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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 TRANSACTION:
ACQUISITION OF 60% EQUITY INTEREST OF
A REAL ESTATE PROJECT IN HANGZHOU, THE PRC,
INVOLVING ISSUE OF CONSIDERATION SHARES**

The Board announces that on 21 May 2010, the Purchaser, being a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor pursuant to which the Vendor will sell and the Purchaser will acquire the Sale Shares, representing 60% of the issued share capital of the HK Subsidiary, and the Sale Loan, representing approximately 60% of the entire outstanding loan owed by the HK Subsidiary and the Target Company to the Vendor.

Pursuant to the Agreement, the Purchaser shall be responsible for the capital commitment to the outstanding unpaid registered capital of the Target Company.

The Possible Acquisition is subject to the satisfaction of the conditions as set out in the paragraph headed “Conditions precedent” below.

The Possible Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules and the issue and allotment of Consideration Shares shall be subject to the approval of the Shareholders at the EGM. A circular containing, among other matters, details of the Possible Acquisition and a notice of the EGM, will be despatched to the Shareholders as soon as practicable and in compliance with the Listing Rules.

Reference is made to the announcement of the Company dated 3 May 2010 in relation to, among others, the entering into of the memorandum of understanding between the Vendor and the Purchaser in relation to the Possible Acquisition.

The Company is pleased to announce that on 21 May 2010, the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendor in relation to the Possible Acquisition.

THE AGREEMENT

Date:

21 May 2010

Parties:

The Purchaser as the purchaser of the Sale Shares and the Sale Loan; and

The Vendor as the vendor for the Sale Shares and the Sale Loan.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is an Independent Third Party and as at the date of this announcement, the Vendor and its respective associates do not hold any Shares or other securities in the Company.

The Purchaser, being a wholly owned subsidiary of the Company, is an investment holding company incorporated in Hong Kong.

The Vendor is a PRC citizen and a merchant and the sole beneficial owner of the HK Subsidiary prior to the entering into of the Agreement.

The Vendor intends to hold the Consideration Shares for investment purpose and has no intention to nominate or appoint Directors to the Board. The Agreement does not confer any rights to the Vendor to nominate or appoint Directors to the Board.

Assets to be acquired

Pursuant to the Agreement, it was agreed, among others, that the Purchaser shall acquire and the Vendor shall sell the Sale Shares and the Sale Loan. The Sale Shares represent 60% of the issued share capital of the HK Subsidiary, and the Sale Loan represents approximately 60% of the entire outstanding loan owed by the HK Subsidiary and the Target Company to the Vendor.

As at the date of the Agreement, the Sale Loan owed by the HK Subsidiary to the Vendor amounts to approximately RMB50,048,000 and the Sale Loan owed by the Target Company to the Vendor amounts to approximately RMB72,090,000. As at 31 March 2010, the total outstanding loans owed by the HK Subsidiary and the Target Company to the Vendor amount to approximately RMB122,138,000.

The HK Subsidiary is the beneficial owner of all registered capital of the Target Company.

After Completion, the HK Subsidiary shall become a 60% owned subsidiary of the Purchaser and the Purchaser shall be effectively interested in the 60% of the registered capital of the Target Company.

Consideration

The total consideration for the Possible Acquisition is RMB87,000,000 (equivalent to approximately HK\$98,864,000) and shall be settled by the Purchaser in the following manner (or such other manner as the parties thereto may agree):

- (i) as to the initial deposit (the “**Initial Deposit**”) of a total of RMB8,000,000 (equivalent to approximately HK\$9,091,000) shall be paid in cash by the Purchaser to the Vendor within five Business Days following signing of the Agreement;
- (ii) as to RMB10,000,000 (equivalent to approximately HK\$11,364,000) shall be payable by way of cash by the Purchaser to the Vendor at Completion;
- (iii) as to RMB51,750,000 (equivalent to approximately HK\$58,807,000) shall be payable by the Purchaser by procuring the Company to issue and allot the Consideration Shares (First Tranche) at the Issue Price to the Vendor (or its nominee) at Completion; and
- (iv) the remaining balance of RMB17,250,000 (equivalent to approximately HK\$19,602,000) shall be payable by the Purchaser by procuring the Company to issue and allot the Consideration Shares (Second Tranche) at the Issue Price to the Vendor (or its nominee) on the date falling six months after the Completion (the “**Second Tranche Date**”).

For the purpose of calculation of the consideration for the Possible Acquisition, the exchange rate shall be calculated on the basis that HK\$1.00 for RMB0.88.

The consideration for the Sale Shares and the Sale Loan was determined after arm’s length negotiations between the Vendor and the Purchaser after considering various factors, including the preliminary valuation of the Property by an independent professional valuer. The preliminary valuation of the Property will amount to approximately RMB140,000,000. The funding for the cash consideration will be from the internal resources of the Group.

In the event that Completion does not take place as stipulated or the conditions precedent cannot be fulfilled, the Vendor shall refund the Initial Deposit to the Purchaser and neither party shall have any obligations and liabilities under the Agreement.

Capital Commitment

Pursuant to the Agreement, within ten days following the Completion, the Purchaser shall be responsible for satisfying the capital commitment to the outstanding unpaid registered capital of the Target Company. The unpaid registered capital of the Target Company amounts to approximately US\$7,571,163 (equivalent to approximately HK\$59,055,000).

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

1. all necessary consents and approvals required to be obtained on the part of the Vendor and the Purchaser in respect of the Agreement and the transactions contemplated thereunder having been obtained;
2. no event, fact or situation that will cause the breaches or the possible breaches of warranties or terms of the Agreement by the Vendor;
3. the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
4. the passing by the Shareholders of ordinary resolution(s) approving the transactions contemplated under the Agreement, including but not limited to the allotment and issue of the Consideration Shares;
5. the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to the legality and the validity in respect to the establishment and subsistence of the Target Company and the transactions contemplated under the Agreement; and
6. the Purchaser being satisfied with the results of the due diligence to be conducted on the assets, liabilities, operations and affairs of the HK Subsidiary and the Target Company.

None of the above conditions can be waived by the parties to the Agreement. If the conditions are not fulfilled on or before 31 July 2010 (or such later date as the parties to the Agreement may agree), the Agreement shall cease and terminate and thereafter neither party to the Agreement shall have any obligations and liabilities towards each other thereunder save for any antecedent breaches thereof.

Completion

Completion shall take place on the date falling the second Business Day after all the conditions of the Agreement have been fulfilled or such later date as may be agreed between the parties thereto.

Profit Guarantee

The Vendor has guaranteed and warranted to the Purchaser that the audited profit before taxation of the Target Company for the period from Completion ending 31 December 2012 or the date of the sale of all units of the Property, whichever is earlier (or such longer period as may be agreed between the parties to the Agreement) (the “**Guaranteed Period**”), shall not be less than RMB400,000,000 (the “**Guaranteed Profit**”). In the event the Guaranteed Profit is not achieved, the Vendor shall indemnify the Purchaser in cash (or such other method as the parties to the Agreement may agree) an amount equivalent to the shortfall which will be equal to the difference between the actual profit before taxation of the Target Company for the Guaranteed Period and the Guaranteed Profit.

Further announcement will be made by the Company in the event that the Guaranteed Profit is not achieved.

THE CONSIDERATION SHARES

The 522,727,272 Consideration Shares will be issued at an Issue Price of HK\$0.15 per Consideration Share, credited as fully paid.

The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Issue Price represents:

- (i) a premium of approximately 26.05% over the closing price of HK\$0.1190 per Share as quoted on the Stock Exchange on 20 May 2010, being the last trading day immediately prior to the entering into of the Agreement; and
- (ii) a premium of approximately 20.58% over the average of the closing prices of approximately HK\$0.1244 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 20 May 2010, being the last trading day immediately prior to the entering into of the Agreement.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued on the date of Completion and the Second Tranche Date respectively for the Consideration Shares (First Tranche) and the Consideration Shares (Second Tranche) respectively.

The Consideration Shares represent (i) approximately 4.58% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 4.38% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Vendor undertakes to the Purchaser that it will not, within the period commencing on the date of Completion and ending on the date falling three months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of 50% of the Consideration Shares issued or any interests therein or grant any options or rights in respect of 50% of the Consideration Shares issued without prior approval from the Purchaser. The Vendor undertakes to the Purchaser that it will not, within the period commencing on the date of Completion and ending on the date falling six months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of the other 50% of the Consideration Shares issued or any interests therein or grant any options or rights in respect of the other 50% of the Consideration Shares issued without prior approval from the Purchaser.

The Issue Price was determined by the Board after taking into consideration of various factors including, the market price of the Shares. The Directors (including the independent non-executive Directors) consider that the Issue Price is fair and reasonable.

Application for listing

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

CHANGE IN SHAREHOLDINGS

The changes in the shareholding structure of the Company as a result of the allotment and issue of the Consideration Shares are as follows:

Shareholders	Issued share capital as at the Latest Practicable Date		Issued share capital immediately after allotment and issue of the Consideration Shares (First Tranche) but before the allotment and issue of the Consideration Shares (Second Tranche)		Issued share capital immediately after allotment and issue of the Consideration Shares (First Tranche) and the Consideration Shares (Second Tranche)	
	<i>No. of Shares</i>	<i>Approximate Percentage</i>	<i>No. of Shares</i>	<i>Approximate Percentage</i>	<i>No. of Shares</i>	<i>Approximate Percentage</i>
China Water Affairs Group Limited and its associates	3,318,039,504	29.08%	3,318,039,504	28.12%	3,318,039,504	27.81%
Highest Growth Holdings Limited	846,228,234	7.42%	846,228,234	7.17%	846,228,234	7.09%
Sunshine Capital Investments Group Limited (<i>Note 1</i>)	705,062,216	6.18%	705,062,216	5.98%	705,062,216	5.91%
The Vendor	–	–	392,045,454	3.32%	522,727,272	4.38%
Mr. But Ka Wai and his associates (<i>Note 2</i>)	16,664,000	0.15%	16,664,000	0.14%	16,664,000	0.14%
Public Shareholders	6,521,755,306	57.17%	6,521,755,306	55.27%	6,521,755,306	54.67%
Total	11,407,749,260	100.00%	11,799,794,714	100.00%	11,930,476,532	100.00%

Notes:

- Ms. Wang Wenxia, the Vice Chairman and an executive Director of the Company, is also the chairman and an executive director of Sunshine Capital Investments Group Limited, a listed company in Hong Kong.
- Mr. But Ka Wai is the Chairman and an executive Director of the Company.

INFORMATION OF THE TARGET COMPANY AND THE PROPERTY

The HK Subsidiary is a company incorporated in Hong Kong and is principally engaged in investment holdings.

The Target Company is a company established in Hangzhou, the PRC and is principally engaged in property development and construction in the PRC. The Target Company is held as to 100% by the HK Subsidiary. After completion of the Possible Acquisition, the Purchaser shall be effectively interested in 60% of the entire registered capital of the Target Company.

The Target Company is currently holding the Property located in southern side of intersection of Yingbin Road and Wengmei Road, Nanyuan Street, Yuhang District, Hangzhou City, Zhejiang Province, the PRC. The location of Property is situated on the master planned Central Business District in Yuhang district with a total site area of 16,448 square metres and will be adjacent to the south station of Shanghai-Hangzhou High-Speed Railway and also the terminal of Hangzhou Metro Line 1. The Property will comprise of three high-rise towers including office and hotel service apartment built on a four-storey high retail podium, offering a total gross floor area of approximately 116,290 square metres.

Set out below is the financial information of the Target Company for the period from 23 February 2009 (date of its establishment) to 30 April 2010 as prepared under the general accepted accounting principles in the PRC:

	For the period ended 30 April 2010 <i>RMB'000</i> (Unaudited)
Loss before and after taxation	1,837
Net asset value at 30 April 2010	48,211

After completion of the Possible Acquisition, the Target Group will be treated as subsidiaries of the Group and their results will be consolidated in the consolidated financial statements of the Group.

REASONS FOR THE POSSIBLE ACQUISITION

The principal activities of the Group comprise of property development and property investment in the PRC and its subsidiaries also engaged in packaged food and healthcare product business.

The principal business of the Target Company is the development and construction of the Property in Hangzhou City. The Company is of the view that future development on the Property will generate considerable revenue and realize the financial benefit to the Group. In order to strengthen the Group's position in property development in the PRC, the Group believes that the Possible Acquisition is in the interest of the Shareholders as it would provide a good opportunity for the Company to further participate in property development in Zhejiang Province, the PRC.

The Possible Acquisition is also in line with the Group's business strategy. Reference is also made to the circular dated 20 April 2010 in relation to the acquisition of another property project in Hangzhou. It is expected that the Possible Acquisition will further strengthen the market position of the Group in Hangzhou City property market and will have synergistic effect with other property projects of the Group in the PRC.

In light of the growing potential of the Target Company, the Directors (including the independent non-executive Directors) consider that the terms and conditions of the Possible Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

The Possible Acquisition constitutes a discloseable transaction on the part of the Company under Chapter 14 of the Listing Rules.

Since the issue and allotment of the Consideration Shares will require the specific mandate from the Shareholders to be sought at the EGM, a circular containing details of the Possible Acquisition and a notice of EGM will be despatched to the Shareholders as soon as practicable. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholders have a material interest in the Possible Acquisition and accordingly no Shareholders will be required to abstain from voting at the EGM.

GENERAL

A circular containing, among other matters, details of the Possible Acquisition and the notice of the EGM will be despatched to the Shareholders as soon as reasonably practicable and in compliance with the Listing Rules.

DEFINITIONS

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

“Agreement”	the formal conditional sale and purchase agreement for the Possible Acquisition dated 21 May 2010 entered into between the Purchaser and the Vendor
“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 Main Board of the Stock Exchange
“Completion”	completion of the Possible Acquisition pursuant to the terms and conditions of the Agreement
“connected persons”	has the meaning ascribed to this term under the Listing Rules

“Consideration Shares”	together the Consideration Shares (First Tranche) and the Consideration Shares (Second Tranche)
“Consideration Shares (First Tranche)”	the 392,045,454 new Shares to be allotted and issued by the Company at the Issue Price to the Vendor (or its nominee) in accordance with the terms of the Agreement as part of the consideration for the Possible Acquisition
“Consideration Shares (Second Tranche)”	the 130,681,818 new Shares to be allotted and issued by the Company at the Issue Price to the Vendor (or its nominee) in accordance with the terms of the Agreement as part of the consideration for the Possible Acquisition
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held and convened for the purpose of approving the Possible Acquisition and the transactions contemplated thereunder, including but not limited to the issue and allotment of the Consideration Shares
“Group”	the Company and its subsidiaries
“HK Subsidiary”	HK Mei Lai International (Canada) Limited, a company incorporated in Hong Kong and is owned as to 100% by the Vendor
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons of the Company in accordance with the Listing Rules
“Issue Price”	HK\$0.15 per Consideration Share
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Possible Acquisition”	the acquisition of the Sale Shares and the Sale Loan and the transactions contemplated thereunder
“PRC”	the People’s Republic of China, which for the propose of this announcement shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC

“Property”	the property located in southern side of intersection of Yingbin Road and Wengmei Road, Nanyuan Street, Yuhang District, Hangzhou City, Zhejiang Province, the PRC held by the Target Company under the land use right certificate number 杭余出國用[2010]第103-235號 (Hang Yu Chu Guo Yong 2010-103-235#)
“Purchaser”	China Water Property (Hong Kong) Development Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Sale Loan”	approximately 60% of all obligation, indebtedness and liabilities due, owing or incurred by the HK Subsidiary and the Target Company to the Vendor as at Completion, whether actual, contingent or deferred and irrespective whether or not the same is due and payable on Completion
“Sale Shares”	the 6,000 ordinary shares of HK\$1.00 each in the issued share capital of the HK Subsidiary, representing 60% of the issued share capital of the HK Subsidiary
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“sq m”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	杭州尼加拉置業有限公司 (Hangzhou Niagara Real Estates Co., Ltd.#), a company established in the PRC and the owner of the Property
“Target Group”	together the HK Subsidiary and the Target Company
“Vendor”	鄭廷玉 (Zheng Tingyu#), a PRC citizen and the beneficial owner of 100% equity interest of the HK Subsidiary
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America

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

Amounts denominated in RMB and US\$ in this announcement have been converted into HK\$ at the rate of HK\$1 = RMB0.88 and US\$1 = HK\$7.80, respectively, for illustration purposes.

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

Hong Kong, 23 May 2010

As at the date of this announcement, the Board comprises Mr. But Ka Wai (Chairman), Ms. Wang Wenxia (Vice Chairman), Mr. But Chai Tong (Vice Chairman), Mr. Sun Zhen Yu and Mr. Ren Qian as executive Directors, Mr. Zhou Kun as non-executive Director and Mr. Chen Ziqiang, Mr. Tam Pei Qiang and Ms. Li Ling as independent non-executive Directors.