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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)

DISCLOSEABLE AND CONNECTED TRANSACTION:

**DISPOSAL OF ENTIRE EQUITY INTERESTS IN SUBSIDIARIES
AND
DISPOSAL OF MACHINERIES AND INVENTORIES OF SUBSIDIARIES**

On 24 April 2012, the Vendors, wholly owned subsidiaries of the Company, entered into the Sale and Purchase Agreement with the Purchaser and the Guarantor pursuant to which the Vendors agreed to sell and the Purchaser agreed to acquire (i) the Sale Shares, which represent the entire issued share capital of each of the Sale Companies; and (ii) the Machineries and Inventories of the PRC Companies, for an aggregate consideration of HK\$25,000,000 (subject to adjustments). The Disposal is subject to the satisfaction of the conditions as set out in the paragraph headed “Conditions” below.

Since the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules, the Disposal constitutes a connected transaction on the part of the Company under the Listing Rules. As the relevant percentage ratios exceed 5% but are all less than 25%, the Disposal also constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules. The Disposal and the Sale and Purchase Agreement shall be subject to the requirements of reporting, announcement and the Independent Shareholders’ approval at the EGM by way of poll.

The Purchaser, the Guarantor and their respective Associates are required to abstain from voting on the resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Corporate Guarantees). An IBC comprising all the independent non-executive Directors will be established by the Company to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Corporate Guarantees). An IFA will be appointed to advise the IBC and the Independent Shareholders in this regard. A circular containing, among others, details of the Sale and Purchase Agreement and a notice of EGM will be despatched to the Shareholders on or before 15 May 2012.

SALE AND PURCHASE AGREEMENT

Date: 24 April 2012 (after trading hours)

Parties: (1) Vendor A: Wah Yuen Foods International Limited
(2) Vendor B: Wah Yuen Investment Limited
(3) Purchaser: Auto Success Limited
(4) Guarantor: But Ka Wai
(5) Vendors Guarantor: the Company

The Guarantor is a merchant. The Purchaser is a company incorporated in Hong Kong and is principally engaged in investment holdings. The Purchaser is beneficially owned as to 45% by the Guarantor and the remaining 55% is beneficially owned by his family members.

Since the Guarantor was a former director of certain subsidiaries of the Company/the Sale Companies in the past twelve months and the Purchaser is wholly and beneficially owned by the Guarantor and/or his family members, the Guarantor and the Purchaser are Connected Persons of the Company.

Assets to be disposed

Pursuant to the Sale and Purchase Agreement, the Vendors have agreed to dispose of and the Purchaser has agreed to acquire (i) the Sale Shares, which represent the entire issued share capital of each of the Sale Companies; and (ii) the Machineries and Inventories of the PRC Companies.

Consideration

The aggregate consideration for the Disposal is HK\$25,000,000 (subject to adjustments as disclosed below), of which shall be satisfied by the Purchaser as follows:

- (i) HK\$5,000,000 has been paid by the Purchaser to the Vendors in settlement of an amount due to Guarantee by the Company; and
- (ii) the remaining balance (subject to adjustments as disclosed below) shall be payable by the Purchaser to the Vendors by issuing the promissory notes of the adjusted balance of consideration to the Vendors.

The remaining balance of the consideration shall be subject to the following adjustments:

- (i) if the aggregate amount of the account payables, rental payables and payments made on behalf by the Sales Companies (collectively “the Payables”) is more than the aggregate amount of account receivables, bank balances and cash of the Sale Companies as at the date of Completion, the remaining balance shall be adjusted downward as follows:

Remaining balance = HK\$20,000,000 – the shortfall between the aggregate amount of the account receivables, bank balances and cash of the Sale Companies, and the Payables

- (ii) if the Payables is less than the aggregate amount of account receivables, bank balances and cash of the Sale Companies as at the date of Completion, the remaining balance shall be adjusted upward as follows:

Remaining balance = HK\$20,000,000 + the shortfall between the amount of the account receivables, bank balances and cash of the Sale Companies, and the Payables

The consideration for the Disposal was arrived at after arm's length negotiations between the parties to the Sale and Purchase Agreement after taking into consideration of various factors, in particular, the current financial position of the Sale Companies, the estimated market value of the properties in Fo Tan, internally generated intangible assets of brand name of Wah Yuen and distribution channel of the food business and the estimated net realisable values of the Machineries and Inventories. According to the unaudited financial statements of the Sale Companies, the Sale Companies recorded a net loss of approximately HK\$9,646,000 for the year ended 31 December 2011 and the net liabilities of the Sale Companies (after waiver and exclusion of bank loans) amounted to approximately HK\$3,469,000 as at 31 December 2011.

The Directors (including the independent non-executive Directors) consider the terms and conditions of the Disposal to be fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Conditions

The Disposal is conditional upon the satisfaction of the following:

- (1) if necessary, the passing by the Independent Shareholders at the EGM to be convened and held of the necessary resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (2) the Vendors (and/or the PRC Companies at their direction) and the Purchaser having entered into a legal and binding agreement in respect of the sale and purchase of the Machineries and Inventories and the completion of the sale and purchase of the Machineries and Inventories thereunder shall be completed simultaneously with the completion of the Sale and Purchase Agreement;
- (3) completion of the financial reorganisation by the Group, the Sale Companies and the Vendors in such manner to the satisfaction of the parties to the Sale and Purchase Agreement;
- (4) the settlement of any outstanding bank loans of the Sale Company;
- (5) the delivery by the Vendors to the Purchaser a completion financial statements which shows no material changes save for as a result of the financial reorganisation and daily operation;
- (6) the Machineries and Inventories are materially the same as listed out in the Sales and Purchase Agreement after the physical check by the Purchaser;
- (7) there is no material breach of the warranties given by the Vendors under the Sales and Purchase Agreement; and

- (8) all necessary approval consents and authorisation to be obtained by the parties to the Sale and Purchase Agreement, the agreement in respect of the sale and purchase of the Machineries and Inventories and the financial reorganisation having been obtained.

Each party shall use its best endeavours to satisfy and fulfill the conditions. If the conditions set out above have not been satisfied on or before 30 June 2012, or such other date as the Vendors and the Purchaser may agree, the Sale and Purchase Agreement shall cease and terminate and thereafter neither party shall have any obligations and liabilities towards each other, save for any antecedent breaches of the terms of the Sale and Purchase Agreement.

Completion

Completion is expected to take place within the fifth Business Day after the fulfillment (or waiver) of the conditions (or such later date as the parties to the Sale and Purchase Agreement may agree) mentioned above.

Upon Completion, the Sale Companies will cease to be wholly owned subsidiaries of the Company and the Company will cease to have any equity interests in the Sale Companies.

Guarantee

Under the Sale and Purchase Agreement, the Guarantor has guaranteed to the Vendors the due and punctual performance of the Purchaser of its obligations under the Sale and Purchase Agreement.

Financial Reorganisation

As at the date of entering into of the Sale and Purchase Agreement, there are certain intra-group loans between the Sale Companies and the Group (excluding the Sale Companies) (the "Remaining Group"). Pursuant to the terms of the Sale and Purchase Agreements, there will be a financial reorganisation, pursuant to which:–

- (1) Any amount due by the Remaining Group to Honfine Company Limited ("Honfine") shall be novated by Vendor A, i.e. Vendor A shall be due to Honfine such amount;
- (2) Any amount due by Honfine to the Remaining Group shall be assigned to Vendor A, i.e. Honfine shall be due to Vendor A such amount;
- (3) Honfine shall execute a deed of set off with Vendor A, pursuant to which the amount due to and due from Vendor A and Honfine shall be set off. In the event that after such set off,
 - (a) if there is any outstanding amount due by Honfine to Vendor A, Vendor A shall capitalise such amount into one share of Honfine and such one share shall be part of the Sale Shares; and
 - (b) if there is any outstanding amount due by Vendor A to Honfine, Honfine shall execute a deed of waiver to waive such outstanding amount.
- (4) Any amount due by the Remaining Group to Wah Yuen Foods (Hong Kong) Limited ("WY Hong Kong") shall be novated by Vendor A, i.e. Vendor A shall be due to WY Hong Kong such amount;
- (5) Any amount due by WY Hong Kong to the Remaining Group shall be assigned to Vendor A, i.e. WY Hong Kong shall be due to Vendor A such amount;

- (6) WY Hong Kong shall execute a deed of set off with Vendor A, pursuant to which the amount due to and due from Vendor A and WY Hong Kong shall be set off. In the event that after such set off,
- (a) if there is any outstanding amount due by WY Hong Kong to Vendor A, Vendor A shall capitalise such amount into one share of WY Hong Kong and such one share shall be part of the Sale Shares; and
 - (b) if there is any outstanding amount due by Vendor A to WY Hong Kong, WY Hong Kong shall execute a deed of waiver to waive such outstanding amount.
- (7) Any amount due by the Remaining Group to Million Riches Development Limited (“Million Riches”) shall be novated by Vendor A, i.e. Vendor A shall be due to Million Riches such amount;
- (8) Any amount due by Million Riches to the Remaining Group shall be assigned to Vendor A, i.e. Million Riches shall be due to Vendor A such amount;
- (9) Million Riches shall execute a deed of set off with Vendor A, pursuant to which the amount due to and due from Vendor A and Million Riches shall be set off. In the event that after such set off,
- (a) if there is any outstanding amount due by Million Riches to Vendor A, Vendor A shall capitalise such amount into one share of Million Riches and such one share shall be part of the Sale Shares; and
 - (b) if there is any outstanding amount due by Vendor A to Million Riches, Million Riches shall execute a deed of waiver to waive such outstanding amount.
- (10) Any amount due by the Remaining Group to Wah Yuen Licensing Company Limited (“WY Licensing”) shall be novated by Vendor B, i.e. Vendor B shall be due to WY Licensing such amount;
- (11) Any amount due by WY Licensing to the Remaining Group shall be assigned to Vendor A, i.e. WY Licensing shall be due to Vendor B such amount;
- (12) WY Licensing shall execute a deed of set off with Vendor B, pursuant to which the amount due to and due from Vendor B and WY Licensing shall be set off. In the event that after such set off,
- (a) if there is any outstanding amount due by WY Licensing to Vendor B, Vendor B shall capitalise such amount into one share of WY Licensing and such one share shall be part of the Sale Shares; and
 - (b) if there is any outstanding amount due by Vendor B to WY Licensing, WY Licensing shall execute a deed of waiver to waive such outstanding amount.

INFORMATION ON THE SALE COMPANIES, MACHINERIES AND INVENTORIES

The Sale Companies are companies incorporated in Hong Kong or Cook Islands which are principally engaged in the distribution of snack foods.

As at the date of this announcement, the Sale Companies are indirect wholly owned subsidiaries of the Company.

Set below is the financial information of the Sales Companies as prepared under the general accepted accounting principles in Hong Kong:

	For the year ended 31 December 2010 <i>HK\$'000</i> (Audited)	For the year ended 31 December 2011 <i>HK\$'000</i> (Unaudited)
Turnover	72,742	37,569
Profit/(Loss) before taxation	(3,645)	(9,509)
Profit/(Loss) after taxation	(7,955)	(9,646)
Total assets	179,754	41,341
Net asset value	12,350	2,790

The Machineries and Inventories are related to the production of snack foods.

Based on the assets and liabilities disposed of under the Disposal, which included the carrying amounts of Machinery and Inventories, the face value of assets and liabilities of the Sales Companies and the adjusted consideration received (before disposal related cost) from the Disposal, the Company estimates that as a whole there is a gain of approximately HK\$1,285,000 arising from the Disposal to the Group.

REASONS FOR THE DISPOSAL

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

After having taken into account of the poor performance made by the Sale Companies in prior years, the Directors consider it is in the interests of the Group to dispose the entire issued share capital of the Sale Companies pursuant to the terms and conditions of the Sale and Purchase Agreement. The Directors believe that with reference to the financial situation of the Sale Companies, it may not contribute positively to the Group's profitability in foreseeable future. In addition, after the Disposal, the management can focus on property development and investment businesses of the Group.

The Machineries and the Inventories are mainly in connection with the production of snack food products for sale by the Sale Companies and the Directors consider that the Machineries and the Inventories will not have any synergy effect with the property development and investment businesses of the Group. The disposal of the Machineries and the Inventories represents an opportunity of the Company for realisation.

Taking into consideration of the aforesaid, the Directors, including the independent non-executive Directors, consider that the terms and conditions of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

After deducting expenses relating to the Disposal, it is estimated that there will be net proceeds of approximately HK\$14,171,000 from the Disposal. The Company intends to apply the net proceeds from the Disposal towards its general working capital.

CONTINUING CONNECTED TRANSACTION

As at the date of this announcement, certain Group members have given bank guarantees (the “Corporate Guarantees”) in favour of the Sale Companies in respect of the bank loans of the Sale Companies. While the settlement of the outstanding bank loans of the Sale Companies is one of the conditions precedent to the Sale and Purchase Agreement, it is contemplated that the release and the discharge of such Corporate Guarantee will take some time to be effective and it is agreed in the Sale and Purchase Agreement that the Vendors will procure the Group to release and discharge of such Corporate Guarantees within six months from the date of Completion. As at the date of this announcement, the facilities guaranteed by the Corporate Guarantees amounted to approximately HK\$31,500,000.

As the Purchaser is a Connected Person and will beneficially own the Sale Companies upon Completion, the continuing Corporate Guarantee will constitute a continuing connected transaction on the part of the Company under Chapter 14A of the Listing Rules and will be subject to the announcement, reporting and Independent Shareholders’ approval requirements under the Listing Rules.

LISTING RULES IMPLICATION

Since the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules, the Disposal constitutes a connected transaction on the part of the Company under the Listing Rules. As the relevant percentage ratios exceed 5% but all less than 25%, the Disposal also constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules. The Disposal and the Sale and Purchase Agreement and the transactions contemplated thereunder shall be subject to the requirements of reporting, announcement and the Independent Shareholders’ approval at the EGM by way of poll.

The Purchaser, the Guarantor and their respective Associates are required to abstain from voting on the resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Corporate Guarantees). As at the date of this announcement, the Purchaser, the Guarantor and their respective Associates are interested in 290,000 Shares, representing approximately 0.016% of the issued share capital of the Company.

An IBC comprising all the independent non-executive Directors will be established by the Company to advise the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Corporate Guarantees). An IFA will be appointed to advise the IBC and the Independent Shareholders in this regard. A circular containing, among others, details of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the Corporate Guarantees) and a notice of EGM will be despatched to the Shareholders on or before 15 May 2012.

The Board has considered and approved the resolutions in respect of the Disposal. The Board is of the opinion that the Sale and Purchase Agreement and the transactions contemplated thereunder is entered into (i) on normal commercial terms (i.e. on an arm’s length basis or on terms no less favourable than those available from independent third parties) and (ii) on terms that are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

DEFINITIONS

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

“Associates”	has the meaning ascribed to this term under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (not being Saturdays, Sunday or public holidays) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
“Company”	China Water Property Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion”	completion of the Disposal pursuant to the terms and conditions of the Sale and Purchase Agreement
“Connected Persons”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Shares and the Machineries and Inventories as contemplated under the Sale and Purchase Agreement
“EGM”	the extraordinary general meeting of the Company to be held and convened for the Independent Shareholders to approve, among other, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Guarantor”	But Ka Wai, a former director of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IBC”	the independent Board committee comprising all independent non-executive Directors to advise the Independent Shareholders on the Disposal
“IFA”	the independent financial advisers to the IBC and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than the Purchaser, the Guarantor and their respective Associates
“Inventories”	the inventories of the PRC Companies
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machineries”	the machineries of the PRC Companies

“PRC”	the People’s Republic of China
“PRC Companies”	華園(廣州)食品有限公司 (Wah Yuen (Guangzhou) Foods Co Ltd.#), 廣州市俐加寵物食品有限公司 (Guangzhou Lekker Pet Foods Co Ltd.#) 及廣州樂高食品企業有限公司 (Rocco Foods Enterprises Co (Guangzhou) Ltd.#), companies established in the PRC and subsidiaries of the Company
“Purchaser”	Auto Success Limited, a company incorporated in Hong Kong with limited liabilities and is owned by the Guarantor and his family members
“Sale and Purchase Agreement”	the agreement dated 24 April 2012 entered into between the Vendors and the Purchaser in relation to the Disposal
“Sale Companies”	Honfine Company Limited, Wah Yuen Foods (Hong Kong) Company Limited, Million Riches Development Limited and Wah Yuen Licensing Company Limited, all are subsidiaries of the Company
“Sale Shares”	the entire share capital of each of the Sale Companies
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor A”	Wah Yuen Foods International Limited, a company established in the British Virgin Islands and a wholly owned subsidiary of the Company
“Vendor B”	Wah Yuen Investment Limited, a company established in the British Virgin Islands and a wholly owned subsidiary of the Company
“Vendors”	together Vendor A and Vendor B
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

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

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

Hong Kong, 24 April 2012

As at the date of this announcement, the Board comprises Ms. Wang Wenxia (Vice Chairman and Chief Executive Officer) and Mr. Ren Qian as executive Directors, Mr. Duan Chuan Liang (Chairman) and Mr. Zhou Kun as non-executive Directors and Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian as independent non-executive Directors.