
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Water Property Group Limited (the “Company”), you should at once hand this Prospectus together with the accompanying form of application (together, the “Prospectus Documents”) to the purchaser or transferee, or to the bank, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

A copy of each of the Prospectus Documents, together with the documents mentioned in the paragraph headed “Documents delivered to the Registrar of Companies in Hong Kong” in appendix III to the Prospectus, has been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of any of these documents. Dealings in the securities of the Company may be settled through CCASS (as defined herein) and you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of the settlement arrangements and how such arrangements may affect your rights and interests.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares (as defined herein) on the Stock Exchange (as defined herein) as well as compliance with the stock admission requirements of HKSCC (as defined herein), the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement date of dealings in the Offer Shares or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Hong Kong Exchanges and Clearing Limited, the Stock Exchange and HKSCC take no responsibility for the contents of the Prospectus Documents, make no representation as to their respective accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of these documents.



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)

OPEN OFFER IN THE PROPORTION OF TWO OFFER SHARES FOR EVERY FIVE CONSOLIDATED SHARES HELD ON THE RECORD DATE

The latest time for application and payment for the Offer Shares is 4:00 p.m. (Hong Kong time) on 13 October 2011. The procedures for application of the Offer Shares are set on page 24 of this Prospectus.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. These certain events are set out in the paragraph headed “Termination of the Underwriting Agreement” on page 6 of this Prospectus. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed. Shareholders should note that, based on the expected timetable, the Shares have been dealt in on an ex-entitlement basis commencing from 20 September 2011 and that dealing in the Shares may take place even though the conditions under the Underwriting Agreement remain unfulfilled. Any Shareholder or other person dealing in the Shares to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on or before 18 October 2011), will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed.

Any Shareholder or other persons contemplating dealings in the Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

27 September 2011

EXPECTED TIMETABLE

The expected timetable for the Open Offer as set out below is indicative only. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

Effective date of the Share Consolidation	19 September 2011
Original counter for trading in Pre-Consolidated Shares in board lots of 4,000 Shares (in the form of existing share certificates in yellow brown) temporarily closes.	9:00 a.m. on 19 September 2011
Temporary counter for trading in the Consolidated Shares in board lots of 400 Consolidated Shares (in the form of existing share certificates in yellow brown) opens	9:00 a.m. on 19 September 2011
First day of free exchange of existing share certificates	19 September 2011
First day of operation of odd lot trading facility	19 September 2011
Last day of dealings in Shares on a cum-entitlement basis.	19 September 2011
First day of dealings in Shares on an ex-entitlement basis	20 September 2011
Latest time for lodging transfer of Shares in order to be qualified for the Open Offer	4:30 p.m. on 21 September 2011
Register of members of the Company closed	22 September 2011 to 26 September 2011 (both dates inclusive)
Record Date	26 September 2011
Register of members of the Company re-opens	27 September 2011
Despatch of the Prospectus Documents.	27 September 2011
Original counter for trading in Consolidated Shares in board lots of 4,000 Consolidated Shares (in the form of new share certificates in golden yellow) re-opens	9:00 a.m. on 3 October 2011

EXPECTED TIMETABLE

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

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE

The latest time for acceptance of and payment for the Open Offer will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
 - a “black” rainstorm warning
- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 13 October 2011. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same Business Day;
- (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 13 October 2011. Instead the latest time of acceptance of and payment for the Open Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Open Offer does not take place on 13 October 2011, the dates mentioned in the section headed “Expected Timetable” in this Prospectus may be affected. A press announcement will be made by the Company in such event.

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DEFINITIONS

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

“acting in concert”	has the meaning ascribed thereto under the Takeovers Code
“Announcement”	the announcement of the Company dated 5 August 2011 in relation to, among other matters, the Share Consolidation, the Open Offer, the connected transaction in relation of the Set Off and the Whitewash Waiver
“Application Form”	the application form for use by the Qualifying Shareholder to apply for the Offer Shares
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day on which the Stock Exchange is open for the business in dealing securities
“Chairman”	the chairman of the Board
“China Water” or “Underwriter”	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
“China Water Undertaking”	the irrevocable undertaking given by China Water pursuant to the Underwriting Agreement
“Company”	China Water Property Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
“Consolidated Share(s)”	whole ordinary share(s) of HK\$0.10 each in the share capital of the Company as a result of the Share Consolidation
“Convertible Bonds”	the convertible bonds with principal amount of HK\$81,550,000 convertible into 1,812,222,222 Pre-Consolidated Shares with a conversion price of HK\$0.045 per Pre-Consolidated Share, which is beneficially held by Good Outlook
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company convened on 16 September 2011 approving the Share Consolidation, the absence of excess application arrangement under the Open Offer, the Whitewash Waiver and the Set Off

DEFINITIONS

“Executive”	Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s)
“Good Outlook”	Good Outlook Investments Limited, a wholly owned subsidiary of China Water
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the non-executive Directors (other than Mr. Duan) and independent non-executive Directors to advise the Independent Shareholders in respect of the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the Set Off
“Independent Shareholders”	Shareholders other than China Water, its concert parties and those who are involved in or interested in the Underwriting Agreement, the Open Offer, the Whitewash Waiver and the Set Off who are required by the Listing Rules and/or the Takeovers Code to abstain from voting in respect of the resolution(s) relating to the Open Offer, the Whitewash Waiver and the Set Off to approve the resolutions at the EGM
“Latest Acceptance Date”	being 4:00 p.m. on 13 October 2011 or such other date and/or time as the Underwriter and the Company may agree as the latest date for acceptance and payment in respect of applications under the Open Offer
“Latest Lodging Date”	being 4:30 p.m. on 21 September 2011 or such other date and/or time as the Underwriter and the Company may agree as the latest time for lodging transfer of Shares in order to be qualified for the Open Offer
“Latest Practicable Date”	19 September 2011, being the latest practicable date prior to the printing of this Prospectus to ascertaining certain information herein
“Last Trading Date”	28 July 2011, being the last trading day of the Shares prior to the release of the Announcement of the Company dated 5 August 2011
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Loan”	the loan of approximately HK\$112 million as at the Latest Practicable Date owed by the Company to China Water
“Mr. Duan”	Mr. Duan Chuan Liang, being (i) the Chairman and non-executive Director of the Company; and (ii) the chairman and executive director of China Water
“Open Offer”	the proposed issue of Offer Shares on the basis of two (2) Offer Shares for every five (5) Consolidated Shares to Qualifying Shareholders at the Subscription Price, pursuant to the terms and conditions of the Underwriting Agreement
“Offer Share(s)”	502,492,246 Consolidated Shares to be allotted and issued pursuant to the Open Offer
“Overseas Letter”	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer
“Overseas Shareholders(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) as shown on such register is(are) outside Hong Kong
“Pre-Consolidated Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company prior to the Share Consolidation becoming effective
“Prohibited Shareholders”	such Overseas Shareholders, to whom the Directors, based on legal opinions provided by legal advisers and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Offer Shares
“Prospectus”	this prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and the Application Form to be used by the Qualifying Shareholders to apply for the Offer Shares
“Prospectus Posting Date”	27 September 2011 or such later date as the Underwriter may agree in writing with the Company
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Prohibited Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	26 September 2011, being the date by reference to which entitlements to the Open Offer had been determined

DEFINITIONS

“Registrar”	Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, being the Company’s Hong Kong branch share registrar
“Set Off”	the set off of the Subscription Price against the Loan for the Offer Shares to which China Water and its associates are entitled under the Open Offer
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	Pre-Consolidated Share(s) or Consolidated Share(s), as the case maybe
“Share Consolidation”	the consolidation of every ten (10) Pre-Consolidated Shares of HK\$0.01 each in the issued and unissued share capital of the Company into one (1) Consolidated Share of HK\$0.10 in the issued and unissued share capital of the Company
“Share Option(s)”	the share option(s) granted under the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company
“Sharp Profit”	Sharp Profit Investments Limited, a wholly owned subsidiary of China Water
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	subscription price of HK\$0.50 per Offer Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement dated 28 July 2011 entered into among the Company and the Underwriter in relation to the Open Offer
“Underwritten Shares”	357,369,361 Offer Shares underwritten by China Water as the Underwriter under the Underwriting Agreement
“Whitewash Waiver”	the whitewash waiver from the obligation of the Underwriter to make a mandatory offer under Rule 26 of the Takeovers Code as a result of the underwriting of the Offer Shares under the Underwriting Agreement pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code
“%”	percent
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

SUMMARY OF THE OPEN OFFER

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

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

TERMINATION OF THE UNDERWRITING AGREEMENT

TERMINATION OF THE UNDERWRITING AGREEMENT

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

- (1) in the sole and absolute discretion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

TERMINATION OF THE UNDERWRITING AGREEMENT

- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or
- (5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares provisionally allotted to it,

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

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

- (a) any material breach of any of the warranties or undertakings under the Underwriting Agreement; or
- (b) any specified event described in the Underwriting Agreement comes to the knowledge of the Underwriter.

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:

Ms. Wang Wenxia

(Vice Chairman and Chief Executive Officer)

Mr. Ren Qian

Non-executive Directors:

Mr. Duan Chuan Liang *(Chairman)*

Mr. Zhou Kun

Independent non-executive Directors:

Mr. Chan Pok Hiu

Mr. Wong Chi Ming

Mr. Wang Jian

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

*Principal place of business
in Hong Kong:*

Suite 6208, 62nd Floor

Central Plaza

18 Harbour Road

Wanchai, Hong Kong

27 September 2011

To the Shareholders

Dear Sir or Madam,

**OPEN OFFER IN THE PROPORTION OF
TWO OFFER SHARES FOR EVERY FIVE CONSOLIDATED SHARES
HELD ON THE RECORD DATE**

INTRODUCTION

Reference is made to the Announcement in relation to, among others, the Share Consolidation, the Whitewash Waiver, the Set Off and the Open Offer of 502,492,246 Offer Shares at a subscription price of HK\$0.50 per Offer Share payable in full on application on the basis of two (2) Offer Shares for every five (5) Consolidated Shares held on the Record Date.

Reference is also made to the circular of the Company dated 31 August 2011 with the notice of the EGM. All resolutions as set out in the EGM notice have been duly passed and approved on 16 September 2011 at the EGM.

The purpose of this Prospectus is to provide you with further details of the Open Offer including information on dealings in and application for the Offer Shares, and certain financial and other information of the Group.

LETTER FROM THE BOARD

OPEN OFFER

The Board proposes to raise approximately HK\$250 million before expenses by issuing 502,492,246 Offer Shares at the Subscription Price of HK\$0.50 per Offer Share on the basis of two (2) Offer Shares for every five (5) Consolidated Shares held on the Record Date.

Issue statistics

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

LETTER FROM THE BOARD

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

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

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

Subscription Price

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

The Subscription Price represents:

- (i) a discount of approximately 54.95% to the closing price of HK\$1.11 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 55.91% to the average closing price of HK\$1.134 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Date;
- (iii) a discount of approximately 46.58% to the theoretical price of approximately HK\$0.936 per Consolidated Share (assuming that the Share Consolidation has become effective) based on the closing price of HK\$1.11 per Consolidated Share (assuming that the Share Consolidation has become effective) as quoted on the Stock Exchange on the Last Trading Date; and
- (iv) a discount of approximately 15.25% to the closing price of HK\$0.59 per Consolidated Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

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

Conditions of the Open Offer

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

- (a) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the Listing Rules and the Companies Ordinance not later than the date on which the Prospectus for the Open Offer is despatched;
- (b) the passing by the Independent Shareholders (or, where appropriate, Shareholders) at the relevant EGM of ordinary resolutions to approve the lack of excess application arrangement in the Open Offer and the Whitewash Waiver by no later than the date on which the Prospectus for the Open Offer is despatched;
- (c) the posting of the Prospectus Documents for the Open Offer to the Qualifying Shareholders of the Company and the posting of the Prospectus for the Open Offer and a letter in the agreed form to the Prohibited Shareholders as defined in the Underwriting Agreement, if any, for information purpose only explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus for the Open Offer is despatched;
- (d) the Executive Director of the Securities and Futures Commission or his delegate granting the Whitewash Waiver to China Water and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;

LETTER FROM THE BOARD

- (e) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares by no later than the date on which the Prospectus for the Open Offer is despatched;
- (f) if necessary, the passing by the Independent Shareholders at the relevant EGM of ordinary resolutions to approve the Set Off of the Loan;
- (g) compliance with and performance of all the undertakings and obligations of the Company under the terms of the Underwriting Agreement;
- (h) compliance with and performance of all the undertakings and obligations of the China Water under the terms of the Underwriting Agreement and the China Water Undertaking; and
- (i) the Share Consolidation having become effective.

As at the Latest Practicable Date, save for conditions (b), (d), (f) and (i), none of the aforesaid conditions have been fulfilled.

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

Status of the Open Offer

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

Qualifying Shareholders

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

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

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Registrar, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East,

LETTER FROM THE BOARD

Wanchai, Hong Kong by no later than 4:30 p.m. on the Latest Lodging Date. Holders of Share Options who wish to participate in the Open Offer should exercise their Share Options in accordance with their respective terms no later than the Latest Lodging Date.

Closure of register of members

The Company's register of members had been closed from 22 September 2011 to 26 September 2011, both dates inclusive, for the purpose of, among other things, establishing entitlements to the Open Offer. No transfer of Shares were registered during this period.

Rights of Overseas Shareholders and Prohibited Shareholders

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

As at the Latest Practicable Date, there are Overseas Shareholder(s) with registered addresses located in the British Virgin Islands. The Directors have, in compliance with Rule 13.36 of the Listing Rules, conducted enquiries regarding the feasibility of extending the Open Offer to such Overseas Shareholder(s).

Based on the legal opinions provided by the legal advisers in the relevant jurisdiction(s), the Directors consider that the Offer Shares can be offered to the Overseas Shareholder(s) with registered addresses located in the British Virgin Islands as there are no legal restrictions for the Company on offering of the Offer Shares to these Overseas Shareholder(s) with registered address in the British Virgin Islands. Accordingly, there are no Overseas Shareholders being prohibited from the Open Offer. The Prospectus Documents will be sent to the Overseas Shareholder(s) accordingly. There are no Prohibited Shareholders for the Open Offer.

It is the responsibility of the Shareholders (including the Overseas Shareholders) to observe the domestic legal and regulatory requirements applicable to them for taking up and onward sale (if applicable) of the Offer Shares.

Fractional entitlement to the Offer Shares

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

LETTER FROM THE BOARD

No application for excess Offer Shares

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

Share certificates for the Offer Shares

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

Application for listing of the Offer Shares on the Stock Exchange

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

Subject to the granting of listing of, and permission to deal in, the Open Offer Shares on the Stock Exchange, the Open Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Open Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Reasons for the Open Offer and the use of proceeds

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

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

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

LETTER FROM THE BOARD

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

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

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

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

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

UNDERWRITING ARRANGEMENT

China Water Undertaking

Pursuant to the Underwriting Agreement, China Water has given the irrevocable China Water Undertaking in favour of the Company that (a) to subscribe for or procure subscriptions for: (i) approximately 31,508,246 Offer Shares to which China Water is entitled under the Open Offer; (ii) 64,532,373 Offer Shares and 47,880,000 Offer Shares to which Good Outlook and Sharp Profit is entitled under the Open Offer respectively; and (iii) 1,202,265 Offer Shares to which Mr. Duan is entitled under the Open Offer; and (b) to procure (i) Good Outlook not to convert the Convertible Bonds prior to the completion of the Open Offer; and (ii) Mr. Duan not to exercise the Share Options held by him prior to the Completion of the Open Offer.

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

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Underwriting Agreement

Date: 28 July 2011

Underwriter: China Water

China Water is a listed company incorporated in the Cayman Islands and continued in Bermuda with limited liability and the issued shares of which listed on the main board of the Stock Exchange.

China Water, together with Good Outlook, Sharp Profit and Mr. Duan, hold an aggregate of 3,628,072,138 Pre-Consolidated Shares (equivalent to approximately 362,807,213 Consolidated Shares) at the date of the Underwriting Agreement, representing approximately 28.88% of the issued share capital of the Company.

The ordinary course of business of China Water does not include underwriting.

Number of Offer Shares underwritten: Pursuant to the Underwriting Agreement, China Water as the underwriter has conditionally agreed to underwrite the Offer Shares (other than the Offer Shares agreed to be taken up under the China Water Undertaking) which have not been taken up. Accordingly, the Open Offer is fully underwritten.

Commission: No underwriting commission will be payable by the Company to the Underwriter under the Underwriting Agreement.

Termination of the Underwriting Agreement

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

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

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- (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
 - (3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
 - (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or
 - (5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares provisionally allotted to it,

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

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

- (a) any material breach of any of the warranties or undertakings under the Underwriting Agreement; or
- (b) any specified event described in the Underwriting Agreement comes to the knowledge of the Underwriter.

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

CONNECTED TRANSACTION: THE SET OFF OF THE LOAN

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

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

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

Reasons for the Set Off

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

While the Loan from China Water of HK\$112 million might be extended when it falls due, the Set Off was agreed after arm's length negotiations between the Company and China Water as underwriter. In the event of absence of the Set Off arrangement in the Open

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Offer, China Water will have additional cash outflow of HK\$112 million under the Open Offer and this will affect the willingness of China Water to act as underwriter for the Open Offer. Given that China Water will not charge any underwriting commission and the Loan was utilized towards the property development projects of the Company, the Company considers that the Set Off arrangement is fair and reasonable. The Set Off has been duly approved by the Independent Shareholders at the EGM held on 16 September 2011.

Implications under Listing Rules

Since China Water and its concert parties are substantial Shareholders, the Set Off constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and requires the approval of the Independent Shareholders. The Set Off has been duly approved by the Independent Shareholders at the EGM held on 16 September 2011.

WARNING OF THE RISK OF DEALING IN SHARES

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

Shareholders should note that Shares will be dealt in on an ex-entitlement basis commencing from 20 September 2011 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled, will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

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CHANGES IN SHAREHOLDING STRUCTURE

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

Shareholder	At the Latest Practicable Date		Immediately after the Open Offer (assuming no Shareholder taking up any Offer Shares)		Immediately after the Open Offer (assuming that all Shareholders taking up their respective entitlements)		Immediately after the Open Offer (assuming no Shareholder taking up any Offer Shares) and after full conversion of the Convertible Bonds by Good Outlook (Note 3)		Immediately after the Open Offer (assuming that all Shareholders taking up their respective entitlements) and after full conversion of the Convertible Bonds by Good Outlook (Note 3)	
	No. of Consolidated Shares	Approximate percentage	No. of Consolidated Shares	Approximate percentage	No. of Consolidated Shares	Approximate percentage	No. of Shares	Approximate percentage	No. of Shares	Approximate percentage
<i>China Water and its concert parties</i>										
China Water (Note 1)	78,770,617	6.27%	467,648,225	26.59%	110,278,865	6.27%	467,648,225	24.11%	110,278,865	5.68%
Good Outlook (Note 1)	161,330,933	12.84%	225,863,306	12.84%	225,863,306	12.84%	407,085,528	20.98%	407,085,528	20.98%
Sharp Profit (Note 1)	119,700,000	9.53%	167,580,000	9.53%	167,580,000	9.53%	167,580,000	8.64%	167,580,000	8.64%
Mr. Duan (Note 2)	3,005,663	0.24%	4,207,928	0.24%	4,207,928	0.24%	4,207,928	0.22%	4,207,928	0.22%
<i>Subtotal</i>	<i>362,807,213</i>	<i>28.88%</i>	<i>865,299,459</i>	<i>49.20%</i>	<i>507,930,099</i>	<i>28.88%</i>	<i>1,046,521,681</i>	<i>53.95%</i>	<i>689,152,321</i>	<i>35.52%</i>
Other Shareholders	893,423,402	71.12%	893,423,402	50.80%	1,250,792,762	71.12%	893,423,402	46.05%	1,250,792,762	64.48%
Total	1,256,230,615	100%	1,758,722,861	100%	1,758,722,861	100%	1,939,945,083	100%	1,939,945,083	100%

Notes

- Good Outlook and Sharp Profit are wholly-owned subsidiaries of China Water, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability the issued shares of which are listed on the main board of the Stock Exchange (Stock Code: 855). The number of Shares of China Water shown in above table also include those Offer Shares created from the aggregation of fractions of Offer Shares to be taken up by China Water as underwriter.
- Mr. Duan is the Chairman and non-executive Director of the Company and is also the chairman and executive director of China Water.
- Pursuant to the China Water Undertaking, Good Outlook may not convert the Convertible Bonds into conversion Shares prior to the completion of the Open Offer. Furthermore, pursuant to the terms of the Convertible Bonds, no conversion of the Convertible Bonds will be allowed if such conversion shall trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the relevant holder of the Convertible Bonds who exercises the conversion rights. As such, the above shareholding table is for illustrative purpose only.

ADJUSTMENTS IN RELATION TO THE SHARE OPTIONS AND THE CONVERTIBLE BONDS

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

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

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

FUNDS RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

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

WHITEWASH WAIVER

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

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

- (a) China Water directly holds 787,706,172 Pre-Consolidated Shares (equivalent to approximately 78,770,617 Consolidated Shares), representing approximately 6.27% of the existing issued share capital of the Company;
- (b) Good Outlook, a wholly owned subsidiary of China Water, holds 1,613,309,332 Shares (equivalent to approximately 161,330,933 Consolidated Shares), representing approximately 12.84% of the existing issued share capital of the Company and is also holder of the Convertible Bonds issued by the Company with outstanding principal amount of HK\$81,550,000 convertible into 1,812,222,222 Pre-Consolidated Shares (equivalent to approximately 181,222,222 Consolidated

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Shares and representing approximately 14.43% of the entity issued share capital of the Company) at the existing conversion price of HK\$0.045 per Pre-Consolidated Share;

- (c) Sharp Profit, a wholly owned subsidiary of China Water, holds 1,197,000,000 Shares (equivalent to approximately 119,700,000 Consolidated Shares), representing approximately 9.53% of the existing issued share capital of the Company; and
- (d) Mr. Duan is (i) the Chairman and non-executive Director of the Company; (ii) the chairman and executive director of China Water; (iii) the legal and beneficial owner of 30,056,634 Pre-Consolidated Shares (equivalent to approximately 3,005,663 Consolidated Shares), representing approximately 0.24% of the existing issued share capital of the Company and 122,376,000 share options granted under the share option scheme adopted by the Company; and (iv) the legal and beneficial owner of 322,874,301 shares of HK\$0.01 each in the share capital of China Water, representing about 20.30% of the issued share capital of China Water.

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

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

The relevant resolution in respect of the Whitewash Waiver has been duly approved by the Independent Shareholders at the EGM and the Whitewash Waiver has been granted by the Executive.

LISTING RULES IMPLICATIONS

As at the date of the Announcement, China Water and its concert parties in aggregate hold approximately 28.88% of the issued share capital of the Company and therefore China Water is a connected person of the Company. The Set Off as contemplated under the Underwriting Agreement therefore constitutes connected transaction on the part of the

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Company under Chapter 14A of the Listing Rules. The Set Off is subject to the reporting and announcement requirements and the approval of the Independent Shareholders at the EGM under the Listing Rules.

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

The relevant resolutions in relation to the Open Offer and the absence of excess application and the alternative arrangement have been duly passed by the Independent Shareholders at the EGM.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

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

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

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

TAXATION

The Directors consider that there is no tax implication on the Company resulting from the Open Offer. However, Shareholders should note that dealing in the Offer Shares on the Stock Exchange will be subject to the payment of stamp duty in Hong Kong, Stock Exchange trading fees, SFC transaction levy and other applicable fees and charges in Hong Kong. In addition, Shareholders should note that the taxation implications on them arising from the acquisition of, holding of or dealing in the Offer Shares may differ depending on

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their individual circumstances. Shareholders are recommended to consult their professional advisers if they are in doubt as to their tax position under the Open Offer. It is emphasized that none of the Company, the Directors or any other parties involved in the Open Offer accept responsibility for any tax effects or liabilities of any Shareholders or potential investors resulting from the Open Offer.

PROCEDURE FOR APPLICATION AND PAYMENT

If you are a Qualifying Shareholder, you will find the Application Form enclosed with this Prospectus which entitles you to apply for the number of Offer Shares in your assured entitlement shown thereon. If you wish to apply for such Offer Shares or any lesser number of such Offer Shares, you must complete, sign and lodge the same in accordance with the instructions printed thereon, together with the remittance for full amount payable on application with the Registrar by not later than 4:00 p.m. (Hong Kong time) on 13 October 2011. All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and banker's cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "China Water Property Group Limited — Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the Application Form, together with the appropriate remittance, has been lodged with the Registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by not later than 4:00 p.m. (Hong Kong time) on 13 October 2011 by the Qualifying Shareholder, his/her/its entitlement to apply under the Open Offer will be deemed to have been declined and will be cancelled.

All cheques or banker's cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any Application Form in respect of which the cheque or cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant entitlements of the Qualifying Shareholder under the Open Offer will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement before the Latest Time for Termination and/or if any of the conditions to which the Open Offer is subject are not fulfilled in accordance with the section headed "Conditions of the Open Offer", the application monies will be refunded, without interest, by sending cheques made out to the applicants (or in the case of joint applicants, to the first named applicant) and crossed "Account Payee Only", through ordinary post at the risk of the applicants to the address as registered in the register of members of the Company on or before 24 October 2011. Under the Underwriting Agreement, the Underwriters will subscribe or procure subscribers for the Offer Shares not subscribed by the Qualifying Shareholders.

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The Application Form is for use only by the person(s) named therein and is not transferable or renounceable. All documents, including cheques and cashier orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses. No receipt will be issued in respect of any application monies received.

FURTHER INFORMATION

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

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

1. FINANCIAL SUMMARY

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

RESULTS

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

ASSETS AND LIABILITIES

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

Note:

- There were no dividends declared or paid for the three years ended 31 December 2008, 2009 and 2010. There were no items that are exceptional because of size, nature or incidence during each of the three financial years ended 31 December 2008, 2009 and 2010.
- The diluted earnings per Share for the year ended 31 December 2010 are based on the profit attributable to the equity holders assuming that the Convertible Bonds have been converted. Diluted loss per share for the years ended 31 December 2009 and 2008 were not presented as the impact of the conversion of convertible bonds was anti-dilutive. For further details of the calculation of the earnings per Share, please refer to the financial note 14 on page 88 of annual report of the Company for the year ended 31 December 2010.

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

The audited financial information of the Group for each of the three years ended 31 December 2008, 2009, and 2010 can be referred to the annual reports of the Company for the years ended 31 December 2008, 2009 and 2010 which published on 28 April 2009, 2010 and 2011 respectively.

The above-mentioned financial information has been published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.waterpropertygroup.com). The auditors of the Company have not issued any qualified opinion on the Group's financial statements for the financial years ended 31 December 2008, 2009 and 2010.

3. UNAUDITED INTERIM FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2011

The unaudited financial information of the Group for the six months ended 30 June 2011 can be referred to the interim results announcement of the Group published on 30 August 2011.

The above-mentioned financial information has been published on both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.waterpropertygroup.com).

4. STATEMENT OF INDEBTEDNESS

Borrowings

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

Securities and guarantees

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

- (i) Charges on certain land and buildings situated in Hong Kong together with relevant land use rights situated in the PRC with an aggregate carrying value of approximately HK\$354,467,000;
- (ii) Charges on certain bank deposits of the Group with an aggregate carrying value of approximately HK\$3,307,000;

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

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

Commitments and contingent liabilities

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

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

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

Disclaimer

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

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

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

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse, change in the financial or trading position or outlook of the Group since 31 December 2010, the date to which the latest published audited financial statements of the Group were made up.

6. WORKING CAPITAL

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

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

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

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

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

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

Note:

1. The issue of 502,492,246 Offer Shares at the Subscription Price of HK\$0.50 per Offer Share on the basis of two Offer Shares for every five Consolidated Shares held on the Latest Practicable Date. Details of the movement in number of issued Shares from 30 June 2011 up to the Latest Practicable Date is as follows:

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

2. The unaudited consolidated net tangible assets of the Group attributable to the equity holders of the Company is based on the unaudited consolidated statement of financial position of the Group as at 30 June 2011, the equity attributable to owners of the Company of approximately HK\$1,238,859,000 less the goodwill of approximately HK\$174,605,000, the total amount is approximately HK\$1,064,254,000, as extracted from both the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.waterpropertygroup.com).
3. The calculation of estimated net proceeds of Open Offer is based on 502,492,246 Offer Shares at the Subscription Price of HK\$0.50 per Offer Share, after deduction of the estimated related expenses of approximately HK\$2,000,000.
4. The number of Shares used for the calculation of unaudited consolidated net tangible assets per Share as at 30 June 2011 and prior to the completion of the Open Offer and on the assumption that the share consolidation of 10 shares into 1 share had been completed as at 30 June 2011 is 1,256,230,615 Shares.
5. The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to the equity holders of the Company after the completion of the Open Offer is calculated based on 1,758,722,861 Shares in issue upon completion of the Open Offer, which represents the 1,256,230,615 Shares in issue as at the Latest Practicable Date and 502,492,246 Offer Shares expected to be issued on the completion of the Open Offer.
6. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2011.

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

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

恒健會計師行
HLM & Co.
Certified Public Accountants

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

Dear Sirs,

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the “Unaudited Pro Forma Financial Information”) of China Water Property Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out in Appendix II of the prospectus dated 27 September 2011 (the “Prospectus”). The Unaudited Pro Forma Financial Information has been prepared by Directors of the Company, for illustrative purpose only, to provide information about how the proposed Open Offer on the basis of two Offer Shares for every five Consolidated Shares (as defined in the Prospectus) held on the Record Date (as defined in the Prospectus) at the Subscription Price of HK\$0.50 per offer share, might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the introduction and notes to the Unaudited Pro Forma Financial Information as set out in Section 1 of this Appendix.

Responsibilities

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

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

Basis of opinion

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

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

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of Listing Rules.

Yours faithfully,

HLM & Co.

Certified Public Accountants

Hong Kong, 27 September 2011

RESPONSIBILITY STATEMENT

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

SHARE CAPITAL

Authorised capital: HK\$

<u>5,000,000,000</u>	ordinary Consolidated Shares of HK\$0.10 each	<u>500,000,000</u>
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Issued and fully paid or credited as fully paid:

1,256,230,615	ordinary Consolidated Shares of HK\$0.10 each	125,623,061.50
<u>502,492,246</u>	Offer Shares to be issued	<u>50,249,224.60</u>
<u>1,758,722,861</u>	Consolidated Shares	<u>175,872,286.10</u>

As at the Latest Practicable Date, save for the 244,752,000 Share Options for 244,752,000 Pre-Consolidated Shares (equivalent 24,475,200 Consolidated Shares) and the Convertible Bonds, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

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

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

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

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

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

DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives and their associates in the shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company or any of its associated corporations) and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or that was required to be recorded pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

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

Name of Director	Capacity	Number of ordinary shares	Total Number of ordinary shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficial owner	3,005,663	3,005,663	0.239%
Ms. Wang Wenxia	Beneficial owner	879,600	879,600	0.070%
Mr. Ren Qian	Beneficial owner	186,000	186,000	0.015%

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

Name of Director	Capacity	Number of underlying shares	Approximate percentage of shareholding
Mr. Duan Chuan Liang	Beneficial owner	12,237,600 (Note)	0.974%
Ms. Wang Wenxia	Beneficial owner	12,237,600 (Note)	0.974%

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

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

required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

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

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

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

Name of substantial shareholders	<i>Note</i>	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding (%)
China Water Affairs Group Limited	(1)	Beneficial owner and Interest of controlled corporation	359,801,550	28.641%
China Financial International Investments Limited		Interest of controlled corporation	113,529,421	9.037%
China Financial International Investments and Management Limited	(2)	Investment manager	113,529,421	9.037%

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

Name of substantial shareholders	<i>Note</i>	Capacity/ Nature of interest	Number of underlying shares	Approximate percentage of shareholding (%)
China Water Affairs Group Limited	(3)	Interest of controlled corporation	181,222,222	14.426%

Notes:

- (1) These shares of the Company held by Sharp Profit and Good Outlook which are wholly owned subsidiaries of China Water. Therefore, China Water Affairs was deemed to be beneficially interested in the said shares of the Company held by Sharp Profit and Good Outlook for the purposes of the SFO.
- (2) These shares of the Company were held by China Financial International Investments and Management Limited (“CFIIM”) which is owned by as to 51% by Capital Focus Asset Management Limited (“Capital Focus”), 29% by China Financial International Investments Limited (Stock Code: 721) (“CFII”). Accordingly, for the purposes of the SFO, Capital Focus is deemed to have the same interests in the Company as CFIIM.
- (3) Convertible notes in the principal amount of HK\$81,550,000 carrying the rights to subscribe for shares at conversion price of HK\$0.045 per share was issued by the Company to Good Outlook on 13 November 2007 to satisfy part of the consideration of the acquisition of the entire issued share capital of China Environmental Water Holdings Limited. If the conversion rights attached to the convertible notes had been fully exercised, 1,812,222,222 shares would be issued at the conversion price of HK\$0.045 per share. China Water Affairs is deemed to be interested in the said underlying shares by virtue of its wholly owned interest in Good Outlook.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

DIRECTORS’ SERVICE CONTRACTS

Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian as the independent non-executive Directors who are proposed for re-election at the AGM have service contracts with the Company which are determinable by the Group within one year with payment of compensation, other than statutory compensation. There is a 3 years term of service contract entered into between Mr. Chan Pok Hiu, Mr. Wong Chi Ming, Mr. Wang Jian and the Company and they will be subject to retirement by rotation in accordance with the Articles and Listing Rules. Their remuneration are fixed at HK\$3,000 per month, which is determined by the Board with reference to their duties and responsibilities with the Company, the Company’s remuneration policy and the prevailing market conditions, and are subject to approval the remuneration committee of the Company. The remuneration of each of Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian is not variable although discretionary management bonus and/or share options under the share option scheme adopted by the Company may be granted subject to the determination of the Board and the approval of the remuneration committee of the Company.

Ms. Wang Wenxia (“Ms. Wang”) has been appointed as the chief executive officer of the Company with effect from 17 January 2011 and Ms. Wang has also entered into the service agreement with the Company on 17 January 2011. The term of the service agreement will be for three years commencing from the date of the service agreement subject to compliance with the relevant provisions of the Listing Rules.

Ms. Wang shall be entitled to a salary of HK\$300,000 per month, with housing allowance of not more than HK\$50,000 per month, together with discretionary management bonus and such share options which may be granted under the share option scheme adopted by the Company to be determined by the Board. Ms. Wang’s emolument has been reviewed by the remuneration committee of the Company.

Save as disclosed above, none of the Directors has service contract with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) have been entered into or amended within 6 months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

DIRECTORS’ INTEREST IN ASSETS

None of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2010 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

DIRECTORS’ INTEREST IN CONTRACT OR ARRANGEMENT

So far as the Directors are aware of, none of themselves or the substantial Shareholders (as defined in the Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

EXPERT AND CONSENTS

The following is the qualification of the expert who has given opinion or advice which is contained in this Prospectus:

Name	Qualifications
HLM	Certified Public Accountants

HLM has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion herein of its letter or its name in the form and context in which they respective appear.

HLM does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

HLM does not have any direct or indirect interests in any assets which have been, since 31 December 2010 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries after the date the two years immediately preceding the Announcement and up to the Latest Practicable Date and are or may be material:

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

acquisition of the 60% equity interest of 杭州普天房地產開發有限公司 (Hangzhou Pu Tian Property Development Co., Ltd.*) at a total consideration of RMB150,000,000;

- (d) the agreement for acquisition dated 21 May 2010 entered into between 鄭廷玉 (Zheng Tingyu*) as vendor and China Water Property (Hong Kong) Development Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the acquisition of the 60% equity interest of HK Mei Lai International (Canada) Limited which owned the entire equity interest in 杭州尼加拉置業有限公司 (Hangzhou Niagara Real Estates Co., Ltd.*) at a total consideration of RMB87,000,000;
- (e) the sale and purchase agreement for disposal dated 21 July 2010 entered into between 山合林(北京)水土保持技術有限公司 (Shan He Lin (Beijing) Water and Soil Conservation Technique Co., Limited*) as purchaser and China Environmental Water Holdings Limited, a wholly owned subsidiary of the Company, as vendor in relation to the disposal of the 50% equity interest of Conseco Seabuckthorn Co., Ltd at a cash consideration of RMB24,430,000;
- (f) the agreement for acquisition dated 6 January 2011 entered into between 武漢海螺商貿投資管理有限公司 (Wuhan Hailuo Commercial Investment Management Co. Ltd.*) as vendor and 水務地產湖北有限公司 (Water Property Hubei Limited*), a wholly owned subsidiary of the Company as purchaser in relation to the acquisition of the entire equity interest of 武漢市中南汽車配件配套有限責任公司 (Wuhan Zhong Nan Automobile Parts and Accessories Co. Ltd.*) at a total consideration of RMB105,000,000; and
- (g) the Underwriting Agreement.

* *The English translation of Chinese names or words for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to amount approximately HK\$2 million and are payable by the Company.

MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	Closing price of the Shares (HK\$)
31 January 2011	0.115
28 February 2011	0.103
31 March 2011	0.107
29 April 2011	0.102
31 May 2011	0.098
30 June 2011	0.128
28 July 2011 (the Last Trading Day)	0.111
31 July 2011	Suspended
31 August 2011	0.067
19 September 2011 (the Latest Practicable Date and after the Share Consolidation having become effective)	0.59 (equivalent to 0.059 prior to the Share Consolidation having become effective)

The highest and lowest prices at which the Shares have traded on the Stock Exchange in each of the previous twelve calendar months immediately prior to the Latest Practicable Date were as follows:

	Highest HK\$	Lowest HK\$
2010		
August	0.129	0.114
September	0.135	0.110
October	0.118	0.096
November	0.103	0.086
December	0.113	0.084
2011		
January	0.113	0.099
February	0.118	0.101
March	0.113	0.097
April	0.110	0.100
May	0.109	0.093
June	0.129	0.090
July	0.126	0.108
August	0.105	0.066
September (up to the Latest Practicable Date and assuming the price is based upon equivalent price prior to the Share Consolidation having become effective)	0.072	0.054

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing from 5 February 2011, being the date six months preceding the date of the Announcement, and ending on the Latest Practicable Date were HK\$0.128 as quoted on 30 June 2011 and HK\$0.59 (equivalent to HK\$0.059 prior to the Share Consolidation having become effective) as quoted on 19 September 2011 respectively.

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	Suite 6208, 62nd Floor Central Plaza 18 Harbour Road Wanchai, Hong Kong
Authorised representatives	Mr. Duan Chuan Liang Ms. Wang Wenxia
Company Secretary	Mr. Li Chi Chung <i>Practising Solicitor</i>
Legal advisor to the Company	<i>As to Hong Kong Law</i> Michael Li & Co 14th Floor, Printing House 6 Duddell Street Central Hong Kong <i>As to Cayman Islands law:</i> Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Auditors and reporting accounts	HLM & Co. <i>Certified Public Accountants</i> Room 305, Arion Commercial Centre 2-12 Queen's Road West, Hong Kong
Underwriter	China Water

Principal share registrar	HSBC Trustee (Cayman) Limited P.O. Box 484, HSBC House 68 West Bay Road Grand Cayman, KY1-1106 Cayman Islands
Hong Kong branch share registrar	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal Bankers	Chiyu Banking Corporation Limited No. 78 Des Voeux Road Central Hong Kong DBS Bank (Hong Kong) Limited 16th Floor, The Center 99 Queen's Road Central, Hong Kong The Hongkong and Shanghai Banking Corporation Limited Level 10, HSBC Main Building 1 Queen's Road Central, Hong Kong

PARTICULARS OF DIRECTORS

Executive Directors

Ms. Wang Wenxia (“Ms. Wang”), aged 51, is the Vice Chairman, an executive Director and chief executive officer of the Company. Ms. Wang was responsible for the overall strategic development, making decisions for investment projects and determining the direction of development of the Group. Ms. Wang holds a master degree in finance from Dongbei University of Finance and Economics. Ms. Wang currently holds senior management positions in various unlisted companies incorporated in the PRC. Ms. Wang has active experience at the management level in structured finance for nearly 20 years, including investment, merger and acquisition, asset management services. Ms. Wang also has management experience spanning various industries including real estate, mining, mineral processing, import and export etc.

Ms. Wang was the chairman, the executive director and the chief executive officer of China Financial International Investments Limited (Stock Code: 721), a company listed on the main board of the Stock Exchange during the past three year until her resignation on 17 January 2011.

Mr. Ren Qian (“Mr. Ren”), aged 51, was responsible for strategic development and properties management of the Group. Mr. Ren graduated from the North China University of Water Conservancy and Electronic Power majoring in Agricultural Water (農水系) in 1983 and obtained a Master of Business Administration from the Beijing Normal University in 2001. He has nearly 31 years of experience in the water resources management industry, the housing and urban-rural development industry and the real estate industry in the PRC. Mr. Ren was the secretary of the office minister of The Ministry of Water Resources of the PRC and The Ministry of Housing and Urban-Rural Development of the PRC respectively. Mr. Ren was also the deputy mayor of The People’s Government of Hebei Province, Langfang City and the deputy general manager of The Housing and Urban-Rural Development Huatong Real Estate Limited[#] (建設部華通置業有限公司). Prior to joining the Group, Mr. Ren was the senior advisor of the board chairman of Beijing Yinghe Real Property Company[#] (北京盈和房地產公司).

Non-executive Directors

Mr. Duan Chuan Liang (“Mr. Duan”), aged 48, is the Chairman of the Company and a non-executive Director. Mr. Duan was graduated from the North China College of Water Conservancy and Hydro Power with a bachelor degree, major in irrigation and water conservancy works. Mr. Duan had been working for the Ministry of Water Resources of the PRC Government for more than 10 years. Mr. Duan has approximately 20 years experience in water conservancy management, real estate development experience. Mr. Duan is the chairman and the executive director of China Water (Stock Code: 855), a company listed on the main board of the Stock Exchange and a director of numerous enterprises in the PRC. Mr. Duan was appointed as the Chairman and non-executive Director of the Company on 25 October 2010.

Mr. Zhou Kun (“Mr. Zhou”), aged 44, graduated from the Xian Institute of Industry[#] (西安輕工學院) majoring in fine arts technology in 1987. He has over 21 years of experience in media, advertising and real estate industry in Shenzhen of the PRC. Mr. Zhou was the art director of Shenzhen Legal System Newspaper[#] (深圳法制報) and the general manager of Shenzhen Xinli Chuanren Advertising Limited[#] (深圳市信立傳人廣告有限公司).

Independent non-executive Directors

Mr. Chan Pok Hiu (“Mr. Chan”), aged 43, is a seasoned investment banker with more than 17 years of proven track record. He has held many senior positions in various renowned international banks. While he has mainly focused his efforts on PRC deal making in recent years, he has accumulated vast experience in back office support, business management and risk control functions.

Mr. Chan has spent the last 6 years with Standard Bank Group. As a core member of Asia Originations Team at Standard Bank Asia Limited, Mr. Chan is responsible for originate, structure and distribute deals which cover product areas such as Investment Banking (i.e. lending), Global Markets (i.e. equities derivatives), Resource Banking (i.e. mining project financing) and Private Equities. Before joining Standard Bank, Mr. Chan had been the operations director and alternate chief executive for Fleet National Bank, Hong Kong Branch (now part of Bank of America), responsible for the overall policy-

making, direction, co-ordination, planning and control of the Branch. Previously, Mr. Chan had been with Merrill Lynch (Asia Pacific) Limited, responsible for supporting the Equities Derivatives area. Prior to Merrill Lynch, he had been with UBS as an analyst. Mr. Chan started his professional career at Chase Manhattan Bank headquarters in New York, acting as internal auditor. Mr. Chan holds a BBA and a MBA degree from Baruch College of City University of New York. Mr. Chan was appointed as the independent non-executive Director of the Company on 16 August 2010.

Mr. Wong Chi Ming (“Mr. Wong”), aged 35, graduated from the Hong Kong Polytechnic University with a Bachelor of Arts Degree in Accountancy. He has over 10 years of extensive experience in the fields of audit, accounting, taxation and corporate finance. He is a member of the Hong Kong Institute of Certified Public Accountants. He is currently a practicing director of a Hong Kong based medium size certified public accountants firm. Mr. Wong was appointed as the independent non-executive Director of the Company on 16 August 2010.

Mr. Wang Jian (“Mr. Wang”), aged 40, graduated from the Jiangsu Yangzhou University with a bachelor degree in economics in 1992. Mr. Wang is currently the vice general manager of Shenzhen Zhong Ke Zhi Investment Guarantee Company Limited[#] (深圳中科智投資擔保有限公司). He was credit management of ICBC Yangzhou Branch, the vice president of Yangzhou Property Hua Li Company Limited[#] (揚州華利房地產集團有限公司), the general manager of Beijing Hua Ding Times Investments Company Limited[#] (北京華鼎時代投資有限公司) and chairman assistant of Shenzhen Hua Rong Investment Guarantee Company Limited[#] (深圳市華融擔保投資有限公司). He has 20 years of extensive experience in the fields of financial management, corporate finance, capital management, property development project financing and operational management. Mr. Wang was appointed as the independent non-executive Director of the Company on 21 April 2011.

The English translation of Chinese names or words in this biography is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.

BINDING EFFECT

The Prospectus Documents and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. When an acceptance or application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

A copy of the Prospectus Documents and the consent letter referred to in the paragraph headed “Experts and Consents” in this appendix have been registered with the Registrar of Companies in Hong Kong Pursuant to Section 342C of the Companies Ordinance.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:30 a.m to 5:00 p.m on any weekday (except for public holidays) at the head office and principal place of business of the Company in Hong Kong at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this Prospectus up to and including 24 October 2011:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2008, 2009 and 2010 respectively and the interim results announcement of the Company for the six months ended 30 June 2011;
- (c) the material contracts as referred to in the paragraph headed “Material Contracts” in this appendix;
- (d) the service contracts as referred to in the paragraph headed “Directors’ Service Contract” in this appendix;
- (e) the written consent referred to in the paragraph headed “Qualifications and consents of expert” in this appendix;
- (f) the letter from HLM in respect of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on pages II-3 to II-4 of this Prospectus; and
- (g) the circular of the Company in relation to, among others, the Open Offer dated 31 August 2011.