAL 企業融資

Capitalised terms used on this cover shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter of advice from the Independent Board Committee is set out on page 11 of this circular. A letter from Quam Capital, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 22 of this circular.

A notice convening the EGM of the Company to be held at 2nd Floor, On Shing Industrial Building, Nos. 2–16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on Monday, 30 August 2010 at 10:00 a.m. is set out on pages 46 to 47 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

11 August 2010

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DEFINITIONS

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

“2007 Acquisition”	the acquisition of the entire share capital of China Environment Water Holdings Limited by the Company in 2007 as disclosed in the circular of the Company dated 24 September 2007
“associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	China Water Property Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Interests in accordance with the terms and conditions of the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules
“Consideration”	being RMB24,430,000 (equivalent to approximately HK\$27,761,000) payable by the Purchaser to the Vendor for the Disposal and to be satisfied in the manner as described in this circular
“Deposit”	a deposit in the amount of RMB10,000,000 (equivalent to approximately HK\$11,363,000) to be paid by the Purchaser to the Vendor within 10 days after signing of the Sale and Purchase Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Interests by the Vendor as contemplated under the Sale and Purchase Agreement
“EGM”	the extraordinary general meeting of the Company to be held and convened for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	the independent Board committee comprising Mr. Chen Ziqiang and Ms. Li Ling, both being independent non-executive Directors, established to advise the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the Purchaser and its ultimate beneficial owner and who are connected or otherwise associated with the Purchaser (as the case may be)
“Latest Practicable Date”	9 August 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this circular, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Purchaser”	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*), a company established in the PRC and wholly-owned by 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Water Environment Planning & Design Centre*), which owns 22% equity interest in the Target as at the Latest Practicable Date
“Quam Capital”	Quam Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 21 July 2010 entered into between the Purchaser and the Vendor in relation to the sale and purchase of the Sale Interests
“Sale Interests”	50% equity interest in the Target
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Conseco Seabuckthorn Co., Ltd, a sino-foreign equity joint venture established under the laws of the PRC, whose equity interest is held as to 50% by the Vendor, 22% by 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Water Environment Planning & Design Centre*) which is the ultimate beneficial owner of the Purchaser, 10% by 江海世紀投資管理(北京)有限公司 (Jiang Hai Century Investment Management (Beijing) Co., Ltd*) and 18% by 水利部沙棘開發管理中心 (China National Administration Centre for Seabuckthorn Development*) as at the Latest Practicable Date
“Target Group”	together, the Target and its subsidiaries
“Vendor”	China Environmental Water Holdings Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

* *For ease of reference, the names of companies/entities established in the PRC or individuals have been included in this circular in both Chinese and English languages and the English names of these companies/entities or individuals are either English translation of their respective official Chinese names or tradenames used by them. In the event of any inconsistency between the English names and their respective official Chinese names, the Chinese names shall prevail.*

For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK\$ is calculated at the approximate exchange rate of HK\$1.00 to RMB0.88. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at the above rate or any other rates or at all.

LETTER FROM THE BOARD



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

Executive Directors:

Mr. But Ka Wai (*Chairman*)
Ms. Wang Wenxia (*Vice Chairman*)
Mr. Ren Qian

Non-executive Director:

Mr. Zhou Kun

Independent non-executive Directors:

Mr. Chen Ziqiang
Ms. Li Ling

Registered office:

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

*Head office and principal place of
business in Hong Kong:*

Suite 6208, 62/F
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

11 August 2010

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION FOR DISPOSAL OF 50% EQUITY INTEREST OF CONSECO SEABUCKTHORN CO., LTD.

INTRODUCTION

After the trading hours of the Stock Exchange on 21 July 2010, the Vendor entered into the Sale and Purchase Agreement with the Purchaser pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Interests for a cash consideration of RMB24,430,000 (equivalent to approximately HK\$27,761,000).

The Disposal constitutes a major and connected transaction on the part of the Company under Chapters 14 and 14A of the Listing Rules. The Sale and Purchase Agreement and the transactions contemplated thereunder are subject to the Independent Shareholders' approval at the EGM by way of poll.

LETTER FROM THE BOARD

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Disposal. Quam Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal.

The purpose of this circular is to provide you, among other matters, details of the Disposal, the letter of advice from Quam Capital to the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee to the Independent Shareholders together with the notice of EGM.

THE SALE AND PURCHASE AGREEMENT

Date: 21 July 2010

Parties: (1) Vendor : China Environmental Water Holdings Limited, a wholly-owned subsidiary of the Group; and
(2) Purchaser : 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*)

The Purchaser is principally engaged in provision of evaluation services on the quality of water and soil conservation projects and facilities established in the PRC.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser is wholly owned by 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Water Environment Planning & Design Centre*) ("Beijing Shan He Lin"), which owned 22% equity interest in the Target as at the Latest Practicable Date, being a substantial shareholder of the Target. Beijing Shan He Lin is principally engaged in planning and formulating water projects in the PRC. Accordingly, the Purchaser is a connected person of the Company and the Disposal constitutes a connected transaction on the part of the Company. The Purchaser is a third party independent of the vendor of the 2007 Acquisition.

Assets to be disposed of

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Interests, representing 50% of the entire equity interest of the Target.

Consideration

The consideration of RMB24,430,000 (equivalent to approximately HK\$27,761,000) shall be satisfied by the Purchaser in the following manner:

- (a) RMB10,000,000 (equivalent to approximately HK\$11,363,000) shall be paid by the Purchaser in cash within ten days after the date of the Sale and Purchase Agreement as Deposit; and

LETTER FROM THE BOARD

- (b) the balance of RMB14,430,000 (equivalent to approximately HK\$16,398,000) shall be paid by the Purchaser in cash upon the earlier of (i) within 30 days upon obtaining necessary approval from the relevant PRC authority; or (ii) within six months after the date of the Sale and Purchase Agreement.

The Consideration was agreed between the Vendor and the Purchaser after arm's length negotiations with reference to the unaudited consolidated net asset value of the Target Group attributable to the Group of approximately HK\$35.9 million as at 31 May 2010, having considered the prevailing commercial and business conditions in which the Target Group operates, the details of which are elaborated under the paragraph headed "Reasons for the Disposal" below. As such, the Directors consider that the Consideration is fair and reasonable.

Conditions precedent

Completion shall be conditional upon and subject to:

- (a) the passing by the Independent Shareholders at the EGM to be convened and held to approve the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (b) all necessary consents, authorisations, licenses and approvals required to be obtained on the part of the Vendor in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained; and
- (c) all necessary consents, authorisations, licenses and approvals required to be obtained on the part of the Purchaser in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained.

All of the conditions are not waivable under the Sale and Purchase Agreement. If the conditions have not been satisfied on or before 31 October 2010, or such later date as the Vendor and the Purchaser may agree in writing, the Sale and Purchase Agreement shall cease and terminate, the Vendor shall refund the Deposit (without interest) to the Purchaser, and thereafter neither party shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches of the terms thereof.

If the Purchaser delays in payment of the Consideration or any part thereof as stated above, it is liable for a delay payment of 5% of the outstanding amount per annum.

Completion

Completion shall take place on the date falling three Business Days after the fulfilment of the conditions or such later date as may be agreed between the Vendor and the Purchaser.

After the Completion, the Target Group will cease to be subsidiaries of the Company.

INFORMATION ON THE TARGET

In 2007, the Group acquired the entire interest of China Environmental Water Holdings Limited, whose principal asset was the Sale Interest, at a consideration of HK\$200 million. The Target is a sino-foreign equity joint venture established under the laws of the PRC, whose equity interest is held as to

LETTER FROM THE BOARD

50% by the Vendor, 22% by 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Water Environment Planning & Design Centre*), 10% by 江海世紀投資管理(北京)有限公司 (Jiang Hai Century Investment Management (Beijing) Co., Ltd*) and 18% by 水利部沙棘開發管理中心 (China National Administration Centre for Seabuckthorn Development*). The Target and its subsidiaries are principally engaged in the cultivation and sale of seabuckthorn seedlings, and processing, development, manufacturing and sale of seabuckthorn related food and health products and cosmetic products in the PRC, Hong Kong and other overseas markets.

As at 31 December 2007, the carrying value of the net asset of the Target Group attributable to the Group was approximately HK\$74.9 million. The goodwill arisen from the 2007 Acquisition in the level of the Group was approximately HK\$171.6 million. Since the completion of the 2007 Acquisition, the Group, having considered the results of the Target Group for the two years ended 31 December 2008 and 2009, had conducted the commensurate reviews of the recoverable amount of goodwill in the level of the Group. As at 31 December 2009, all the goodwill in relation to the 2007 Acquisition was impaired.

As at 31 December 2009 and 31 May 2010, the consolidated net asset value of the Target Group attributable to the Group was approximately HK\$39,017,000 and HK\$35,915,000 respectively. As compared with the consolidated net asset value of the Target Group attributable to the Group as at 31 December 2007 of approximately HK\$74.9 million, the changes were largely relating to the impairment charges on biological assets and the operating losses incurred by the Target Group. The net loss (both before and after taxation) of the Target Group for the two years ended 31 December 2008 and 2009 are as follows:

	For the year ended 31 December	
	2009	2008
	(audited)	(audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss before tax	(30,545)	(63,606)
Net loss after tax	(30,573)	(63,703)

The excess of the net book value of the Sale Interests over the Consideration is approximately HK\$8.1 million.

REASONS FOR THE DISPOSAL

The Group is principally engaged in property development and investment in the PRC as well as packaged food and healthcare products business. The Group is pursuing a strategy to expand its exposure in the property development markets in the PRC.

Due to the substantial increase in the cultivating costs charged by peasants and peasants' specialty cooperative, together with the rise in the sales and administrative costs attributable to businesses set up to facilitate the Group's development in seabuckthorn and related business, the results of the seabuckthorn and related business changed from profit making in 2007 to loss making in 2008 and remained so in 2009. The seabuckthorn related business recorded net loss of approximately HK\$64 million and HK\$31 million for the year ended 31 December 2008 and 2009 respectively. In such circumstances, as disclosed in the interim report of the Company for the period ended 30 June 2009, the

LETTER FROM THE BOARD

Group has implemented cost reduction plan to align its operations and resources to meet an increasingly competitive health care products and seabuckthorn related-products environment in order to help restore its capability and chart the path to profitable growth. Nevertheless, the seabuckthorn business did not show much improvement during the year ended 31 December 2009. Seabuckthorn cultivation decreased in 2009 primarily due to the reduction of cultivation works as a result of the change in basin geography. It is expected that the loss from the Target Group will exacerbate in the foreseeable future, and there will be a shortfall in the Group's previous estimate in the business prospects of the Target. The Directors consider that the revenue from the Target Group may not come on stream in short and medium term and the Group should take this opportunity to dispose of its interest in the Target so as to get access to immediate cash flows.

In addition, as stated in the 2009 annual report of the Company, the Company has diversified its business strategies to property investment and development in the PRC and has completed the acquisition of a company engaged in a property development project in Wuhan City, the PRC. Subsequent to the acquisition of the property development project in Wuhan, the Group has further entered into two sale and purchase agreements in relation to acquisitions of two property development projects in Hangzhou, the PRC.

With regard to the above, the Board considers it is in the interests of the Company to divest the seabuckthorn business without incurring further losses and re-allocate the internal resources to develop other more promising business in property investment and development in the PRC.

The estimated net proceeds receivable by the Group for the Disposal will amount to approximately RMB23,550,000 (equivalent to approximately HK\$26,761,000). The Directors intend to utilise the net proceeds from the Disposal as general working capital and as funds for future development of the Group when investment opportunities arise.

The Directors consider that the Disposal represents a good opportunity for the Group to exit its investment in the Target and to strengthen the financial position of the Group. Taking into account the aforesaid reasons, the Board is of the view that the terms of the Disposal are fair and reasonable and on normal commercial terms, and the Disposal is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE DISPOSAL

Following Completion, the Group will cease to have any interest in the Target Group and accordingly the financial results of Target Group will no longer be consolidated into the Group's financial statements.

Earnings

According to the annual report of the Company for the year ended 31 December 2009, the net loss for the year was approximately HK\$332.0 million. Based on the audited financial information of the Target Group for the year ended 31 December 2009, the net loss after tax was approximately HK\$30.6 million.

LETTER FROM THE BOARD

The gain arising from the Disposal is estimated to be approximately HK\$38,000, being the difference between (i) the Consideration; (ii) the unaudited net assets value of the Target Group attributable to the Group and the translation reserve of approximately HK\$9,191,000 to be realised as at 31 May 2010; and (iii) the relevant transaction costs in respect of the Disposal. The actual gain on the Disposal may differ as the amount will be calculated based on the net assets value of the Target Group upon the Completion.

Assets and liabilities

According to the annual report of the Company for the year ended 31 December 2009, the audited assets and liabilities of the Group as at 31 December 2009 was approximately HK\$1,092.4 million and HK\$803.0 million respectively. Upon Completion, the Target Group will cease to be a subsidiary of the Company. Accordingly, both total assets and total liabilities of the Group would decrease as a result of the Disposal.

LISTING RULES IMPLICATIONS

The Disposal constitutes a major and connected transaction on the part of the Company under Chapter 14 and Chapter 14A of the Listing Rules. Hence, the Sale and Purchase Agreement and the transactions contemplated thereunder are subject to the Independent Shareholders' approval at the EGM by way of poll.

To the best of the Directors' knowledge and information, the ultimate beneficial owner of the Purchaser is interested in 22% equity interest of the Target and therefore is a substantial shareholder of the Target. As such, the Purchaser is a connected person of the Company. Accordingly, the Purchaser and its associates shall abstain from voting in favour of the ordinary resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, the Purchaser did not have interest in any Shares. No Directors have a material interest in the Disposal and no Directors are required to abstain from voting on the board resolution approving the Disposal.

EGM

A notice convening the EGM to be held at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on Monday, 30 August 2010 at 10:00 a.m. is set out on pages 46 to 47 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend and vote at such meeting, you are requested to complete and return the enclosed form of proxy to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Board considers that the Disposal is fair and reasonable and in the interests of the Company and the Shareholders as a whole and accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Independent Board Committee, having considered the advice of Quam Capital, is of the view that the Sale and Purchase Agreement was entered into on normal commercial terms, and the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

GENERAL

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

By order of the Board
China Water Property Group Limited
Wang Wenxia
Vice Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

11 August 2010

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
FOR DISPOSAL OF 50% EQUITY INTEREST OF
CONSECO SEABUCKTHORN CO., LTD.**

We refer to the circular of the Company dated 11 August 2010 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise you as to whether the Sale and Purchase Agreement was entered into on normal commercial terms, and whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Your attention is also drawn to the letter from the Board set out on pages 4 to 10 of the Circular, the letter of advice from Quam Capital set out on pages 12 to 22 of the Circular and the additional information set out in the appendices to the Circular. Having considered the terms of the Sale and Purchase Agreement and the advice of Quam Capital, we are of the opinion that the Sale and Purchase Agreement was entered into on normal commercial terms, and the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Independent Board Committee

Chen Ziqiang **Li Ling**

Independent non-executive Directors

LETTER FROM QUAM CAPITAL

The following is the full text of the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement.



Quam Capital Limited

A Member of The Quam Group

11 August 2010

*To the Independent Board Committee
and the Independent Shareholders*
China Water Property Group Limited
Suite 6208, 62/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal. Details of the Disposal are set out in the circular issued by the Company to the Shareholders dated 11 August 2010 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 21 July 2010, the Vendor entered into the Sale and Purchase Agreement with the Purchaser pursuant to which the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Interests for the Consideration of RMB24,430,000 (equivalent to approximately HK\$27,761,000) payable by the Purchaser in cash. The Purchaser is wholly-owned by 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Water Environment Planning & Design Centre*), which owned 22% equity interest in the Target as at the date of the Sale and Purchase Agreement, being a substantial shareholder of the Target. Accordingly, the Purchaser is a connected person of the Company pursuant to the Listing Rules. As such, the Disposal constitutes a connected transaction of the Company and is subject to the approval of the Independent Shareholders at the EGM by way of poll.

Mr. Chen Ziqiang and Ms. Li Ling, both being independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Sale and Purchase Agreement are in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Shareholders are concerned; and to advise the Independent Shareholders as to whether to vote in favour of the resolution approving the Sale

* For identification purpose only

LETTER FROM QUAM CAPITAL

and Purchase Agreement to be proposed at the EGM. As the independent financial adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Company and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects at the date thereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations provided to us by the management of the Group, the Directors and the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations regarding the Company and the Disposal provided to us by the Company and/or the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM.

We consider that we have reviewed sufficient relevant information currently available to reach an informed view regarding the Disposal and to justify our reliance on the accuracy of the information provided to us and those contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinions expressed by the management of the Group, the Directors and the reporting accountants, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Purchaser, the Target Group or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation and giving advice to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

1. Background to and reasons for entering into the Sale and Purchase Agreement

(i) *Principal business and business strategies of the Group*

The Group is principally engaged in property development and investment in the PRC as well as packaged food and healthcare products business. The packaged food business and the seabuckthorn business accounted for approximately 83.8% and approximately 16.2% of the Group's total revenue in 2008, and approximately 65.3% and approximately 34.7% of the Group's total revenue in 2009 respectively. The Group commenced the property development and investment business since November 2009. As such, the property development and investment business had not contributed to the Group's revenue for the two years ended 31 December 2008 and 2009.

LETTER FROM QUAM CAPITAL

Set out in tables 1 and 2 below are summaries of the financial results of the Group for each of the three years ended 31 December 2009 as extracted from the relevant annual reports of the Company.

Table 1

	(Audited)		
	Year ended 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>281,054</u>	<u>239,632</u>	<u>100,454</u>
(Loss)/profit from operations	<u>121,702</u>	<u>(290,323)</u>	<u>(300,197)</u>
Net (loss)/profit from ordinary activities attributable to equity holders of the Company	<u>51,892</u>	<u>(293,583)</u>	<u>(316,294)</u>

Table 2

	(Audited)		
	As at 31 December		
	2007	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets attributable to equity holders of the Company	<u>340,473</u>	<u>62,918</u>	<u>252,710</u>

The Group had been experiencing downward trends in both revenue and profitability for the three years ended 31 December 2009. The Group recorded revenue of approximately HK\$100.5 million for the year ended 31 December 2009 as compared to approximately HK\$281.1 million for the year ended 31 December 2007. Further, the Group recorded net loss of approximately HK\$316.3 million for the year ended 31 December 2009 as compared to net profit of approximately HK\$51.9 million for the year ended 31 December 2007. It is noted that the decrease in revenue was mainly due to continued deteriorating economic conditions. The Group's profitability was adversely impacted by fall in revenue, low utilisation of capacity and considerable imputed interests over the convertible notes of the Group. Further, impairment charges had been made on the carrying value of assets for both seabuckthorn and food segments in respect of biological assets, goodwill, fixed assets, trade receivables and inventories.

As stated in the Company's annual report for the year ended 31 December 2009 (the "2009 Annual Report"), the Board, in August 2009, has passed a resolution to transform the Company from a food and health products manufacturer to a property market player for reflecting its expansion into property investment and development business in the PRC. The Company's business objective is to fully dedicated to the core business in property

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investment and development industry in the PRC while taking part in its subordinate divisions — food and seabuckthorn businesses. The Group now principally focuses on developing medium to large property development projects in the provincial cities along the Yangtze Rivers and also in second to third tier cities where there are better visibility on disposable income levels, urbanisation rate and population growth over the next few years.

In December 2009, the Group has completed the acquisition of a company engaged in a property development project in Wuhan City, the PRC. As advised by the Company, the location of the Wuhan project is situated 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 department store and universities across the area. The Group also acquired two property development projects in Qiandao Lake and Yuhang of Hangzhou City, the PRC respectively. Further, the Group has established two joint venture projects in Changsha City and Nanchang City respectively. The Nanchang project is located in a newly 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 the southern region of China. Overall, the Group currently has an expanded regional footprint with seven property development projects in five provinces in the PRC. Further, the Group has recently entered into a memorandum of understanding in respect of the possible acquisition of a company established in Wuhan City and engaged in property development and property sales as well as tourism development and marketing.

As stated in Appendix I to the Circular, the Group's property project in Wuhan City commenced pre-sales in the first quarter of 2010 where about 77% of the units offered were sold and the Group recorded contracted sales amounted to approximately RMB402 million, as compared to the total revenue of the Group of approximately HK\$100.5 million for the year ended 31 December 2009. The Company also stated that the project attained high average selling price of RMB10,000 per square meter, well above that of similar properties in the area. The project revenue and proceeds will come on stream in 2010 and 2011. The remaining residential towers and retail podium with a total area of approximately 82,000 square meters will be launched in the remaining of 2010 when the remaining Group (the Group excluding the Target Group) obtains licences from relevant government authorities to enter into pre-sale activities. In addition, the first phase of the Group's Qiandao Lake project in Hangzhou City presold about 50% of the villas offered in a recent presales launch. In view of the above, we concur with the Company's view that the prospect of the Group's property development and investment business is promising.

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(ii) *Financial performance of the Target Group*

The Group commenced the seabuckthorn business since it completed the acquisition of 50% interest in the Target in November 2007. The Target Group is principally engaged in the cultivation and sale of seabuckthorn seedlings, and processing, development, manufacturing and sale of seabuckthorn related food and health products and cosmetic products in the PRC, Hong Kong and other overseas market. Set out below are the results of the Target Group for the two years ended 31 December 2008 and 2009:

Table 3

	(Unaudited)	
	For the year ended	
	31 December	
	2008	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>35,722</u>	<u>34,173</u>
Net loss before taxation	<u>(63,606)</u>	<u>(30,545)</u>
Net loss after taxation	<u>(63,703)</u>	<u>(30,573)</u>

As illustrated in table 3 above, the unaudited revenue of the Target Group amounted to approximately HK\$35.7 million and approximately HK\$34.2 million for the two years ended 31 December 2008 and 2009 respectively, representing a decrease of about 4.3%. We were advised that the decrease in revenue was mainly attributable to decrease of cultivation works as a result of the change in basin geography. The Target Group recorded net loss after taxation of approximately HK\$63.7 million and approximately HK\$30.6 million of the two years ended 31 December 2008 and 2009 respectively. Despite the Group's costs reduction efforts to align its operations and resources, the Target Group failed to turnaround mainly due to relatively high sales and administrative costs attributable to businesses set up to facilitate the Group's development in seabuckthorn and related business, and relatively high cultivating costs charged by peasants and peasants' specialty cooperative. In response to the subdued results of the Target Group for the two years ended 31 December 2008 and 2009, the Group had conducted commensurate reviews of the carrying value of the biological assets of the Target Group together with the recoverable amount of goodwill at the level of the Group, which adversely impacted the result of the Target Group by change in fair value of biological assets of approximately HK\$82.8 million in total, and the overall result of the Group by impairment charge on goodwill of approximately HK\$178.8 million in aggregate.

We have further reviewed the management accounts of the Target Group for the five months ended 31 May 2010 and noted that the performance of the Target Group during the period continued to deteriorate. We noted that the revenue continues to contract, profit margins declined compared to the year ended 31 December 2009 and the Target Group remained loss-making for the five months ended 31 May 2010. As discussed in the 2009 Annual Report, the Company considers that the visibility of turnaround and the efforts to

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stanch operating losses of the seabuckthorn business in near term is uncertain even though the Group is keeping strenuous and renewed cost reduction measures in all aspects. The Company advised that the operating costs had been managed to a considerably low level after the cost reduction efforts spent in 2009. The Company expects that the loss from the Target Group will exacerbate in the foreseeable future, and considers that the revenue from the Target Group may not come on stream in the short to medium term. With these sluggish conditions and temporary concerns, the Group will have a cautious view in the current trends of the seabuckthorn business.

As at 31 December 2009 and 31 May 2010, the consolidated net asset value of the Target Group attributable to the Group was approximately HK\$39,017,000 and approximately HK\$35,915,000 respectively. As at 31 May 2010, the assets of the Target Group mainly comprise land and buildings, machinery and equipment, and inventories. The liabilities of the Target Group mainly comprise amount due to other creditors and accruals, and amount due to minority shareholders.

(iii) *Reasons for and benefits of the Disposal*

As discussed in section (1)(ii) above, the Target Group continued to perform unsatisfactorily since it was acquired by the Group in November 2007 and has adversely impacted the Group's overall performance. As discussed above, the Company considers the prospect of the Target Group to be uncertain. As stated from the Letter from the Board contained in the Circular ("Letter from the Board"), the estimated net proceeds received by the Group for the Disposal will amount to approximately RMB23,550,000 (equivalent to approximately HK\$26,761,000). The Directors intend to utilise the net proceeds from the Disposal as general working capital and as funds for future development of the Group when investment opportunities arise.

In view of the loss-making position of the Target Group, which experienced a further downturn in the five months ended 31 May 2010 according to the management accounts, and the continued difficult operating environment of the seabuckthorn business, the Directors have opined that the Disposal represents a good opportunity for the Group to exit its investment in the Target Group without incurring further losses and re-allocate the internal resources to develop the more promising property investment and development business in the PRC according to the Company's stated business strategy, which in turn is expected to strengthen the financial position of the Group. We were advised by the Company that two of its property development and investment projects have commenced pre-sales in the first half of 2010 and has contributed significant cash inflow to the Group. The Company expects that the property development and investment business will begin to contribute to the Group's revenue in the second half of 2010.

We have discussed with the management of the Group with regards to the actions taken by the Company in an attempt to divest its investment in the Target Group. We were advised that the Company has attempted to identify potential buyers for the Sale Interests. However, due to the special nature of the seabuckthorn business and the persistent deteriorating performance of the Target Group, the Company can hardly identify any potential buyers who are willing to purchase the Sale Interests at a consideration acceptable by the Board other

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than the Purchaser. As stated in the Letter from the Board, the Purchaser is wholly-owned by 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Water Environment Planning & Design Centre*), being a company controlled by the Ministry of Water Resources in the PRC, which owns 22% equity interest in the Target. The Purchaser is principally engaged in the provision of evaluation services on the quality of water and soil conservation projects and facilities established in the PRC. We were advised by the Company that, given the experience of 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Water Environment Planning & Design Centre*) in managing the Target Group (by means of being the second largest shareholder of the Target and taking part in the management of the Target Group), the Company considers it will better navigate the Target Group under the tough economic environment than an independent purchaser.

(iv) Conclusion

In light of the above, in particular taking into consideration (i) the principal business activities and historical financial performance of the Target Group; (ii) the potential benefits to be derived by utilising the net proceeds from the Disposal as general working capital and as funds for future development of the Group when investment opportunities arise; and (iii) the Group's stated business objectives to fully dedicate to the property investment and development business in the PRC, we concur with the Directors' view that the Disposal is in the interests of the Company and the Shareholders as a whole as it would allow the Group to dispose of a loss-making business at the same time obtain cash flow for the development of the Group, which in turn is expected to have a positive impact on the overall financial performance of the Group.

2. Principal terms of the Sale and Purchase Agreement

(i) The Consideration and its basis of determination

The Consideration for the Disposal payable by the Purchaser to the Vendor was agreed at RMB24,430,000 (equivalent to approximately HK\$27,761,000) in cash. It is noted that the Consideration was determined after arm's length negotiations between the Purchaser and the Vendor taking into account (i) the unaudited consolidated net asset value of the Target Group attributable to the Group of approximately HK\$35.9 million as at 31 May 2010; and (ii) the prevailing commercial and business conditions in which the Target Group operates.

Given that the Target Group has been loss-making, we consider that referencing to the price to net asset multiple of the Target Group and the prevailing commercial and business conditions in which the Target Group operates is a fair and reasonable basis for determination of the Consideration.

We noted that the Consideration represents a discount of approximately 22.7% to the unaudited net asset value of the Target Group attributable to the Group of approximately HK\$35.9 million as at 31 May 2010 ("Discount"). In order to assess the reasonableness and fairness of the Discount, we have, to our best efforts, attempted to compare the Discount with the price-to-book ratios of other Hong Kong listed companies with similar principal activities, being the cultivation and sale of seabuckthorn seedlings, and processing, development, manufacturing and sale of seabuckthorn related food and health products and

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cosmetic products. However, we are unable to identify any company listed on the Stock Exchange principally engaged in such activities. As an alternative, we have extended our scope of comparables to companies principally engaged in the manufacturing and sale of health supplements listed on stock exchanges in Asia Pacific region so far as we are aware of as at the Latest Practicable Date (the “Comparable Companies”).

We have reviewed the respective price-to-book ratios of the Comparable Companies and made a comparison on this basis with the Discount in our analysis as detailed in table 4 below.

Table 4

Comparable Companies	Exchange	Principal activities	Current market capitalisation (HK\$ million)	Price-to-earnings ratio (times)	Price-to-book ratio (times)
Longlife Group Holdings Limited (Stock code: 8037)	Hong Kong Stock Exchange	Manufacture, research and development and distribution of consumer cosmetic, health related products, capsules products, health supplement wine and dental materials and equipment and operates only in the PRC	222.74	—	3.60
Ruinian International Limited (Stock code: 2010)	Hong Kong Stock Exchange	Manufacture and sales of health and nutritional supplements and pharmaceutical products	5,663.9	16.88	6.29
Guilin Layn Natural Ingredients Corp. (Stock code: 2166)	Shenzhen Stock Exchange	Manufacture and sale of plant products and local special agricultural byproducts, as well as the research, development, sale and technology transfer of health food and skincare products	4,146.6	182.45	14.41
Blackmores Limited (Stock code: BKL)	Australia Stock Exchange	Development and marketing of health products, including vitamins, herbal and mineral nutritional supplements	2,792.0	18.33	6.57
Vita Life Science Limited (Stock code: VSC)	Australia Stock Exchange	Formulating, packaging, sales and distribution of vitamins and supplements and investment	89.2	—	3.66
New Image Group Limited (Stock code: NEW)	New Zealand Stock Exchange	Manufacturing and distribution of health products	466.4	5.15	3.83
Average				55.70	6.39
Maximum				182.45	14.41
Minimum				5.15	3.60

Source: Bloomberg

As noted from table 4 above, all the Comparable Companies are trading at a premium to their book value. Nonetheless, most of the Comparable Companies are profit-making. The two Comparable Companies that are loss-making are Longlife Group Holdings Limited and Vita Life Science Limited. In the case of Longlife Group Holdings Limited, based on its 2009 annual report, sales from health related products and health supplement wine only accounted for approximately 31.1% of its total revenue for the year ended 31 December 2009. In the case of Vita Life Science Limited, we noted its net book value is substantially larger than that of the Target Group. Indeed, the market capitalisations of most of the

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Comparable Companies are well larger than that of the Target Group, and we are not able to identify any comparable company which is of size comparable to that of the Target Group. In light of the above, we consider that the Comparable Companies may not be entirely comparable to the Target Group and the comparison analysis may not provide a relevant indication on the reasonableness and fairness of the Discount.

Notwithstanding the results of the comparison analysis as set out above, we are of the view that the Consideration, taking into account the Discount, is not unreasonable as the Disposal at the Consideration, when considered together with the translation reserve to be realised of approximately HK\$9.19 million as at 31 May 2010, resembles to disposal of the Target Group by the Group at a consideration approximate to the net assets value of the Target Group, resulting in the Group recognising a slight gain of approximately HK\$38,000. Moreover, in considering whether the Disposal with a discount is acceptable to the Company, we have taken into consideration the following factors which are not general to the Comparable Companies: (i) the loss-making position and the challenging prospect of the Target Group as reflected by the continued deteriorating financial performance of the Target Group for the five months ended 31 May 2010; (ii) that it is expected that the Target Group will require significant additional financial resources to fund its operation in the near to medium term given its persistent deteriorating performance; (iii) that the Disposal provide an opportunity for the Group to dispose of the loss-making business with a slight gain on disposal of approximately HK\$38,000 and to avoid further operating losses; (iv) that after the Disposal, the Group will be able to re-allocate its resources to develop the more promising property investment and development business which is in line with the Group's stated development strategy as discussed in section (1)(i) above; (v) that given the special nature of the seabuckthorn business and the persistent deteriorating performance of the Target Group, the Company can hardly identify any potential buyers who are willing to purchase the Sale Interests at a consideration acceptable by the Board other than the Purchaser; and (vi) that given the experience of 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Water Environment Planning & Design Centre*) in managing the Target Group, the Company considers it will better navigate the Target Group under the tough economic environment than an independent purchaser. Having considered the above, we are of the view that the discount of the Consideration to the unaudited net asset value of the Target Group as at 31 May 2010 is acceptable in this regard.

Having considered the above, we are of the view that the basis of determination of the Consideration is appropriate and that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

(ii) *Other terms of the Sale and Purchase Agreement*

We have also reviewed the other major terms of the Sale and Purchase Agreement and are not aware of any terms which are exceptional to normal market practice.

(iii) *Conclusion*

In light of the foregoing, we are of the opinion that the terms of the Sale and Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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3. Financial impact of the Disposal on the Group

Upon Completion, the Target Group will cease to be subsidiaries of the Company and the Company will cease to have any interests in the Target Group's financial results.

(i) *Net asset value*

According to the 2009 Annual Report, as at 31 December 2009, the Group's audited total assets, total liabilities and net asset value after minority interest were approximately HK\$1,092.4 million, HK\$803.0 million, and HK\$252.7 million respectively. We were advised by the Company that, upon Completion, it is expected that the total assets, total liabilities and net asset value of the Group would have been decreased as a result of the Disposal.

(ii) *Earnings*

As a result of the Disposal, the Company estimates that the Group will record an unaudited gain of approximately HK\$38,000, being the difference between (i) the Consideration; (ii) the unaudited net asset value of the Target Group attributable to the Group and the translation reserve to be realised of approximately HK\$9,191,000 as at 31 May 2010; and (iii) the relevant transaction costs in respect of the Disposal. The actual gain or loss on the Disposal, however, is to be determined with reference to the net asset value of the Target Group as at the date of Completion.

As discussed in section (1)(ii) above, the Target Group had been making net losses after taxation of approximately HK\$63.7 million and HK\$30.6 million for the two years ended 31 December 2008 and 2009 respectively. The Target Group remained loss-making for the five months ended 31 May 2010 based on the management accounts. Upon Completion, the Company will cease to have any interests in the Target Group's financial results.

In view of the above, we consider that it is reasonable for the Directors to expect that the Disposal will have a favourable impact on the earnings of the Group.

(iii) *Working capital position*

The estimated net proceeds receivable by the Group for the Disposal will amount to approximately RMB23,550,000 (equivalent to approximately HK\$26,761,000). The Directors intend to utilise the net proceeds from the Disposal as general working capital and as funds for future development of the Group when investment opportunities arise.

(iv) *Gearing ratio*

According to the 2009 Annual Report, the Group had a gearing ratio (defined as the total interest bearing liabilities to the total assets) of approximately 51.4% as at 31 December 2009. We were advised by the Directors that the gearing ratio of the Group will not have any material adverse change as a result of the Disposal

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(v) *Conclusion*

In view of the foregoing, we are of the opinion that the Disposal will not have any material adverse impact on the Group's financial position upon Completion.

RECOMMENDATION

Having considered the principal factors and reasons discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the reasons for and the benefits of the Disposal as discussed in section (1) above;
- that the Disposal is in line with the Group's stated business objective as discussed in section (1)(iii) above;
- that the Consideration is fair and reasonable;
- that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- that there will not be any material adverse impact on the financial position of the Group as a result of the Disposal,

we consider that though the entering into of the Sale and Purchase Agreement by the Group is conducted otherwise than its ordinary and usual course of business, it is however based on normal commercial terms, and the terms thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Executive Director

1. INDEBTEDNESS, LIQUIDITY AND FINANCIAL RESOURCES**(a) Borrowings**

At the close of business on 30 June 2010, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total borrowings of HK\$591,336,000 comprising secured bank loans of approximately HK\$384,717,000, unsecured bank loans of approximately HK\$5,178,000, unsecured other borrowings of HK\$22,443,000, obligations under finance lease of approximately HK\$514,000, unsecured amounts due to minority shareholders of approximately HK\$76,434,000, unsecured convertible notes of approximately HK\$102,050,000.

(b) Security and guarantees

As at 30 June 2010, the Group's borrowings were secured by the following:

- (i) Charges on certain land and buildings held by the Group with an aggregate carrying value of approximately HK\$29,861,000;
- (ii) Charges on certain plant and machinery of the Group with an aggregate carrying value of approximately HK\$4,767,000;
- (iii) Charges on certain bank deposits of the Group with an aggregate carrying value of approximately HK\$13,974,000;
- (iv) Charges on certain property under development of the Group with a carrying value of approximately HK\$307,516,000; and
- (v) Corporate guarantees executed by certain members of the Group.

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

(c) Commitments and contingent liabilities

As at 30 June 2010, the Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately HK\$13,509,000.

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 China and the properties development expenditures of approximately HK\$124,173,000 and HK\$271,210,000, respectively.

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.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 30 June 2010.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 June 2010, up to and including in the Latest Practicable Date.

For the purpose of the above indebtedness statement, foreign currency accounts have been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 30 June 2010.

2. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseeable circumstances, taking into account the present financial resources and internally generated funds available to the Group excluding the Target Group (the “Remaining Group”), the Remaining Group has sufficient working capital for its present requirements for at least twelve months from the date of this circular.

3. MATERIAL ADVERSE CHANGE

The Directors confirmed that there was no material adverse change in the financial or trading position or prospects of the Group since 31 December 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

4. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

Since the inception in late 2009, the Group has expanded its initial and potential property projects in second to third tier cities such as Wuhan, Hangzhou, Nanchang and Changsha. In December 2009, the Group had successfully acquired the entire interest in a project in Wuhan City (“Future City Project”) in Wuhan and 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 meter, well above that of 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 meters will be launched in the remainder of 2010 when the Remaining 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 Remaining Group had also acquired 60% equity interest in each of the two property project companies in Qiandao Lake and Yuhang of Hangzhou City, Zhejiang Province. The first phase of Qiandao Lake Project presold about 50% of the villas offered in a recent presales launch. In addition, the Remaining Group had established the joint venture companies with local government in Changsha City and Nanchang City respectively into property development projects. The China Cultural & Arts Valley Project (“CCAV Project”), in which the Remaining 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 meters.

The property project of the remaining Group in Changsha is a joint venture project between the Remaining 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 meters and in return promise to redevelop and refurbish the local government ecological leisure park in the area of 514,200 square meters, namely Yutan Park. The project will consist of 600,000 square meters high-rise residential apartment and 66,670 square meters commercial units.

The Remaining Group will continue to focus on developing in medium to large property development projects in the provincial cities along the Yangtze Rivers and also in second to third tier cities where have much better visibility on disposal income levels, urbanization rate and population growth over the next few years.

The Remaining 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 Remaining 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.

As to the food business segment, the Remaining Group is keeping strenuous and renewed cost reduction measures in all aspects and will have a cautious view in its current trends as a result of its subdued and depressed results in 2009.

The near-term prospects for PRC property developers will be overshadowed by the uncertainty of further measures adopting by the PRC Government for the purpose of maintaining a consensus of economic growth. Correspondingly, the Remaining 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 Remaining Group is well on this way and also sees the way forward. The Remaining Group will endlessly focus on the core competencies in property development segment in the PRC and looks forward to leveraging these strengths to drive an improvement in Shareholders’ returns going forward.

CBRE

CB RICHARD ELLIS

4/F Three Exchange Square

8 Connaught Place

Central, Hong Kong

T 852 2820 2800

F 852 2810 0830

香港中環康樂廣場八號交易廣場第三期四樓

電話 852 2820 2800 傳真 852 2810 0830

www.cbre.com.hk

地產代理 (公司) 牌照號碼

Estate Agent's Licence No: C-00406

11 August 2010

The Board of Directors
China Water Property Group Limited
Suite 6208,
62/F, Central Plaza,
18 Harbour Road,
Wan Chai, Hong Kong

Dear Sirs,

Re: PORTFOLIO OF PROPERTIES IN THE PEOPLE'S REPUBLIC OF CHINA

We refer to the instruction from China Water Property Group Limited (the "Company") for us to carry out a valuation of the property interests, details of which are set out in the attached valuation certificate, held by the Conseco Seabuckthorn Co., Ltd. and its subsidiaries (collectively, hereinafter referred to as the "Target Group") in the People's Republic of China (the "PRC") for public circular purpose. We confirm that we have made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of Market Values of the property interests as at 30 June 2010 (the "date of valuation").

Valuation Basis, Assumptions and Methodology

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities (the "Exchange Listing Rules") issued by the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors ("HKIS").

Our valuation is made on the basis of Market Value which is defined by the HKIS to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

In valuing the property interests in Group I, which are held by the Target Group for occupation in The People's Republic of China, we have adopted the market approach in valuing the land portion of the property and depreciated replacement cost approach in assessing buildings and structures standing on the land. In the valuation of the land portion, reference has been made to the standard land prices and the sales evidence as available to us in the locality.

Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (or reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. Where due to the specific purpose for which the buildings and structures of the property interests have been constructed, or where the property interests are located in markets where there are no readily identifiable market comparables, the depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

We have attributed no commercial value to the property interests in Group II, which are leased by the Target Group in The People's Republic of China, due to prohibition against assignment or sub-letting or otherwise due to lack of substantial profit rents.

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of any deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the properties.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting the sale. Unless otherwise stated, it is assumed that the properties were free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Source of Information

We have relied to a considerable extent on the information given by the Target Group, and have accepted the advice given to us on such matters as tenure, planning approvals, development scheme, site and floor areas, and all other relevant matters. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us, which are material to the valuation. We were also advised that no material factors have been omitted from the information supplied. We reserve the right to amend our assessment if there is a change to the design and floor area that would materially affect the values.

In forming our value to the properties in The People's Republic of China, we have relied on the legal opinion provided by the Group's PRC legal advisor, Guangdong Jinjian Law Firm. We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents have been used for reference only.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects.

We have not carried out site measurements to verify the correctness of the site areas of the properties. During our inspection, we have not carried out investigations on the sites to determine the suitability of the ground conditions and the services for any redevelopment or future development. Our valuation is on the basis that these aspects are satisfactory.

We have not undertaken archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays are incurred during the construction period, due to these, or to archaeological or ecological matters.

The property interests have been valued in Renminbi (“RMB”).

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Harry C W Chan
MHKIS MRICS MCIREA RPS(GP)
Senior Director
Valuation & Advisory Services

Note: Mr. Harry Chan is a Registered Professional Surveyor (General Practice), a member of the Hong Kong Institute of Surveyors, a member of Royal Institution of Chartered Surveyors and a member of China Institute of Real Estate Appraisers and Agents. He has over 18-years valuation experience in The People’s Republic of China.

SUMMARY OF VALUATION

Property	Capital value in existing state as at 30 June 2010 (RMB)	Interest attributable to the Target Group (%)	Capital value in existing state attributable to the Target Group as at 30 June 2010 (RMB)
Group I — Property interests held by the Target Group for occupation in The People’s Republic of China.			
1. Industrial Complex of Ordos Conseco Seabuckthorn Ecological Construction Co., Ltd., Tongchuan Town, Dongsheng District, Ordos City, Inner Mongolia, The People’s Republic of China.	37,400,000	50%	18,700,000
		Group I Sub-total:	<u><u>18,700,000</u></u>
Group II — Property interests rented by the Target Group in The People’s Republic of China.			
2. No. 12 Fuhai Road, Daxing District, Beijing, The People’s Republic of China			No commercial value
3. A parcel of land, The Seabuckthorn Sprout Cultivation Base, Huairou District, Beijing, The People’s Republic of China			No commercial value
4. No.5 Xi Ping Fang (西平房), Yuetan North Street, Xicheng District, Beijing, The People’s Republic of China			No commercial value
5. Various buildings in South Huofang Village, Shulinzhao Village, Dalate Banner, Inner Mongolia, The People’s Republic of China			No commercial value

Property	Capital value in existing state attributable to the Target Group as at 30 June 2010 (RMB)
6. Unit 301, F3, Xinglong Hotel, Yuyang District, Yulin City, Shan'xi Province, The People's Republic of China	No commercial value
7. Room 1900, Level 9, No. 688 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, The People's Republic of China	No commercial value
8. A parcel of "four-desolate collective land", Wangzhangzi Village, Qiaochuan Town, Huachi County, Gansu Province, The People's Republic of China	No commercial value
9. A parcel of "four-desolate collective land", Qizhuangzi Village, Qiaohe Town, Huachi County, Gansu Province, The People's Republic of China	No commercial value

	Group II Sub-total: <u><u>No commercial value</u></u>
	GRAND TOTAL: <u><u>18,700,000</u></u>

VALUATION CERTIFICATE

Group I — Property interests held by the Target Group for occupation in The People's Republic of China.

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2010
1. Industrial Complex of Ordos Conseco Seabuckthorn Ecological Construction Co., Ltd., Tongchuan Town, Dongsheng District, Ordos City, Inner Mongolia, The People's Republic of China.	<p>The subject property comprises 6 buildings and 2 structures erected on a site with a land area of approximately 133,333.08 sq.m.</p> <p>The buildings have a total gross floor area of approximately 13,003.36 sq.m. The buildings were mainly completed in about 2006. The floor area breakdown of the buildings is as follows:</p>	The property is occupied by the Target Group as factory, office and ancillary facilities uses.	RMB37,400,000
	<p style="text-align: center;">Approximately Gross Floor Area</p> <p>Use</p> <p>Factory 9,096.47</p> <p>Office 2,994.00</p> <p>Ancillary Buildings <u>913.13</u></p> <p>Total <u><u>13,003.6</u></u></p>		50% interests attributable to the Target Group: RMB18,700,000
	<p>The property is held under a State-owned Land Use Rights Certificate for industrial use expiring on 9 August 2055.</p>		

Notes:

- (a) Pursuant to the State-owned Land Use Rights Certificate No. Dong Guo Yong (2005) Zi Grant 2005-125 (東國用(2005)字第出讓2005-125號) dated 9 September 2005, a parcel of land with a site area of approximately 133,333.08 sq.m. has been granted to Ordos Conseco Seabuckthorn Ecological Construction Development Co., Ltd. (“鄂爾多斯市高原聖果生態建設開發有限公司”) for a term expiring on 9 August 2005 for industrial use.
- (b) Pursuant to the Building Ownership Certificate, the building ownership of four buildings with a total gross floor area of 12,693.6 sq.m. is held by Ordos Conseco Seabuckthorn Ecological Construction Development Co., Ltd.
- (c) We have attributed no commercial value to the remaining two buildings with a total gross floor area of approximately 310 sq.m. without Building Ownership Certificates. We are of the opinion that the depreciated replacement cost of these buildings (excluding the land) as at the date of valuation would be RMB111,300 if the relevant Building Ownership Certificates had been obtained.

- (d) The opinion of the legal adviser on the PRC laws states that:
- i. Ordos Conseco Seabuckthorn Ecological Construction Development Co., Ltd. (“鄂爾多斯市高原聖果生態建設開發有限公司”) has legally obtained the land use rights of the subject land.
 - ii. The land use rights of the property is not subject to mortgage.
 - iii. Ordos Conseco Seabuckthorn Ecological Construction Development Co., Ltd. has obtained the building ownership of the property.
- (e) A summary of major certificates/approvals is shown as follows:
- | | | |
|------|--|-----|
| i. | State-owned Land Use Rights Grant Contract | Nil |
| ii. | State-owned Land Use Certificate | Yes |
| iii. | Building Ownership Certificate | Yes |
| iv. | Construction Land Use Planning Permit | Yes |
| v. | Construction Works Planning Permit | Yes |
| vi. | Construction Works Commencement Permit | Yes |
| vii. | Completion Construction Works Certified Report | Yes |

VALUATION CERTIFICATE

Group II — Property interests rented by the Target Group in The People's Republic of China.

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2010
2. No. 12 Fuhai Road, Daxing District, Beijing, the People's Republic of China	<p>The property consists of three office units, a laboratory, part of a warehouse and factory.</p> <p>The property has been leased for 30-year term starting 1 January 2006 to 31 December 2035.</p>	As at the date of valuation, the property was occupied by the Target Group for office and factory uses.	No commercial value

Notes:

- (a) Pursuant to a lease agreement entered into between Beijing Shanhelinshui Environment Planning Design Center (“北京山合林水環境規劃設計中心”) (“Party A”) and Conseco Seabuckthorn Co., Ltd. (“高原聖果沙棘製品有限公司”) (“Party B”), Party A agreed to lease the property to Party B. The salient terms stipulated in the lease agreement are, *inter alia*, as follow:
- i. The lease term is for 30 years from 1 January 2006 to 31 December 2035.
 - ii. Party B agrees to pay an annual rent of RMB200,000 to Party A currently.
 - iii. The rent review and other agreed payment terms will be subject to review every two years.
- (b) We have been provided with a legal opinion on the property prepared by the Group's legal advisor, which contains, *inter alia*, the following information:
- i. Conseco Seabuckthorn Co., Ltd. (“高原聖果沙棘製品有限公司”) is applying the relevant approvals from both the Land Resource Department and the House Management Department regarding to the land lease or the building lease.
 - ii. The Conseco Seabuckthorn Co., Ltd. can apply for that such approval without problem in legal aspect.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2010
3. A parcel of land, The Seabuckthorn Sprout Cultivation Base, Huairou District, Beijing, The People's Republic of China.	<p>The property is a parcel of site with a land area of approximately 80,000 sq.m. (120 mu) together with various sprout cultivation apparatus on the land.</p> <p>The property has been leased for a term of 5 years commencing 1 January 2007.</p>	As at the date of valuation, the property was used by Conseco Seabuckthorn Co., Ltd..	No commercial value

Notes:

- (a) Pursuant to a lease agreement entered into between Ministry of Water Resources Seabuckthorn Development and Management Centre (“水利部沙棘開發管理中心”) (“Party A”) and Conseco Seabuckthorn Co., Ltd. (“高原聖果沙棘製品有限公司”) (“Party B”), Party A agreed to lease the property to Party B. The salient terms stipulated in the lease agreement are, *inter alia*, as follow:
- i. The lease term is for 5 years commencing from 1 January 2007.
 - ii. Party B agreed to pay an annual rental of RMB300,000 to Party A.
 - iii. Party B should return and transfer the land and apparatus above the land together with the assets formed by the investment to Party A with no further compensation.
- (b) We have been provided with a legal opinion on the property prepared by the Group's legal advisor, which contains, *inter alia*, the following information:
- i. Conseco Seabuckthorn Co., Ltd. (“高原聖果沙棘製品有限公司”) is applying the relevant approvals from both the Land Resource Department and the House Management Department regarding to the land lease or the building lease.
 - ii. Conseco Seabuckthorn Co., Ltd. (“高原聖果沙棘製品有限公司”) can apply for that such approval without problem in legal aspect.

VALUATION CERTIFICATE

			Capital value in existing state as at 30 June 2010
Property	Description and tenure	Details of occupancy	
4. No. 5 Xi Ping Fang (西平房), Yuetan North Street, Xicheng District, Beijing, The People's Republic of China.	<p>The property comprises a one-storey unit with an area of approximately 20.5 sq.m.</p> <p>The property has been leased for a term of 2 years from 1 August 2009 to 31 July 2011.</p>	<p>As at the date of valuation, the property was occupied by Conseco Seabuckthorn Co., Ltd.</p>	No commercial value

Notes:

- (a) Pursuant to a lease agreement entered into between Xiao Lin Han (“韓小林”) (“Party A”) and Conseco Seabuckthorn Co., Ltd. (“高原聖果沙棘製品有限公司”) (“Party B”) on 31 July 2009, Party A agreed to lease the property to Party B. The salient terms stipulated in the lease agreement are, *inter alia*, as follow:
- i. The lease term is for 2 years from 1 August 2009 to 31 July 2011.
 - ii. Party B agrees to pay an annual rental of RMB38,000 to Party A.
 - iii. The management fee and heating fee will be paid by Party A during the leasing term.
- (b) The opinion of the legal adviser on the PRC laws states that Conseco Seabuckthorn Co., Ltd. (“高原聖果沙棘製品有限公司”) has the legal rights to use and occupy the property under the lease agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2010
5. Various buildings in South Huofang Village, Shulinzhao Village, Dalate Banner, Inner Mongolia, The People's Republic of China.	<p>The property comprises several buildings erected on a parcel of land with site area of approximately 2,000 mu.</p> <p>The property has been leased for a term of 15 years from 28 November 2005 to 27 November 2020.</p>	As at the date of valuation, the property was occupied by the Target Group for reproduction of plants.	No commercial value

Notes:

- (a) Pursuant to a tenancy agreement entered into between Shuitu Maintenance Plant Development Management Centre of Waters Department (China National Administration Centre for Seabuckthorn Development (“水利部水土保持植物開發管理中心 (水利部沙棘開發管理中心)”) (“Party A”) and Ordos Conseco Seabuckthorn Ecological Construction Development Co., Ltd. (“Party B”), Party A agreed to lease the property to Party B. The salient terms stipulated in the lease agreement are, *inter alia*, as follow:
- i The lease term is for a term of 15 years from 28 November 2005 to 27 November 2020.
 - ii Party B agrees to pay an annual rental of RMB200,000.
- (b) We have been provided with a legal opinion on the property prepared by the Group's legal advisor, which contains, *inter alia*, the following information:
- i. The Institute of Water Resources for Pastoral Area (水利部牧區水利科學研究所) transferred its rights to Shuitu Maintenance Plant Development Management Centre of Waters Department (China National Administration Centre for Seabuckthorn Development) (“水利部水土保持植物開發管理中心 (水利部沙棘開發管理中心)”) in 2001.
 - ii. Ordos Conseco Seabuckthorn Ecological Construction Development Co., Ltd. leased the property from Shuitu Maintenance Plant Development Management Centre of Waters Department (China National Administration Centre for Seabuckthorn Development) for a term expiring 27 November 2020.
 - iii. The Institute of Water Resources for Pastoral Area is applying the relevant certificates of collectively owned land use rights. The Institute of Water Resources for Pastoral Area can apply for that such certificates without problem in legal aspect.

VALUATION CERTIFICATE

			Capital value in existing state as at 30 June 2010
Property	Description and tenure	Details of occupancy	
6. Unit 301, F3, Xinglong Hotel, Yuyang District, Yulin City, Shan'xi Province, The People's Republic of China	The property is a room located within a hotel. The property has been rented for a term of 5 years from 1 April, 2007 to 20 March 2012.	As at the date of valuation, the property was occupied by the Target Group for office use.	No commercial value

Notes:

- (a) Pursuant to an agreement entered into between Yu Lin Xing Long Co., Ltd. (“榆林市鑫隆有限公司”) (“Party A”) and Yu Lin Gao Yuan Zhi Wu Zi Yuan Kai Fa Co., Ltd. (“榆林市高原植物資源開發有限公司”) (“Party B”), Party A agreed to lease the property to Party B. The salient terms stipulated in the agreement are, *inter alia*, as follow:
- i. The lease term is for 5 years from 1 April 2007 to 20 March 2012.
 - ii. Party B agrees to pay an annual rental of RMB40,000 to Party A.
- (b) The opinion of the legal adviser on the PRC laws states that Yu Lin Gao Yuan Zhi Wu Zi Yuan Kai Fa Co., Ltd. (“榆林市高原植物資源開發有限公司”) has the legal rights to use and occupy the property under the lease agreement.

VALUATION CERTIFICATE

			Capital value in existing state as at 30 June 2010
Property	Description and tenure	Details of occupancy	
7. Room 1900, Level 9, No. 688 Donggang West Road, Chengguan District, Lanzhou City, Gansu Province, The People's Republic of China	The property is a hotel room in Zhengdaheng Hotel. The property is leased for a term of 1 year starting 19 December 2009 and expiring 19 December 2010.	As at the date of valuation, the property was occupied by the Target Group for office use.	No commercial value

Notes:

- (a) Pursuant to an agreement entered into between Lanzhou Zhengdaheng Restaurant Co., Ltd. (“蘭州正大亨餐飲服務有限公司”) (“Party A”) and Gansu Conseco Seabuckthorn Development Co., Ltd. (“甘肅高原聖果沙棘開發有限公司”) (“Party B”) on 16 December 2009, Party A agreed to lease the property to Party B. The salient terms stipulated in the agreement are, *inter alia*, as follow:
- i. The lease term is for 1 year from 19 December 2009 to 19 December 2010.
 - ii. Party B agrees to pay an annual rent of RMB38,000 to Party A.
 - iii. The rent is inclusive of water, electricity and heating charges.
- (b) The opinion of the legal adviser on the PRC laws states that Gansu Conseco Seabuckthorn Co., Ltd. (“甘肅高原聖果沙棘開發有限公司”) has the legal rights to use and occupy the property under the lease agreement.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2010 (RMB)
8. A parcel of “four-desolate collective land” in Wangzhangzi Village, Qiaochuan Town, Huachi County, Gansu Province, The People’s Republic of China	The property comprises a parcel of “four-desolate collective land” with site area of approximately 1,479 mu. As advised, the land use term is held for 30 years from 1 January 2008 to 31 December 2037.	As at the date of valuation, the property was currently occupied by the Target Group as plantation of Seabuckthorn.	No commercial value

Notes:

- (a) Pursuant to “Approval Regarding Gansu Conseco Seabuckthorn Development Co., Ltd. the land of Seabuckthorn production source of raw materials No. Hua Zheng Bo Tu Zi [2008] 16” (“關於甘肅高原聖果沙棘開發有限公司沙棘產業原料基地用地的批覆(華政撥土字[2008]16號)”) dated 21 January 2008, the Huachi local government (“Party A”) agreed to lease the property to Gansu Conseco Seabuckthorn Development Co., Ltd. (“甘肅高原聖果沙棘開發有限公司”) (“Party B”). The salient terms stipulated in the agreement are, *inter alia*, as follow:
- i. The lease term is for 30 years from 1 January 2008 to 31 December 2037
 - ii. Party B agrees to pay a total rental of RMB1,479 to Party A. for the entire lease term
- (b) Pursuant to the “Collective Land Use Certificate No. Hua Ji Yong (2008) Di 090084(華集用(2008)第090084)”, the land use rights of the subject site with an area of approximately 1,479mu has been leased to Gansu Conseco Seabuckthorn Development Co., Ltd. (“甘肅高原聖果沙棘開發有限公司”) for a term expiring to 31 December 2037 for Seabuckthorn industrial raw material base. The land-use expiry date is 31 December 2037.
- (c) The opinion of the legal adviser on the PRC laws state that Gansu Conseco Seabuckthorn Development Co., Ltd. (“甘肅高原聖果沙棘開發有限公司”) has legally obtained the land use rights by lease during the lease period.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Capital value
			in existing state as at 30 June 2010 (RMB)
9	A parcel of “four-desolate collective land” in Qizhuangzi Village, Qiaohe Town, Huachi County, Gansu Province, the People’s Republic of China	The property comprises a parcel of “four-desolate collective land” with site area of approximately 2,518 mu. As advised, the land use term is held for 30 years from 1 January 2008 to 31 December 2037.	As at the date of valuation, the property was currently occupied by the Target Group as plantation of Seabuckthorn.

Capital value
in existing
state as at
30 June 2010
(RMB)

Notes:

- (a) Pursuant to “Approval Regarding Gansu Conseco Seabuckthorn Development Co., Ltd. the land of Seabuckthorn production source of raw materials No. Hua Zheng Bo Tu Zi [2008] 14” (“關於甘肅高原聖果沙棘開發有限公司沙棘產業原料基地用地的批覆(華政撥土字[2008]14號)”) dated 21 January 2008, the Huachi local government (“Party A”) agreed to lease the property to Gansu Conseco Seabuckthorn Development Co., Ltd. (“甘肅高原聖果沙棘開發有限公司”) (“Party B”). The salient terms stipulated in the agreement are, *inter alia*, as follow:
- i. The lease term is for 30 years from 1 January 2008 to 31 December 2037
 - ii. Party B agrees to pay a total rental of RMB2,518 to Party A for the entire lease term
- (b) Pursuant to the “Collective Land Use Certificate No. Hua Ji Yong (2008) Di 090084(華集用(2008)第090084)”, the land use rights of the subject site with an area of approximately 2,518mu has been leased to Gansu Conseco Seabuckthorn Development Co., Ltd. (“甘肅高原聖果沙棘開發有限公司”) for a term expiring to 31 December 2037 for Seabuckthorn industrial raw material base. The land-use expiry date is 31 December, 2037.
- (c) The opinion of the legal adviser on the PRC laws states that Gansu Conseco Seabuckthorn Development Co., Ltd. (“甘肅高原聖果沙棘開發有限公司”) has legally obtained the land use rights by lease during the lease period.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, were as follows:

Shares

Name of Director	Nature of interest	Total Interests (Shares)	Approximate percentage or attributable percentage of shareholdings (%)
Mr. But Ka Wai (<i>Note</i>)	Interest of controlled corporation	16,664,000 (<i>Long position</i>)	0.136

Note: These Shares are held by Able Success Group Limited, the entire issued share capital of which is beneficially owned by Mr. But Ka Wai.

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

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Substantial shareholder of the Company

Name of Shareholder	Capacity/ Nature of interest	Number of shares held <i>(Shares)</i>	Approximate percentage or attributable percentage of shareholdings <i>(%)</i>
China Water Affairs Group Limited (“China Water Affairs”) <i>(Note)</i>	Beneficial owner and Interest of controlled corporation	3,318,039,504 <i>(Long position)</i>	27.11

Note: These Shares are held by Sharp Profit Investment Limited, a wholly-owned subsidiary of China Water Affairs. Therefore, China Water Affairs was deemed to be beneficially interested in the said Shares held by Sharp Profit Investments Limited for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors (i) was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group; or (ii) had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. LITIGATION

Neither the Company nor any other member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any other member of the Group as at the Latest Practicable Date.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Company) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date and which are or may be material:

- (a) the agreement for acquisition dated 19 October 2009 entered into between Highest Growth Holdings Limited as vendor and Mega Famous Investment Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of the entire equity interest of Wealth Full Global Investments Limited which owned the entire equity interest in 湖北阜城房地產開發有限公司 (Hubei Funcheng Property Development Limited*) at a total consideration of RMB200,000,000;
- (b) on 31 March 2010, China Water Affairs Group Limited and Sharp Profit Investments Limited, the Company and Kingston Securities Limited entered into the top-up placing and subscription agreement up to 1,386,000,000 placing shares. The subscription was approximately HK\$202.4 million;
- (c) the agreement for acquisition dated 1 April 2010 entered into between 金成房地產集團有限公司 (Jin Cheng Property Group Co., Ltd.*), 周秋羊 (Zhou Qiuyang*) and 倪國明 (Ni Guoming*) as vendors and China Water Real Property Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of the 60% equity interest of 杭州普天房地產開發有限公司 (Hangzhou Pu Tian Property Development Co., Ltd.*) at a total consideration of RMB150,000,000;

- (d) the agreement for acquisition dated 21 May 2010 entered into between 鄭廷玉 (Zheng Tingyu*) as vendor and China Water Property (Hong Kong) Development Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of the 60% equity interest of HK Mei Lai International (Canada) Limited which owned the entire equity interest in 杭州尼加拉置業有限公司 (Hangzhou Niagara Real Estates Co., Ltd.#) at a total consideration of RMB87,000,000; and
- (e) the Sale and Purchase Agreement.

7. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of them or any of their respective associates had any interest in a business (apart from the business of the Group) which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Quam Capital	A corporation licensed to carry type 6 (advising on corporate finance) regulated activity under the SFO
CB Richard Ellis ("CBRE")	Independent professional valuer

Each of Quam Capital and CBRE has given and has not withdrawn its written consent to the issue of this circular with the inclusion of the text of its letter and references to its name and its opinion or advice in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Quam Capital and CBRE did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, neither Quam Capital nor CBRE had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. GENERAL

- (a) The registered office of the Company is located at Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands and the head office and principal place of business of the Company in Hong Kong is located at Suite 6208, 62/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

- (b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (c) The company secretary of the Company is Mr. Chong Ching Hei. Mr. Chong is a member of the Hong Kong Institute of Certified Public Accountants.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at the principal place of business of the Company in Hong Kong at Suite 6208, 62/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the annual reports of the Company for the financial years ended 31 December 2008 and 31 December 2009 respectively;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 11 of this circular;
- (d) the letter of advice from Quam Capital, the text of which is set out on pages 12 to 22 of this circular;
- (e) the property valuation report on the Target Group, the text of which is set out on pages 26 to 40 of this circular;
- (f) the material contracts referred to in the section headed "Material contracts" in this appendix;
- (g) the written consent referred to in the section headed "Experts and consents" in this appendix; and
- (h) a copy of each of the circulars of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 31 December 2009 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

NOTICE OF EGM



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of China Water Property Group Limited (the “**Company**”) will be held at 2nd Floor, On Shing Industrial Building, Nos. 2–16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on Monday, 30 August 2010 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as ordinary resolution:

ORDINARY RESOLUTION

“**THAT**

the conditional agreement (the “**Sale and Purchase Agreement**”) dated 21 July 2010 entered into between 山合林(北京)水土保持技術有限公司 (Shan He Lin (Beijing) Water and Soil Conservation Technique Co., Limited) (the “**Purchaser**”), as purchaser and China Environmental Water Holdings Limited, a wholly-owned subsidiary of the Company (the “**Vendor**”), as vendor in relation to the sale and purchase of 50% equity interest (the “**Sale Interest**”) in Conseco Seabuckthorn Co., Ltd. (the “**Target**”) (a copy of which is marked “A” and produced to the Meeting and signed by the chairman of the Meeting for identification purpose) be and is hereby ratified, confirmed and approved and the directors (the “**Directors**”) of the Company be and are hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Sale and Purchase Agreement and the transactions contemplated thereunder.”

By order of the Board
China Water Property Group Limited
Wang Wenxia
Vice Chairman

Hong Kong, 11 August 2010

NOTICE OF EGM

Registered office:

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

*Head office and principal place
of business in Hong Kong:*

Suite 6208, 62/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies (if the member is holder of two or more shares) to attend and vote in his/her stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong. Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.
3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.