
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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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:
(i) DISPOSAL OF ENTIRE EQUITY INTERESTS IN SUBSIDIARIES;
(ii) DISPOSAL OF MACHINERIES AND INVENTORIES OF SUBSIDIARIES;
AND
(iii) CONTINUING CONNECTED TRANSACTION

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



大有融資有限公司
MESSIS CAPITAL LIMITED

A notice convening an extraordinary general meeting (the “**EGM**”) of the Company to be held on Monday, 11 June 2012 at 11:00 a.m. at Suite 6208, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out on pages 46 to 48 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

24 May 2012

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DEFINITIONS

In this circular, 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 Person(s)”	has the meaning ascribed to this term under the Listing Rules
“Corporate Guarantees”	the corporate guarantees given by certain Remaining Group members in favour of the Sale Companies
“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 and the continuance of Corporate Guarantees

DEFINITIONS

“IFA” or “Messis Capital”	Messis Capital Limited, a licensed corporation under the SFO licensed to conduct type 6 regulated activity (advising on corporate finance) under the SFO, the independent financial adviser 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
“Latest Practicable Date”	22 May 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“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, which for the purpose of this circular, shall exclude Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“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
“Remaining Group”	the Group excluding the Sale Companies
“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

DEFINITIONS

“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
“RMB”	Renminbi, the lawful currency of PRC

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

Amounts denominated in RMB in this circular has been converted into HK\$ at the rate of HK\$1 = RMB0.81 for illustration purposes.

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

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

Suite 6208, 62nd Floor

Central Plaza

18 Harbour Road

Wanchai, Hong Kong

24 May 2012

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION:

- (i) DISPOSAL OF ENTIRE EQUITY INTERESTS IN SUBSIDIARIES;**
(ii) DISPOSAL OF MACHINERIES AND INVENTORIES OF SUBSIDIARIES;
AND
(iii) CONTINUING CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the announcement of the Company dated 24 April 2012 in which the Board announced that on 24 April 2012 (after trading hours), the Company, 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).

LETTER FROM THE BOARD

Upon Completion of the Disposal, it is contemplated that the release and discharge of such Corporate Guarantees will take certain 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 the relevant percentage ratios exceed 5% but are all less than 25%, the Disposal constitutes a discloseable transaction on the part of the Company under the Listing Rules. Since the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules, the Disposal and the entering into of the Sale and Purchase Agreement constitute a connected transaction on the part of the Company and the continuing Corporate Guarantees after Completion constitute a continuing connected transaction on the part of the Company.

The purpose of this circular is to provide details of the Disposal and the Corporate Guarantees and a notice of EGM and to seek approval from the Shareholders for the Disposal and the continuing Corporate Guarantees.

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.

LETTER FROM THE BOARD

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 the Guarantor 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 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 total consideration shall be adjusted downward as follows:

Adjustment to consideration = total consideration – 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 total consideration shall be adjusted upward as follows:

Adjustment to consideration = total consideration + 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\$1,380,000 as at 31 December 2011.

In light of the consideration amount and the management accounts of the Sale Companies, the Directors contemplate that the adjustment to the consideration will not alter the classification of the transaction type of the Disposal under the Listing Rules. In the

LETTER FROM THE BOARD

event that the adjustment to the consideration will cause an alteration of the transaction type of the Disposal, the Company will comply with the relevant requirements of the Listing Rules, including but not limited to the issue any supplemental circular to the Shareholders.

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

LETTER FROM THE BOARD

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 Remaining Group. Pursuant to the terms of the Sale and Purchase Agreement, there will be a financial reorganisation, pursuant to which the intra-group loans between each of the Sale Companies and the Remaining Group shall be set off against each other. After the set off, (i) in the event that if there is any outstanding amount due by each of the Sale Companies to each of the Vendors (i.e. the Remaining Group), each of the Vendors shall capitalise such amount into the Sale Shares; and (ii) in the event that if there is any outstanding amount due by each of the Vendors (i.e. the Remaining Group) to each of the Sale Companies, the Sale Companies shall waive such outstanding amount.

The Company does not contemplate the above arrangement will have any significant impact on the consideration amount and considers such arrangement is fair and reasonable and is in the interests of the Company and the shareholders as a whole.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the outstanding amounts owed by each of the Sale Companies to the Remaining Group are as follows:

	Amount due to certain members of the Remaining Group (HK\$)	Amount due from certain members of the Remaining Group (HK\$)	Net amount due to/(from) the Remaining Group as a whole (HK\$)
Honfine Company Limited	392,081	—	392,081
Wah Yuen Foods (Hong Kong) Company Limited	110,885,098	129,827,342	(18,942,244)
Million Riches Development Limited	210	2,207,694	(2,207,484)
Wah Yuen Licensing Company Limited	—	10	(10)

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 Latest Practicable Date, the Sale Companies are indirect wholly owned subsidiaries of the Company.

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

The Machineries and Inventories are related to the production of snack foods and are mainly related to the business of the Sale Companies. As at the date of 31 December 2011, the Machineries and Inventories have a book value of approximately HK\$13,100,000. The carrying value of the Machineries and Inventories are approximately HK\$10,645,000 and HK\$2,455,000 respectively. The valuation report on the Machineries has been disclosed in Appendix III to this circular.

LETTER FROM THE BOARD

Based on the assets and liabilities disposed of under the Disposal, which included the carrying amounts of Machineries and Inventories, the face value of assets and liabilities of the Sale Companies and the adjusted consideration to be received (before disposal related cost) from the Disposal, the Company estimates that as a whole there will be a gain of approximately HK\$400,000 arising from the Disposal to the Group.

It is estimated that after Completion, there will be a decrease in the total assets of the Group and a decrease in the total liabilities of the Group. It is contemplated that the Disposal will not have any significant impact on the earnings of the Group.

CONTINUING CONNECTED TRANSACTION: CORPORATE GUARANTEES

As at the Latest Practicable Date, certain Remaining Group members have given 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 Guarantees 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 Latest Practicable Date, the bank 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 Guarantees 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.

REASONS FOR THE DISPOSAL AND THE CORPORATE GUARANTEES

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.

LETTER FROM THE BOARD

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.

In respect of the continuing Corporate Guarantees, the Company is of the view that the Corporate Guarantees will continue after Completion because of the fact that the relevant banks will not immediately release or discharge the Corporate Guarantees although the Sale Companies will have fully settled the outstanding bank loans in accordance with the terms of the Sale and Purchase Agreement. Given that the Purchaser has warranted that it will procure the Sale Companies not to reinitiate the bank facilities after settlement of the outstanding bank loans, the Directors consider that it is a matter of formality for the discharge and release the Corporate Guarantees and consider that the continuance of the Corporate Guarantees for a reasonable short period of time after Completion are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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.

Since the guaranteed sum of the bank facilities under the Corporate Guarantees exceed HK\$10,000,000 and the relevant percentage ratios exceed 1%, the continuing Corporate Guarantees shall be subject to the requirements of reporting, announcement and the Independent Shareholders' approval at the EGM by way of poll.

The IBC comprising all the independent non-executive Directors have been 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). Messis Capital Limited has been appointed as the IFA to advise the IBC and the Independent Shareholders in this regard.

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.

LETTER FROM THE BOARD

EGM

A notice convening the EGM to be held on Monday, 11 June 2012 at 11:00 a.m. at Suite 6208, 62/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out on pages 46 to 48 of this circular.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

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, the continuance of the Corporate Guarantees and the transactions contemplated thereunder. As at the Latest Practicable Date, 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. Other than the Purchaser, the Guarantor and their respective Associates, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no other Shareholders have a material interest in the Disposal and the Corporate Guarantees and no other Shareholders shall have to abstain from voting at the EGM.

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

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to (i) the letter from the IBC set out on page 14 of this circular; and (ii) the letter from IFA to the IBC and Independent Shareholders in connection with the Sale and Purchase Agreement and the principal factors and reasons considered by them in arriving such advice set out on pages 16 to 29 of this circular.

The Board considers that the terms of the Disposal and the Corporate Guarantees are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions as set out in the notice of the EGM.

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

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

LETTER FROM IBC

The following is the text of the letter from the IBC setting out its recommendation to the Independent Shareholders in relation to the Sale and Purchase Agreement and the Corporate Guarantees.



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)

24 May 2012

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION:
(i) DISPOSAL OF ENTIRE EQUITY INTERESTS IN SUBSIDIARIES;
(ii) DISPOSAL OF MACHINERIES AND INVENTORIES OF SUBSIDIARIES;
AND
(iii) CONTINUING CONNECTED TRANSACTION

We refer to the circular of the Company to the Shareholders dated 24 May 2012 (the “**Circular**”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

We have been appointed by the Board as the IBC to advise the Independent Shareholders on whether the terms of the Sale and Purchase Agreement and the Corporate Guarantees are fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Messis Capital Limited has been appointed as the Independent Financial Adviser (the “**IFA**”) to advise you and us in this respect.

Having taken into account the terms of the Sale and Purchase Agreement and the Corporate Guarantees and the advice from the IFA, we consider that the terms of Sale and Purchase Agreement and the Corporate Guarantees are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement, the continuance of the Corporate Guarantees and the transactions contemplated thereunder. The letter from IFA containing

LETTER FROM IBC

its recommendations to us and the Independent Shareholders and the principal factors and reasons taken into the account by the IFA in arriving at such recommendations is set out on pages 16 to 29 of this circular.

Yours faithfully,

For and on behalf of IBC

China Water Property Group Limited

Mr. Chan Pok Hiu

Mr. Wong Chi Ming

Mr. Wang Jian

Independent non-executive Directors

LETTER FROM MESSIS CAPITAL

The following is the full text of the letter from the independent financial adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



大有融資有限公司
MESSIS CAPITAL LIMITED

24 May 2012

*To: The Independent Board Committee and the Independent Shareholders
of China Water Property Group Limited*

Dear Sir/Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION:
DISPOSAL OF ENTIRE EQUITY INTERESTS IN SUBSIDIARIES
AND
DISPOSAL OF MACHINERIES AND INVENTORIES OF SUBSIDIARIES
AND
CONTINUING CONNECTED TRANSACTION**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Disposal, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 24 May 2012 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 24 April 2012 (after the trading hours), the Company, the Vendors, wholly owned subsidiaries of the Company, entered into the Sales 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).

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 ratio exceeds 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, the Sale and Purchase Agreement and the transactions contemplated thereunder shall be subject to the requirement of reporting, announcement and the Independent Shareholders’ approval at the EGM by way of poll.

LETTER FROM MESSIS CAPITAL

Since the guaranteed sum of the bank facilities under the Corporate Guarantees exceed HK\$10,000,000 and the relevant percentage ratio exceed 1%, the continuing Corporate Guarantee shall be subject to the requirement of reporting, announcement and the Independent Shareholders' approval at the EGM by way of poll. As at the Latest Practicable Date, 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. 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 transaction contemplated thereunder (including the Corporate Guarantee).

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian, has been established to advise the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement are on normal commercial terms and the Corporate Guarantee are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, Messis Capital Limited, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

BASIS OF OUR OPINION AND RECOMMENDATION

In arriving at our recommendation, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time they were made and will continue to be accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company.

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The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular, including this letter, misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, the Purchaser, the Guarantor and their respective Associates.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Disposal, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Financial information of the Group

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.

Set out below is a summary of the operating and segment results of the Group for each of the three years ended 31 December 2011 as extracted from the Company's annual report for the year ended 31 December 2011 (the "2011 Annual Report") and for the year ended 31 December 2010 (the "2010 Annual Report"):

	For the year ended 31 December		
	2011	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
A. Operating results			
Turnover			
— Property Investment	24,513	—	—
— Property Development	111,010	926,688	—
— Wah Yuen Foods	40,615	64,153	65,612
— Other Property-related Business	<u>1,378</u>	<u>—</u>	<u>—</u>
Total	<u>177,516</u>	<u>990,841</u>	<u>65,612</u>
Profit/(loss) before tax	81,902	779,879	(228,734)
Profit/(loss) for the year	28,403	506,804	(332,031)
B. Segment results			
— Property Investment	8,324	(3,069)	—
— Property Development	23,254	381,551	(2,822)
— Wah Yuen Foods	(11,091)	(9,738)	(25,243)
— Other Property-related Business	<u>(10,810)</u>	<u>—</u>	<u>—</u>
Total	<u>9,677</u>	<u>368,744</u>	<u>(28,065)</u>

As shown in the above table, the Group recorded a turnover of approximately HK\$177.5 million for the year ended 31 December 2011, representing a decrease of approximately 82.08% from approximately HK\$990.8 million from the preceding financial year. Profit for the year ended 31 December 2011 was recorded at approximately HK\$28.4 million, representing a decreased by approximately 94.39%

from approximately HK\$506.8 million for the year ended 31 December 2010. As stated in the 2011 Annual report, the significant decrease in turnover was mainly attributable to the decrease in number of completed property units delivered and the downscale of the food operation. The Group's major turnover was derived from property development businesses which was recorded at approximately HK\$111.0 million and accounted for approximately 62.5% of the Group's total turnover for the year ended 31 December 2011 (2010: approximately HK\$926.7 million and 93.5% respectively). The turnover of the Group for the year ended 31 December 2011 was firstly attributed by approximately HK\$24.5 million and HK\$1.4 million from property investment and other property-related businesses respectively. The turnover from the Wah Yuen Foods business for the year ended 31 December 2011 decreased from approximately HK\$64.2 million to approximately HK\$40.6 million. The Group's Wah Yuen Foods business segment recorded a segmental loss of approximately HK\$11.1 million for the year ended 31 December 2011, representing an increased by approximately 13.9% compared with the loss of approximately HK\$9.7 million for the previous year.

For the year ended 31 December 2010, the Group recorded a turnover of approximately HK\$990.8 million, representing a significant increase of approximately 1410.2% as compared with approximately HK\$65.6 million for the year ended 31 December 2009. Profit for the year ended 31 December 2010 was recorded at approximately HK\$506.8 million as compared to a loss of approximately HK\$332.0 million for the previous financial year. According to the 2010 Annual Report, the increase in turnover for the year ended 31 December 2010 was mainly attributable to the increase in revenue from sales of residential properties. The turnover from the Wah Yuen Foods business for the year ended 31 December 2010 decreased from approximately HK\$65.6 million to approximately HK\$64.2 million for the previous financial year and its segmental recorded a loss of approximately HK\$9.7 million as compared to a loss of approximately HK\$25.2 million for the previous financial year.

2. Information on Sale Companies, Machineries and Inventories

Sale Companies

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 Latest Practicable Date, the Sale Companies are indirect wholly owned subsidiaries of the Company.

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

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

The turnover of the Sale Companies of approximately HK\$37.6 million and HK\$72.7 million represents approximately 21.2% and 7.3% of the audited consolidated financial results of the Group for the two years ended 31 December 2011. The Sale Companies recorded a net loss of approximately HK\$9.6 million and HK\$7.9 million for the two years ended 31 December 2011.

Machineries and Inventories

The Machineries and Inventories are related to the production of snack foods and are mainly related to the business of the Sale Companies. As at the date of 31 December 2011, the Machineries and Inventories have a book value of approximately HK\$13.1 million. The carrying value of the Machineries and Inventories are approximately HK\$10,645,000 and HK\$2,454,000 respectively.

3. Background of and Reasons for the Disposal

Background

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.

On 24 April 2012 (after the trading hours), the Company, the Vendors, wholly owned subsidiaries of the Company, entered into the Sales 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 Sales Companies; and (ii) the Machineries and Inventories of the PRC Companies, for an aggregate consideration of HK\$25,000,000 (subject to adjustments).

Reasons for the Disposal

As set out in the Letter from the Board, the Sale Companies has loss making of approximately HK\$9.6 million and HK\$7.9 million for the two years ended 31 December 2011. 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 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 Inventories will not have any synergy effect with the property development and investment businesses of the Group. The disposal of the Machineries and Inventories represents an opportunity of the Company for realisation.

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.

According to the Company's 2011 Annual Report, the Group's Wah Yuen Foods business segment recorded a segmental loss of approximately HK\$11.1 million and HK\$9.7 million for the two year ended 31 December 2011. We also note from the Company's 2011 Annual Report that the Group will continue to take cautions approach to the unfavourable results of its food business segment and may take actively consider the advantages of restructuring shortly. The Disposal will make the Group focusing on its property development and investment businesses, which is in line with the Group's strategy to restructure its food business.

Taking into account that (i) the Sale Companies may not contribute positively to the Group in view of their current financial and operating performance; (ii) the Sale Companies has loss making of approximately HK\$9.6 million and HK\$7.9 million for the two years ended 31 December 2011; (iii) the disposal of the Machineries and Inventories represents an opportunity of the Company for realisation; (iv) the Disposal is in line with the Group's strategy to restructure its food business and to enable the management to focus on property development and investment businesses; and (v) there will be a gain from the Disposal which is estimated to be approximately HK\$400,000, we consider that the reasons for the Disposal is justifiable and is in the interest of the Company and its Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreement

Asset to be disposal of

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 the Guarantor 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 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 Sale 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 total consideration shall be adjusted downward as follows:

Adjustment to consideration = total consideration – 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 total consideration shall be adjusted upward as follows:

Adjustment to consideration = total consideration + the shortfall between the amount of the account receivables, bank balances and cash of the Sale Companies, and the Payables

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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 Remaining Group. Pursuant to the terms of the Sale and Purchase Agreement, there will be a financial reorganisation, pursuant to which the intra-group loans between each of the Sale Companies and the Remaining Group shall be set off against each other.

Basis for the consideration

As set out in the Letter from the Board, 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. The Directors consider that 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 its Shareholders as a whole.

We have enquired into the management of the Company regarding the basis for determining the consideration of the Disposal and were advised that the consideration of the Disposal was determined based on the assets and liabilities disposed of under the Disposal, which included the carrying amounts of Machineries and Inventories, the face value of assets and liabilities of the Sale Companies and the adjusted consideration to be received (before disposal related cost) from the Disposal. With reference to the unaudited financial statements of the Sale Companies, the net liabilities of the Sale Companies (after waiver and exclusion of the bank loans) amounted to approximately HK\$1,380,000 as at 31 December 2011. We also note from the Company's 2011 Annual Report that the Group's Wah Yuen Foods business segment recorded a segmental loss of approximately HK\$11.1 million and HK\$9.7 million for the two year ended 31 December 2011.

As discussed with the management of the Company, we are given to understand that the Sale Companies are principally engaged in the manufacturing, distribution and marketing of snack food products and convenience frozen food products under the brand of "Wah Yuen" with over brand building in Hong Kong over 50 years. With reference to the above section "Information of Sale Companies, Machineries and Inventories", the Machineries and Inventories have a book value of approximately HK\$13.1 million as at 31 December 2011. The carrying value of the Machineries and Inventories are approximately HK\$10,645,000 and HK\$2,454,000 respectively. The Machineries and Inventories are mainly in connection with the production of snack food products for sale by the Sale Companies. We are advised by the management of the Company that the Inventories mainly consist of packaging materials, finished

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snack foods and raw materials. The Company is of the view that it may be difficult for the Group to identify independent third party buyers for the disposal of the Inventories. Accordingly, the consideration for disposal of the Inventories has been determined based on the estimation of net realisable value of the Inventories by the Directors.

The Group engaged RHL Appraisal Limited, as an independent professional Valuer (the “**Properties Valuer**”) to assess the market value of the properties in Fo Tan and Mei Foo Sun Chuen held by the Sale Companies (the “**Properties Valuation**”). According to the valuation report as set out in Appendix II to the Circular, the properties in Fo Tan and Mei Foo Sun Chuen have an aggregate market value of approximately HK\$18,430,000.

In order to assess the Valuation, we have reviewed the relevant valuation report and discussed with the Properties Valuer on the methodology adopted and assumptions made in arriving at the Valuation. We noted that the Properties Valuer has applied the direct comparison approach in the determination of the Properties Valuation. The market value of each of the property is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. We also noted that the Properties Valuation is prepared in accordance with all the requirement contained in Chapter 5 to the Listing Rules and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005. Having discussed with the Valuer, we understand that:

- the rationale of adopting the direct comparison method as the valuation methodology is that the direct comparison approach is the most common method in the determination of the value of the properties; and
- the basis and assumptions include the market value means the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Based on our discussion with the Properties Valuer and the review of the valuation report, we consider that the methodology applied is consistent with market practice and we have not identified any major factors which cause us to doubt the fairness and reasonableness of the methodology adopted and the basis used in arriving at the Properties Valuation in particular the direct comparison approach is the most common method adopted in the determination of the value of the properties in Fo Tan and Mei Foo Sun Chuen. Taking into account the facts above, we are of the opinion that the Properties Valuation provides a valid benchmark for the Directors to assess the fairness and reasonableness of the consideration of the Disposal.

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The Company recorded a carrying value of approximately HK\$10,645,000 for the Machineries. Peak Vision Appraisals Limited is appointed by the Group as an independent professional Valuer (the “**Machineries Valuer**”) to access the market value of the Machineries (the “**Machineries Valuation**”). According to the valuation report as set out in Appendix III of the Circular, the Machineries have a market value of approximately HK\$2,699,000.

We have discussed with the Machineries Valuer on the adoption of the methodologies in relation to the Machineries Valuation. We understand that the Machineries Valuer has applied both cost approach and market approach to arrive at the market value estimates for the Machineries. The cost approach considers the cost to reproduce or replace in new condition the assets valued in accordance with the current market prices for similar assets, with allowance for accrued depreciation arising from conditions, utility, age, wear and tear, or obsolescence present, taking into consideration past and present maintenance policy and rebuilding history. The cost approach generally provides the most reliable indication of values for assets without a known used market. The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the assets valued relative to the market comparative. Assets for which there are established used market comparables may be valued by this approach. We understand the Machineries Valuer uses different valuation methodologies to appraise the Machineries. All two approaches must be considered as one or more approaches may be applicable to value the subject assets. In some situations, elements of both approaches may be combined to reach an opinion of value. We also noted that the Machineries Valuation is prepared in accordance with the guidelines issued by the Royal Institution of Chartered Surveyors on the valuation of plant and equipment.

We are of the opinion that the basis for determining the valuation of the Machineries by the Machineries Valuer is appropriate and the Machineries valuation provides a valid benchmark for the Directors to access the fairness and reasonableness of the consideration for the disposal of the Machineries.

Furthermore, as stated in the Letter from the Board, after the set off, (i) in the event that if there is any outstanding amount due by each of the Sale Companies to each of the Vendors (i.e. the Remaining Group), each of the Vendors shall capitalise such amount into the Sale Shares; and (ii) in the event that if there is any outstanding amount due by each of the Vendors (i.e. the Remaining Group) to each of the Sale Companies, the Sale Companies shall waive such outstanding amount.

In this regard, we have discussed with the management of the Company and we are given to understand that the Company does not contemplate that the above financial reorganisation will not have any significant impact to the consideration of the Disposal. Given that the net aggregate amount due from the Remaining Group is larger than the net aggregate amount due to the Remaining Group, we

concur with the Directors' view that the aforesaid financial reorganisation would be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Having taken into account that the consideration of the Disposal is determined with reference to (i) the current financial position of the Sale Companies; (ii) the estimated realisable value of Inventories by the Directors as it may be difficult to identify independent third party buyers for the disposal; (iii) the estimated market value of approximately HK\$18,430,000 of the properties in Fo Tan and Mei Foo Sun Chuen; (iv) the estimated fair market value of approximately HK\$2,699,000 of the Machineries; (v) the outstanding bank loans of the Sale Companies will be settled by the Company in accordance with the terms of the Sale and Purchase Agreement; (vi) the waiver of the net amount due from the Remaining Group of approximately HK\$20,760,000; and (vii) the consideration to be received is subject to adjustment as described in the subsection headed "Consideration" in the section headed "Principal terms of the Sale and Purchase Agreement", we are of the view that the consideration of the Disposal is in normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned.

5. Background of and reason for the Corporate Guarantees

Background of the Corporate Guarantees

As at the Latest Practicable Date, certain Remaining Group members have given 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 Guarantees will take some time to be effective and it is agreed in the Sale and Purchase Agreement 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 Latest Practicable Date, the bank 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 the Completion, the the continuance Corporate Guarantee shall be subject to the requirement of reporting, announcement and the Independent Shareholders' approval at the EGM by way of poll.

Reason for the Corporate Guarantees

In respect of the continuing Corporate Guarantees, the Company is of the view that the Corporate Guarantees will continue after Completion because of the fact that the relevant banks will not immediately release or discharge the Corporate Guarantees although the Sale Companies will have fully settled the outstanding bank loans in accordance with the terms of the Sale and Purchase Agreements. Given that the Purchaser has warranted that it will procure the Sale Companies not to reinitiate the bank facilities after settlement of the outstanding

bank loans, the Directors consider that it is a matter of formality for the discharge and release the Corporate Guarantees and consider that the continuance of the Corporate Guarantees for a reasonable short period of time after Completion are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered (i) the settlement of the outstanding bank loans of the Sale Companies is one of the conditions precedent to the Sale and Purchase Agreement; (ii) the release and the discharge of such Corporate Guarantees will take some time to be effective; (iii) the Vendors will procure the Group to release and discharge of such Corporate Guarantees within six months from the date of Completion; and (iv) the Purchaser has warranted that it will procure the Sale Companies not to reinitiate the bank facilities after settlement of the outstanding bank loans, we concur with the Directors' view that it is a matter of formality for the discharge and release the Corporate Guarantees and the continuance of the Corporate Guarantees for a reasonable short period of time after Completion are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. Financial effects of the Disposal

Earnings

According to the unaudited financial statement of the Sale Companies, the Sale Companies recorded a net loss of approximately HK\$9,646,000 for the year ended 31 December 2011. Upon completion of the Disposal, 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.

As set out in the Letter from the Board, 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 and the Company intends to apply the net proceeds for its general working capital. It is further stated that based on the assets and liabilities disposed of under the Disposal, which included the carrying amounts of Machineries and Inventories, the face value of assets and liabilities of the Sale Companies and the adjusted consideration to be received (before disposal related cost) from the Disposal, the Company estimates that as a whole there will be a gain of approximately HK\$400,000 arising from the Disposal to the Group. As advised by the Company that the Disposal would not have an adverse effect on earnings of the Group.

Net asset value

According the unaudited financial statement of the Sale Companies, the Sale Companies had net liabilities (after waiver and exclusion of bank loans) of approximately HK\$1,380,000 as at 31 December 2011. Upon completion of the Disposal, all assets and liabilities of the Sale Companies will not be consolidated

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into the consolidated statement of financial position of the Group. As mentioned above, the Group is expected to recognise a gain on the Disposal of which will enhance the net asset value of the Group and the cashflow position of the Group.

Working capital

Based on the 2011 Annual Report of the Company, the Group had working capital (i.e. current assets less current liabilities) and bank balances and cash (excluding pledged bank deposits) as at 31 December 2011 of approximately HK\$497,947,000 and HK\$150,186,000 (excluding pledged bank deposits) respectively. The Group intends to apply the net proceeds to the general working capital, thereby enhancing the working capital position of the Group.

RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we consider that the terms of the Sale and Purchase Agreement and the Corporate Guarantees are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and the Disposal is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Sale and Purchase Agreement, the continuance of the Corporate Guarantees and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Robert Siu
Executive Director

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the following Directors or chief executive of the Company had or were deemed to have an interest or short position in the shares, underlying shares or debentures of the Company or 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); (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:

Name of Director	Capacity	Interest in Shares	Interest in underlying Shares	Total interests in Shares	Approximately percentage of issued share capital
Mr. Duan Chuan Liang	Beneficial owner	4,207,928	12,795,263	17,003,191	0.967%
Ms. Wang Wenxia	Beneficial owner	1,231,440	12,795,263	14,026,703	0.798%
Mr. Ren Qian	Beneficial owner	680,400	Nil	680,400	0.039%

Note:

The personal interests of Mr. Duan Chuan Liang comprise 4,207,928 ordinary shares and 12,795,263 outstanding share options. The personal interests of Ms. Wang Wenxia comprise 1,231,440 ordinary shares and 12,795,263 outstanding share options. 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.

Pursuant to the terms of the share option scheme, the exercise price of the share options and the number of Shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options were adjusted as a result of the completion of the open offer on 24 October 2011. Adjusted number of outstanding share options as 25,590,526 and adjusted exercise price per share in respect of the outstanding share options as HK\$0.9602 per share.

Mr. Duan Chuan Liang is also an executive director of China Water Affairs Group Limited, which with its subsidiaries are interested in approximately 44.75% shareholding of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and 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 or 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.

At the Latest Practicable Date, save as disclosed, none of the Directors was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective Associates had any interests in any business which competes or was likely to compete, either directly or indirectly, with the Group's business.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, Mr. Chan Pok Hiu, Mr. Wong Chi Ming and Mr. Wang Jian as the independent non-executive Directors have service contracts with the Company which is determinable by the Group within one year with payment of compensation, other than statutory compensation.

Ms. Wang Wenxia ("**Ms. Wang**") has been appointed as the chief executive officer ("**CEO**") 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 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 are granted under the share option scheme adopted by the Company to be determined by the Board. Ms. Wang's emolument is reviewed by the remuneration committee of the Company.

5. DIRECTORS' INTEREST IN ASSETS

None of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2011 (being the date to which the latest published audited 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.

6. DIRECTORS' INTEREST IN CONTRACTS

There was no contract of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisting as at the Latest Practicable Date.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest audited financial statements of the Group were made up.

8. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinions or advices contained in this circular:

Name	Qualification
Messis Capital Limited	a licensed corporation under the SFO licensed to conduct type 6 regulated activity (advising on corporate finance) under the SFO, the IFA to the IBC and the Independent Shareholders
RHL Appraisal Limited ("RHL")	Independent Professional Valuer for the property interests
Peak Vision Appraisals Limited ("Peak Vision")	Independent Professional Valuer for the machinery and equipment

Messis Capital Limited, RHL and Peak Vision have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letters and references to their names in the form and context in which they appear.

As at the Latest Practicable Date, Messis Capital Limited, RHL and Peak Vision did 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, or any interests, directly or indirectly, in any assets which have been, since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up, acquired, disposed of or leased to any member of the Group, or were proposed to be acquired, disposed of or leased to any member of the Group.

9. 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 Saturday, Sunday and public holidays) at the head office and principle place of business of the Company in Hong Kong at Suite 6208, 62/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the Sale and Purchase Agreement;
- (ii) the Corporate Guarantees;
- (iii) the letter from the IBC, the text of which is set out in this circular;
- (iv) the letter from Messis Capital, the text of which is set out in this circular;
- (v) the valuation report on the Property to this circular;
- (vi) the valuation report on the Machineries to this circular; and
- (vii) the consent letters referred to in the paragraph headed “Experts and Consents” in this Appendix.

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited, an independent valuer, in connection with its valuation as at 30 April 2012 of the property interests held by China Water Property Group Limited, and its subsidiaries.



永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory

T +852 2730 6212
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Room 1010, 10/F, Star House,
Tsimshatsui, Hong Kong

License No.: C-015672

24 May 2012

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

Dear Sirs/Madam,

INSTRUCTIONS

We refer to the instruction from China Water Property Group Limited (the “Company”) for us to value the property interests held by Honfine Company Limited, Wah Yuen Foods (Hong Kong) Company Limited, Million Riches Development Limited and Wah Yuen Licensing Company Limited (the “Sales Companies”), subsidiaries of the Company, located in Hong Kong. We confirm that we have carried out property inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 April 2012 (the “Valuation Date”).

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

Our valuation of each of the property interests is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

VALUATION METHODOLOGY

We have valued the property interests by using the Direct Comparison Approach by making reference to the comparable market transactions as available and where appropriate, on the basis of capitalization of the net income shown on the documents handed to us. We have allowed for outgoings and, in appropriate case, made provisions for reversionary income potential.

VALUATION CONSIDERATIONS

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

TITLE INVESTIGATION

We have carried out title search of the property interests. We have not examined the original documents to verify the existing titles to the property interests or any amendment which does not appear on the copies handed to us.

VALUATION ASSUMPTIONS

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the property interests for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

LIMITING CONDITIONS

We have inspected the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximations.

We have relied to a considerable extent on information provided by the Company and accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, floor areas and all other relevant matters in the identification of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also been advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

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

We have conducted on-site inspections to the properties in May 2012 by Ms Jessie X. Chen (MRICS, MSc (Real Estate)).

CURRENCY

All monetary amounts stated in this report are in Hong Kong Dollars (“HKD”).

Our summary of values and valuation certificates are herewith attached.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Serena S. W. Lau
*FHKIS, AAPI, MRICS, RPS(GP),
MBA(HKU)
Managing Director*

Ivan S.P. Lui
*MHKIS, RPS(GP), AAPI, CPV,
MCom, MSc, BSc
Associate Director*

Ms. Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 19 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Mr. Ivan S.P. Lui is a Registered Professional Surveyor (GP) with nearly 10 years' experience gained from various international banks and surveyors firms on property valuation in HKSAR, mainland China and the Asia Pacific Region. Mr. Lui is a Professional Member of The Hong Kong Institution of Surveyors, an Associate Member of Australian Property Institute with the qualification of Certified Practicing Valuer. Mr. Lui is specialized in Plant & Machinery, Mortgage Valuation, Premium Assessment and etc. Furthermore, he also focuses on asset portfolio management covering financial budgeting/planning, coordination, controlling and operation before joining RHL.

SUMMARY OF VALUES

Market Value in
existing state
as at
30 April 2012
HKD

Group I — Property interests held by the Sales Companies for occupation in Hong Kong

1. Workshop C on 2/F & Flat Roof C, Workshop D on 2/F And Car Park 7, On Shing Industrial Building, Nos. 2–16 Wo Liu Hang Road, Fo Tan, Shatin	17,400,000
32/1913 th shares of Sha Tin Town Lot No. 7	
2. Car Park Space No. 333 & 333A on 1/F, Nos. 1–11, 15–17 Mount Sterling Mall, Nos. 10–16 Lai Wan Road, Mei Foo Sun Chuen Stage II, Kowloon	1,030,000
1/740 th of 50/860 th or 1/12728 th shares of New Kowloon Inland Lot No. 5086	
Total:	<hr/> 18,430,000

VALUATION CERTIFICATE

Group I — Property interests held by the Sales Companies for occupation in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2012 HKD
1. Workshop C on 2/F & Flat Roof C, Workshop D on 2/F, And Car Parking Space No. 7, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin New Territories 32/1913 th shares of Sha Tin Town Lot No. 7	<p>The property comprises 2 industrial units on the 2nd floor, the corresponding flat roof and a car parking space on the ground floor of a 13-storey industrial building completed in 1978.</p> <p>The total gross floor area of workshops C & D of the property is approximately 8,200 sq. ft. whilst the flat roof of the property is approximately 323 sq. ft..</p> <p>The property is held under New Grant No. 11058 for a term of 99 years commencing on 1 July 1898 and thereafter extended for a further term expiring on 30 June 2047.</p>	The property is owner-occupied.	17,400,000

Notes:

1. The registered owner of the property is Million Riches Development Limited vide memorial no. ST333136 dated 13 June 1986.
2. The property is subject to:
 - i) Deed of Mutual Covenant vide memorial no. ST183438 dated 16 March 1978.
 - ii) Legal Charge in favour of Industrial and Commercial Bank of China for part of all money vide memorial no. ST1195044 dated 9 November 2000.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2012 HKD
2. Car Parking Space Nos. 333 & 333A on 1/F, Nos. 1–11, 15–17, Mount Sterling Mall, Nos. 10–16 Lai Wan Road, Mei Foo Sun Chuen Stage II Kowloon 1/740 th of 50/860 th or 1/12728 th shares of New Kowloon Inland Lot No. 5086	The property comprises 2 car parking spaces on the 1st floor of a 6-storey commercial podium completed in 1976. The property is held under New Grant No. 11058 for a term of 99 years commencing on 1 July 1898 and thereafter extended for a further term expiring on 30 June 2047.	The property is owner- occupied.	1,030,000

Notes:

1. The registered owner of the property is Wah Yuen Foods (Hong Kong) Company Limited vide memorial no. UB6596361 dated 30 March 1996.
2. The property is subject to:
 - i) Deed of Mutual Covenant with plans vide memorial no. UB1326006 dated 26 October 1976.
 - ii) Occupation Permit No. NK29/77 vide memorial no. UB1367632 dated 23 March 1977.
 - iii) Mortgage in favour of Dao Heng Bank Limited for the consideration of all moneys vide memorial no. UB8537568 dated 26 October 2001.

The following is the text of a summary report prepared for the purpose of incorporation in this circular received from Peak Vision Appraisals Limited, an independent valuer, in connection with its valuation as at 31 March 2012 of the machinery and equipment held by Wah Yuen (Guangzhou) Foods Co Ltd.



12/F, Effectual Building
14-16 Hennessy Road
Wanchai, Hong Kong
www.peakval.com

Tel (852) 2187 2238
Fax (852) 2187 2239

24 May 2012

The Board of Directors
China Water Property Group Limited
Suite 6208, 62nd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

Re: Valuation of machinery and equipment

We refer to the instructions from China Water Property Group Limited (hereinafter referred to as the "Instructing Party") for us to prepare a valuation report of the machinery and equipment of food production facilities (hereinafter together referred to as the "Fixed Assets") located in the People's Republic of China (hereinafter referred to as the "PRC"). As advised by the Instructing Party, the Fixed Assets exhibited to us are owned by 華園(廣州)食品有限公司 (unofficially translated as "Wah Yuen (Guangzhou) Foods Co Ltd." and hereinafter referred to as the "Company"), a wholly owned subsidiary of the Instructing Party. We confirm that we have carried out inspections, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the market value of the Fixed Assets as at 31 March 2012 (hereinafter referred to as the "Valuation Date") for asset disposal purpose.

This summary report forms part of the detailed valuation report dated 24 May 2012, which comprises:

- A narrative section, which identifies the Fixed Assets valued, scope and character of our investigation; the premise of the value adopted; the valuation process employed and our opinion of value;
- Limiting conditions; and
- A schedule with technical description of the Fixed Assets for each item or group of items as valued.

1.0 FIXED ASSETS VALUED

We conducted our on-site physical inspection of the Fixed Assets on 8 May 2012. The Fixed Assets were inspected at:

- (1) 中華人民共和國廣東省中山市火炬開發區歐亞路3號 (No. 3 Ouya Road, Zhongshan Torch Hi-tech Industrial Technology Development Zone, Zhongshan City, Guangdong Province, the PRC)
- (2) 中華人民共和國廣東省廣州市花都區新華鎮建設北路178號 (No. 178 North Jianshe Road, Xinhua Town, Huadu District, Guangzhou City, Guangdong Province, the PRC)

The Fixed Assets comprise the food manufacturing facility of the Company. Major machinery and equipment consist of production conveyors, mixers, ovens, various packaging equipment, walk-in freezers, various preparation equipment, air conditioners, etc.

At the time of our inspection, the Fixed Assets located in Huadu District, Guangzhou City were not in use. As advised, the factory has not been in operation since 2011.

In the course of our valuation, we excluded land and buildings, leasehold improvements in respect of the leasehold property, spare parts, inventories, supplies, materials, on-hand company records or any current and intangible assets.

2.0 PREMISE OF VALUE AND ASSUMPTIONS

In arriving at our opinion of value, we have followed the guidelines issued by the Royal Institution of Chartered Surveyors on the valuation of plant and equipment.

We have valued the Fixed Assets on the basis of their market value which is defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

We have assumed that further to the above definition, the Fixed Assets remain in use in their working place.

The opinion of market value in use in their working place is not necessarily intended to represent the amount that might be realized from piecemeal disposition of the Fixed Assets or from some other alternate use.

We have further assumed that the Fixed Assets will be used in their present existing states with the benefit of continuity of the tenure of the land and buildings where the Fixed Assets are situated into the foreseeable future.

3.0 VALUATION METHODOLOGY

In arriving at our opinion of value, we have considered the two generally accepted approaches to value, namely:

3.1 Cost Approach

Cost Approach considers that the cost to reproduce or replace in new condition the assets valued in accordance with the current market prices for similar assets, with allowance for accrued depreciation arising from the conditions, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

Reproduction Cost New is the estimated current cost of reproducing a new replica of an asset with the same or closely similar materials.

Replacement Cost New is the estimated current cost of a new asset having the nearest equivalent utility as the asset being appraised.

Physical Deterioration is the loss in value of an asset from wear and tear of asset in operation and exposure to various elements.

Functional Obsolescence is the loss in value due to the factors inherent in the asset itself and changes in design, materials, or process that the result in inadequacy, over capacity, excess, construction, lack of functional utility, or excess operating cost, etc.

Economic Obsolescence is an incurable loss in value caused by unfavorable external conditions.

This approach generally furnishes the most reliable indication of value of an asset without a known used market.

3.2 Market Approach

Market Approach considers the price recently paid for similar assets, with adjustment made to the indicated market price to reflect condition and utility of the assets valued relative to the market comparative. Assets for which there are established used market comparables may be valued by this approach.

In any valuation study, all two approaches must be considered as one or more approaches may be applicable to value the subject assets. In some situations, elements of both approaches may be combined to reach an opinion of value.

4.0 LIMITING CONDITIONS

We have investigated market conditions, interviewed personnel, and examined documents and specifications provided to us before arriving at our opinion of value. We have assumed that the Fixed Assets can perform efficiently according to the purpose for which they were designed and built.

We have accepted the records of the Fixed Assets furnished to us by the Instructing Party as properly describing the Fixed Assets, their cost and their acquisition dates. We have not investigated the title of the Fixed Assets valued and have relied to a considerable extent on such records, listing, specifications and documents in arriving at our opinion of value.

Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility or other observable conditions distinguishing the Fixed Assets from machinery or like kind in new condition were noted and made as a part of our judgment in arriving at their value.

We have not investigated any industrial safety environmental and health-related regulations in association with this particular manufacturing process. It is assumed that all necessary licenses, procedures, and measures were implemented in accordance with the government legislation and guidance.

This valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are true and accurate. The data, opinions, or estimates, identified as being furnished by others which have been used in formulating this analysis are gathered from reliable sources, yet, no guarantee is made nor liability assumed for their accuracy.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party. We were also advised that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We confirm that we have neither present nor prospective interests in the Fixed Assets, the Company, the Instructing Party, or the value reported herein.

5.0 REMARKS

Unless otherwise stated, all monetary amounts stated in our valuation report are in Hong Kong Dollars (HK\$).

6.0 OPINION OF VALUE

Based on the foregoing, we are of the opinion that the market value of the Fixed Assets in use in their working place as at 31 March 2012 is fairly represented in the amount of **HK\$2,699,000 (HONG KONG DOLLARS TWO MILLION SIX HUNDRED AND NINETY NINE THOUSAND ONLY)**.

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited

Nick C. L. Kung
MRICS, MHKIS, RPS (G.P.),
RICS Registered Valuer
Director
Corporate Valuation

Henry T. S. Chan
Director
Plant and Machinery Valuation

Notes:

Mr. Nick C. L. Kung is a Registered Professional Surveyor who has more than 20 years of experience in valuations in Hong Kong and the PRC.

Mr. Henry T. S. Chan is a Plant and Machinery Valuer who has more than 15 years of experience in valuations of plant and machinery in Hong Kong and the PRC.

NOTICE OF EGM



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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of China Water Property Group Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) will be held on Monday, 11 June 2012 at 11:00 a.m. at Suite 6208, 62/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT**

- (a) the conditional agreement (the “**Sale and Purchase Agreement**”, details of which are disclosed in the circular of the Company dated 24 May 2012 (the “**Circular**”)) dated 24 April 2012 entered into among the Company as vendors guarantor, Wah Yuen Foods International Limited and Wah Yuen Investment Limited as vendors, Auto Success Limited as purchaser and But Ka Wai as purchaser guarantor in relation to, among other matters, (i) the sale and purchase of the entire issued share capital of Honfine Company Limited, Wah Yuen Foods (Hong Kong) Company Limited, Million Riches Development Limited and Wah Yuen Licensing Company Limited (the “**Sale Companies**”); and (ii) the sale and purchase of the machineries and inventories of 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.[#]) and 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 for a total consideration of HK\$25,000,000 (subject to adjustments pursuant to the terms of the Sale and Purchase Agreement) (a copy of the Sale and Purchase Agreement is marked “**A**” and produced to the Meeting and signed by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder be and are hereby ratified, confirmed and approved; and
- (b) any one or more of the directors (the “**Directors**”) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Sale and Purchase Agreement and the transactions contemplated thereunder.”

NOTICE OF EGM

2. “THAT

- (a) the continuance of the giving of corporate guarantees (the “**Corporate Guarantees**”) by certain members of the Group (excluding the Sale Companies) in favour of the Sale Companies in respect of the bank facilities of the Sale Companies in the aggregate amount of HK\$31,500,000 for a period of up to six months from the date of completion of the Sale and Purchase Agreement be and is hereby ratified, confirmed and approved; and
- (b) any one or more Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the continuance of the Corporate Guarantees and the transactions contemplated thereunder.”

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

Hong Kong, 24 May 2012

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

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

NOTICE OF EGM

Notes:

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