

Execution Copy

DATE: 29 JUNE 2007

**CHINA WATER GROUP LIMITED**  
(as the Vendor)

and

**TOP HARBOUR DEVELOPMENT LIMITED**  
(as the Purchaser)

and

**CHINA WATER AFFAIRS GROUP LIMITED**  
(as China Water)

and

**WAH YUEN HOLDINGS LIMITED**  
(as WY or Holdings)

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**AGREEMENT FOR SALE AND PURCHASE  
OF SHARES IN  
CHINA ENVIRONMENTAL WATER HOLDINGS LIMITED**

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**MICHAEL LI & CO.**  
14th Floor, Printing House  
6 Duddell Street  
Central, Hong Kong

Ref: CCL/071813

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**THIS AGREEMENT is made on 29 June 2007**

**BETWEEN:**

- (1) **CHINA WATER GROUP LIMITED**, a company incorporated in the British Virgin Islands with limited liability and having its registered office at Abott Building, 2nd Floor, P.O. Box 933, Road Town, Tortola, British Virgin Islands (the "Vendor");
- (2) **TOP HARBOUR DEVELOPMENT LIMITED**, a company incorporated in the British Virgin Islands with limited liability and having its registered office at OMC Chambers, P. O. Box 3152, Road Town Tortola, British Virgin Islands (the "Purchaser");
- (3) **CHINA WATER AFFAIRS GROUP LIMITED**, a company incorporated in the Cayman Islands and continued in Bermuda and having its registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its head office and principal place of business in Hong Kong at Suite 6408, 64/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong("China Water"); and
- (4) **WAH YUEN HOLDINGS LIMITED**, a company incorporated in the Cayman Islands having its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its head office and principal place of business in Hong Kong at 2/F., On Shing Industrial Building, 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong (the "WY" or "Holdings").

**WHEREAS:**

- (A) China Environmental Water Holdings Limited (the "Company") is a company incorporated in Hong Kong with limited liability and as at the date hereof, has an authorised capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each (each a "Share"), of which 10 Shares (the "Sale Shares") have been issued and are fully paid up or credited as fully paid and is beneficially owned by the Vendor. Further particulars of the Company are set out in Schedule 1.
- (B) The Purchaser is a wholly owned subsidiary of Holdings the issued Holdings Shares (as defined herein) of which are listed on the main board of the Stock Exchange (as defined herein).
- (C) The Vendor is a wholly owned subsidiary of China Water Affairs Group Limited, the issued shares of which are listed on the main board of the Stock Exchange.
- (D) The Vendor has agreed to sell and the Purchaser has agreed to purchase the Sale Shares subject to and upon the terms and conditions of this Agreement.
- (E) In consideration of the Purchaser agreeing to enter into this Agreement, China Water has agreed to guarantee the performance by the Vendor of its obligations

under this Agreement subject to and upon the terms and conditions of this Agreement.

- (F) In consideration of the Vendor agreeing to enter into this Agreement, Holdings has agreed to guarantee the performance by the Purchaser of its obligations under this Agreement subject to and upon the terms and conditions of this Agreement.

**NOW IT IS HEREBY AGREED as follows:**

**1. INTERPRETATION**

- 1.1 In this Agreement (including the Recitals and Schedule), unless the context requires otherwise, the following words and expression shall have the meanings ascribed to each of them respectively below:

<b>“Associates”</b>	has the meaning ascribed thereto under the Rules Governing the Listing of Securities on the Stock Exchange
<b>“Actual Profit”</b>	has the meaning ascribed thereto in Clause 6.2
<b>“Audited Accounts”</b>	the audited consolidated balance sheet of the Group as at the Audited Accounts Date and the audited consolidated profit and loss accounts of the Group for the year ended on the Audited Accounts Date, a copy of which has been attached to this Agreement as Exhibit “A”
<b>“Audited Accounts Date”</b>	31 March 2006
<b>“Auditors”</b>	has the meaning ascribed thereto in Clause 6.5
<b>“Business Day”</b>	a day (other than a Saturday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
<b>“Certificate”</b>	a certificate in the agreed form to be issued in respect of the Convertible Bonds
<b>“Completion”</b>	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of this Agreement
<b>“Completion Date”</b>	the date falling two Business Days after the fulfillment (or waiver) of the conditions set

	out in Clause 3.2
<b>“Consideration”</b>	has the meaning ascribed thereto in Clause 4.1
<b>“Consideration Shares”</b>	133,000,000 new Holdings Shares to be allotted and issued to satisfy in part of the Consideration
<b>“Conversion Shares”</b>	the Holding Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds
<b>“Convertible Bonds”</b>	the convertible bonds in the agreed form in the principal amount of HK\$180,050,000, to be issued by Holdings in favour of the Vendor at Completion to satisfy in part of the Consideration
<b>“Disclosed”</b>	disclosed in a full, fair, specific and accurate manner elsewhere in this Agreement, the Disclosure Letter, the Audited Accounts or the Previous Announcements and any disclosure in writing in the agreed form provided by the relevant parties hereto prior to the execution of this Agreement
<b>“Disclosure Letter”</b>	the letter of the same date as this Agreement from the Vendor to the Purchaser
<b>“Encumbrance”</b>	any mortgage, charge, pledge, lien, (otherwise than arising by statute or operation of law), hypothecation or other encumbrance, priority or security interest, deferred purchase, title retention, leasing, sale-and-repurchase or sale-and-leaseback arrangement whatsoever over or in any property, assets or rights of whatsoever nature and includes any agreement for any of the same and <b>“Encumber”</b> shall be construed accordingly
<b>“Group”</b>	together the Company and the PRC Subsidiary and the expressions <b>“Group Company”</b> and <b>“member of the Group”</b> shall be construed accordingly
<b>“Guarantee Certificate”</b>	has the meaning ascribed thereto in Clause 6.2

<b>“Guaranteed Profit”</b>	has the meaning ascribed thereto in Clause 6.1
<b>“Holdings Audited Accounts”</b>	the audited consolidated balance sheet of the Holdings Group as at the Holdings Audited Accounts Date and the audited consolidated profit and loss accounts of the Holdings Group for the year ended on the Holdings Audited Accounts Date
<b>“Holdings Audited Accounts Date”</b>	31 December 2006
<b>“Holdings Group”</b>	together the Holdings and the Holdings Subsidiaries and the expressions of <b>“Holdings Group Company”</b> and <b>“member of the Holdings Group”</b> shall be construed accordingly
<b>“Holdings Subsidiaries”</b>	the subsidiaries of the Holdings
<b>“Holdings Share(s)”</b>	share(s) of HK\$0.01 each in the capital of Holdings
<b>“Hong Kong”</b>	the Hong Kong Special Administrative Region of the People’s Republic of China
<b>“Instrument”</b>	the instrument substantially in the agreed form to be executed by Holdings constituting the Convertible Bonds, a draft of which is set out in Schedule 6 (subject to such amendments as the Purchaser and the Vendor may agree), together with the schedules (as from time to time altered in accordance with the Instrument) and any other document executed in accordance with the Instrument (as from time to time so altered) and expressed to be supplemental to the Instrument
<b>“Issue Price”</b>	the issue price of HK\$0.15 per Consideration Share
<b>“PRC”</b>	the People’s Republic of China which, for the purpose of this Agreement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

<b>“PRC Subsidiary”</b>	Conseco Seabuckthorn Co., Ltd., a Chinese-foreign equity joint venture established in the PRC, details of which are set out in Schedule 2
<b>“PRC Subsidiaries”</b>	Conseco Seabuckthorn Co., Ltd. and its subsidiaries, details of which are set out in Schedule 2
<b>“Previous Announcements”</b>	all public announcements and circulars to the shareholders of China Water made by or on behalf of China Water in relation to its acquisition and holding of its interests in the Group
<b>“Purchaser Warranty(ies)”</b>	the representation(s), warranty(ies) and undertaking(s) set out in Schedule 4 provided by the Purchaser under this Agreement
<b>“Relevant Capacity”</b>	for its or his own account or for that of any person, firm or company other than the Purchaser or the Company and whether through the medium of any company which is its or his Associate (for which purpose there shall be aggregated with its or his shareholding or ability to exercise control the shares held or controlled by any of its or his Associates) or as principal, partner, director, employee, consultant or agent
<b>“SFC”</b>	the Securities and Futures Commission of Hong Kong
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“this Agreement”</b>	this agreement for the sale and purchase of the Sale Shares, as amended from time to time
<b>“Taxation”</b>	all forms of taxation including overseas taxation and all forms of profits tax, interest tax, estate duty and stamp duty and all levies, imposts, duties, charges, fees, deductions and withholdings whatsoever charged or imposed by any statutory, governmental state, provincial, local government or municipal authority whatsoever and the expression <b>“Tax”</b> shall be construed according

<b>“Tax Indemnity”</b>	the deed of indemnity in the agreed form to be made between the Vendor, the Company and the Purchaser, a draft of which is set out in Schedule 6
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange
<b>“Title Deeds”</b>	represent all title deeds and documents necessary to prove the Company's title to the property owned or occupied by each Group Company and the documents of title consist of the original document and/or properly certified copies thereof
<b>“Vendor Warranty(ies)”</b>	the representation(s), warranty(ies) and undertaking(s) set out in Schedule 3 and all other representation(s), undertaking(s) and warranty(ies) provided by the Vendor under this Agreement
<b>“Warranties”</b>	the Vendor Warranties or the Purchaser Warranties, as the case may be
<b>“Waiver”</b>	the letter (in the agreed form) issued by the Vendor confirming that all obligations, liabilities and debts owing or incurred by the Company or the PRC Subsidiary and its subsidiaries to the Vendor or its associates on the date of this Agreement or at any time prior to the Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion has been waived
<b>“HK\$”</b>	Hong Kong dollars, the lawful currency of Hong Kong

- 1.2 References herein to Clauses and the Schedules are to clauses in and the schedules to, this Agreement unless the context requires otherwise and the Schedules to this Agreement shall be deemed to form part of this Agreement.
- 1.3 The expressions “Vendor”, “Purchaser”, “China Water” and “Holdings” shall, where the context permits, include their respective successors and personal representatives.
- 1.4 The headings are inserted for convenience only and shall not affect the construction of this Agreement.



1.5 Unless the context requires otherwise, words importing the singular include the plural and vice versa and words importing a gender include every gender.

1.6 In this Agreement, any reference to a document in the "agreed form" is to a form of the relevant document which is in form and substance satisfactory to the Purchaser and the Vendor.

## 2. SALE AND PURCHASE OF THE SALE SHARES

2.1 Subject to and upon the terms and conditions of this Agreement, the Vendor shall as beneficial owner sell and the Purchaser shall purchase the Sale Shares free from all Encumbrances together with all rights now and hereafter attaching thereto including but not limited to all dividends paid, declared or made in respect thereof at any time on or after the date of this Agreement.

2.2 The Vendor and the Purchaser shall not be obliged to complete the sale and purchase of any of the Sale Shares unless the same are completed simultaneously.

## 3. CONDITIONS

3.1 The Purchaser shall and shall procure that its agents shall forthwith upon the signing of this Agreement conduct such review of the assets, liabilities, operations and affairs of the Group as it may reasonably consider appropriate and the Vendor shall provide and procure the Group and its agents to provide such assistance as the Purchaser or its agents may reasonably require in connection with such review.

3.2 Completion shall be conditional upon and subject to:

- (a) the Purchaser being satisfied with the results of the due diligence review to be conducted under Clause 3.1;
- (b) all necessary consents and approvals required to be obtained on the part of the Vendor and the Purchaser in respect of this Agreement and the transactions contemplated thereby having been obtained;
- (c) the passing by the shareholders of Holdings at a general meeting of Holdings to be convened and held of an ordinary resolution to approve this Agreement and the transactions contemplated hereunder, including but not limited to i) the allotment and issue of the Consideration Shares to the Vendor credited as fully paid; and ii) the issue of the Convertible Bonds to the Vendor;
- (d) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) in relation to the transactions contemplated under this Agreement;
- (e) the Warranties remaining true and accurate in all respects;
- (f) the Listing Committee of the Stock Exchange granting listing of and

permission to deal in the Consideration Shares;

- (g) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares; and
- (h) if necessary, the passing by the shareholders of China Water at a general meeting of China Water to be convened and held of an ordinary resolution to approve this Agreement and the transactions contemplated thereunder.

3.3 The Vendor shall use its best endeavours to assist the Purchaser in connection with the due diligence review to be conducted under Clause 3.1. Each of the Vendor and the Purchaser shall procure that all information and documents required pursuant to the Listing Rules, and other applicable rules, codes and regulations whether in connection with the preparation of all circulars, reports, documents, independent advice or otherwise are duly given promptly to the other of them, the Stock Exchange, the SFC and other relevant regulatory authorities.

3.4 If the conditions set out in Clause 3.2 have not been satisfied (or as the case may be, waived by the Purchaser in respect of Clauses 3.2(a) and (d) and waived by both the Purchaser and the Vendor in respect of Clauses 3.2(b) and (e)) on or before 4:00 p.m. on 31 December 2007, or such later date as the Vendor and the Purchaser may agree, this Agreement shall cease and determine (save and except Clauses 7, 15, 21 and 23 which shall continue to have full force and effect) and thereafter neither party shall have any obligations and liabilities towards each other hereunder save for any antecedent breaches of the terms hereof.

#### 4. CONSIDERATION

4.1 The aggregate consideration for the sale and purchase of the Sale Shares shall be the sum of HK\$200,000,000 (the "Consideration").

4.2 The Consideration shall be satisfied by the Purchaser in the following manner:

- (a) HK\$19,950,000 by the Purchaser procuring Holdings to allot and issue the Consideration Shares to the Vendor credited as fully paid, at the Issue Price; and
- (b) HK\$180,050,000 by the Purchaser procuring Holdings to issue the Convertible Bonds to the Vendor.

4.3 The Consideration Shares and the Conversion Shares shall be allotted and issued in accordance with the memorandum and articles of association of the Holdings and, when allotted and issued, shall rank pari passu in all respects with the Holdings Shares in issue on the date of allotment and issue of the Consideration Shares or the Conversion Shares (as the case may be) including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue.

5. **COMPLETION**

- 5.1 Upon compliance with or fulfilment (or waiver) of all the conditions set out in Clause 3.2, Completion shall take place at 4:00 p.m. on the Completion Date, or such later date as the Vendor and the Purchaser may agree at the offices of Michael Li & Co. at 14th Floor, Printing House, 6 Duddell Street, Central, Hong Kong when all the acts and requirements set out in this Clause 5 shall be complied with.
- 5.2 At Completion, the Vendor shall deliver or cause to be delivered to the Purchaser:
- (a) instrument(s) of transfer and sole notes in respect of the transfer of the Sale Shares duly executed by the Vendor in favour of the Purchaser and/or its nominee(s);
  - (b) original share certificate(s) in respect of the Sale Shares;
  - (c) at the sole request of the Purchaser, the written resignation the director of the Company and the four directors of the PRC Subsidiary who are appointed by the Company together with a written acknowledgement under seal from each of them that he/she/it has no claims against the Company or the PRC Subsidiary whether by way of compensation, remuneration, severance payments, expenses, damages or otherwise;
  - (d) certificate of incorporation, common seal, rubber chop, minutes book, register of directors, register of members and transfer and share certificate book and memorandum and articles of association of each Group Company which are in the possession of the Vendor;
  - (e) all books of account, records and documents of and relating to the Group which are in the possession of the Vendor;
  - (f) the Title Deeds and other books, records and documents of and relating to each Group Company, including without limitation, contracts and policies of insurance, cheque books and the current bank statements up to the date immediately preceding Completion of all relevant accounts which are in the possession of the Vendor;
  - (g) the Tax Indemnity duly executed under seal by the Vendor and the Company;
  - (h) copy, certified by a director of the relevant Group Company as true and complete, of the resolutions of the board of directors of the relevant Group Company referred to in Clause 5.3;
  - (i) such other documents as may be required to give to the Purchaser good title to the Sale Shares and to enable the Purchaser or its nominees to become the registered owner thereof;

- (j) deliver to the Purchaser a copy, certified as true and complete by a director of the Vendor, of an ordinary resolution of the shareholder of the Vendor approving this Agreement and the transactions contemplated hereunder and other documents necessary for the purpose of effecting this transaction and authorising a person or persons to execute the same (with seal, where appropriate) for and on its behalf;
- (k) copy, certified as true and complete by a director of the Vendor, of resolutions of the board of directors of the Vendor approving this Agreement and the Tax Indemnity and authorising the execution of the same;
- (l) copy, certified as true and complete by a director of the Vendor, of:
  - (1) the enterprise legal person business licence (企業法人營業執照) of the PRC Subsidiaries issued by the relevant municipal office of the governmental bureau of the PRC;
  - (2) approval certificate (批准證書) of the PRC Subsidiaries issued by the relevant municipal office of the governmental bureau of the PRC;
  - (3) tax registration for enterprises with foreign investment (外商投資企業稅務登記證), both national and local (國稅及地稅) of the PRC Subsidiaries issued by the relevant tax authority in the PRC; and
  - (4) certificate of organisation identification code (組織機構代碼證) of the PRC Subsidiaries

which are in the possession of the Vendor;
- (m) a letter of application duly signed by the Vendor applying for the Subscription Shares; and
- (n) original Waiver in the agreed form issued by the Vendor.

5.3 The Vendor shall procure a meeting of the board of directors of the relevant Group Company to be held at which resolutions shall be passed for:

- (a) in the case of the Company, the approval for the transfer of the Sale Shares to the Purchaser (or its nominees) and the registration of such transfer, subject to the relevant instruments of transfer being duly stamped and presented for registration;
- (b) in the case of the Company, the approval of the Tax Indemnity and authorisation of execution of the same under seal for and on behalf of the Company;

- (c) at the request of the Purchaser, the acceptance of the resignation of the directors and the company secretary from the post of director and company secretary of the Group Companies in accordance with Clause 5.2 (c) and the appointment of such persons nominated by the Purchaser as directors and company secretary of the Group Companies with effect from Completion; and
- (d) the amendment of all existing mandates for operation of all the bank accounts maintained by the Group in such manner as the Purchaser may require.

5.4 Against compliance and fulfillment of all acts and requirements set out in Clauses 5.2 and 5.3, the Purchaser shall:

- (a) deliver to the Vendor duly executed instruments of transfer and bought notes in respect of the Sale Shares and procure the stamping of the same;
- (b) deliver to the Vendor a copy, certified as true and complete by a director of the Purchaser, of resolutions of the boards of directors of the Purchaser approving this Agreement and Tax Indemnity and other documents necessary for the purpose of effecting this transaction and authorising a person or persons to execute the same (with seal, where appropriate) for and on its behalf;
- (c) deliver to the Vendor the Tax Indemnity duly executed under seal by the Purchaser;
- (d) procure Holdings to convene and hold a meeting of the board of directors of Holdings for the passing of the necessary resolutions to approve i) the allotment and issue of the Consideration Shares to the Vendor credited as fully paid and ii) the issue of the Convertible Bonds and the Certificate upon the terms and subject to the conditions contained therein;
- (e) deliver to the Vendor the Certificate duly issued in favour of the Vendor, such Certificate shall have been duly signed in accordance with the terms of the Instrument;
- (f) deliver to the Vendor a certified copy of the Instrument duly executed by Holdings;
- (g) procure Holdings to allot and issue the Consideration Shares credited as fully paid to the Vendor or such other person(s) as the Vendor may direct and enter the name of the Vendor or such other person(s) as the Vendor may direct in the register of members of Holdings as registered holder(s) of the Consideration Shares; and
- (h) deliver to the Vendor a share certificate in respect of the Consideration Shares duly executed by Holdings and issued to the Vendor or such other person(s) as the Vendor may direct.

- 5.5 In the event that the Vendor or the Purchaser shall fail to do anything required to be done by them under Clauses 5.2, 5.3 and 5.4, without prejudice to any other right or remedy available to the Vendor or the Purchaser (as the case may be), the Vendor or the Purchaser (as the case may be) may:
- (a) defer Completion to a day not more than 28 days after the date fixed for Completion or upon mutual consent by the Vendor and the Purchaser, a further 14 days after the 28 days deferral as referred hereto; or
  - (b) proceed to Completion so far as practicable but without prejudice to the Vendor's or the Purchaser's right (as the case may be) to the extent that the Vendor or the Purchaser (as the case may be) shall not have complied with their obligations hereunder; or
  - (c) rescind this Agreement without liability on their part.

6. **PROFIT GUARANTEE**

- 6.1 The Vendor hereby irrevocably warrants and guarantees to the Purchaser that the audited consolidated net profits after tax and any extraordinary or exceptional items of the Group attributable to the Company's shareholders (before deducting minority interests) will not be less than HK\$20,000,000 for the financial year ending 31 March 2008 (the "**Guaranteed Profit**").
- 6.2 If the actual audited consolidated net profits after tax and any extraordinary or exceptional items of the Group for the financial year ending 31 March 2008 (the "**Actual Profit**") as shown in certificate which the Vendor provided to the Purchaser (the "**Guarantee Certificate**") is less than the Guaranteed Profit as stated in Clause 6.1, then the Vendor shall pay to the Purchaser the shortfall on a dollar to dollar basis in an amount calculated as follows:
- $$A = (\text{Guaranteed Profit} - \text{Actual Profit}) \times 50\%$$
- where A is the amount (the "**Profit Guarantee Shortfall Amount**") the Vendor shall pay to the Purchaser in case there is a shortfall in the Actual Profit.
- 6.3 The Vendor shall pay to the Purchaser in cash the Profit Guarantee Shortfall Amount within 7 days after the delivery of the audited consolidated financial statements of the Group for the year ending 31 March 2008 provided that the total amount payable by the Vendor under this Clause 6.3 shall not exceed HK\$10,000,000.
- 6.4 For the avoidance of doubt, the maximum amount of the Profit Guarantee Shortfall Amount that payable by the Vendor to the Purchaser under Clause 6.2 shall be HK\$10,000,000.
- 6.5 For the avoidance of doubt, should the Group record a loss in its audited consolidated financial statements for the year ending 31 March 2008, the Actual

Profit for such financial year shall for the purpose of this Clause 6 be deemed as zero.

6.6 The Vendor and the Purchaser shall procure that the audited consolidated financial statements of the Group for the year ending 31 March 2008 shall be prepared and reported on by the auditors for the time being of China Water (the "Auditors") by 31 July 2008.

6.7 The following provisions shall apply in respect of the preparation and report of the audited consolidated financial statements of the Group for the year ending 31 March 2008 and the determination of the Actual Profit under this Clause 6:

- (a) the costs and expenses of the Auditors shall be borne by the Purchaser and Vendor in equal shares;
- (b) the Vendor shall render such assistance to the Auditors as may be necessary of the preparation of the audited consolidated financial statements of the Group for the year ending 31 March 2008, the determination of the amount of the Actual Profit;
- (c) the Vendor and the Purchaser shall supply to the Auditors such information and records and accord the Auditors such access to their respective properties and facilities as the Auditors may reasonably require for their audit;
- (d) provided that the same conform to the Hong Kong Financial Reporting Standards and the related interpretation of those standards, substantially the same accounting practice, standards and principles as those adopted and consistently applied by the Vendor in its preparation of the accounts shall be adopted in the preparation and audit of the audited consolidated financial statements of the Group for the year ended 31 March 2008 and the determination of the amount of the Actual Profit; and
- (e) the Vendor and the Purchaser shall jointly procure that the Auditors provide to themselves with a signed copy of the audited consolidated financial statements of the Group for the year ending 31 March 2008 before 31 July 2008.

## **7. RESTRICTION ON ANNOUNCEMENTS**

7.1 Each of the parties undertakes to the others that it will not, at any time after the date of this Agreement, divulge or communicate to any person other than to its professional advisers, or when required by law or any rule of any relevant stock exchange body, or to its respective officers or employees whose province it is to know the same any confidential information concerning the business, accounts, finance or contractual arrangements or other dealings, transactions or affairs of any of the others which may be within or may come to its knowledge and it shall use its best endeavours to prevent the publication or disclosure of any such confidential information concerning such matters.

7.2 No public announcement or communication of any kind shall be made in respect of the subject matter of this Agreement unless specifically agreed between the parties or unless an announcement is required pursuant to the applicable law and the regulations or the requirements of the Stock Exchange, the SFC or any other regulatory body or authority. Any announcement by any party required to be made pursuant to any relevant law or regulation or the requirements of the Stock Exchange, the SFC or any other regulatory body or authority shall be issued only after such prior consultation with the other party as is reasonably practicable in the circumstances.

## 8. VENDOR WARRANTIES

8.1 The Vendor hereby represents and warrants to the Purchaser and its successors and permitted assigns that save as Disclosed, the Vendor Warranties are true and accurate in all respects as at the date of this Agreement and will continue to be so up to and including the time of Completion.

8.2 Each of the Vendor Warranties is without prejudice to any other Vendor Warranty and, except here expressly or otherwise stated, no provision in any Vendor Warranty shall govern or limit the extent or application of any other provision in any Vendor Warranty.

8.3 The Vendor hereby agrees to fully indemnify and keeps the Purchaser and their assigns fully indemnified on demand from and against any depletion of any tangible assets, all losses, costs and expenses (including legal expenses) which the Purchaser may incur or sustain from or in consequence of any of the Warranties not being correct or fully complied with. This indemnity shall be without prejudice to any of the rights and remedies of the Purchaser and their assigns in relation to any such breach of Warranties and all such rights and remedies are hereby expressly reserved.

8.4 If it shall be found at any time after Completion that any of the Vendor Warranties is not true, correct and accurate or is not as represented, warranted or undertaken and:

- (a) the effect thereof is that the value of some assets of the Group including, without limitation, the value of any asset stated in the Audited Accounts is less than its value would have been had there been no such breach or the matter warranted were as warranted; or
- (b) the Group has incurred or is under any liability or contingent liability which would not have been incurred if such matter were as represented or warranted or the relevant undertaking were performed; or
- (c) the effect thereof is that the amount of a liability of the Group is higher than its amount would have been had there been no such breach or the matter warranted were as warranted,

then, without prejudice to any other provisions of this Agreement, the Vendor shall



indemnify the Purchaser on demand on a full indemnity basis, and holds them harmless from and against all liabilities, damages, costs, claims, reduction in net consolidated assets or increase in net consolidated liabilities and all reasonable expenses which the Purchaser may sustain, suffer, or incur as a result of any of the foregoing and the Vendor shall pay to the Purchaser on demand the full amount of any such loss as aforesaid in immediately available funds.

- 8.5 The Vendor Warranties shall survive Completion and the rights and remedies of the Purchaser in respect of any breach of the Vendor Warranties shall not be affected by Completion or by the Purchaser rescinding, or failing to rescind this Agreement, or failing to exercise or delaying the exercise of any right or remedy, or by any other event or matter whatsoever, except by a specific and duly authorised written waiver or release and no single or partial exercise of any right or remedy shall preclude any further or other exercise.
- 8.6 The Purchaser shall be entitled to take action both before and after Completion in respect of any breach or non-fulfillment of any of the Vendor Warranties and Completion shall not in any way constitute a waiver of any right of the Purchaser.
- 8.7 The Vendor undertakes in relation to any Vendor Warranty which refers to the knowledge, information or belief of the Vendor that it has made reasonable enquiry into the subject matter of that Vendor Warranty and that it does not have the knowledge, information or belief that the subject matter of that Vendor Warranty may not be correct, complete or accurate.
- 8.8 The Vendor shall immediately inform the Purchaser in writing of any fact, matter, event or circumstance which renders any of the Vendor Warranties untrue, inaccurate or misleading or will give rise to a breach of any of the Vendor Warranties.
- 8.9 The Purchaser acknowledges that the Vendor makes no representations or warranties (express or implied) except the Vendor Warranties.

#### **8A. PURCHASER WARRANTIES**

- 8A.1 The Purchaser hereby represents and warrants to the Vendor and its successors and permitted assigns that save as Disclosed, the Purchaser Warranties are true and accurate in all material respects as at the date of this Agreement and will continue to be so up to and including the time of Completion.
- 8A.2 The Purchaser agrees that the Vendor may treat each of the Purchaser Warranties as separate and independent.
- 8A.3 Each of the Purchaser Warranties is without prejudice to any other Purchaser Warranty and, except herein expressly or otherwise stated, no provision in any Purchaser Warranty shall govern or limit the extent or application of any other provision in any Purchaser Warranty.
- 8A.4 The Purchaser Warranties shall survive Completion and the rights and remedies of

the Vendor in respect of any breach of the Purchaser Warranties shall not be affected by Completion or by the Vendor rescinding, or failing to rescind this Agreement, or failing to exercise or delaying the exercise of any right or remedy, or by any other event or matter whatsoever, except by a specific and duly authorised written waiver or release and no single or partial exercise of any right or remedy shall preclude any further or other exercise.

- 8A.5 The Vendor shall be entitled to take action both before and after Completion in respect of any breach or non-fulfilment of any of the Purchaser Warranties and Completion shall not in any way constitute a waiver of any right of the Vendor.
- 8A.6 The Purchaser shall immediately inform the Vendor in writing of any fact, matter, event or circumstance which renders any of the Purchaser Warranties untrue, inaccurate or misleading or will give rise to a breach of any of the Purchaser Warranties.
- 8A.7 The Vendor acknowledges that the Purchaser makes no representations or warranties (express or implied) except the Purchaser Warranties.

9. **LIMITATION ON THE VENDOR WARRANTIES AND INDEMNITY CLAIMS**

- 9.1 The liability of the Vendor and China Water in respect of any claims for breach of Vendor Warranties shall be limited as follows:
- (1) the maximum aggregate liability of the Vendor and China Water in respect of all claims for breach of Vendor Warranties shall not exceed HK\$200,000,000;
  - (2) in respect of any claims for breach of Vendor Warranties, the Vendor and China Water shall not be liable for any individual claim which does not exceed HK\$500,000 provided that, where the amount or the aggregate amount of one or more of such individual claims exceeds HK\$500,000, the Vendor and China Water shall be liable for the full amount of all such claims subject to the limitation under this Clause 9; and
  - (3) no claim may be brought against the Vendor and/or China Water in respect of a breach of Vendor Warranties after twelve months from Completion ("Vendor Warranty Expiry Date") and each of the Vendor and China Water shall not be liable in respect of a breach of Vendor Warranties unless it shall have received written notice from the Purchaser prior to the Vendor Warranty Expiry Date giving reasonable details of the relevant claim and any such claim shall (if not previously satisfied, settled or withdrawn) be deemed to have been waived or withdrawn at the expiry of a period of six months after the Vendor Warranty Expiry Date unless proceedings in respect thereof shall have already been commenced against the Vendor and/or China Water.
- 9.2 The Vendor and China Water shall not be liable for the Vendor Warranties:

- (1) to the extent that provision or reserve in respect thereof has been made in the Audited Accounts;
- (2) which would not have arisen but for a default on the part of the Purchaser of any of the terms herein;
- (3) which arises as a result of legislation which comes into force after the date hereof with retrospective effect;
- (4) which arises as a result of a change in accounting policies after Completion;  
or
- (5) which arises as a result of any matters occurring before the acquisition of the PRC Subsidiary by the Company ; or

9.3 The Vendor shall, upon any claim, action, demand or assessment being made or issued against the Vendor or the Company or the PRC Subsidiary which could lead to a claim by the Purchaser for breach of any of the Vendor Warranties, give notice thereof to the Purchaser and/or the Holdings as soon as reasonably practicable.

9.4 Where a claim for breach of any Vendor Warranty or undertakings is made under this Agreement and has been settled subsequently, save as expressly reserved in any settlement of such a claim, all other rights and remedies (if any) of the Purchaser in respect of the subject matter thereof, whether under this Agreement or otherwise, are hereby excluded.

9.5 The Vendor shall (and shall procure that the Company and the PRC Subsidiary shall) take such action and give such information and assistance in connection with their respective affairs as the Purchaser and/ or Holdings may reasonably request in writing to avoid, dispute, resist, mitigate, compromise, defend or appeal against any claim in respect thereof and any adjudication with respect thereto.

9.6 The amount of any compensation or damages payable by the Vendor and/or China Water in respect of any claim for breach of any Vendor Warranty shall be computed after taking into account and giving full credit for:

- (1) any increase in the amount or value of any assets or discharge from or satisfaction of or reduction in any liability of the Company or the PRC Subsidiary as a result of or arising out of or arising out of or attributable to the fact, matter, event or thing giving rise to any relevant claim;
- (2) any liability of the Company or the PRC Subsidiary included in the Audited Accounts having been discharged or satisfied for less than the amount attributed thereto;
- (3) any provision for Taxation, bad or doubtful debts or contingent or other liabilities of the Company or the PRC Subsidiary included in the Audited Accounts having been proved to have been over provided for; and

- (4) the amount of any taxation credits, taxation relief or setoffs due to or received by the Purchaser or the Company or the PRC Subsidiary except to the extent that the same shall have been taken into account in the Audited Accounts.
- 9.7 If the Vendor and/or China Water shall pay to the Purchaser any amount by way of compensation or damages for breach of the Vendor Warranties or any undertakings and the Purchaser subsequently recover from a third party an amount which represents the full or part of the compensation or damages paid by the Vendor and/or China Water, the Purchaser shall repay to the Vendor and/or China Water such amount previously paid by the Vendor or China Water or so much thereof as does not exceed the amount received from the third party (subject to the deduction from the amount recovered all legal and other expenses reasonably incurred by the Purchaser in recovering from the third party such amount which legal and other expenses cannot also be recovered from such third party).
- 9.8 None of the Vendor Warranties nor any benefit nor claim under this Agreement in respect of any breach of Vendor Warranties may be assigned to any person without the prior written consent of the Vendor and China Water.
- 9.9 If any claim for breach of any Vendor Warranty is brought under this Agreement in relation to any liability of the Vendor and/or the Company and/or the PRC Subsidiary which is contingent only, the Vendor and/or China Water shall not be liable to make any payment in respect thereof unless and until such contingent liability becomes an actual liability subject to the limitation under this Clause 9.

**9A. LIMITATION ON THE PURCHASER WARRANTIES**

- 9A.1 The liability of the Purchaser in respect of any claims for breach of Purchaser Warranties shall be limited as follows:
- (1) the maximum aggregate liability of the Purchaser in respect of all claims for breach of Purchaser Warranties shall not exceed the Consideration;
  - (2) in respect of any claims for breach of the Purchaser Warranties, the Purchaser shall not be liable for any individual claim which does not exceed HK\$500,000 provided that, where the amount or the aggregate amount of one or more of such individual claims exceeds HK\$500,000, the Purchaser shall be liable for the full amount of all such claims; and
  - (3) no claim may be brought against the Purchaser in respect of a breach of Purchaser Warranties after twelve months from Completion ("Purchaser Warranty Expiry Date") and the Purchaser shall not be liable in respect of a breach of Purchaser Warranties unless it shall have received written notice from the Vendor prior to the Purchaser Warranty Expiry Date giving reasonable details of the relevant claim and any such claim shall (if not previously satisfied, settled or withdrawn) be deemed to have been waived or withdrawn at the expiry of a period of six months after the Purchaser Warranty Expiry Date unless proceedings in respect thereof shall have

already been commenced against the Purchaser.

- 9A.2 The Purchaser shall not be liable for the Purchaser Warranties:
- (1) to the extent that provision or reserve in respect thereof has been made in the Holdings Audited Accounts;
  - (2) which would not have arisen but for a default on the part of the Vendor of any of the terms herein;
  - (3) which arises as a result of legislation which comes into force after the date hereof with retrospective effect; or
  - (4) which arises as a result of a change in accounting policies after Completion.
- 9A.3 The Purchaser shall, upon any claim, action, demand or assessment being made or issued against the Purchaser which could lead to a claim by the Vendor for breach of any of the Purchaser Warranties, give notice thereof to the Vendor as soon as reasonably practicable.
- 9A.4 Where a claim for breach of any Purchaser Warranty or undertakings is made under this Agreement and has been settled subsequently, save as expressly reserved in any settlement of such a claim, all other rights and remedies (if any) of the Vendor in respect of the subject matter thereof, whether under this Agreement or otherwise, are hereby excluded.
- 9A.5 The Purchaser shall take such action and give such information and assistance in connection with its affairs as the Vendor may reasonably request in writing to avoid, dispute, resist, mitigate, compromise, defend or appeal against any claim in respect thereof and any adjudication with respect thereto.
- 9A.6 The amount of any compensation or damages payable by the Purchaser in respect of any claim for breach of any Purchaser Warranty shall be computed after taking into account and giving full credit for:
- (1) any increase in the amount or value of any assets or discharge from or satisfaction of or reduction in any liability of Holdings as a result of or arising out of or arising out of or attributable to the fact, matter, event or thing giving rise to any relevant claim;
  - (2) any liability of Holdings included in the Holdings Audited Accounts having been discharged or satisfied for less than the amount attributed thereto;
  - (3) any provision for Taxation, bad or doubtful debts or contingent or other liabilities of Holdings included in the Holdings Audited Accounts having been proved to have been over provided for; and
  - (4) the amount of any taxation credits, taxation relief or setoffs due to or received by the Vendor or Holdings except to the extent that the same shall have been

taken into account in the Holdings Audited Accounts.

- 9A.7 If the Purchaser shall pay to the Vendor any amount by way of compensation or damages for breach of the Purchaser Warranties or any undertakings and the Vendor or China Water subsequently recover from a third party an amount which represents the full or part of the compensation or damages paid by the Purchaser, the Vendor shall repay to the Purchaser such amount previously paid by the Purchaser or so much thereof as does not exceed the amount received from the third party (subject to the deduction from the amount recovered all legal and other expenses reasonably incurred by the Vendor in recovering from the third party such amount which legal and other expenses cannot also be recovered from such third party).
- 9A.8 None of the Purchaser Warranties nor any benefit nor claim under this Agreement in respect of any breach of Purchaser Warranties may be assigned to any person without the prior written consent of the Purchaser.
- 9A.9 If any claim for breach of any Purchaser Warranty is brought under this Agreement in relation to any liability of the Purchaser and/or Holdings which is contingent only, the Purchaser shall not be liable to make any payment in respect thereof unless and until such contingent liability becomes an actual liability, subject to the limitation under this Clause 9A.

**9B. HOLDINGS' GUARANTEE**

- 9B.1 Holdings hereby unconditionally and irrevocably undertakes to the Vendor to procure the due and punctual performance by the Purchaser of all the obligations expressed to be imposed on or assumed by it under this Agreement and undertakes to indemnify and keep effectively indemnified the Vendor (if necessary by the payment of cash on first demand) against all liabilities, losses, damages, costs and expenses stipulated under this Agreement or otherwise which the Vendor may suffer or incur in connection with any default or delay on the part of the Purchaser in the performance of such obligations.
- 9B.2 As a separate and independent stipulation it is agreed by Holdings that any obligations and undertakings under this Clause 9B which may not be enforceable or becomes unenforceable against Holdings on the footing of a guarantee, whether by reason of any legal limitation, disability or incapacity on or of the Purchaser or any other fact or circumstances or other event and whether or not known to the Vendor shall nevertheless be enforceable against Holdings as sole or principal obligor in respect thereof.
- 9B.3 Subject to Clause 9B.5, Holdings shall not be discharged or released from its obligation under this Clause 9B by any arrangement made between the other parties or by any alteration in the obligations on the part of either the Purchaser or Holdings under this Agreement or by any time or other indulgence granted by the Vendor or by any other matter or thing done or omitted to be done which but for this Clause 9B.3 might operate to discharge or release or diminish the liability of or otherwise provide a defence to Holdings.

- 9B.4 The obligations and liabilities of Holdings under this Agreement are of continuing nature and shall not be discharged or affected by any intermediate payment or settlement of account or the dissolution, amalgamation, reconstruction or reorganisation of or the change in constitution or control of any parties to this Agreement.
- 9B.5 Without prejudice to the other provisions of this Agreement, the obligations and undertakings expressed to be assumed by or imposed on Holdings under this Agreement shall remain in force so long as the Purchaser shall have any liability or obligations to be discharged in full.
- 9B.6 Holdings hereby waives any rights to require a proceeding first against the Purchaser or any other person.
- 9B.7 Payments under this Clause 9B shall be made by Holdings without any set-off, counterclaim, deduction with holding or condition of any kind.

9C. **CHINA WATER'S GUARANTEE**

- 9C.1 China Water hereby unconditionally and irrevocably undertakes to the Purchaser to procure the due and punctual performance by the Vendor of all the obligations expressed to be imposed on or assumed by it under this Agreement and undertakes to indemnify and keep effectively indemnified the Purchaser (if necessary by the payment of cash on first demand) against all liabilities, losses, damages, costs and expenses stipulated under this Agreement or otherwise which the Purchaser may suffer or incur in connection with any default or delay on the part of the Vendor in the performance of such obligations.
- 9C.2 As a separate and independent stipulation it is agreed by China Water that any obligations and undertakings under this Clause 9C which may not be enforceable or becomes unenforceable against China Water on the footing of a guarantee, whether by reason of any legal limitation, disability or incapacity on or of the Vendor or any other fact or circumstances or other event and whether or not known to the Purchaser shall nevertheless be enforceable against China Water as sole or principal obligor in respect thereof.
- 9C.3 Subject to Clause 9C.5, China Water shall not be discharged or released from its obligation under this Clause 9C by any arrangement made between the other parties or by any alteration in the obligations on the part of either the Vendor or China Water under this Agreement or by any time or other indulgence granted by the Purchaser or by any other matter or thing done or omitted to be done which but for this Clause 9C.3 might operate to discharge or release or diminish the liability of or otherwise provide a defence to China Water.
- 9C.4 The obligations and liabilities of China Water under this Agreement are of continuing nature and shall not be discharged or affected by any intermediate payment or settlement of account or the dissolution, amalgamation, reconstruction or reorganisation of or the change in constitution or control of any parties to this Agreement.

9C.5 Without prejudice to the other provisions of this Agreement, the obligations and undertakings expressed to be assumed by or imposed on China Water under this Agreement shall remain in force so long as the Vendor shall have any liability or obligations to be discharged in full.

9C.6 China Water hereby waives any rights to require a proceeding first against the Vendor or any other person.

9C.7 Payments under this Clause 9C shall be made by China Water without any set-off, counterclaim, deduction with holding or condition of any kind.

10. **CONDUCT OF BUSINESS PENDING COMPLETION**

10.1 The Vendor hereby undertakes with the Purchaser and that, except as required by this Agreement or in the ordinary and usual course of business of the Group, no resolution of the directors or members of the Group shall be passed prior to Completion without the prior written consent of the Purchaser (such consent shall not be unreasonably withheld).

10.2 The Vendor hereby undertakes with the Purchaser that until Completion the Group shall carry on its business in a manner consistent with its existing practice and shall:

(a) procure that the Group shall not without first obtaining the prior written consent of the Purchaser (such consent not to be unreasonably withheld or delayed) enter into any contract or commitment of an unusual or onerous nature or other than in the normal and ordinary course of business; and

(b) keep the Purchaser reasonably informed of all significant matters relating to the Group, its business, assets and prospects.

10.3 Without prejudice and notwithstanding Clauses 10.1 and 10.2, the Vendor undertakes that it shall pending Completion take all steps necessary to ensure that except as required by this Agreement or by any applicable law or in the ordinary and usual course of business of the Group, the Group shall not carry out any of the following actions and no resolution of the board of directors of each Group Company or of its general meeting shall be passed to carry out the same unless the written consent of the Purchaser is obtained (such consent shall not be unreasonably withheld):

(a) the creation or issue of any shares in any Group Company or the grant of any options over any shares or the uncalled capital of any Group Company or the issue of any warrant, debentures, securities or other obligations convertible into shares in any member of the Group or enter into any agreement to do any of the same;

(b) the capitalisation, repayment or other from of distribution of any amount standing to the credit of any reserve of any member of the Group on the



redemption or purchase of any shares in member of the Group or any other reorganisation of share capital;

- (c) the winding-up or liquidation of any Group Company;
- (d) the alteration of the rights attaching to any of the Sale Shares or the shares in any member of the Group;
- (e) the alteration of the memorandum and articles of association of any member of the Group and the passing of any resolutions inconsistent with the provision of this Agreement;
- (f) the acquisition or disposal of any lease or any other interests in real property owned or occupied by each Group Company or the creation of any mortgage or other encumbrance over such property;
- (g) the acquisition or disposal of any property or other asset by each Group Company if the aggregate sum involved exceeds (or, in the case of a disposal, if the book value exceeds) HK\$500,000 other than acquisition or disposals in the ordinary course of business of the Group;
- (h) the acquisition or formation by any Group Company of any subsidiary or the acquisition of any share in any other company or the participation by any Group Company in any partnership or joint venture;
- (i) the sale or disposal of the whole or a substantial part of the undertaking of any Group Company;
- (j) the entering into of any material contract by any Group Company other than in its ordinary course of business;
- (k) the lending of any moneys (otherwise than by way of deposit with a bank or other institution the normal business of which includes the acceptance of deposit), the granting of any credit or the giving of any guarantee or indemnity;
- (l) the amalgamation or merger of any Group Company with any other company or concern;
- (m) the alteration of the composition of any board of directors of any Group Company;
- (n) the making, declaration or payment of any dividend or distribution save as disclosed in the Audited Accounts;
- (o) doing, allowing or procuring any act or omission on or before Completion which will constitute a breach of any of the Vendor Warranties; or
- (p) doing anything which is likely to materially jeopardize or diminish the

value of any material tangible assets of the Group.

**11. RESCISSION**

- 11.1 If at any time before Completion, the Purchaser finds that any of the Vendor Warranties is incorrect or has not been or is incapable of being fulfilled, the Purchaser may rescind this Agreement by written notice to the Vendor. If the Purchaser shall elect to rescind this Agreement, the Vendor shall fully indemnify the Purchaser and keep the Purchaser fully indemnified in respect of all fees, costs and expenses (including legal fees) reasonably incurred by the Purchaser in connection with the negotiation, preparation, execution and rescission of this Agreement.
- 11.2 If at any time before Completion, the Vendor finds that any of the Purchaser Warranties is incorrect or has not been or is incapable of being fulfilled, the Vendor may rescind this Agreement by written notice to the Purchaser. If the Vendor shall elect to rescind this Agreement, the Purchaser shall fully indemnify the Vendor and keep the Vendor fully indemnified in respect of all fees, costs and expenses (including legal fees) reasonably incurred by the Vendor in connection with the negotiation, preparation, execution and rescission of this Agreement.
- 11.3 The Vendor's or the Purchaser's rights under Clauses 11.1 and 11.2 respectively are in addition to and without prejudice to all other rights and remedies available to them and any partial exercise of or failure to exercise such rights shall not constitute a waiver of such rights or of any other rights whether conferred under this Agreement or otherwise.

**12. RESTRICTIVE COVENANTS**

- 12.1 For the purposes of assuring to the Purchaser the full benefit of the business and goodwill of the Group, the Vendor undertakes by way of further consideration for the obligations of the Purchaser under this Agreement, as separate and independent agreements that, save with the prior written approval of the Purchaser, it will not and shall procure its Associates will not:
- (1) at any time after Completion disclose to any person, or itself use for any purpose, and shall use his best endeavours to prevent the publication or disclosure of, any information concerning the business, accounts or finances of any Group Company, or any of its clients' or customers' transactions or affairs, which may, or may have, come to its knowledge;
  - (2) in any Relevant Capacity at any time during the period commencing from the Completion Date up to 12 months from the date of this Agreement:
    - (i) directly or indirectly solicit, interfere with, employ or endeavour to entice away from any Group Company with a view to competing with the Group any person who, to its knowledge, is now, or has during the 12 months preceding the date of this Agreement been, a client, customer or employee of, or in the habit of dealing with, any

Group Company; or

- (ii) directly or indirectly carry on or be engaged or concerned or interested in:
  - (aa) Hong Kong and PRC, the business of cultivation and sale of seabuckthorn seedling as well as manufacturing and selling of its related products, being the current business of the Group; and/or
  - (bb) any other business in Hong Kong and PRC relating to seabuckthorn seedling which is similar to the business carried on by the Group as at the date of this Agreement; or
- (iii) at any time use the name or trading style of any Group Company, or any trade marks or logos or device similar in appearance to any trade marks, in the People's Republic of China (including Hong Kong and Macau Special Administration Region) and Asia or any other part of the world, or represent itself as carrying on or continuing or being connected with the Group or its business for any purpose whatsoever.

12.2 Nothing in this Clause 12 shall apply to:

- (1) the direct or indirect holding of any securities listed on a stock exchange recognised under the Securities and Futures Ordinance where the total voting rights exercisable at general meetings of the company concerned as represented by such holding do not exceed 10 per cent. of the total voting rights attaching to the securities of the same class as that held by the Vendor and/or its Associates; or
- (2) the direct or indirect holding of any further interest in the PRC Subsidiary; or
- (3) the use or disclosure of any information in the public domain (otherwise than in consequence of any breach by the Vendor or the Company of any provisions of this Agreement from time to time or when required by law or any rule of any relevant stock exchange).

12.3 It is agreed that if any one or more of such restrictions shall either taken by itself or themselves together be adjudged to go beyond what is reasonable in all the circumstances for the protection of the legitimate interests of the Purchaser but would be adjudged reasonable if any particular restriction or restrictions were deleted or if any part or parts of the wording thereof were deleted, restricted or limited in a particular manner then the restriction contained in this Clause 12 shall apply with such deletion, restriction or limitation as the case may be.

13. **FURTHER ASSURANCE**

The Vendor shall, at the cost of the Purchaser execute, do and perform or use its reasonable endeavors to procure to be executed, done and performed by other necessary parties all such further acts, agreements, assignments, assurances, deeds and documents as the Purchaser may reasonably require to vest effectively the legal and beneficial ownership of the Sale Shares in the Purchaser.

14. **ACCESS TO INFORMATION**

The Vendor shall procure that, pending Completion, the Purchaser, their agents, representatives and professional advisers are given promptly on request full access to all such facilities and information regarding the business, assets, liabilities, contracts and affairs of the Group and other evidence of ownership of the assets owned by the Group as the Purchaser may require.

15. **NOTICES**

- 15.1 Each notice, demand or other communication given, made or serve under this Agreement shall be in writing and delivered or sent to the relevant party by prepaid postage (by airmail if to another country), facsimile transmission or personal delivery to its address or fax number as set out below (or such other address or fax number as the addressee has by five (5) days' prior written notice specified to the other parties):

To the Vendor and China Water: China Water Affairs Group Limited

Address : Suite 6408, 64/F., Central Plaza, 18  
Harbour Road, Wanchai, Hong Kong

Fax Number : (852) 2950 9642

Attention : Mr. Eddie Tsang/Mr. Benny Tam

To the Purchaser: Top Harbour Development Limited

Address : 2/F., On Shing Industrial Building,  
2-16 Wo Liu Hang Road, Fo Tan,  
Shatin, New Territories, Hong Kong.

Fax Number : 2691 0917

Attention : The Board of Directors

To Holdings: Wah Yuen Holdings Limited

Address : 2/F., On Shing Industrial Building,  
2-16 Wo Liu Hang Road, Fo Tan,  
Shatin, New Territories, Hong Kong.

Fax Number : 2691 0917

Attention : The Board of Directors

15.2 Each notice, demand or other communication given, made or serve under this Agreement shall be deemed to have been given and received by the relevant parties (i) within two (2) days after the date of posting, if sent by local mail; four (4) days after the date of posting, if sent by airmail; (ii) when delivered, if delivered by hand; and (iii) on despatch, if sent by facsimile transmission.

16. **TIME AND NO WAIVER**

Time shall in every respect be of the essence of this Agreement but no failure on the part of any party hereto to exercise, and no delay on its part in exercising any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right under this Agreement preclude any other or further exercise of it or the exercise of any other right(s) or prejudice or affect any right(s) against any other parties hereto under the same liability, whether joint, several or otherwise. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

17. **INVALIDITY**

If at any time any one or more of the provisions of this Agreement is/are or become(s) illegal, invalid or unenforceable in any respect under laws of any jurisdiction, the legality, validity or enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

18. **AMENDMENTS**

This Agreement shall not be amended, supplemented or modified except by instruments in writing signed by each of the parties hereto.

19. **ASSIGNMENT**

This Agreement shall be binding on and enure to the benefit of each party hereto and its respective successors and permitted assigns provided that none of the parties hereto shall assign or transfer or purport to assign or transfer any of its rights or obligations hereunder without the prior written consent of the other parties.

20. **ENTIRE AGREEMENT**

This Agreement constitutes an entire agreement between the parties hereto with respect to the matters dealt with herein and supersedes any previous agreements, arrangements, statements or transactions between the parties hereto in relation to the subject matters hereof.

21. **COSTS AND STAMP DUTY**

- 21.1 Each party shall bear its own costs and expenses (including legal fees) incurred in connection with the preparation, negotiation, execution and performance of this Agreement and all documents incidental or relating to Completion.
- 21.2 All stamp duty (if any) payable in respect of the sale and purchase of the Sale Shares shall be borne by the Vendor and the Purchaser in equal shares.

22. **COUNTERPART**

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of parties hereto may execute this Agreement by signing any such counterparts.

23. **GOVERNING LAW AND JURISDICTION**

- 23.1 This Agreement shall be governed by and construed in accordance with the laws of Hong Kong.
- 23.2 The parties hereto hereby irrevocably submit to the non-exclusive jurisdiction of the courts of Hong Kong.

## SCHEDULE 1

### Details of the Company

<b>Company name:</b>	China Environmental Water Holdings Limited
<b>Place of incorporation:</b>	Hong Kong
<b>Company no.:</b>	874237
<b>Date of incorporation:</b>	8 December 2003
<b>Registered office:</b>	Suite 6408, 64/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
<b>Authorised capital:</b>	HK\$10,000
<b>Issued capital:</b>	HK\$10
<b>Shareholder(s):</b>	China Water Group Limited
<b>Director(s):</b>	China Water Group Limited
<b>Nature of business:</b>	Investment holdings

## SCHEDULE 2

### Details of the PRC Subsidiaries

**Company name:** 高原聖果沙棘製品有限公司

**Place of establishment:** PRC

**Date of establishment:** 5 May 1998

**Approval certificate No.:** 商外資京作字200515032號

**Enterprise legal person business licence no.:** 企作京總副字第027-817號

**Legal address:** 中國北京市海淀區復興路甲1號東2區14幢601、607室

**Registered capital:** RMB30,500,000

**Total investment:** RMB40,000,000

**Shareholder(s) and (shareholdings in %):**

水利部沙棘開發管理中心	18%
北京山合林水環境規劃設計中心	22%
中國水環境控股有限公司	50%
江海世紀投資管理(北京)有限公司	10%

**Legal representative:** 段傳良

**Director(s):**

段傳良	閻培華
胡穎	王卉
邵源臨	李永海
林貴	

**Financial year end:** 31 December

**Principal activities:** Water and ecological environment construction; exploitation of biological resources; production of seabuckthorn raw material, beverage and products; sale of products made



**Company name:** 高原聖果 ( 北京 ) 沙棘營銷有限公司

**Place of establishment:** PRC

**Date of establishment:** 11 May 2007

**Approval certificate No.:** N/A

**Enterprise legal person business licence no.:** 110108010183227

**Legal address:** 中國北京市海淀區復興路甲1號東2區14幢603室

**Registered capital:** RMB5,000,000

**Total investment:** N/A

**Shareholder(s) and (shareholdings in %):**

高原聖果沙棘製品有限公司	60%
深圳德興鴻商貿有限公司	40%

**Legal representative:** 溫中平

**Director(s):**

溫中平	羅永鴻
羅永年	閻培華
朱利	

**Financial year end:** 31 December

**Principal activities:** 法律、行政法規、國務院決定禁止的，不得經營；法律、行政法規，國務院決定規定應經許可的，經審批機關批准並經工商行政管理機關登記註冊後方可經營；法律、行政法規、國務院決定未規定許可的，自由選擇經營項目開展經營活動。

**Company name:** 陝西果聖水土保持建設有限責任公司

**Place of establishment:** PRC

**Date of establishment:** 10 December 2003

**Approval certificate No.:** N/A

**Enterprise legal person business licence no.:** 6127002311582

**Legal address:** 中國陝西省榆林陽區西沙青山路（勞動服務科綜合樓一樓）

**Registered capital:** RMB5,000,000

**Total investment:** N/A

**Shareholder(s) and (shareholdings in %):**

高原聖果沙棘製品有限公司	90%
北京山合林水環境規劃設計中心	10%

**Legal representative:** 范軍波

**Director(s):** 范軍波 李兆東 溫中平 顧玉凱 姜問海

**Financial year end:** 31 December

**Principal activities:** Seabuckthorn planting; cultivation of seabuckthorn seedlings; sale and processing of seabuckthorn

**Company name:** 達拉特旗高原聖果沙棘有限公司

**Place of establishment:** PRC

**Date of establishment:** 2 April 2001

**Approval certificate No.:** N/A

**Enterprise legal person business licence no.:** 1527221000359

**Legal address:** 達拉特旗樹林召鄉南大房村

**Registered capital:** RMB500,000

**Total investment:** N/A

**Shareholder(s) and (shareholdings in %):**

高原聖果沙棘製品有限公司	90%
北京山合林水環境規劃設計中心	10%

**Legal representative:** 顧玉凱

**Director(s):** 李永海 王德林  
溫中平 顧玉凱  
徐雙民

**Financial year end:** 31 December

**Principal activities:** Cultivation and sale of seabuckthorn seedlings; development, research, production and sale of seabuckthorn products, provision of technical consultancy

**Company name:** 准格爾旗高原聖果沙棘有限責任公司

**Place of establishment:** PRC

**Date of establishment:** 11 August 2000

**Approval certificate No.:** N/A

**Enterprise legal person business licence no.:** 1527232001111

**Legal address:** 中國內蒙古自治區伊克昭盟准旗沙圪堵鎮

**Registered capital:** RMB5,000,000

**Total investment:** N/A

**Shareholder(s) and (shareholdings in %):**

高原聖果沙棘製品有限公司	90%
北京山合林水環境規劃設計中心	10%

**Legal representative:** 顧玉凱

**Director(s):** 李永海 王德林  
溫中平 顧玉凱  
徐雙民

**Financial year end:** 31 December

**Principal activities:** Research and development of seabuckthorn product; provision of technical consultancy; cultivation and sale of seabuckthorn seedlings

**Company name:** 鄂爾多斯高原聖果生態建設開發有限公司

**Place of establishment:** PRC

**Date of establishment:** 21 July 2000

**Approval certificate No.:** N/A

**Enterprise legal person business licence no.:** 1527011000536

**Legal address:** 中國內蒙古自治區鄂爾多斯市東勝區銅川鎮

**Registered capital:** RMB20,000,000

**Total investment:** N/A

**Shareholder(s) and (shareholdings in %):**

高原聖果沙棘製品有限公司	99.75%
北京山合林水環境規劃設計中心	0.25%

**Legal representative:** 顧玉凱

**Director(s):** 李永海 王德林  
溫中平 顧玉凱  
徐雙民

**Financial year end:** 31 December

**Principal activities:** Research and development of seabuckthorn product; provision of technical consultancy; cultivation and sale of seabuckthorn seedlings; seabuckthorn planting; ecological project construction, etc.

### SCHEDULE 3

#### VENDOR WARRANTIES

##### PART A – WARRANTIES APPLICABLE TO THE COMPANY GENERALLY

Save as Disclosed:

#### 1. GENERAL

- (A) All written information (except those prepared by any third parties) which has been given by the Vendor or by the directors, officers, advisers or agents of the Company to the Purchaser or their employees or advisers in the course of negotiations leading to this Agreement is true and accurate in all material respects and there is no fact, matter or circumstance which has not been disclosed in writing to the Purchaser which renders any such information untrue, inaccurate or misleading in any material respects.
- (B) The facts stated in the Recitals to this Agreement are true and correct in all respects.
- (C) All facts concerning the Sale Shares and the business and affairs of the Company material for disclosure to an intending purchaser of the Sale Shares have been disclosed to the Purchaser and the Vendor are not aware of any facts or circumstances which might reasonably affect the willingness of a willing purchaser to purchase the Sale Shares on the terms of this Agreement.
- (D) The Vendor has the right, power and authority to enter into and perform this Agreement and the Tax Indemnity which constitute or when executed will constitute legal, valid and binding obligations on the Vendor in accordance with their respective terms.

#### 2. OWNERSHIP OF SHARES

- (A) The Vendor is the sole beneficial owner of the Sale Shares free from all Encumbrances and there are no agreements or arrangements to create any Encumbrance over or affecting any of the Sale Shares.
- (B) There are no agreements or arrangements in force which provide for the present or future issue, allotment or transfer of, or grant to any person the right whether conditional or otherwise to call for the issue, allotment or transfer of any share or loan capital of the Company including any option, right of pre-emption or conversion and no such right will be granted on or before Completion.

#### 3. THE AUDITED ACCOUNTS

The Audited Accounts:

- (A) are complete and accurate in all material respects and give a true and fair view of the

state of affairs and financial position of the Group at the dates to which they respectively relate;

- (B) comply with all the requirements of the Companies Ordinance (Cap.32) and other relevant statutes;
- (C) have been prepared in accordance with Hong Kong Financial Reporting Standards (the "Reporting Standards") and comply with all relevant Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants for the time being in force applicable to a Hong Kong company;
- (D) are not affected by any extraordinary, exceptional or non-recurring item (except as disclosed in the Audited Accounts);
- (E) fully disclose all the assets of the Group as at their respective dates;
- (F) make full provision or reserve or note in accordance with the Reporting Standards for all liabilities and capital commitments of the Group outstanding at the date to which they relate, including contingent, unqualified, deferred or disputed liabilities present; and
- (G) make provision or reserve, in accordance with the principles set out in the notes respectively included in them, for all taxation liable to be assessed on the Company, or for which the Group may be accountable, in respect of the period ended on the Audited Accounts Date as regards the Audited Accounts and such provision will be sufficient to cover all Taxation assessed or liable to be assessed on the Group or for which the Group, is, may be or may become accountable in respect of profits, income earnings, receipts, transfers, events and transactions up to and including the last day to which they relate.

#### 4. BOOK DEBTS

- (A) Other than expressly provided for in the Audited Accounts, no part of the amounts included in the Audited Accounts, as owing by any debtor is overdue for more than twenty four (24) months, or has been released on terms that any debtor pays less than the full book value of his debt, or has been written off, or has proved to any extent to be irrecoverable, or is now or should properly be regarded by the Company as irrecoverable in whole or in part.
- (B) The Subsidiaries and associated companies of the PRC Subsidiaries owe no debt to the Vendor and/or China Water or any of their associates.
- (C) The accounts receivables and other amounts due from the debtors as at Completion will be recoverable in full in the ordinary course of business, none of those amounts is subject to any dispute, counter-claim or set off.

#### 5. FINANCIAL RECORDS

- (A) The Company has kept and duly made up all minutes books, registers and records and

these and all other deeds and documents (properly stamped where necessary) belonging to or which ought to be in the possession of the Company are in its possession.

- (B) All the accounts, books, ledgers, financial and other records of whatsoever kind of the Company:
- (1) are in its possession;
  - (2) have been fully, properly and accurately kept and completed up to date;
  - (3) do not contain any material inaccuracies and discrepancies of any kind; and
  - (4) give and reflect a true and fair view of all its transactions, and its financial, contractual and trading positions.

## 6. TAXATION

- (A) The Company has fully, duly and punctually complied with its obligations to account to the relevant tax authorities for all amounts for which it is or may become accountable in respect of Taxation and the Company is not or is unlikely to be subject to any tax penalties.

## 7. CORPORATE MATTERS

- (A) The Company is not the holder or beneficial owner of, or has not agreed to acquire, any share or loan capital or any investments of any company (whether incorporated in Hong Kong or elsewhere).
- (B) The memorandum and articles of association of the Company which had been supplied to the Purchaser is accurate and complete in all respects.
- (C) The registers of members and other statutory books of the Company have been properly kept and duly written up to date and contain an accurate and complete record of the matters with which they should deal with.
- (D) The minute books of directors' meetings and of shareholders' meetings respectively contain full and accurate records of all resolutions passed by the directors and the shareholders respectively of the Company and no resolutions have been passed by either the directors or the shareholders of the Company which are not recorded in the relevant minute books.
- (E) Since the date of its incorporation, no alteration has been made to the memorandum and articles of association of the Company and no resolution of any kind of the shareholders of the Company has been passed save as otherwise disclosed herein or filed with the Registrar of Companies.
- (F) All returns, particulars, resolutions and documents required by the Companies Ordinance (Cap. 32) or any other legislation to be filed with the Registrar of



Companies, or any other authority, in respect of the Company have been duly filed and were correct; and due compliance has been made with all the provisions of the Companies Ordinance (Cap. 32) and other relevant legislation.

- (G) All charges against the Company have (if appropriate) been registered in accordance with the provisions of the Companies Ordinance (Cap. 32) and at the relevant Land Registry.
- (H) All title deeds relating to the assets of the Company and an executed copy of all agreements to which the Company is a party, and the original copies of all other documents which are owned by, or which ought to be in the possession of the Company are in its possession.
- (I) The Company has never reduced, repaid or repurchased any of its share capital.

#### **8. DIVIDENDS AND DISTRIBUTIONS**

- (A) No dividends or other distributions has been, or is treated as having been, declared, made or paid by the Company since its incorporation.
- (B) All dividends or distributions declared, made or paid are in accordance with its articles of association or other constituent documents and all applicable laws and regulations.

#### **9. BANKING FACILITIES**

- (A) The total amounts from time to time borrowed by the Company do not exceed any limitation on its borrowing powers contained in its memorandum and articles of association, or in any debenture or other deed or document binding upon the Company.
- (B) The Company has no outstanding, or has not agreed to create or issue, any loan capital, nor have the Company factored any of its debts, or engaged in financing of a type which would not require to be shown or reflected in the Audited Accounts or borrowed any money which have not been repaid, save for borrowings not exceeding the amounts shown in the Audited Accounts.
- (C) The Company does not have, or as the case may be, has not provided:
  - (1) any borrowing or indebtedness save for such borrowings or indebtedness in the nature of borrowing or any other credit facility including any bank overdrafts and acceptance credits incurred in the ordinary and usual course of business of the Company;
  - (2) any mortgage, charge or debenture or any obligation (including a conditional obligation) to create a mortgage, charge or debenture;
  - (3) any guarantee, letter of comfort, indemnity or suretyship in respect of the obligations or solvency of any other party; and

- (4) any indebtedness other than those arising in the ordinary course of business.
- (D) In relation to all mortgages, overdrafts and other loan or financial facilities available to the Company:
  - (1) there has been no contravention of, or non-compliance with any provision of any of those documents;
  - (2) no steps for the early repayment of any indebtedness have been taken or threatened;
  - (3) there have not been, nor are there any circumstance whereby the continuation of any of the facilities might be prejudiced, or which might give rise to any alteration in the terms and conditions of any of the facilities;
  - (4) none of the facilities may be terminated, or mature prior to its stated maturity as a result of the acquisition of the Sale Shares or any thing contemplated by this Agreement; and
  - (5) full and accurate details of which have been disclosed in writing to the Purchaser.
- (E) The Company has not lent any money or provided any credit which has not been repaid or owns the benefit of any debt (whether or not due for repayment), other than debts which have arisen in the ordinary course of its business; and the Company has not made any loans or extended any credit contrary to the applicable laws and regulations and its constituent documents.

#### 10. EVENTS SINCE THE AUDITED ACCOUNTS DATE

- (A) Since the Audited Accounts Date,
  - (1) there has been no material and adverse change in the assets and liabilities, financial position, trading condition and prospects of the Company;
  - (2) the business of the Company has been carried on in the ordinary and usual course and so as to maintain the same as a going concern;
  - (3) the Company has not become bound or liable to be called upon to repay prematurely any loan capital;
  - (4) otherwise than in its ordinary course of business, the Company has not (i) acquired any assets of whatsoever nature; (ii) sold, transferred or otherwise disposed of any assets of whatsoever nature; (iii) cancelled or waived or released or discounted in whole or in part any debts or claims;
- (B) So far as the Vendor is aware, no circumstances exist whereby (whether by reason of an existing agreement or arrangement or otherwise) as a result of the acquisition of the Sale Shares referred to in this Agreement:

- (1) any supplier of the Company will cease, or be entitled to cease, supplying the Company, or may substantially reduce its supplies to the Company or will vary the terms and conditions of such supplies to a material extent; and
  - (2) any customer of the Company will cease, or be entitled to cease, to deal with it or may substantially reduce its existing level of business with it.
- (C) Compliance with the terms of this Agreement does not and will not:
- (1) conflict with, or result in the breach of, or constitute a default under, any of the terms, conditions or provisions of any agreement or instrument to which the Company is a party, or any provision of the memorandum and articles of association of the Company or any Encumbrance, lease, contract, order, judgment, award, injunction, regulation or other restriction or obligation of any kind or character by which or to which the Company or any asset of the Company is bound or subject;
  - (2) relieve any person from any obligation to the Company (whether contractual or otherwise), or enable any person to determine any obligation, or any right or benefit enjoyed by the Company;
  - (3) result in the creation, imposition, crystallisation or enforcement of any Encumbrance whatsoever on any of the assets of the Company; and
  - (4) result in any present or future indebtedness of the Company becoming due, or capable of being declared due and payable, prior to its stated maturity.
- (D) The Company is empowered and duly qualified to carry on its business in all jurisdictions in which it now carries on.
- (E) The Company is not and has not agreed to become a member of any joint venture, consortium, partnership or other unincorporated association; and the Company is not and has not agreed to become, a party to any agreement or arrangement for sharing commissions or other income.
- (F) The Company is not a party to any agency, distributorship, marketing, purchasing, manufacturing or licensing agreement or arrangement, or any restrictive trading or other agreement or arrangement pursuant to which any part of its business is carried on, or which in any way restricts its freedom to carry on the whole, or any part, of its business in any part of the world in such manner as it thinks fit.

## 11. COMPLIANCE WITH LAWS

- (A) The Company has conducted and is conducting its business in all respects in accordance with all applicable laws, regulations and codes of practice whether of Hong Kong or elsewhere and its memorandum and articles of association from time to time in force and there is no violation of, or default with respect to any ordinance, statute, regulation, order, decree or judgment of any court or any governmental agency

of Hong Kong or any foreign country.

- (B) The Company has obtained all necessary licences, permissions, authorisations, consents and exemptions from any person, authority or body for the proper carrying on of its business and all such licences, permissions, authorisations, consents and exemptions are in full force and effect and there are no circumstances (including the sale and purchase of the Sale Shares as provided in this Agreement) which may lead to any of such licences, permissions, authorisations, consents or exemptions being revoked or not being renewed in whole or in part.
- (C) The Company has not committed, or omitted to do any act or thing, the commission or omission of which is, or could be, in contravention of any ordinance, order, regulation (whether of Hong Kong or elsewhere) giving rise to any fine, penalty, default proceedings or other liabilities on its part.

## 12. MATERIAL CONTRACTS

- (A) Save as provided in this Agreement, the Company has not entered into any contract since its incorporation other than agreements for the acquisition of the Property and there is no claim under any agreement, instrument or arrangement which the Company is a party in respect of any default, breach, negligent or defective performance or otherwise and no such claim is threatened against the Company and there is no circumstances that will likely give rise to such a claim.
- (B) No party to any agreement with, or under an obligation to the Company is in default under it, except in the ordinary course of business of the Company. The Company is not in default under any agreement or covenant to which it is a party.
- (C) There is no offer, tender or the like outstanding which is capable of being converted into an obligation of the Company by acceptance, or other act of some other person, firm or company.
- (D) The Company is not a party to any contract, transaction, arrangement or liability which:
  - (1) is of an unusual or abnormal nature, or outside the ordinary and proper course of business;
  - (2) cannot readily be fulfilled or performed by it on time without undue, or unusual, expenditure of money, effort or personnel; or
  - (3) involves, or is likely to involve obligations or liabilities which, by reason of their nature or magnitude ought reasonably to be made known to an intending purchaser of the Sale Shares.
- (E) The Company has not manufactured, sold or supplied services or products which are, or were, or will become, in any respect faulty or defective, or which do not comply in any respect with any term, warranties or representations, expressly or impliedly made by the relevant member or with all applicable regulations, standards, requirements and

codes of practice.

- (F) The Company is not subject to any liability or obligation to service, repair, remedy or is otherwise required to do anything in respect of any services or contracts which have been performed by it.
- (G) There is not now outstanding, and there has not at any time during the two years prior to the date of this Agreement been outstanding any contract or arrangement to which the Company is a party and in which the Vendor or any director of the Company, is or has been interested, whether directly or indirectly.
- (H) The Company is not a party to, and its profits or financial position during the three years prior to the date of this Agreement have not been affected by, any contract or arrangement which is not of an arm's length nature.

### 13. EMPLOYMENT

- (A) The Company is not under any obligation and liability to pay any party (including its director and secretary) any remuneration, damages or other payments for services rendered to the Company or by virtue of the office they held in the Company.
- (B) There is no claim by any person or his estate or dependents who is or had been an employee, director or other officer of the Company whether for any damages, compensation (whether under the Employees' Compensation Ordinance, or otherwise) or other payments and there are no circumstances likely to give rise to such claim.
- (C) The Company and its employees are not involved in any industrial dispute, and there are no facts known, or which would on reasonable enquiry be known to the Vendor which might suggest that there may be any industrial dispute involving the Company.
- (D) Since the Audited Accounts Date,
  - (1) no change has been made in the rate of remuneration, or the emoluments or pension benefits, of any officer, ex-officer or executive of the Company; and
  - (2) no change has been made in any other terms of employment of any officer or executive.
- (E) The Company is not under any legal liability or obligation, nor is it a party to any ex-gratia arrangement or promise, to pay retirement benefits, pensions, gratuities, superannuation allowances or the like, to or for the benefit of any past or present officers or employees or their dependents and there are no retirement benefit or pension or death benefits or employment scheme or arrangement in relation to or binding on the Company or to which the Company has to make contribution.

### 14. ASSETS

- (A) The Company owned and had good and marketable title to, and (except for current assets subsequently sold or realised in the normal and ordinary course of business) still

owns and has good and marketable title to, all the assets included in the Audited Accounts and to all assets acquired since the date to which the Audited Accounts had been made up and not subsequently sold or realised as aforesaid.

- (B) The Company has not created, or granted or agreed to create or grant, any security interest or other Encumbrance in respect of any of the fixed assets included in the Audited Accounts or acquired or agreed to be acquired since the date to which the Audited Accounts have been made up.
- (C) None of the property, assets, undertaking, goodwill or uncalled capital of the Company is subject to any Encumbrance or is held under any hire purchase, leasing or rental agreements.
- (D) The stock of raw materials, packaging materials and finished goods now held are not obsolete, slow moving, unusable, unmarketable or inappropriate or of limited value in relation to the current business of the Company.
- (E) The plant, machinery, vehicles and other equipment used in connection with the business of the Company:
  - (1) are in a good and safe state of repair and condition and satisfactory working order and have been regularly and properly maintained;
  - (2) are not to any extent surplus to the requirements of the Company;
  - (3) are in the possession and control of the Company; and
  - (4) are all capable, and (subject to normal wear and tear) will remain capable, throughout the respective periods of time during which they are each written down to a nil value in the respective accounts of the relevant member of the Company (in accordance with the normal recognised accounting principles consistently applied prior to the date hereof), fit for the purpose for which they were designed or purchased.

## 15. INSURANCES

- (A) The Company has taken out insurances which provide cover in similar amounts and against such risk (including without limitation, risk in respect of personal injury, occupational diseases and death to employees in carrying out their respective duties) usually insured by prudent companies carrying on the same type of business as the Company and in particular has maintained all insurance required by all applicable laws and regulations.
- (B) All such insurances are in full force and effect and nothing has been done or omitted to be done which could make any policy void or voidable and all premium payable has been paid and no claim is outstanding under any of such insurance.

## 16. BUSINESS

- (A) The principal business activities of the Company are (i) the provision of design and engineering services which includes design of prototypes, design reviews and safety assurance services; (ii) the manufacturing of PCB assembly and the production of finished products employing manual workmanship, soldering machines, automatic winder equipment, auto-insertion machines, surface mount equipment, auto power testers and burn-in facilities; and (iii) the offering of a variety of after sales services to its customers which includes failure analysis and warranty services, product repair and upgrade services, a product end-of-life maintenance program and value engineering and value analysis services.
- (B) Other than the acquisition and holding of the Property and, the Company has not and will not pending Completion carried on any other business or activities or entered into any contracts, commitments and transactions since the date of its incorporation.

## **17. LITIGATION**

- (A) The Company is not engaged in any material litigation or arbitration proceedings, as plaintiff or defendant; there are no proceedings pending or threatened, either by or against the Company and, so far as the Vendor is aware, there are no circumstances which are likely to give rise to any litigation or arbitration.
- (B) There is no dispute with any revenue, or other official, governmental department in Hong Kong or elsewhere, in relation to the affairs of the Company and, so far as the Vendor is aware, there are no facts which may give rise to any dispute.
- (C) There are no claims pending or threatened, or capable of arising, against the Company by an employee or workman or third party, in respect of any accident or injury, which are not fully covered by insurance.
- (D) No order has been made, or petition presented, or resolution passed for the winding up of the Company nor has any distress, execution or other process been levied in respect of the Company which remains undischarged; nor is there any unfulfilled or unsatisfied judgment or court order outstanding against the Company.

## **18. INTELLECTUAL PROPERTY RIGHTS**

- (A) None of the operations or business of the Company infringes any right or confidential information or other intellectual property rights held or alleged by any third party.
- (B) The Company has not entered into any agreement for the use by any third party of any know-how or technology, or other intellectual property rights held by the Company or which restricts the disclosure or use by the Company of any of the same.
- (C) The Company has not disclosed or permitted to be disclosed or undertaken or arranged to disclose to any person other than the Purchaser any of its know-how, trade secrets, confidential information or lists of customers or suppliers.

19. **GRANTS AND ALLOWANCES**

The Company has not supplied for or received any grant or allowance from any supranational, national or local authority or government agency.

20. **TERMS OF TRADE**

During the 12 months preceding the date of this Agreement, there has been no substantial change (apart from normal price changes) in the basis or terms on which any person has entered into contracts or done business with the Company.

21. **POWERS OF ATTORNEY**

There are no subsisting powers of attorney given by the Company and no person, as agent or otherwise, is entitled or authorised to bind or commit the Company to any obligation.

22. **GENERAL MATTER**

The execution, delivery and performance of this Agreement and the transactions contemplated upon the terms herein will not result in the breach or termination or cancellation or constitute a default under any agreement, commitment or other instrument to which the Company is a party or by which the Company or its property or assets may be bound.



PART B – WARRANTIES APPLICABLE TO THE PRC SUBSIDIARY

Save as Disclosed and so far as the Vendor is aware:

**1. CORPORATE MATTERS**

- (A) The PRC Subsidiary is validly constituted and established and has the requisite corporate power and all permits, authorities, licences and consents (whether granted by public or private authority) necessary to carry on its business in the matter and in the places in which its business is now carried on and there are no circumstances which might lead to the suspension or cancellation of any such permits, authorities, licences or consents.
- (B) The register of members and other statutory books of the PRC Subsidiary have been properly kept and contain an accurate and complete record of the matters with which they should deal up to the date of this Agreement.
- (C) The business licence and approval certificate issued by the relevant PRC governmental authorities and all other necessary approvals, licences, permits and consents in respect of the PRC Subsidiary or their business have been obtained and are valid and subsisting. The entering into of this Agreement and/or the Completion pursuant to this Agreement will not prejudice any such approvals, licences, permits and consents or violate against the relevant PRC laws or any other applicable legislation or legislative or administrative regulations, directions or orders.

**2. WORKING CAPITAL**

In relation to all debentures, acceptance credits, overdrafts, loans or other financial facilities outstanding or available to the PRC Subsidiary (referred to in this paragraph 6 as “facilities”):

- (1) no steps for the early repayment of any indebtedness have been taken or, so far as the Vendor can reasonably foresee, likely to be required;
- (2) there have not been, nor are there, any circumstances known to the Vendor whereby the continuation of any of the facilities might be materially prejudiced, or which might give rise to any alteration in the material terms and conditions of any of the facilities; and
- (3) the Vendor has no knowledge that, as a result of Completion or any other matters contemplated by this Agreement, any of the facilities might be terminated by their lenders or mature prior to their standard maturity.

**3. TRADING**

- (A) Since the Audited Accounts Date, the business of the PRC Subsidiary has continued in the ordinary and normal course.

- (B) So far as the Vendor can reasonably foresee, no circumstances exist whereby (whether by reason of an existing agreement or arrangement or otherwise) as a result of the proposed acquisition of the Sale Shares by the Purchaser:
- (1) any supplier of the PRC Subsidiary will cease, or be entitled to cease, supplying it or may substantially reduce its supplies to it;
  - (2) any customer of the PRC Subsidiary will cease, or be entitled to cease, to deal with it or may substantially reduce its existing level of business with it;
  - (3) the PRC Subsidiary will lose the benefit of any material right or privilege which it enjoys under any applicable law or regulations; or
  - (4) any senior technical or management staff will leave their employment or office with the PRC Subsidiary.
- (C) The PRC Subsidiary has conducted and is conducting their respective business in all material respects in accordance with all applicable laws and legislative and administrative orders and regulations, whether of the PRC or elsewhere.
- (D) The PRC Subsidiary has obtained all necessary licenses and consents from any person, authority or body for the proper carrying on of its business and all the licences and consents are valid and subsisting.
- (E) The PRC Subsidiary is not in material breach of any of the terms or conditions of any of the licences or consents; and so far as the Vendor can reasonably foresee there are no material factors that might in any way prejudice the continuation, or renewal, of any of them.
- (F) The PRC Subsidiary is not a party to any material contract or commitment which:
- (1) is of an unusual or abnormal nature, or outside the ordinary and proper course of business; and
  - (2) is of a long-term nature (that is, unlikely to have been fully performed, in accordance with its terms, more than twelve months after the date on which it was entered into or undertaken).
- (G) No threat or claim of default of material importance, under any agreement, instrument or arrangement to which any of the PRC Subsidiary is a party has been made and is outstanding against it and, so far as the Vendor can reasonably foresees, there is nothing whereby any such agreement, instrument or arrangement may be prematurely terminated or rescinded by any other party.
- (H) No party to any agreement with, or under an obligation to, the PRC Subsidiary is in default under it, being a default which would be material in the context of the party's or the PRC Subsidiary's financial or trading position; and so far as the Vendor can reasonably foresee, there are no circumstances likely to give rise to such a default.

- (I) The PRC Subsidiary has not produced, sold or supplied services or products which are, or were, or will become, in any material respect not of marketable quality, toxic, harmful, noxious or otherwise faulty or defective or unfit for their purposes, or which do not comply in any material respect with any warranties or representations, expressly or impliedly made by it, or with any applicable regulations, standards and requirements.
- (J) No material source of supply to the PRC Subsidiary, or any material outlet for the sales of the PRC Subsidiary, is in jeopardy or, so far as the Vendor can reasonably foresee, likely to be in jeopardy.
- (K) There is not now outstanding in respect of the PRC Subsidiary any guarantee or agreement for indemnity or for suretyship given by it or for its accommodation not in its normal and ordinary course of business.

#### 4. RELATED PARTY TRANSACTIONS

- (A) Save as disclosed in the Audited Accounts, there is not now outstanding, and there has not been at any time after the Audited Accounts Date outstanding, any contract or arrangement to which any of the PRC Subsidiary is a party and the Vendor or its Associates or any then or present director of the PRC Subsidiary or any Associate of any such director, is or has been interested, whether directly or indirectly.
- (B) Save as disclosed in the Audited Accounts, the Company is not a party to, nor have its profits or financial position after the Audited Accounts Date been affected by, any contract or arrangement which is not of an entirely arm's length nature.
- (C) Save as disclosed in the Audited Accounts, none of the Vendor nor any of its Associates owe any money to the PRC Subsidiary nor are there currently outstanding any guarantee, indemnity or any security given by the PRC Subsidiary for the account any of the Vendor or any of its Associates or in respect of any indebtedness or other obligations of the Vendor or any of its Associates (in each case other than the PRC Subsidiary).
- (D) Save as disclosed in the Audited Accounts, the PRC Subsidiary does not owe any money to the Vendor or any of its Associates nor are there currently outstanding any guarantee, indemnity or any security given by the Vendor or any of its Associates for the account or benefit of the PRC Subsidiary or in respect of any indebtedness or other obligations of the PRC Subsidiary.

#### 5. EMPLOYMENT

The PRC Subsidiary has in relation to their employees complied with all applicable PRC legislation, regulations, directions and orders with regard to employment and wholly owned foreign investment.

#### 6. INSURANCE

The PRC Subsidiary have maintained or is going to acquire all necessary insurance policies required under all applicable legislation, regulations, directions and orders of

the PRC in relation to employment and foreign invested enterprises and has paid all premiums payable thereon. All such policies are in full force and effect, and nothing has been done or omitted to be done which could make any such policy void or voidable.

## **7. LITIGATION, DISPUTES AND WINDING UP**

- (A) The PRC Subsidiary are not engaged in any material litigation or arbitration proceedings, as plaintiff or defendant; there are no material proceedings pending or threatened, either by or against the PRC Subsidiary.
- (B) Neither the PRC Subsidiary nor any member of the Group and the Vendor has in relation to the PRC Subsidiary committed nor are they liable for any criminal, illegal, unlawful or unauthorised act or breach of any obligation whether imposed by or pursuant to the laws of the PRC or Hong Kong, contract or otherwise.
- (C) No order has been made, or petition presented, or resolution passed for the winding up of or the taking of any analogous proceedings against the PRC Subsidiary; nor has any distress, execution or other process been levied in respect of the PRC Subsidiary which remains undischarged; nor is there any unfulfilled or unsatisfied judgement or court order outstanding against the PRC Subsidiary.

## **8. INTELLECTUAL PROPERTY RIGHTS AND TRADE SECRETS**

- (A) The business of the PRC Subsidiary (and of any licensee under a licence granted by the PRC Subsidiary) as now carried on, does not, and is not likely to, infringe any intellectual property right (that is to say, patent, patent application, knowhow, trade or service mark, trade or service mark application, trade name, registered design, copyright, logo or other similar intellectual, industrial or commercial right) ("**Intellectual Property Rights**") of any other person (and would not do so if the same were valid).
- (B) To the extent that the PRC Subsidiary has been granted any licence for the use of any Intellectual Property Right, all such licences are in full force and effect.
- (C) Without prejudice to paragraph 8(A) above, the PRC Subsidiary does not use any processes and is not engaged in any activities which involve the misuse of any knowhow, lists of customers or suppliers, trade secrets, technical processes or other confidential information ("**Confidential Information**") belonging to any third party. There has been no actual or alleged misuse by any person of any of its Confidential Information. The PRC Subsidiary has not disclosed to any person any of its Confidential Information except where such disclosure was properly made in the normal course of the PRC Subsidiary's business and was made subject to an agreement under which the recipient is obliged to maintain the confidentiality of such Confidential Information and is restrained from further disclosing it or using it other than for the purposes for which it was disclosed by the PRC Subsidiary.

9. PLANT AND EQUIPMENT

- (A) The fixed and loose plant, machinery, furniture, fixtures, fittings, equipment and vehicles used in connection with the business of the PRC Subsidiary are the property of and are held by the PRC Subsidiary free from any hire purchase agreement or agreement for payment on deferred terms or bills of sale or other Encumbrance.
- (B) All plant, machinery, vehicles and equipment owned or used by the PRC Subsidiary are in good and safe condition and working order (fair wear and tear excepted).

## SCHEDULE 4

### PURCHASER WARRANTIES

1. Previous Announcements: with respect to all the previous announcements and circulars to the shareholders of Holdings made by or on behalf of Holdings since the Holdings Audited Accounts Date, all statements of fact contained therein were true and correct in all material respects as at the respective dates of such previous announcements and circulars and not misleading in any material respect and all expressions of opinion or intention contained therein were made on reasonable grounds and were truly and honestly held by the directors of Holdings and were fairly based and there were no other facts known to the directors of Holdings the omission of which would make any such statement or expression in any of such previous announcements misleading in any material respect;
2. No material adverse change: since the Holdings Audited Accounts Date there has been no material adverse change, nor any development reasonably likely to involve a prospective material adverse change, in the financial or trading position of any member of the Holdings Group;
3. No litigation: except for normal debt collection in the ordinary course of business, none of the Holdings Group is engaged in any litigation, arbitration or governmental proceeding which (individually or in aggregate) is likely to have or have had during the twelve months preceding the date hereof a material adverse effect on the financial or trading position of the Group as a whole and no such litigation, arbitration or proceeding are threatened in writing or pending nor, to the best of the knowledge, information or belief of Holdings (having made all reasonable inquiries), are there any circumstances which is likely to give rise to any such litigation, arbitration or proceeding;
4. Indebtedness: to the best of the knowledge, information and belief of Holdings (having made all reasonable inquiries), no circumstances or events have arisen or occurred such that any person is (or could, with the giving of notice and/or lapse of time and/or fulfilment of any condition and/or the making of any determination, become) entitled to payment of any indebtedness before its due date for payment by any member of the Holdings Group, or to take any step to enforce any security for any indebtedness of any member of the Holdings Group and no person to whom any indebtedness for borrowed money of any member of the Holdings Group which is payable on demand has demanded or threatened in writing to demand repayment of the same;
5. No winding-up: no member of the Holdings Group is in receivership or liquidation and so far as Holdings is aware, none of the Holdings Group has taken any step to enter liquidation and no petition has been presented for winding up or appointment of a receiver of any member of the Holdings Group.
6. No options or other securities: There are no options or other agreements outstanding which call for the issue of or accord to any person, the right to call for

the issue of any loan or share capital of any member of the Holdings Group or the right to require the creation of any mortgage, charge, pledge, lien or other security or encumbrance.

7. Compliance with constitutions: The copies of the memorandum and articles of association or other equivalent constitutional documents of each of the Holdings Group which have been produced to the Vendor are true and complete in all material respects and have attached to them copies of all resolutions which are required by the applicable laws and regulations to be so attached. So far as Holdings is aware, each member of the Holdings Group has complied with its respective memorandum and articles of association in all material respects and none of the activities, agreements, commitments or rights of any member of the Holdings Group is ultra vires or unauthorised.
8. Title to assets: Save as disclosed in the Holdings Audited Accounts, each member of the Holdings Group has good title to its assets used in its business free from any liens, mortgages, charges and encumbrances.
9. Compliance with applicable laws: So far as Holdings is aware, each member of the Holdings Group has at all times carried on and will until Completion carry on its business in compliance with all applicable laws and regulations in all material respects and there is no order, decree or judgment of any court or any governmental agency of Hong Kong or of any foreign country outstanding against the Holdings Group or which may have material adverse effect upon the assets or business of the Holdings Group and, without prejudice to the generality of the foregoing, each member of the Holdings Group has obtained all licences and consents necessary for the carrying on of its business, and all such licences and consents are valid and subsisting and so far as Holdings is aware there is no reason why any of them should be suspended, cancelled or revoked. So far as Holdings is aware, no member of the Holdings Group is in breach in any material respect of any material contracts by which it is bound.
10. No material non-disclosure: There are no adverse material or substantial factors or circumstances known to Holdings relating to the business or affairs of each member of the Holdings Group which have not been disclosed to the Vendor and which if disclosed, might reasonably be expected to influence materially and adversely the Vendor's decision to enter into this Agreement.
11. Taxation: Each member of the Holdings Group has complied in all material respects with all relevant and applicable legal requirements relating to registration or notification for Taxation purposes. Each member of the Holdings Group have paid all Taxation (if any) due to be paid, and if required, made sufficient provision for Taxation before the date of this Agreement, and taken all necessary steps to obtain any repayment of or relief from Taxation available to them.
12. Trading and business: Neither the Holdings Group nor any of their officers, agents or employees (during the course of performance of their duties in relation to the Holdings Group) have committed, or omitted to do, any act or thing the commission or omission of which is, or could be, in contravention of any

ordinance, order, regulation, enactment, statute or the like in Hong Kong or elsewhere which is punishable by fine or other penalty. Since the Audited Accounts Date, the business of each member of the Holdings Group has been continued in the ordinary and normal course and each member of the Holdings Group has been paying their creditors in respect of all of their debts which have become due and payable in their ordinary course of business.

13. Listing status: The Holdings Group has not done anything or omitted to do anything which is likely to materially and adversely affect the listing status of Holdings.

14. Capacity:

(a) Each of Holdings and the Purchaser has full power and authority to enter into and perform this Agreement and this Agreement constitutes binding obligations of each of Holdings and the Purchaser.

(b) In entering into this Agreement, each of Holdings and the Purchaser does not do so in breach of any applicable legislation.

(c) Each of Holdings and the Purchaser has taken or obtained all necessary corporate and other actions and consents to authorise the execution and performance by each of them of this Agreement.

15. Consideration Shares and Conversion Shares:

(a) Holdings has sufficient authorised but unissued share capital for Holdings to perform its obligations under this Agreement and the directors of Holdings are authorised to issue the Consideration Shares and the Conversion Shares.

(b) The Consideration Shares and the Conversion Shares will rank pari passu in all respects with any existing shares of Holdings in issue at the date of allotment and issue of the Consideration Shares or the Conversion Shares (as the case may be).

(c) All necessary consents authorisations and approvals (if any) of the Stock Exchange, any governmental agency or body required in Hong Kong for or in connection with Holdings' obligations under this Agreement and the performance of the terms of this Agreement by Holdings have been obtained or made or will have been obtained or made by Completion.

(d) The entering into of this Agreement and the issue of the Consideration Shares and the Conversion Shares by Holdings will not infringe and will not be contrary to any laws of Hong Kong and will not result in any breach of the terms of the memorandum and articles of association of Holdings and of any agreement or obligation applicable to Holdings.



**SCHEDULE 5**

**Tax Indemnity**

**Dated : [\*]**

**CHINA WATER GROUP LIMITED**

**(as Vendor)**

**and**

**TOP HARBOUR DEVELOPMENT LIMITED**

**(as Purchaser)**

**and**

**CHINA WATER AFFAIRS GROUP LIMITED**

**(as China Water)**

**and**

**WAH YUEN HOLDINGS LIMITED**

**(as Holdings)**

**and**

**CHINA ENVIRONMENTAL WATER HOLDINGS LIMITED**

**and its subsidiaries**

**(as the Companies)**

---

**DEED OF INDEMNITY AND GUARANTEE**

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**THIS DEED OF INDEMNITY AND GUARANTEE is dated [\*]**

- (1) **CHINA WATER GROUP LIMITED**, a company incorporated in the British Virgin Islands with limited liability and having its registered office at Abbott Building, 2nd Floor, P.O. Box 933, Road Town, Tortola, British Virgin Islands (the "Vendor");
- (2) **TOP HARBOUR DEVELOPMENT LIMITED**, a company incorporated in the British Virgin Islands with limited liability and having its registered office at OMC Chambers, P. O. Box 3152, Road Town Tortola, British Virgin Islands (the "Purchaser");
- (3) **CHINA WATER AFFAIRS GROUP LIMITED**, a company incorporated in the Cayman Islands and continued in Bermuda and having its registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its head office and principal place of business in Hong Kong at Suite 6408, 64/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong ("China Water");
- (4) **WAH YUEN HOLDINGS LIMITED**, a company incorporated in the Cayman Islands and having its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its head office and principal place of business in Hong Kong at 2/F., On Shing Industrial Building, 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong and the issued shares of which are listed on the Stock Exchange ("Holdings"); and
- (5) **CHINA ENVIRONMENTAL WATER HOLDINGS LIMITED**, a company incorporated in Hong Kong and having its registered office at Suite 6408, 64/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong (the "Company") on its own behalf and as trustee for **THE SEVERAL COMPANIES** whose names and places of incorporation/establishment are set out in Schedule 2 to the Agreement (as defined herein) (the "Subsidiaries").

**WHEREAS:**

- (A) This Deed is supplemental to an agreement (the "Agreement") dated 29 June 2007 and made between, among others, the Vendor as vendor and the Purchaser as purchaser in relation to, inter alia, the sale and purchase of the entire issued share capital of the Company.
- (B) It is a condition of the Agreement that the Vendor shall enter into this Deed to provide the Purchaser and the Companies with a guarantee and indemnity subject to the terms and conditions herein contained.
- (C) In consideration of the Purchaser agreeing to enter into this Agreement, China Water has agreed to guarantee the performance by the Vendor of its obligations under this Agreement subject to and upon the terms and conditions of this Agreement.
- (D) In consideration of the Vendor agreeing to enter into this Agreement, Holdings has agreed to guarantee the performance by the Purchaser of its obligations under this Agreement subject to and upon the terms and conditions of this Agreement.

NOW THIS DEED WITNESSES AND IT IS HEREBY AGREED as follows:

1. (A) In this Deed, expressions defined or to which a meaning is assigned in the Agreement shall, unless otherwise defined herein, bear the same meanings when used herein.
- (B) In this Deed:
  - (i) "**Relief**" includes any relief, allowance, set off or deduction in computing profits or credit granted by or pursuant to any legislation or otherwise relating to all forms of Taxation;
  - (ii) "**Taxation**" means:
    - (a) any liability to any form of taxation whenever created or imposed and whether of Hong Kong, the PRC or of any other part of the world and without prejudice to the generality of the foregoing includes profits tax, provisional profits tax, interest tax, salaries tax, property tax, estate duty, death duty, capital duty, stamp duty, payroll tax, withholding tax, rates, customs and exercise duties and generally any tax duty, impost, levy or rate or any amount payable to the revenue, customs or fiscal authorities whether of Hong Kong or of any other part of the world;
    - (b) such an amount or amounts as is or are referred to in paragraph (iii) of this Clause; and
    - (c) all costs, interest, penalties, charges and expenses incidental or relating to the liability to taxation or the deprivation of Relief or of a right to repayment of taxation which is the subject of the indemnity and guarantee contained herein to the extent that the same is/are payable or suffered by the Companies;
  - (iii) "**Taxation Claim**" includes any assessment, notice, demand or other documents issued or action taken by or on behalf of the Inland Revenue Department of Hong Kong, the PRC or any other statutory or governmental authority whatsoever in Hong Kong, the PRC or any other part of the world from which it appears that the Companies is liable or is sought to be made liable for any payment of any form of Taxation or to be deprived of any Relief or right to repayment of any form of Taxation which Relief or right to repayment would but for the Taxation Claim have been available to the Companies;
  - (iv) in the event of any deprivation of any Relief or of a right to repayment of any form of Taxation there shall be treated as an amount of Taxation for which a liability has arisen the amount of such Relief or repayment or (if smaller) the amount by which the liability to any such Taxation of the Companies would have been reduced by such Relief if there had been no such deprivation as aforesaid, applying the relevant rates of taxation in force in the period or periods in respect of which such Relief would have applied or (where the rate has at the relevant time not been fixed) the last known rate and assuming that the Companies had sufficient profits

against which such Relief might be set or given

- (v) “**Companies**” means the Company and the Subsidiaries;
  - (vi) “**Audited Accounts**” means the audited consolidated balance sheet of the the Company and Conesco Seabuckthorn Co., Ltd as at the Audited Accounts Date and the audited consolidated profit and loss accounts of the Group for the year ended on the Audited Accounts Date; and
  - (vii) “**Audited Accounts Date**” means 31 March 2006.
- (C) In this Deed, unless the context otherwise requires, the singular includes the plural and vice versa, words importing any gender include every gender and references to persons include firms, companies and corporations.
- (D) In this Deed, references to clauses are to Clauses of this Deed.
2. (A) Without prejudice to any of the foregoing provisions of this Deed and subject as hereinafter provided, the Vendor hereby agrees with the Purchaser and the Companies that it will indemnify and guarantee and at all times keep them and each of them indemnified and guaranteed against Taxation falling on the Companies resulting from or by reference to any income, profits or gains earned, accrued or received from the date when the Vendor acquired a direct or indirect interest in any of the Companies to the Completion Date (the “**Indemnity Period**”) or any event or transaction happened during the Indemnity Period whether alone or in conjunction with any circumstances whenever occurring and whether or not such Taxation is chargeable against or attributable to any other person, firm or company.
- (B) The indemnity and guarantee contained in sub-clause (A) above shall not apply to Taxation falling on the Companies in respect of their current accounting periods or any accounting period before or after the Indemnity Period unless liability for such Taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, the Companies or the Purchaser (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Vendor other than any such act, omission or transaction:
- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Completion Date; or
  - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Completion Date; or
  - (iii) consisting of the Companies ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of Taxation.
3. The indemnity and guarantee given by Clause 2 does not cover any Taxation Claim to the extent that:-

- (A) such Taxation Claim arises or is incurred as a result of the imposition of Taxation as a consequence of any retrospective change in the law or practice coming into force after the Completion Date or to the extent that such Taxation Claim arises or is increased by an increase in rates of Taxation after such date with retrospective effect; or
  - (B) provision or reserve or a note in respect of such Taxation has been made in the Audited Accounts or to the extent that payment or discharge of such Taxation Claim has been taken into account therein; or
  - (C) the matter giving rise to the Taxation Claim is wholly or partially taken into account in computing the Profit Guaranteed Shortfall Amount in Clause 6 of the Agreement; or
  - (D) any provision or reserve made for Taxation in the Audited Accounts up to the Audited Accounts Date which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied pursuant to this Clause 3(D) to reduce the relevant Vendor's liability in respect of Taxation shall not be available in respect of any such liability arising thereafter; or
  - (E) the matter giving rise to the Taxation Claim arises wholly or partially from any voluntary event before or after Completion at the request or direction of, or with the acquiescence or consent of the Purchaser or the authorized representatives or professional advisers of the Purchaser; or
  - (F) the matter giving rise to the Taxation Claim is a Taxation liability against which any relief, allowance, credit or deduction in respect of Taxation arising on or before Completion and not shown as an asset in the Audited Accounts is available for set off; or
  - (G) the liability to Taxation would not have arisen but for (i) a change after Completion in the accounting policies of the Company (including without limitation the bases on which the Company values its assets) or (ii) any accounts of the Company being prepared in a manner inconsistent with the manner in which the Audited Accounts were prepared.
4. No claim under this Deed shall be made by the Purchaser and the Companies in respect of the same Taxation.
5. In the event of any Taxation Claim arising, the Purchaser and the Companies shall by way of covenant but not as a condition precedent to the liability of the Vendor hereunder give or procure that notice thereof is as soon as reasonably practicable given to the Vendor in the manner provided in Clause 10; and, as regards any such Taxation Claim, the Purchaser and the Companies shall at the request of the Vendor take such action, or procure that such action be taken, as the Vendor may reasonably request to cause the Taxation Claim to be withdrawn, or to dispute, resist, appeal against, compromise or defend the Taxation Claim and any determination in respect thereof but subject to the Purchaser and the Companies being indemnified and secured to its or their reasonable satisfaction by the Vendor against all losses (including additional Taxation), costs, damages and expenses which may be thereby incurred.

6. (A) If after the Vendor has made any payment pursuant to Clause 2 hereof, the Companies shall receive a refund of all or part of the relevant Taxation (whether pursuant to section 79 of the Inland Revenue Ordinance of Hong Kong or similar legislation elsewhere or otherwise) such company (if it shall receive such refund) shall repay or (if another of the Companies shall receive such refund) shall procure repayment by such Company, as the case may be to the Vendor a sum corresponding to the amount of such refund less:
  - (i) any expenses, costs and charges properly incurred by the Companies in recovering such refund; and
  - (ii) the amount of any additional Taxation which shall not have been taken into account in calculating any other payment made or to be made pursuant to this Clause but which is suffered by the Companies in consequence of such refund.
- (B) Any payments due by the Vendor pursuant to the foregoing provisions of this Deed shall be increased to include such interest on unpaid tax as the Companies shall have been required to pay pursuant to section 71(5) or section 71(5A) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) or similar legislation elsewhere or otherwise.
7. The Vendor shall not be liable in respect of any claim under this Deed unless the same shall have been made on or prior to the expiry of six years from the Completion Date by notice in writing to the Vendor.
- 7A. The liability of the Vendor shall be limited as provided in Clause 9 of the Agreement, with the intent and effect that each of the provisions of Clause 9 of the Agreement shall be deemed to be incorporated and repeated in this Deed.
8. The indemnities, guarantees, agreements and undertakings herein contained shall bind the personal representatives or successors of the Vendor and shall enure for the benefit of each party's successors or assigns.
9. The whole or any part of the benefit of this Deed may not be assigned by the Purchaser and the Company save with the prior written approval of the Vendor.
10. Any notice required to be given under this Deed shall be in writing and shall be delivered personally or sent by facsimile or by registered or recorded delivery post, postage prepaid to the respective party at the address set out herein or such other address as may have been last notified in writing by or on behalf of such party to the other parties hereto. Any such notice shall be deemed to be served at the time when the same is handed to or left at the address of the party to be served and if served by post or facsimile transmission at the time it would have been received in the normal course of post or facsimile.
11. This Deed is governed by and shall be construed in accordance with the laws of Hong Kong and the parties hereto hereby irrevocably submit to the non-exclusive jurisdiction of the courts of Hong Kong in relation to any proceedings arising out of or in connection with this Deed.

IN WITNESS whereof this Deed of Indemnity and Guarantee has been duly executed the day and year first above written.



**THE VENDOR**

SEALED with the Common Seal of and )  
SIGNED by )  
for and on behalf of CHINA WATER )  
GROUP LIMITED )  
in the presence of: )

**THE PURCHASER**

SEALED with the Common Seal of and )  
SIGNED by )  
for and on behalf of TOP HARBOUR )  
DEVELOPMENT LIMITED )  
in the presence of: )

**CHINA WATER**

SEALED with the Common Seal of and )  
SIGNED by )  
for and on behalf of CHINA WATER )  
AFFAIRS GROUP LIMITED )  
in the presence of: )

**HOLDINGS**

**SEALED** with the Common Seal of and )  
 )  
**SIGNED** by )  
 )  
for and on behalf of **WAH YUEN** )  
 )  
**HOLDINGS LIMITED** )  
 )  
in the presence of: )

**COMPANY**

**SEALED** with the Common Seal of and )  
 )  
**SIGNED** by )  
 )  
for and on behalf of **CHINA** )  
 )  
**ENVIRONMENTAL WATER** )  
 )  
**HOLDINGS LIMITED** )  
 )  
in the presence of: )

**SCHEDULE 6**

**Instrument**



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**THIS INSTRUMENT** is executed by way of Deed Poll on \_\_\_\_\_ by  
**WAH YUEN HOLDINGS LIMITED** (the “**Company**”) a company incorporated in the  
Cayman Islands having its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681,  
Grand Cayman KY1-1111, Cayman Islands and principal place of business in Hong Kong at  
2/F., On Shing Industrial Building, 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories,  
Hong Kong.

**WHEREAS:**

- (A) By an agreement (the “**SP Agreement**”) dated 29 June 2007 entered into, among others, Top Harbour Development Limited (the “**Purchaser**”), a wholly-owned subsidiary of the Company, and China Water Group Limited (the “**Vendor**”), the Purchaser shall procure the Company to create and issue the Bond (as defined herein) in the principal amount of HK\$180,050,000 to the Vendor as part of the consideration for the sale and purchase of, among others, the entire issued share capital of China Environmental Water Holdings Limited.
- (B) The Company is entering into this Instrument by way of deed poll in order to define the rights and interests of the Bondholder.

**NOW THIS INSTRUMENT WITNESSES** and the Company hereby declares as follows:

**1. DEFINITIONS**

- 1.1 In this Instrument (including the Recitals), the following expressions shall, unless the context otherwise requires, have the following meanings:

“ <b>Bondholder</b> ”	a holder or holder(s) in whose name the Bond is registered in the Register, and “ <b>holder</b> ” in relation to the Bond shall have the corresponding meaning
“ <b>Bond</b> ”	convertible bonds in registered form in the principal amount of HK\$180,050,000 constituted by this Instrument and for the time being outstanding or, as the context may require, any amount of them
“ <b>Business Day</b> ”	any day (excluding a Saturday and Sunday) on which banks in Hong Kong are open for business throughout their normal business hours
“ <b>Certificate</b> ”	a certificate in or substantially in the form set out in <u>the Schedule</u> issued in the name of the Bondholder in respect of its registered holdings of the Bond
“ <b>Code</b> ”	The Hong Kong Code on Takeovers and Mergers
“ <b>Companies Ordinance</b> ”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“ <b>Conditions</b> ”	terms and conditions endorsed on the Bond in

definitive form as they may from time to time be modified in accordance with their provisions and/or of this Instrument, and reference in this Instrument to a particular numbered Condition shall be construed accordingly

<b>“Conversion Date”</b>	has the meaning assigned in <u>Condition 5(D)</u>
<b>“Conversion Period”</b>	subject to conditions as set out in <u>Clause 6.1</u> and <u>Condition 5(A)</u> , the period commencing from the date of issue of the Bond up to 4:00 p.m. (Hong Kong time) on the Maturity Date
<b>“Conversion Price”</b>	the conversion price per Share determined in accordance with <u>Clause 6.3</u> , subject to adjustments in accordance with <u>Clause 7</u>
<b>“Conversion Rights”</b>	the rights of the Bondholder to convert the principal amount outstanding under the Bond registered in its names into Shares subject to the terms and conditions of this Instrument and the Conditions
<b>“Conversion Share(s)”</b>	Share(s) to be allotted and issued upon an exercise of the Conversion Rights
<b>“HK\$” and “Hong Kong dollars”</b>	means the lawful currency for the time being of Hong Kong
<b>“Hong Kong”</b>	The Hong Kong Special Administrative Region of The People’s Republic of China
<b>“Hong Kong Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Listing Rules”</b>	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
<b>“Maturity Date”</b>	the tenth anniversary of the date of issue of the Bond
<b>“outstanding”</b>	the amount of the Bond issued other than:  (a) those which have been redeemed or in respect of which Conversion Rights have been exercised or which have been cancelled in accordance with the Conditions;  (b) those in respect of which the redemption moneys (including all interest accrued on the Bond to the date for such redemption and any interest payable under Clause 4 and <u>Condition</u>

4 after such date) have been duly paid to the Bondholder or on its behalf;

- (c) those mutilated or defaced Bond which have been surrendered in exchange for replacement Bond pursuant to Condition 10;
- (d) (for the purpose only of determining the amount of the Bond that is outstanding and without prejudice to their status for any other purpose) the Bond alleged to have been lost, stolen or destroyed and in respect of which replacement Bond have been issued pursuant to Condition 10;
- (e) those which have been cancelled as provided in Condition 7

**“Register”** the register of the Bondholders required to be maintained pursuant to Clause 11

**“Shareholders”** holders of the Shares

**“Shares”** ordinary shares of par value HK\$0.01 each in the capital of the Company as at the date of this Instrument, or shares of any class or classes resulting from any sub-division, consolidation or re-classification of such shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or distribution of the Company

**“Specified Office”** the principal office of the Company in Hong Kong specified at the back of the Certificate or any other office notified to the Bondholder pursuant to Condition 11

**“this Instrument”** this instrument, the schedule (as from time to time may be altered in accordance with this Instrument) and any other document executed in accordance with this instrument (as from time to time may be so altered) and expressed to be supplemental to this Instrument

1.2 In this Instrument, and unless the context otherwise requires:

- (a) references to Recitals, Clauses, Sub-clauses and Schedule are to the recitals, clauses and sub-clauses of and the schedule to this Instrument;



- (b) reference to a Sub-clause is, unless otherwise stated, to the sub-clause of the Clause in which the reference appears;
- (c) reference to a paragraph is to the paragraph of the Schedule in which the reference appears;
- (d) the Schedule forms part of this Instrument;
- (e) reference to any ordinance, legislation, regulation or other statutory provision in this Instrument includes reference to such ordinance or legislation or regulation or provision as modified, consolidated or re-enacted from time to time (except to the extent where any such modification, consolidation or re-enactment increases the liability of any party to this Instrument);
- (f) words denoting the singular include the plural and vice versa, words denoting one gender include both genders and the neuter and words denoting persons include corporations and, in each case, vice versa; and
- (g) headings, the index page and underlining are for ease of reference only and do not form part of this Instrument.

1.3 If at any time any provision of this Instrument is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of this Instrument nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

## 2. ISSUE OF THE BOND

Subject to the conditions of the SP Agreement having been fulfilled on or before the time specified therein (or such other time and/or date as the Vendor and the Purchaser may agree), the Company shall, on the date fixed for completion of sale and purchase of, among others, the entire issued share capital of China Environmental Water Holdings Limited under the SP Agreement, issue the Bond to the Vendor or its nominee(s) in accordance with the terms of the SP Agreement.

## 3. AMOUNT OF THE BOND

The principal amount of the Bond shall be HK\$180,050,000.

## 4. INTEREST

4.1 The Bond shall bear interest from and including the date of its issue at the rate of three per cent. (3%) per annum on the outstanding principal amount thereof. Interest shall be accrued daily on a 365 days basis and is payable semi-annually in arrears with the first interest payment for the Bond to be made on the date falling six (6) months from the date of issue of such Bond and thereafter on the last day of each successive yearly period (each an "Interest Payment Date"). If an Interest Payment Date would otherwise fall on a day which is not a Business Day it shall be postponed to the next

day which is a Business Day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding Business Day.

- 4.2 The Bond will, in respect of the Conversion Rights attached thereto which are not yet exercised, cease to bear interest on the earliest of (a) its Conversion Date subject to conversion of the Bond in accordance with this Instrument and the Conditions; and (b) the Maturity Date.

## 5. **BOND CERTIFICATES**

- 5.1 On issue of the Bond, the Bondholder will be entitled to a definitive Certificate with Conditions in or substantially in the form set out in the Schedule.
- 5.2 The definitive Certificates will be signed manually or in facsimile by two Directors or by a director and the secretary of the Company.
- 5.3 Issue and delivery of the Bond shall be completed on the issue and delivery of the Certificate to the Bondholder (or its representative) by, or by the order of, the Company and completion of the Register by or on behalf of the Company. The Company will pay any stamp, issue, registration, documentary or other similar taxes and duties, including interest and penalties, payable in Hong Kong in respect of the creation and original issue of the Bond and the execution or delivery of this Instrument.
- 5.4 The Company hereby covenants to and with the Bondholder that it will comply with and perform and observe all the provisions of this Instrument and the Conditions which are expressed to be binding on it. The Conditions shall be binding on the Company and the Bondholder.

## 6. **CONVERSION**

- 6.1 Provided that any conversion of the Bond does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the Bondholder which exercised the Conversion Rights, whether or not such mandatory offer obligation is triggered off by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the Conversion Rights attaching to the Bond (if applicable, including any Shares acquired by the parties acting in concert with the holder(s) of the Bond) represents more than 30% (or such other percentage as stated in Rule 26 of the Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Code, the Bondholder shall, subject to compliance with the procedures set out in the Conditions, have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Bond registered in its name into Shares provided further that any conversion shall be made in amounts of not less than a whole multiple of HK\$5,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Bond is less than HK\$5,000,000, the whole (but not part only) of the outstanding principal amount of the Bond may be converted.
- 6.2 The number of Conversion Shares to be issued on each conversion will be determined by dividing the principal amount specified in the Conversion Notice by the Conversion Price applicable on the Conversion Date. Fractions of Shares will not be

issued on conversion and the amount representing such fraction will be retained by the Company and no payment will be made to the Bondholder in respect of such fraction, provided always that for the purpose of determining whether any (and if so what) fraction of a share arises, if the Conversion Right represented by a Certificate and any one or more other Certificates are exercised on the same Conversion Date by the Bondholder, then the Conversion Rights represented by the Bond shall be aggregated.

- 6.3 The Conversion Price for the Bond shall be equal to HK\$0.15 per Conversion Share, subject to adjustments as hereafter described in Clause 7.
- 6.4 Any calculation by the Company of the number of Conversion Shares falling to be issued on a conversion shall, in the absence of manifest error, be conclusive and binding on the Bondholder.

## 7. ADJUSTMENTS

- (a) Subject as hereinafter provided, the Conversion Price shall from time to time be adjusted in accordance with the following relevant provisions and so that if the event giving rise to any such adjustment shall be such as would be capable of falling within more than one of sub-paragraphs (i) to (vii) inclusive of this Sub-clause (a) it shall fall within the first of the applicable paragraphs to the exclusion of the remaining paragraphs:
- (i) If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective.
- (ii) If and whenever the Company shall issue (other than in lieu of a cash dividend) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the aggregate nominal amount of the issued Shares immediately before such issue and dividing the result by the sum of such aggregate nominal amount and the aggregate nominal amount of the Shares issued in such capitalisation. Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for such issue.
- (iii) If and whenever the Company shall make any Capital Distribution (as defined in Sub-clause (b)) to holders (in their capacity as such) of Shares (whether on a reduction of capital or otherwise) or shall grant to such holders rights to acquire for cash assets of the Company or any of its subsidiaries, the Conversion Price in force immediately prior to such distribution or grant shall be reduced by multiplying it by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the market price (as defined in Sub-clause (b)) on the date on which the Capital Distribution or, as the case may be, the grant is publicly announced or (failing any such announcement) the date next preceding the date of the Capital Distribution or, as the case may be, of the grant; and

B = the fair market value on the day of such announcement or (as the case may require) the next preceding day, as determined in good faith by an approved merchant bank (as defined in Sub-clause (b)) or the auditors of the Company for the time being, of the portion of the Capital Distribution or of such rights which is attributable to one Share,

Provided that:

(aa) if in the opinion of the relevant approved merchant bank or the auditors of the Company for the time being, the use of the fair market value as aforesaid produces a result which is significantly inequitable, it may instead determine (and in such event the above formula shall be construed as if B meant) the amount of the said market price which should properly be attributed to the value of the Capital Distribution or rights; and

(bb) the provisions of this sub-paragraph (iii) shall not apply in relation to the issue of Shares paid out of profits or reserves and issued in lieu of a cash dividend.

Each such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the Capital Distribution or the grant.

(iv) If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price which is less than 80 per cent. of the market price at the date of the announcement (as defined in Sub-clause (b)) of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price and the denominator is the

number of Shares in issue immediately before the date of such announcement plus the aggregate number of Shares offered for subscription or comprised in the options or warrants (such adjustment to become effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant). Provided however that no such adjustment shall be made if the Company shall make a like offer or grant (as the case may be) at the same time to the Bondholder (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) as if it had exercised the Conversion Rights under the Bond registered in its name in full on the day immediately preceding the record date for such offer or grant.

- (v) (aa) If and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the total Effective Consideration per Share (as defined below) initially receivable for such securities is less than 80 per cent. of the market price at the date of the announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the issue by a fraction of which the numerator is the number of Shares in issue immediately before the date of the issue plus the number of Shares which the total Effective Consideration receivable, for the securities issued would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of the issue plus the number of Shares to be issued upon conversion or exchange of, or the exercise of the subscription rights conferred by, such securities at the initial conversion or exchange rate or subscription price. Such adjustment shall become effective (if appropriate retrospectively) from the close of business in Hong Kong on the Business Day next preceding whichever is the earlier of the date on which the issue is announced and the date on which the Company determines the conversion or exchange rate or subscription price.
- (bb) If and whenever the rights of conversion or exchange or subscription attached to any such securities as are mentioned in section (aa) of this sub-paragraph (v) are modified so that the total Effective Consideration per Share initially receivable for such securities shall be less than 80 per cent. of the market price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by a fraction of which the numerator is the number

of Shares in issue immediately before the date of such modification plus the number of Shares which the total Effective Consideration receivable for the securities issued at the modified conversion or exchange price would purchase at such market price and of which the denominator is the number of Shares in issue immediately before such date of modification plus the number of Shares to be issued upon conversion or exchange of or the exercise of the subscription rights conferred by such securities at the modified conversion or exchange rate or subscription price. Such adjustment shall become effective as at the date upon which such modification shall take effect. A right of conversion or exchange or subscription shall not be treated as modified for the foregoing purposes where it is adjusted to take account of rights or capitalisation issues and other events normally giving rise to adjustment of conversion or exchange terms.

For the purposes of this sub-paragraph (v), the “**total Effective Consideration**” receivable for the securities issued shall be deemed to be the consideration receivable by the Company for any such securities plus the additional minimum consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange thereof or the exercise of such subscription rights, and the Effective Consideration per Share initially receivable for such securities shall be such aggregate consideration divided by the number of Shares to be issued upon (and assuming) such conversion or exchange at the initial conversion or exchange rate or the exercise of such subscription rights at the initial subscription price, in each case without any deduction for any commissions, discounts or expenses paid, allowed or incurred in connection with the issue.

- (vi) If and whenever the Company shall issue wholly for cash any Shares at a price per Share which is less than 80 per cent. of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of such announcement by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate amount payable for the issue would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares so issued. Such adjustment shall become effective on the date of the issue.
- (vii) If and whenever the Company shall issue Shares for the acquisition of asset at a total Effective Consideration per Share (as defined below) which is less than 80 per cent. of the market price at the date of the announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying it by a fraction of which the numerator shall be the total Effective Consideration per Share and the denominator shall

be such market price. Each such adjustment shall be effective (if appropriate retroactively) from the close of business in Hong Kong on the Business Day next preceding the date on which the Company determines the issue price for such Shares. For the purpose of this subparagraph (vii) **“total Effective Consideration”** shall be the aggregate consideration credited as being paid for such Shares by the Company on acquisition of the relevant asset without any deduction of any commissions, discounts or expenses paid, allowed or incurred in connection with the issue thereof, and the **“total Effective Consideration per Share”** shall be the total Effective Consideration divided by the number of Shares issued as aforesaid.

(b) For the purposes of this Clause 7:

**“announcement”** shall include the release of an announcement to the press or the delivery or transmission by telephone, facsimile or otherwise of an announcement to the Hong Kong Stock Exchange and **“date of announcement”** shall mean the date on which the announcement is first so released, delivered or transmitted;

**“approved merchant bank”** means a merchant bank of repute in Hong Kong selected by the Company for the purpose of providing a specific opinion or calculation or determination hereunder;

**“Capital Distribution”** shall (without prejudice to the generality of that phrase) include distributions in cash or specie. Any dividend charged or provided for in the accounts for any financial period shall (whenever paid and however described) be deemed to be a Capital Distribution Provided that any such dividend shall not automatically be so deemed if:

- (i) it is paid out of the aggregate of the net profits (less losses) attributable to the holders of Shares for all financial periods after that ended 31 December 2006 as shown in the audited consolidated profit and loss account of the Company and its subsidiaries for each such financial period; or
- (ii) to the extent that (i) above does not apply, the rate of that dividend, together with all other dividends on the class of capital in question charged or provided for in the accounts for the financial period in question, does not exceed the aggregate rate of dividend on such class of capital charged or provided for in the accounts for the last preceding financial period. In computing such rates, such adjustments may be made as are in the opinion of the auditors of the Company for the time being appropriate to the circumstances and shall be made in the event that the lengths of such periods differ materially;

**“issue”** shall include allot;

**“market price”** means the average of the closing prices of one Share on the Hong Kong Stock Exchange for each of the last five Hong Kong Stock

Exchange dealing days on which dealings in the Shares on the Hong Kong Stock Exchange took place ending on the last such dealing day preceding the day on or as of which the market price is to be ascertained;

“reserves” includes unappropriated profits;

“rights” includes rights in whatsoever form issued;

“Shares” includes, for the purposes of Shares comprised in any issue, distribution or grant pursuant to sub-paragraph (iii), (iv), (v), (vi) or (vii) of Sub-clause (a), any such ordinary shares of the Company as, when fully paid, will be Shares.

- (c) The provisions of sub-paragraphs (ii), (iii), (iv), (v), (vi) and (vii) of Sub-clause (a) shall not apply to:
- (i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon exercise of any rights (including any conversion of the Bond) to acquire Shares provided that an adjustment has been made under this Clause 7 in respect of the issue of such securities or granting of such rights (as the case may be);
  - (ii) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or carrying rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries pursuant to any employee or executive share scheme;
  - (iii) an issue by the Company or any subsidiary of the Company of securities wholly or partly convertible into or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
  - (iv) an issue of fully paid Shares by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into or carrying rights to acquire Shares; or
  - (v) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value of such Shares is not more than 120 per cent. of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash, for which purpose the “market value” of one Share shall mean the average of the closing prices for such Hong Kong Stock Exchange dealing days on which dealings in the Shares took place (being not less than five such days) as are selected by the directors of the Company in connection with determining the basis of allotment in respect of the relevant scrip dividend and which fall within the period of one month ending on the



last day on which holders of Shares may elect to receive or (as the case may be) not to receive the relevant dividend in cash.

- (d) Any adjustment to the Conversion Price shall be made to the nearest one cent so that any amount under half a cent shall be rounded down and any amount of half a cent or more shall be rounded up. In addition to any determination which may be made by the directors of the Company every adjustment to the Conversion Price shall be certified (at the option of the Company) either by the auditors of the Company for the time being or by an approved merchant bank.
- (e) Notwithstanding anything contained herein, no adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced in accordance with the foregoing provisions of this Clause 7 would be less than the nominal value of a Share and any adjustment that would otherwise be required then to be made shall not be carried forward.
- (f) If the Company or any subsidiary of the Company shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Shares, the Company shall appoint an approved merchant bank or the auditors of the Company for the time being to consider whether any adjustment to the Conversion Price is appropriate (and if such approved merchant bank or auditors of the Company for the time being (as the case may be) shall certify that any such adjustment is appropriate the Conversion Price shall be adjusted accordingly and the provisions of Sub-clauses (d), (e) and (h) shall apply).
- (g) Notwithstanding the provisions of Sub-clause (a), in any circumstances where the directors of the Company or the Bondholder shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with a different time from that provided for under the provisions, the Company or the Bondholder may appoint an approved merchant bank or the auditors of the Company for the time being to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank or auditors of the Company for the time being (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time) as shall be certified by such approved merchant bank or auditors of the Company for the time being to be in its opinion appropriate.
- (h) Whenever the Conversion Price is adjusted as herein provided, the Company shall give notice to the Bondholder that the Conversion Price has been adjusted (setting forth the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective

date thereof) and shall at all times thereafter so long as any amount of the Bond remains outstanding make available for inspection at the Specified Office a signed copy of the said certificate of the auditors of the Company or (as the case may be) of the relevant approved merchant bank and a certificate signed by a director of the Company setting forth brief particulars of the event giving rise to the adjustment, the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date thereof and shall, on request, send a copy thereof to the Bondholder.

- (i) Notwithstanding anything contains herein, if application of any of the provisions of this Clause 7 would but for this paragraph (i) result in the Conversion Price being reduced so that on conversion Shares shall fall to be issued at a discount to their nominal value, then the Conversion Price shall be adjusted to an amount equal to the nominal value of one Share.

## 8. COVENANTS RELATING TO CONVERSION

The Company hereby undertakes to and covenants with the Bondholder that so long as any Conversion Right remains exercisable, it will:

- (a) keep available for issue, free from pre-emptive rights, out of its authorised but unissued share capital sufficient Shares to satisfy the Conversion Rights attaching to the Bond;
- (b) maintain a listing on the Hong Kong Stock Exchange for all the issued Shares for the time being and, immediately after their issue subject, nevertheless, to the provisions of Condition 5(D)(iv), for all Shares issued on exercise of the Conversion Rights and give notice to the Bondholder of any de-listing of the Shares by the Hong Kong Stock Exchange;
- (c) unless so required by applicable law or regulation or for the purpose of establishing any dividend or other rights attaching to the Shares, not close its register of Shareholders or take any other action which would prevent the transfer of its Shares generally and ensure that the Bond may be converted legally at all times during the period of such closure or while such other action is effective, nor take any action which would prevent the conversion of the Bond or the issue of Shares in respect of them;
- (d) to pay the expenses of the issue of, and all expenses of obtaining listing on the Hong Kong Stock Exchange for, Shares arising on conversion of the Bond;
- (e) to maintain its registration as an overseas company registered under the Companies Ordinance;
- (f) give notice to the Bondholders in accordance with Condition 11 as soon as practicable after it effects any change of its financial year;

- (g) apply for listing approval (if required) to the allotment and issue of the Conversion Shares at such adjusted price from the Stock Exchange within three (3) Business Days after an adjustment in the Conversion Price;
- (h) comply with and procure the compliance of all conditions imposed by the Stock Exchange or by any other competent authority (in Hong Kong or elsewhere) for approval of the issue of the Bonds or for the listing of and permission to deal in the Shares issued or to be issued on the exercise of the Conversion Rights and to ensure the continued compliance thereof; and
- (i) not enter into and deed, agreement, assignment, instrument or documents whatsoever which may result in any breach of the terms of the Bonds.

## 9. EVENTS OF DEFAULT

Any Bondholder may give notice to the Company that the Bonds are immediately due and repayable if:

- (i) ***Payment default:*** a default is made in the payment of interest in respect of any of the Bonds when and as the same ought to be paid in accordance with the Conditions; or
- (ii) ***Other default:*** a default is made by the Company in the performance or observance of any covenant, condition or provision contained in the Instrument or in the Bonds and on its part to be performed or observed (other than the covenant to pay the principal, premium (if any) and interest in respect of any of the Bonds) and such default continues for the period of 14 days next following the service by any Bondholder on the Company of notice specifying brief details of such default and requiring such default to be remedied; or
- (iii) ***Dissolution of the Company and Disposals:*** a resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation, the terms of which shall have previously been approved in writing by an Ordinary Resolution of Bondholders; or
- (iv) ***Encumbrances:*** an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company; or
- (v) ***Distress etc.:*** a distress, execution or seizure before judgment is levied or enforced upon or sued out against a material part of the property of the Company and is not discharged within three days thereof; or
- (vi) ***Bankruptcy:*** the Company is unable to pay its debts as and when they fall due or the Company shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make an assignment for the benefit of, or enter into any composition with, its creditors; or

- (vii) *Bankruptcy proceedings*: proceedings shall have been initiated against the Company under any applicable bankruptcy, reorganisation or insolvency law and such proceedings shall not have been discharged or stayed within a period of 21 days.

Upon any such notice being given to the Company, the Bonds will immediately become due and repayable at their principal amount together with interest accrued in accordance with Clause 4 (at the amount calculated at the compound rate of 3% per annum on the principal amount of the Bonds) from the date of such notice to the date (after as well as before judgment) on which full payment of all amounts payable under this Clause 9 is made in accordance with the provisions of the Instrument.

## 10. REDEMPTION AND CANCELLATION

- 10.1 Any amount of the Bond which is converted will forthwith be cancelled. Certificate in respect of the Bond cancelled will be forwarded to or to the order of the Company and such Bond may not be reissued or resold.
- 10.2 Any amount of the Bond which remains outstanding on the Maturity Date shall be redeemed at its then outstanding principal amount, inclusive of interest as accrued under Clause 4.1.

## 11. TRANSFER AND REGISTER

- 11.1 Subject to Clause 11.2, the Bondholder may only assign or transfer the Bond to the transferee subject to the prior notification to the Company. The Bond may be assigned or transferred in whole or in part (in whole multiples of HK\$5,000,000) of its outstanding principal amount and the Company shall facilitate any such assignment or transfer of the Bond, including making any necessary applications to the Hong Kong Stock Exchange for the said approval (if required).
- 11.2 Notwithstanding Clause 11.1, the Bondholder shall be permitted at any time to transfer the Bond to a transferee who is a wholly owned subsidiary of the Bondholder or a holding company of the Bondholder who owns the entire issued share capital of the Bondholder provided that the Bond will be re-transferred to the Bondholder immediately upon the transferee ceasing to be a wholly owned subsidiary of the Bondholder or a holding company of the Bondholder who owns the entire issued share capital of the Bondholder.
- 11.3 A transfer of the Bond shall be effected by completing and signing, by both the transferor and the transferee under the hand of one of their officers duly authorised in writing or otherwise by a duly authorised person thereof, of a form of transfer set out in Annexure I to the Conditions.
- 11.4 The Certificate must be delivered for registration during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the Specified Office accompanied by (i) a duly executed transfer form (which is available at the Specified Office); (ii) in case of the execution of the transfer form on behalf of a corporation by its officers, the authority of that person or those persons to do so; and (iii) such other evidence

(including legal opinions) as the Company may reasonably require if the transfer form is executed by some other person on behalf of the Bondholder. The Company shall, within ten (10) Business Days of receipt of such documents from the Bondholder and, if necessary, the consent of the Hong Kong Stock Exchange, cancel the existing Certificate and issue a new Certificate, in favour of the transferee or assignee as applicable.

- 11.5 The Company shall maintain and keep a full and complete register at such location in Hong Kong as it shall from time to time determine of the Bond and the Bondholder from time to time, such register shall contain details of conversion and/or cancellation and the destruction of the Bond and the issue of any replacement Bond issued in substitution for any mutilated, defaced, lost, stolen or destroyed Bond and of sufficient identification details of the Bondholder from time to time. The Company shall further procure that such register shall be made available to the Bondholder for inspection at all reasonable times.

## 12. CONSOLIDATION, AMALGAMATION, MERGER AND FURTHER ISSUES

- 12.1 In the case of any consolidation, amalgamation or merger of the Company with any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation), or in the case of any sale or transfer of all, or substantially all, of the assets of the Company, the Company will forthwith notify the Bondholder of such event in accordance with Condition 11 and (subject to any restriction prescribed by law) cause the corporation resulting from such consolidation, amalgamation or merger or the corporation which shall have acquired such assets, as the case may be, to execute an Instrument supplemental to this Instrument to ensure that the holder of the Bond will have the right (during the period in which such Bond shall be convertible) to convert the Bond then outstanding into the class and amount of shares and other securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares which would have become liable to be issued upon conversion of the Bond immediately prior to such consolidation, amalgamation, merger, sale or transfer. The above provisions of this Clause 12 will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.
- 12.2 The Company shall, subject to the Listing Rules, from time to time be at liberty to issue further convertible bond and other securities, including convertible bond ranking *pari passu* with the Bond.

## 13. CURRENCY INDEMNITY

- 13.1 Hong Kong dollars (the "Contractual Currency") is the sole currency of account and payment for all sums payable by the Company under or in connection with this Instrument and the Bond.
- 13.2 Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Company or otherwise), by the Bondholder in respect of any sum expressed to be due to it from the Company will only discharge the Company to the extent of the Contractual Currency amount which

the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

- 13.3 If that Contractual Currency amount received or recovered under Clause 13.2 is less than the Contractual Currency amount expressed to be due to the recipient under this Instrument or the Bond, the Company will indemnify it against any loss sustained by it as a result. In any event, the Company will indemnify the recipient against the cost of making any such purchase. The indemnity in this Clause 13.3 constitutes separate and independent obligations from the other obligations in this Instrument, will give rise to separate and independent causes of action, will apply irrespective of any indulgence granted by the Bondholder.

#### 14. MODIFICATIONS/WAIVERS/SEVERABILITY

- 14.1 Any modification to this Instrument may be effected only by deed poll, executed by the Company and expressed to be supplemental hereto, and (save for minor amendments by the Company which shall not adversely affect the rights of the Bondholder under this Instrument) only if it shall first have been approved in writing by the Bondholder.
- 14.2 A memorandum of every such supplemental deed shall be endorsed on this Instrument.
- 14.3 Notice of every modification to this Instrument shall be given to the Bondholder as soon as reasonably practicable.
- 14.4 No failure or delay by the parties in exercising any right, power or remedy under this Instrument shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by one party of any breach by the other party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof and any forbearance or delay by the party in exercising any of its rights hereunder shall not be construed as a waiver thereof. If at any time any provision of this Instrument is or becomes illegal, invalid or unenforceable in any respect, the legality, validity and enforceability of the remaining provisions of this Instrument shall not be affected or impaired thereby.

#### 15. GOVERNING LAW

- 15.1 This Instrument shall be governed by and construed in accordance with Hong Kong law.
- 15.2 The courts of Hong Kong shall have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with this Instrument or the Bond and accordingly any legal action or proceedings arising out of or in connection with this Instrument or the Bond ("Proceedings") may be brought in such courts. The Company and the Bondholder irrevocably submits to the jurisdiction of such courts and waives any objections to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

IN WITNESS whereof this Instrument has been executed as a deed poll on the day and year first above written.

**SCHEDULE TO THE CONVERTIBLE BOND**

**Form of Certificate**

Certificate no.:

Amount (HK\$)

**WAH YUEN HOLDINGS LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

Convertible Bond in the principal amount of HK\$180,050,000 due [2017]

The Bond in respect of which this Certificate is issued, the identifying number of which is noted below, is in registered form in the principal amount of HK\$180,050,000 (the *Bond*) issued by Wah Yuen Holdings Limited (the *Company*) and constituted by the Instrument referred to attached hereof. The Bond is subject to, and has the benefit of, the Instrument, which, subject to the terms of the Instrument, is enforceable by the Bondholder against the Company insofar as each Bondholder's Bond is concerned. Such Instrument (together with any instruments supplemental thereto) and copies of the articles of association of the Company will be available for inspection by the Bondholder at the principal office of the Company for the time being in Hong Kong.

The Bondholder will be deemed to have notice of all the provisions contained in the said Instrument (and any instruments supplemental thereto) and may obtain copies thereof upon written request to the Company.

The Company hereby certifies that the person whose name and address is specified below is, at the date hereof, entered in the register of Bondholder as the holder of the Bond in the principal amount indicated below:

Folio	Bondholder and address	Principal amount of the Bond	Identifying no.	Date of issue

GIVEN UNDER THE COMMON SEAL OF THE COMPANY ON THE DATE OF ISSUE AS STATED ABOVE

The Bond in respect of which this Certificate is issued is convertible into fully paid ordinary shares of the Company with a par value of HK\$0.01 each for the time being subject to and in accordance with the Conditions and the Instrument.



This Certificate is evidence of entitlement only. Title to the Bond passes only on due registration on the register of Bondholder of the Company and only the duly registered holder is entitled to payments on the Bond in respect of which this Certificate is issued.

The Bond in respect of which this Certificate is issued are subject to restrictions on transfer and may be transferred only if the terms and conditions specified in Clause 11 of the Instrument and Condition 3 of the Conditions have been complied with.

This Certificate shall not be valid for any purpose until signed by two directors or by one director and the Secretary of the Company..

This Certificate is governed by, and shall be construed in accordance with the laws of The Hong Kong Special Administrative Region of The People's Republic of China.

WAH YUEN HOLDINGS LIMITED

by:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director/Secretary

NO TRANSFER OF THE WHOLE OR ANY PORTION OF THE ABOVE BOND CAN BE REGISTERED UNLESS ACCOMPANIED BY THIS BOND CERTIFICATE.

## TERMS AND CONDITIONS OF THE BOND

The issue of a convertible bond in the principal amount of HK\$180,050,000 due 2017 (the "Bond") of Wah Yuen Holdings Limited ("Company") was authorised by resolutions of the Board of Directors of the Company passed on [•] and resolutions of the majority shareholders of the Company passed on [•]. The Bond is constituted by a deed poll ("Instrument", such expression shall include amendments and modifications from time to time made thereto) dated [•] executed by the Company. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Instrument. Copies of the Instrument are available for inspection by the Bondholder at the principal office for the time being of the Company in Hong Kong being at the date hereof at 2<sup>nd</sup> Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong. The Bondholder is entitled to the benefit of the Instrument and is bound by, and is deemed to have notice of, all the provisions of the Instrument.

Unless otherwise stated or where the context otherwise requires, terms defined in the Instrument have the same meanings when used in these Conditions.

### 1. STATUS AND VOTING RIGHTS

#### (A) Status

The Bond constitutes direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Company under the Bond shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. No application will be made for a listing of the Bond on the Hong Kong Stock Exchange or any other stock exchange.

#### (B) Voting Rights

The Bondholder shall not be entitled to attend or vote at any meetings of the Company by reason only it being the Bondholder.

### 2. FORM AND TITLE

#### (A) Form

The Bond is issued in registered form. A Certificate will be issued to each Bondholder in respect of its registered holding of the Bond. The Bond and the Certificate will be numbered with an identifying number which will be recorded on the relevant Certificate and in the Register kept by or on behalf of the Company.

#### (B) Title

The holder of the Bond whose name is entered in the Register will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it or any entry on the Register) and no person will be liable for so treating the holder.

### 3. TRANSFERS OF BONDS AND ISSUE OF CERTIFICATES

#### (A) Transfer

The Bondholder may only assign or transfer the Bond to the transferee subject to the prior notification to the Company.

The Bond may be assigned or transferred in whole or in part (in whole multiples of HK\$5,000,000) of its outstanding principal amount and the Company shall facilitate any such assignment or transfer of the Bond, including making any necessary applications to the Hong Kong Stock Exchange for the said approval (if required).

Notwithstanding the condition provided in this Condition 3(A), the Bondholder shall be permitted at any time to transfer the Bond to a transferee who is a wholly-owned subsidiary of the Bondholder or a holding company of the Bondholder who owns the entire issued share capital of the Bondholder provided that the Bond will be re-transferred to the Bondholder immediately upon the transferee ceasing to be a wholly-owned subsidiary of the Bondholder or a holding company of the Bondholder who owns the entire issued share capital of the Bondholder.

#### (B) Transfer form

A transfer of the Bond shall be effected by completing and signing, by both the transferor and the transferee under the hand of one of their officers duly authorised in writing or otherwise by a duly authorised person thereof, a form of transfer set out as Annexure I at the end of the Conditions which is available to be obtained at the Specified Office.

#### (C) Registration

The Certificate must be delivered for registration during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the Specified Office accompanied by (i) a duly executed transfer form (which is available at the Specified Office); (ii) in case of the execution of the transfer form on behalf of a corporation by its officers, the authority of that person or those persons to do so; and (iii) such other evidence (including legal opinions) as the Company may reasonably require if the transfer form is executed by some other person on behalf of the Bondholder. The Company shall, within ten (10) Business Days of receipt of such documents from the Bondholder, cancel the existing

Certificate and issue a new Certificate in favour of the transferee or assignee as applicable.

**(D) Delivery of new Certificates**

The Certificate to be issued upon a transfer of Bond will, within ten (10) Business Days of receipt by the Company of the form of transfer accompanied by the documents referred to in Condition 3(C), be made available for personal collection by the holder entitled to the Bond during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the Specified Office and upon production of such identification papers as may be reasonably requested by the Company.

Where some but not all the amount of the Bond in respect of which a Certificate is issued are to be transferred or converted, a new Certificate in respect of the Bond not so transferred or converted will, within ten (10) Business Days of delivery of the original Certificate to the Company, be made available for collection by such holder during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the Specified Office upon production of such identification papers as may be reasonably requested by the Company.

**(E) Formalities free of charge**

Registration of transfer of the Bond will be effected upon (a) payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Hong Kong Stock Exchange) for each Certificate cancelled or each new Certificate issued, whichever number of the Certificates cancelled/issued is higher; and (b) payment (or the giving of such indemnity as the Company may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

**(F) Closure of Register**

The Bondholder may not require the transfer of the Bond to be registered during the period of seven days ending on the due date for any payment of any interest on the Bond.

**4. INTEREST**

- (A) Subject to Condition 4(B) below, the Bond shall bear interest from and including the date of its issue at the rate of three per cent. (3%) per annum on the outstanding principal amount thereof. Interest shall be accrued daily on a 365 days basis and is payable semi-annually in arrears with the first interest payment for the Bond to be made on the date falling six (6) months from the date of issue of the Bond and thereafter on the last day of each successive yearly period up to the Maturity Date (each an "Interest Payment Date"). If an Interest Payment Date would otherwise fall on a day which is not a Business Day it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding Business Day.

- (B) The Bond will, in respect of the Conversion Rights attached thereto which are not yet exercised, cease to bear interest on the earliest of (a) its Conversion Date subject to conversion of the Bond in accordance with this Instrument and the Conditions; (b) the date of redemption of the Bond pursuant to Condition 7(A); and (c) the Maturity Date.

## 5. CONVERSION

### (A) Conditions

Provided that any conversion of the Bond does not trigger a mandatory offer obligation under Rule 26 of the Code on the part of the Bondholder which exercised the Conversion Rights, whether or not such mandatory offer obligation is triggered off by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the Conversion Rights attaching to the Bond (if applicable, including any Shares acquired by the parties acting in concert with the holder(s) of the Bond) represents more than 30% (or such other percentage as stated in Rule 26 of the Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Code, the Bondholder shall, subject to compliance with the procedures set out in the Conditions, have the right at any time during the Conversion Period to convert the whole or part of the outstanding principal amount of the Bond registered in its name into Shares provided further that any conversion shall be made in amounts of not less than a whole multiple of HK\$5,000,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Bond is less than HK\$5,000,000, the whole (but not part only) of the outstanding principal amount of the Bond may be converted.

### (B) Number of Conversion Shares

The number of Conversion Shares to be issued on each conversion will be determined by dividing the principal amount specified in the Conversion Notice by the Conversion Price applicable on the Conversion Date. Fractions of Shares will not be issued on conversion and the amount representing such fraction will be retained by the Company and no payment will be made to the Bondholder in respect of such fraction, provided always that for the purpose of determining whether any (and if so what) fraction of a share arises, if the Conversion Right represented by a Certificate and any one or more other Certificates are exercised on the same Conversion Date by the Bondholder, then the Conversion Rights represented by the Bond shall be aggregated.

### (C) Conversion Price

The Conversion Price for the Bond shall be equal to HK\$0.15 per Conversion Share, subject to adjustments as hereafter described.

The Instrument contains detailed provisions relating to the adjustment of the Conversion Price. The following is a summary of, and is subject to, the provisions of Clause 7 of the Instrument:

- (a) The Conversion Price shall (except as otherwise mentioned in the following paragraphs of this Condition 5(C)) be adjusted as provided in the Instrument in each of the following cases:
  - (i) an alteration of the nominal amount of the Shares by reason of any consolidation or subdivision;
  - (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund);
  - (iii) a Capital Distribution (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of the Shares in their capacity as such;
  - (iv) an offer or grant being made by the Company to holders of Shares by way of rights or of options or warrants to subscribe for new Shares at a price which is less than 80 per cent. of the market price (calculation as provided in the Instrument);
  - (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration per Share (as defined in the Instrument) initially receivable for such securities is less than 80 per cent. of the market price (calculation as provided in the Instrument), or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total Effective Consideration per Share initially receivable for such securities is less than 80 per cent. of the market price;
  - (vi) an issue being made by the Company wholly for cash of Shares at a price per Share less than 80 per cent. of the market price (calculation as provided in the Instrument); and
  - (vii) an issue being made by the Company of Shares for the acquisition of asset at a total Effective Consideration per Share (as defined in the Instrument) less than 80 per cent. of the market price (calculation as provided in the Instrument).
- (b) Except as mentioned in the following paragraphs of this Condition 5(C), no such adjustment as referred to in paragraph (a) of this Condition 5(C) shall be made in respect of:

- (i) an issue of fully paid Shares upon the exercise of any conversion rights attached to securities convertible into Shares or upon the exercise of any rights (including any conversion of the Bond) to acquire Shares;
  - (ii) an issue of Shares or other securities of the Company or any subsidiary of the Company wholly or partly convertible into, or carrying rights to acquire, Shares to officers or employees of the Company or any of its subsidiaries pursuant to any employee or executive share scheme;
  - (iii) an issue by the Company or any subsidiary of the Company of securities wholly or partly convertible into or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
  - (iv) an issue of fully paid Shares by way of capitalisation of all or part of any subscription right reserve, or any similar reserve which has been or may be established pursuant to the terms of any securities wholly or partly convertible into or carrying rights to acquire Shares; or
  - (v) an issue of Shares pursuant to a scrip dividend scheme where an amount not less than the nominal amount of the Shares so issued is capitalised and the market value (calculation as provided in the Instrument) of such Shares is not more than 120 per cent. of the amount of dividend which holders of the Shares could elect to or would otherwise receive in cash.
- (c) Notwithstanding the provisions referred to in paragraphs (a) and (b) of this Condition 5(C), in any circumstances where the directors of the Company or the Bondholder shall consider that an adjustment to the Conversion Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Conversion Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different rate or with a different time from that provided for under the said provisions, the Company or the Bondholder may appoint an approved merchant bank or the auditors of the Company for the time being to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such approved merchant bank or auditors of the Company for the time being (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified or an adjustment made instead of no adjustment in such manner (including, without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time) as shall be certified by such approved merchant

bank or auditors of the Company for the time being (as the case may be) to be in its opinion appropriate.

- (d) If the Company or any subsidiary of the Company shall in any way modify the rights attached to any share or loan capital so as wholly or partly to convert or make convertible such share or loan capital into, or attach thereto any rights to acquire, Shares, the Company shall appoint an approved merchant bank or the auditors of the Company for the time being to consider whether any adjustment to the Conversion Price is appropriate (and if such approved merchant bank or auditors of the Company for the time being (as the case may be) shall certify that any such adjustment is appropriate the Conversion Price shall be adjusted accordingly).
- (e) Any adjustment to the Conversion Price shall be made to the nearest one cent so that any amount under half a cent shall be rounded down and any amount of half a cent or more shall be rounded up. No adjustment shall be made to the Conversion Price in any case in which the amount by which the same would be reduced would be less than the nominal value of a Share and any adjustment which would otherwise then be required shall not be carried forward.
- (f) Every adjustment to the Conversion Price will be certified by the auditors of the Company for the time being or an approved merchant bank and notice of each adjustment (giving the relevant particulars) will be given to the Bondholder. Any such certificate(s) of the auditors of the Company for the time being or (as the case may be) of the relevant approved merchant bank will be available for inspection at the Specified Office.
- (g) If application of any of the provisions referred to in this Condition 5(C) would but for this paragraph (g) result in the Conversion Price being reduced so that on conversion Shares shall fall to be issued at a discount to their nominal value, then the Conversion Price shall be adjusted to an amount equal to the nominal value of one Share.

**(D) Conversion Procedure**

- (i) **Conversion Notice:** To exercise the Conversion Right attaching to the Bond, the holder thereof must complete, execute and deposit either by personal delivery or by facsimile at its own expense during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the Specified Office a notice of conversion (a "Conversion Notice") in the form of Annexure II set out at the end of the Conditions (which is available at the Specified Office) together with the Certificate. The Conversion Notice once given shall not be revocable. In each case, compliance must be made by the Bondholder of all applicable exchange control, fiscal and other laws and regulations relating to the exercise of the Conversion Rights and the allotment and issue to it and the holding by it of the Conversion Shares.



Any calculation by the Company of the number of Conversion Shares falling to be issued on a conversion shall, in the absence of manifest error, be conclusive and binding on the Bondholder.

- (ii) **Conversion Date:** in respect of an exercise of a Conversion Right, the conversion date (the "Conversion Date") in respect of the Bond will be deemed to be the Business Day immediately following the date of the surrender of the relevant Certificate and delivery of Conversion Notice therefor and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right provided that if such rights are exercised during a period when the register of holders of Shares is closed, the Conversion Date shall be the next following Business Day on which the register of holders of Shares is open.
- (iii) **Stamp Duty etc.:** The Company shall pay any capital, stamp and registration duties arising on the allotment and issue of the Conversion Shares.
- (iv) **Delivery of share certificates:** As soon as practicable, and in any event not later than ten (10) Business Days after the Conversion Date, the Company shall register the Bondholder (or such other person(s) as it may direct in the Conversion Notice) as holder(s) of the relevant number of Shares in the Company's share register and will be made available for personal collection by the holder of such Bond during normal business hours (Monday to Friday, 9:00 a.m. to 4:30 p.m.) at the Specified Office or send by post at the risk of the Bondholder to the address of the Bondholder in the Register a certificate (or certificates) for the relevant Shares in the name of the Bondholder or such other person(s) as it may direct in the Conversion Notice.

If the number of Shares falling to be allotted and issued upon the exercise of any Conversion Rights shall exceed the number of unissued Shares in respect of which approval for listing has been granted by the Listing Committee of the Stock Exchange, the performance of the obligations of the Company under this Condition 5(D)(iv) regarding the issue, deposit and delivery of Shares shall, in respect only of such excess number of Shares, be postponed to the Business Day next following the day on which approval for listing of such Shares has been granted (provided that such postponement shall not exceed 21 days after the Conversion Date).

- (v) **Ranking of Shares:** The Shares issued upon conversion of the Bond will in all respects rank *pari passu* with the Shares in issue on the date of allotment and issue of such Shares and accordingly shall entitle the holders to participate in all dividends or other distributions declared, paid or made on or after the relevant Conversion Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or

before the relevant Conversion Date. A holder of Shares issued on conversion of the Bond shall not be entitled to any rights the record date for which precedes the relevant Conversion Date.

**(E) Company's Undertakings**

The Company has given certain undertakings in the Instrument that so long as any amount of the Bond remain outstanding it will (a) maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, and (b) subject to the provisions of Condition 5(D)(iv), obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights on the Hong Kong Stock Exchange and will forthwith give notice to the Bondholder of the delisting of the Shares by the Hong Kong Stock Exchange.

**(F) Consolidation, Amalgamation or Merger**

In the case of any consolidation, amalgamation or merger of the Company with any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation), or in the case of any sale or transfer of all, or substantially all, of the assets of the Company, the Company will forthwith notify the Bondholder of such event in accordance with Condition 11 and (subject to any restriction prescribed by law) cause the corporation resulting from such consolidation, amalgamation or merger or the corporation which shall have acquired such assets, as the case may be, to execute an instrument supplemental to the Instrument to ensure that the Bondholder will have the right (during the period in which such Bond shall be convertible) to convert such Bond into the class and amount of shares and other securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares which would have become liable to be issued upon conversion of such Bond immediately prior to such consolidation, amalgamation, merger, sale or transfer. The above provisions of this Condition 5(F) will apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

**6. PAYMENTS**

**(A) Method of payment**

Any payment payable under the Bond which would otherwise be due on a non-Business Day shall instead be due and payable on the immediately succeeding Business Day. All payments due under these Conditions will be paid to the Bondholder as shown on the Register at the close of business on the due date for payment. Payments will be made net of any applicable bank charges by transfer in Hong Kong dollars to the registered account of the Bondholder or by Hong Kong dollar cheque drawn on a bank in Hong Kong mailed at the risk of the Bondholder to the registered address of the Bondholder if it does not have a registered account.

**(B) Registered Accounts and Addresses**

For the purposes of this Condition, the Bondholder's registered account means the Hong Kong dollar account maintained by or on behalf of it with a bank in Hong Kong, details of which appear on the Register at the close of business on the Business Day before the due date for payment, and the Bondholder's registered address means its address appearing on the Register at that time.

**(C) Fiscal Laws**

All payments are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Bondholder in respect of such payments.

**(D) Payment Initiation**

Where payment is to be made by transfer to a registered account, payment instructions will be given and, where payment is to be made by cheque, the cheque will be mailed, on the due date for payment.

**7. REDEMPTION AND CANCELLATION**

**(A) Redemption**

Any amount of the Bond which remains outstanding on the Maturity Date shall be redeemed at its then outstanding principal amount, inclusive of interest as accrued under Condition 4(A).

**(B) Cancellation**

Any amount of the Bond which is redeemed or converted will forthwith be cancelled. Certificate in respect of the Bond cancelled will be forwarded to or to the order of the Company and such Bond may not be reissued or resold.

**8. TAXATION**

The Company shall be entitled to withhold from all payments of principal by the Company any amounts required to be withheld under the applicable law, rule and regulations for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (including without limitation, deduction or withholding) on account of taxation on the overall turnover, income, taxation income or capital gain of the Bondholder imposed or levied by or on behalf of Hong Kong or other jurisdiction or any authority thereof or therein having the power to tax. If the Company is so required to make such withholdings or deductions, payment of the net amount after such deduction or withholdings to the Bondholder will constitute full discharge of the Company's obligations to make such payments.

**9. RESTRICTED HOLDERS**

No Conversion Rights represented by the Bond may be exercised by any person who is a Restricted Holder (as hereinafter defined), and the exercise of any Conversion

Rights by the Bondholder shall constitute a confirmation, representation and warranty by the Bondholder to the Company that the Bondholder is not a Restricted Holder and that all necessary governmental, regulatory or other consents or approvals and all formalities have been obtained and observed by the Bondholder to enable it to exercise legally and validly the relevant Conversion Rights, to hold (or, if applicable, to have such person(s) as it may nominate in the Conversion Notice hold) the Conversion Shares allotted and issued upon exercise of the Conversion Rights and the Company to legally and validly allot the Conversion Shares. For the purposes of this Condition, a "Restricted Holder" means a Bondholder (or, if applicable, such person(s) as it may nominate in the Conversion Notice to whom the Shares arising on conversion are to be issued) who is a resident or national of any jurisdiction other than Hong Kong under the laws and regulations of which an exercise of Conversion Rights by such Bondholder in the manner provided in the Conversion Notice and the Conditions or the performance by the Company of the obligations expressed to be assumed by it under the Instrument or these Conditions or the allotment and issue and holding of the Conversion Shares cannot be carried out lawfully or cannot be carried out lawfully without the Company first having to take certain actions in such jurisdiction.

**10. REPLACEMENT OF CERTIFICATES**

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the Company upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company may reasonably require and on payment of such fee not exceeding HK\$2.50 as the Company may determine. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

**11. NOTICES**

- (A) The Bondholder shall register with the Company an address either in Hong Kong or elsewhere to which notices may be sent and if the Bondholder shall fail to do so, notice may be given to the Bondholder by sending the same in any of the manners hereinafter mentioned to his last known place of business or residence or, if there be none, by posting up the same for three days at the Specified Office for the time being of the Company.
- (B) A notice shall be given by personal delivery, prepaid registered mail (registered airmail in the case of an overseas address to where airmail service is available).
- (C) Notices sent by personal delivery or prepaid registered mail or the posting of the same at the Specified Office as provided by paragraph (A) of this Condition shall be deemed to have been served on the first day after such delivery or the deposit of the letter with postal authorities or in a postbox or, as the case may be, the first day after the first posting up of such notice.
- (E) All notices to the Bondholder shall be validly given if mailed to them at its address in the Register.

- (F) Any communication to the Company shall be by letter delivered personally or by facsimile transmission to it at 2<sup>nd</sup> Floor, On Shing Industrial Building, Nos.2-26 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong or (if different) its principal place of business for the time being in Hong Kong, fax no. (+852) 26910971, Attention: Company Secretary (or such other number as shall be notified in writing by the Company to the Bondholder). Any such communication will take effect, in the case of delivery, at the time of delivery or, in the case of facsimile transmission, at the time of despatch.

12. **GOVERNING LAW AND JURISDICTION**

The Bond and the Instrument are governed by, and shall be construed in accordance with the laws of Hong Kong. In relation to any legal action or proceedings arising out of or in connection with the Instrument and/or the Bond, the Company and the Bondholder irrevocably submit to the non-exclusive jurisdiction of courts of Hong Kong.

**ANNEXURE I**

**FORM OF TRANSFER**

The undersigned hereby transfers to:

.....  
.....

*(Please print or typewrite name and address of transferee)*

HK\$ ..... principal amount of the Bond in respect of which this Certificate is issued, and all rights in respect thereof.

All payments in respect of the Bond hereby transferred are to be made (unless otherwise instructed by the transferee) to the following account:

Name of bank :

HK\$ account number :

For the account of :

Date: \_\_\_\_\_

Transferor's name : \_\_\_\_\_

Transferor's signature : \_\_\_\_\_

Transferor's witness : \_\_\_\_\_

Transferee's name : \_\_\_\_\_

Transferee's signature: \_\_\_\_\_

Transferee's witness : \_\_\_\_\_

Name and title of the  
Company representative: \_\_\_\_\_

Signature of Company  
representative: \_\_\_\_\_

Company's witness: \_\_\_\_\_

**Notes:**

- (i) The Bond is transferable at any time subject to Condition 3(A). Any transfer shall be made in compliance with the requirements of Condition 3 as stated in the overleaf of the Certificate.
- (ii) A representative of the Bondholder should state the capacity in which he/she/it signs, e.g. director.
- (iii) The signature of the person effecting a transfer shall conform to any list of authorised specimen signatures supplied by the registered holder or be certified by a recognised bank, notary public or in such other manner as the Company may require.

**ANNEXURE II**

**CONVERSION NOTICE**

(To be executed and lodged with the Company to exercise the  
Conversion Rights represented by this Certificate)

To: **WAH YUEN HOLDINGS LIMITED** ("Company")

The undersigned, being the duly registered holder of the Bond represented by this Certificate:

(A) hereby irrevocably elect(s) to exercise the Conversion Rights on ..... (*Note (i)*) (being the Conversion Date) to the extent of HK\$..... / all of the principal amount represented by this Certificate (*Note (ii)*) and to convert such amount for the relevant number of Shares in the capital of the Company at the Conversion Price, and agree(s) to accept such Shares on the terms of the Memorandum and Articles of Association of the Company;

(B) agree(s) that the Conversion Price applicable on the Conversion Date shall be determined by the Company in accordance with the Instrument and the Conditions;

(C) request(s) that:

(i) certificate(s) for such Shares be issued in the name(s) of the person(s) stated below or, if no name and address are stated below, the person(s) whose name(s) stand(s) on the Register as the Bondholder represented by this Certificate (*Note (iii)*);

Name : (in block capitals) .....

Address:.....

(ii) such certificate be sent by post at the risk of the Bondholder to the address stated above or, if no such address is stated, to the address of the Bondholder (*Note (iv)*).

Dated .....

Signature(s) (1) ..... (2) .....

(3) ..... (4) .....

**NOTES:**

(i) The Conversion Date shall be the Business Day immediately following the date of the surrender of the relevant Certificate and delivery of the Conversion Notice.

(ii) If the Bond represented by this Certificate is only exercised in part, the amount inserted in paragraph (A) of this Conversion Notice must be a whole multiple of



HK\$5,000,000, unless the outstanding principal amount of the Bond is less than HK\$5,000,000. If no amount is inserted, the relevant Conversion Rights will be deemed to have been exercised in respect of the entire principal amount represented by this Certificate.

(iii) Bondholder who wishes to collect from the Specified Office his Share certificate may only do so by prior arrangement with the Company.

(iv) An exercise of any Conversion Rights represented by this Certificate constitutes under the Conditions a representation to and warranty in favour of the Company by the Bondholder that it (or, if applicable, such person(s) as it may nominate in the Conversion Notice to whom the relevant Shares are to be issued) is not a Restricted Holder, which for this purpose means the Bondholder (or, if applicable, any such nominee(s) of the Bondholder as aforesaid) who is a resident or national of any jurisdiction (other than Hong Kong) under the laws and regulations of which it may not lawfully exercise the Conversion Rights represented by this Certificate in the manner provided in the Conversion Notice and the Conditions or the Company cannot lawfully perform the obligations expressed to be assumed by it under the Instrument or the Conditions or the allotment and issue and holding of the Conversion Shares cannot be carried out lawfully or cannot be carried out lawfully without the Company first having to take certain actions in such jurisdiction. In exercising the Conversion Rights represented by this Certificate, compliance must be made by the Bondholder with all applicable exchange control, fiscal and other laws and regulations relating to such exercise and the allotment and issue to it and the holding by it of the Conversion Shares.



IN WITNESS WHEREOF this Agreement has been executed on the day and year first above written.

**THE VENDOR**

SIGNED by Duan Chuan Liang )

for and on behalf of )

**CHINA WATER GROUP LIMITED** )

in the presence of: )



**THE PURCHASER**

SIGNED by )

for and on behalf of )

**TOP HARBOR DEVELOPMENT LIMITED** )

in the presence of: )

IN WITNESS WHEREOF this Agreement has been executed on the day and year first above written.

**THE VENDOR**

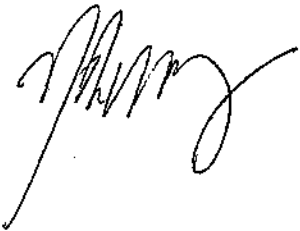
SIGNED by )  
for and on behalf of )  
**CHINA WATER GROUP LIMITED** )  
in the presence of: )

**THE PURCHASER**

SIGNED by Mr. But Chai Tong )  
for and on behalf of )  
**TOP HARBOUR DEVELOPMENT** )  
**LIMITED** )  
in the presence of: Mr. Wong Tak Shing )

*For and on behalf of*  
**TOP HARBOUR DEVELOPMENT LIMITED**

  
.....  
*Authorized Signature(s)*



CHINA WATER

SIGNED by Duan Chuan Liang )

for and on behalf of )

CHINA WATER AFFAIRS GROUP )

LIMITED )

in the presence of: )



WY OR HOLDINGS

SIGNED by )

for and on behalf of )

WAH YUEN HOLDINGS LIMITED )

in the presence of: )

**CHINA WATER**

SIGNED by )

for and on behalf of )

**CHINA WATER AFFAIRS GROUP** )

**LIMITED** )

in the presence of: )

**WY or HOLDINGS**

SIGNED by Mr. But Chai Tong )

for and on behalf of )

**WAH YUEN HOLDINGS LIMITED** )

in the presence of: Mr. Wong Tak Shing )



*For and on behalf of*  
**WAH YUEN HOLDINGS LIMITED**



*Authorized Signature*

Exhibit A

Audited Accounts

**China Environmental Water Holdings Limited**

**中國水環境控股有限公司**

Reports and Financial Statements

For the year ended 31 March 2006



## Contents

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Expressed in Hong Kong dollars ("HK\$")

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## Directors' report for the year ended 31 March 2006

The directors present their report and the audited financial statements for the year ended 31 March 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. There was no significant change in the nature of the Company's principal activity during the year. Details of the Company's subsidiaries are set out in note 9 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 March 2006 and the state of its affairs at that date are set out in the financial statements on pages 7 to 24.

The directors do not recommend the payment of a dividend.

### DIRECTORS

The directors of the Company during the year were as follows :

Cedar Base (BVI) Limited

Mr. Guan Zhiqiang

(appointed on 7 July 2005 and resigned on 2 March 2006)

Mr. Tsui Chi Kin

(resigned on 2 March 2006)

Mr. Wang Hui

(appointed on 2 March 2006)

As there is no provision in the Company's articles of association for the retirement of directors by rotation, all directors continue in office.

### SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 12 to the financial statements.

### RESERVES

Details of the movements in the reserves of the Company are set out in the statement of changes in equity on page 9.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed, no contract of significance to which the Company, its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

- (1) China Water Affairs Group Limited ("CWAG"), the Company's ultimate holding company, operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of CWAG and its subsidiaries. The Scheme became effective on 6 September 2002.

Details of the share option granted to the Company's directors to subscribe for shares in CWAG are as follows:

Name of Director	Number of share options					Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options HK\$ (note b)
	At 1 April 2005 '000	Granted during the year '000	Transfer to other category during the year '000	Exercised during the year '000	At 31 March 2006 '000			
Ms. Wang Hui	-	2,000	-	(2,000)	-	3 January 2006	Period 2	0.41
Mr. Tsui Chi Kin *	3,500	-	(3,500)	-	-	1 February 2005	Period 1	0.41

\* Resigned on 2 March 2006

Period 1: 1 August 2005 to 31 January 2007

Period 2: 3 February 2006 to 2 January 2008

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

Notes :

- (a) The vesting date of share options is the date of grant.
- (b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the CWAG's share capital.

No share options disclosed above were exercised, cancelled or lapsed during the year.

- (2) During the year ended 31 March 2006, Assets Full Resources Limited ("AFRL"), a company in which a director of CWAG, Mr. Duan Chuan Liang, has beneficial interest, entered into certain placement and subscription agreements as follows :
  - (a) On 4 April 2005, AFRL entered into a placing agreement with a placing agent for the placement of 57,600,000 ordinary shares of CWAG owned by AFRL at a price of HK\$0.50 per share. Pursuant to a subscription agreement on the same date, AFRL subscribed for 57,600,000 new ordinary shares of CWAG at a price of HK\$0.50 per share. The subscription of new shares raised total consideration of approximately HK\$28,800,000 (before expenses).
  - (b) On 19 January 2006, AFRL entered into a placing agreement with a placing agent for the placement of 107,700,000 ordinary shares of CWAG owned by AFRL at a price of HK\$0.42 per share. Pursuant to a subscription agreement on the same date, AFRL subscribed for 107,700,000 new ordinary shares of CWAG at a price of HK\$0.42 per share. The subscription of new shares raised total consideration of approximately HK\$45,234,000 (before expenses).
  - (c) On 16 March 2006, AFRL entered into a placing agreement with a placing agent for the placement of 137,600,000 ordinary shares of CWAG owned by AFRL at a price of HK\$0.96 per share. Pursuant to a subscription agreement on the same date, AFRL subscribed for 137,600,000 new ordinary shares of CWAG at a price of HK\$0.96 per share. The subscription of new shares raised total consideration of approximately HK\$132,096,000 (before expenses).

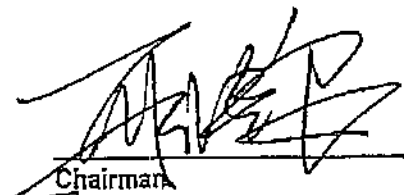
Save as disclosed, at no time during the year was the Company, its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**AUDITORS**

Subsequent to 31 March 2006, RSM Nelson Wheeler resigned as auditors of the Company and Grant Thornton were appointed to fill the casual vacancy so arising.

Grant Thornton retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board



Chairman

Hong Kong  
28 July 2006

## Auditors' report

To the members of China Environmental Water Holdings Limited 中國水環境控股有限公司  
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 7 to 24 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

### Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

*Fundamental uncertainty*

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning their preparation on a going concern basis. The financial statements have been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Company had net current liabilities of HK\$19,259,805 and net liabilities of HK\$17,805 as at 31 March 2006. The going concern basis has been adopted on the basis that the ultimate holding company will continue to provide the Company with the necessary financial support to meet the Company's liabilities and commitments as and when they fall due and the group companies and a shareholder have undertaken not to demand repayment of their debts due from the Company until such time when repayment will not affect the Company's ability to repay other creditors in the normal course of business. The financial statements do not include any adjustments that would result from a failure of the Company to operate as a going concern. Details of the circumstances relating to this fundamental uncertainty are disclosed in note 3.1 to the financial statements. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

*Qualified opinion arising from disagreement about non-preparation of consolidated financial statements*

Under the Hong Kong Companies Ordinance and Hong Kong Accounting Standard ("HKAS") 27 "Consolidated and Separate Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants, the Company is required to prepare consolidated financial statements showing the state of affairs and results of the Company and its subsidiaries (the "Group"). As explained in note 3.2 to the financial statements, consolidated financial statements have not been prepared. In our opinion, the non-preparation of consolidated financial statements is a departure from HKAS 27 and also constitutes non-compliance with the Hong Kong Companies Ordinance. In the absence of the consolidated financial statements we are unable to report on the state of affairs and results of the Group.

Except for the failure to prepare consolidated financial statements as described above, in our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2006 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



Grant Thornton  
Certified Public Accountants  
Hong Kong

28 July 2006

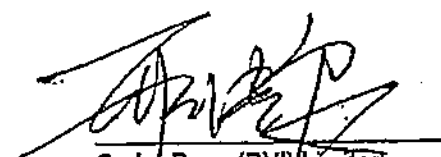
Income statement  
for the year ended 31 March 2006

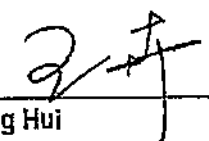
	Notes	Year ended 31 March 2006 HK\$	Period from 8 December 2003 (date of incorporation) to 31 March 2005 HK\$
Revenue	5	-	-
Administrative expenses		(7,615)	(10,200)
Loss before taxation	6	(7,615)	(10,200)
Taxation	7	-	-
Loss for the year/period		(7,615)	(10,200)



## Balance sheet as at 31 March 2006

	Notes	2006 HK\$	2005 HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	9	19,242,000	-
<b>Current assets</b>			
Cash and cash equivalents	10	8,488	500
<b>Current liabilities</b>			
Amount due to immediate holding company	11	13,484,995	10,698
Amount due to a fellow subsidiary	11	10,698	-
Amount due to a shareholder	11	5,772,600	-
		<b>19,268,293</b>	<b>10,698</b>
<b>Net current liabilities</b>		<b>(19,259,805)</b>	<b>(10,198)</b>
<b>Net liabilities</b>		<b>(17,805)</b>	<b>(10,198)</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holder of the Company</b>			
Share capital	12	10 <sup>2</sup>	2
Accumulated losses		(17,815)	(10,200)
<b>Total equity</b>		<b>(17,805)</b>	<b>(10,198)</b>

  
Cedar Base (BVI) Limited  
Director

  
Wang Hui  
Director

Statement of changes in equity  
for the year ended 31 March 2006

	Equity attributable to equity holders of the Company		
	Share capital HK\$	Accumulated losses HK\$	Total HK\$
Issue of shares	2	-	2
Loss for the period	-	(10,200)	(10,200)
Total recognised income and expenses for the period	-	(10,200)	(10,200)
At 31 March 2005 and at 1 April 2005	2	(10,200)	(10,198)
Issue of shares	8	-	8
Loss for the year	-	(7,615)	(7,615)
Total recognised income and expenses for the year	-	(7,615)	(7,615)
At 31 March 2006	10	(17,815)	(17,805)

## Cash flow statement for the year ended 31 March 2006

	Year ended 31 March 2006 HK\$	Period from 8 December 2003 (date of incorporation) to 31 March 2005 HK\$
<b>Cash flows from operating activities</b>		
Loss before taxation	(7,615)	(10,200)
<b>Net cash used in operating activities</b>	<b>(7,615)</b>	<b>(10,200)</b>
<b>Cash flows from investing activities</b>		
Investments in subsidiaries	(19,242,000)	-
<b>Net cash used in investing activities</b>	<b>(19,242,000)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Increase in amount due to immediate holding company	13,474,297	10,698
Increase in amount due to a fellow subsidiary	10,698	-
Increase in amount due to a shareholder	5,772,600	-
Proceeds from issuance of share capital	8	2
<b>Net cash generated from financing activities</b>	<b>19,257,603</b>	<b>10,700</b>
<b>Net increase in cash and cash equivalents</b>	<b>7,988</b>	<b>500</b>
<b>Cash and cash equivalents at beginning of the year/period</b>	<b>500</b>	<b>-</b>
<b>Cash and cash equivalents at end of the year/period</b>	<b>8,488</b>	<b>500</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Bank balances	8,488	500

## Notes to the financial statements for the year ended 31 March 2006

### 1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in Hong Kong and is a subsidiary of China Water Group Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office and principal place of business is Room 2606, 26th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The principal activity of the Company is investment holding. There was no significant change in the nature of the Company's principal activity during the year. Details of the Company's subsidiaries are set out in note 9 to the financial statements. The directors consider the ultimate holding company to be China Water Affairs Group Limited ("CWAG"), a company incorporated in the Cayman Islands and re-domiciled in Bermuda under Section 132C of the Companies Act 1981 of Bermuda as an exempted company. CWAG is listed on The Stock Exchange of Hong Kong Limited.

The financial statements of the Company on pages 7 to 24 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance.

The financial statements for the year ended 31 March 2006 were approved by the board of directors on 28 July 2006.

### 2. ADOPTION OF NEW OR REVISED HKFRS

From 1 April 2005, the Company has adopted the new or revised standards and interpretations of HKFRS which are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 18	Revenue
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment

## 2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2005 financial statements and their presentation have been amended in accordance with HKAS 8.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes :

### 2.1 Adoption of HKAS 1

The application of HKAS 1 led to an update of the presentation of financial statements and other disclosures.

### 2.2 Adoption of HKAS 7

On the adoption of HKAS 7, the Company prepared a cash flow statement as an integral part of the financial statements.

### 2.3 Other standards adopted

The adoption of other new or revised HKFRS did not result in significant changes to the Company's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any significant changes to the amounts or disclosures in these financial statements.

## 2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

New standards or interpretations that have been issued but are not yet effective :

The Company has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Company.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21(Amendment)	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendment)	Financial Instrument : Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts <sup>2</sup>
HKFRS 1 & HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 7	Financial Instruments - Disclosures <sup>1</sup>
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease <sup>2</sup>
HK(IFRIC) - Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>2</sup>
HK(IFRIC) - Int 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment <sup>3</sup>
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>
HK(IFRIC) - Int 8	Scope of HKFRS 2 <sup>5</sup>
HK(IFRIC) - Int 9	Reassessment of embedded derivatives <sup>6</sup>

### Notes

- 1 Effective for annual periods beginning on or after 1 January 2007
- 2 Effective for annual periods beginning on or after 1 January 2006
- 3 Effective for annual periods beginning on or after 1 December 2005
- 4 Effective for annual periods beginning on or after 1 March 2006
- 5 Effective for annual periods beginning on or after 1 May 2006
- 6 Effective for annual periods beginning on or after 1 June 2006

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The financial statements have been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Company had net current liabilities of HK\$19,259,805 (2005 : HK\$10,198) and net liabilities of HK\$17,805 (2005 : HK\$10,198) as at 31 March 2006. The going concern basis has been adopted on the basis that the ultimate holding company will continue to provide the Company with the necessary financial support to meet the Company's liabilities and commitments as and when they fall due and the group companies and a shareholder have undertaken not to demand repayment of their debts due from the Company until such time when repayment will not affect the Company's ability to repay other creditors in the normal course of business. The financial statements do not include any adjustments that would result from a failure of the Company to operate as a going concern.

Should the Company be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets. The effect of these potential adjustments has not been reflected in the financial statements.

#### 3.2 Consolidated financial statements

The Company is required to prepare consolidated financial statements under HKAS 27 which was newly adopted during the year. Consolidated financial statements have not been prepared by the Company as the directors are of the opinion that it would involve expense or delay out of proportion to the value to members of the Company.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3.3 Subsidiaries**

Subsidiaries are those entities in which the Company controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

**3.4 Foreign currency translation**

The financial statements are presented in Hong Kong Dollars (HK\$), which is the functional currency of the Company.

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement:

**3.5 Income and expenses recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably.

Operating expenses are recognised in the income statement when incurred.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.6 Impairment of assets

The investments in subsidiaries are subject to impairment testing.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units that are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment had been recognised.

#### 3.7 Financial liabilities

The Company's financial liabilities include amounts due to group companies and a shareholder.

Amounts due group companies and a shareholder are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.8 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

#### 3.9 Cash and cash equivalents

Cash and cash equivalents include cash at bank.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.10 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefits) to the extent they are incremental costs directly attributable to the equity transaction.

#### 3.11 Related parties

Parties are considered to be related to the Company if :

- (i) directly, or indirectly through one or more intermediaries, the party :
  - controls, is controlled by, or is under common control with, the Company; or
  - has an interest in the Company that gives it significant influence over the Company; or
  - has joint control over the Company;
- (ii) the party is an associate or a jointly-controlled entity;
- (iii) the party is a member of the key management personnel of the Company or its parent;
- (iv) the party is a close member of the family of any individual referred to in (i) or (iii);
- (v) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) or (iv); or
- (vi) the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company did not use critical accounting estimates and judgements in the preparation of the financial statements and the estimates and judgements used did not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**5. REVENUE**

During the year, the Company did not generate any turnover.

**6. LOSS BEFORE TAXATION**

The auditors' remunerations for the year ended 31 March 2006 and the period from 8 December 2003 to 31 March 2005 were borne by the ultimate holding company.

**7. TAXATION**

No Hong Kong profits tax has been provided in the financial statements as the Company did not derive any assessable profit for the year (Period ended 31 March 2005 : Nil).

7. TAXATION (Continued)

Reconciliation between tax expenses and accounting loss at applicable tax rate is as follows :

	Year ended 31 March 2006 HK\$	Period from 8 December 2003 (date of incorporation) to 31 March 2005 HK\$
Loss before taxation	(7,615)	(10,200)
Tax on loss calculated at the statutory tax rate of 17.5%	(1,333)	(1,785)
Tax effect of non-deductible items	1,333	1,785
<b>Tax expense</b>	<b>-</b>	<b>-</b>

As at 31 March 2006, the Company did not have any significant unprovided deferred tax liabilities (2005 : Nil).

8. DIRECTORS' REMUNERATION

Remuneration of the directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows :

	Year ended 31 March 2006 HK\$	Period from 8 December 2003 (date of incorporation) to 31 March 2005 HK\$
Fees	-	-
Other emoluments	-	-

9. INVESTMENTS IN SUBSIDIARIES

	2006 HK\$	2005 HK\$
Unlisted shares, at cost	19,242,000	-

Particulars of the subsidiaries at 31 March 2006 are as follows :

Name	Place of incorporation/ operation	Particulars of registered capital	Percentage of equity interest attributable to the Company	Principal activities
Held directly:				
高原聖果沙棘製品有限公司	The People's Republic of China (the "PRC")	Registered capital of RMB30,500,000	50%	Cultivation, manufacture and sale of sea buckthorn's seedlings and products
Held indirectly:				
鄂爾多斯市高原聖果生態建設開發有限公司	PRC	Registered capital of RMB20,000,000	50%	Cultivation and sale of sea buckthorn's seedlings
准格爾旗高原聖果沙棘有限責任公司	PRC	Registered capital of RMB500,000	45%	Cultivation and sale of sea buckthorn's seedlings
達拉特旗高原聖果沙棘有限公司	PRC	Registered capital of RMB500,000	45%	Cultivation and sale of sea buckthorn's seedlings
陝西果聖水土保持建設有限公司	PRC	Registered capital of RMB5,000,000	45%	Cultivation and sale of sea buckthorn's seedlings

9. INVESTMENTS IN SUBSIDIARIES (Continued)

The post-acquisition profit of the subsidiaries acquired during the year ended 31 March 2006 attributable to the Company not dealt with in the financial statements of the Company amounted to HK\$6,405,253. The retained profit of the subsidiaries attributable to the Company amounted to HK\$6,405,253 at the balance sheet date.

10. CASH AND CASH EQUIVALENTS

	2006 HK\$	2005 HK\$
Bank balances	8,488	500

Cash at bank earns interest at floating rates based on daily bank deposits rates.

11. BALANCES WITH IMMEDIATE HOLDING COMPANY AND A FELLOW SUBSIDIARY AND A SHAREHOLDER

The balances with immediate holding company, a fellow subsidiary and a shareholder are unsecured, interest free and repayable on demand.

**12. SHARE CAPITAL**

	2006 HK\$	2005 HK\$
Authorised :		
10,000 ordinary shares of HK\$1 each	10,000	10,000
<hr/>		
Issued and fully paid :		
10 (2005 : 2) ordinary shares of HK\$1 each	10	2
<hr/>		

During the year, 8 ordinary shares HK\$1 each were issued at par for cash for a total cash consideration of HK\$8.

**13. SHARE OPTION SCHEME**

On 6 September 2002, CWAG, the ultimate holding company of the Company, adopted a new share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of CWAG and its subsidiaries (the "CWAG Group"). Eligible participants of the Scheme include CWAG's directors and other employees of the CWAG Group.

The details of the Scheme were disclosed in the annual report of CWAG for the year ended 31 March 2006.

**14. COMPARATIVE FIGURES**

The comparative figures were audited by another firm of Certified Public Accountants in Hong Kong. The comparative figures did not cover the same period of results for the year ended 31 March 2006 and therefore may not be directly comparable.



15. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Company's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Company employs a conservative strategy regarding its risk management. As the directors of the Company consider that the Company's exposure to market risk is kept at a minimum level, the Company has not used any derivatives or other instruments for hedging purposes.

(a) Interest rate risk

The Company does not have significant exposure to interest rate risk, as the Company currently has no interest-bearing borrowings.

(b) Foreign currency risk

The Company does not have significant foreign currency risk as the Company's transactions are predominately in Hong Kong dollars.

(c) Fair value

The fair values of the Company's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

(d) Liquidity risk

As at 31 March 2006, the Company had net current liabilities of HK\$19,259,805 (2005: HK\$10,198) and net liabilities of HK\$17,805 (2005: HK\$10,198). The liquidity of the Company is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations and to obtain continuing financial support from the Company's group companies and a shareholder.