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CHINA AOYUAN PROPERTY GROUP LIMITED

中國奧園地產集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3883)

DISCLOSEABLE TRANSACTION MEMORANDUM OF UNDERSTANDING IN RELATION TO FORMATION OF JOINT VENTURE AND DEED IN RELATION TO THE FUTURE COMMERCIAL LANDUSE PROJECTS

MOU

The Board is pleased to announce that on 28 March 2008, the Company entered into the MOU with MGPA Co pursuant to which both parties agreed to develop the Project Land held by the JV Company, which will be subsequently owned as to 50% by each of the Company and MGPA Co.

The Company and MPGA Co also agreed to provide the necessary corporate guarantees in order to assist the Project Company to secure a construction loan to fund the development, construction and other costs in relation to the Project Land. The liability of each party in the corporate guarantee shall be separate and be limited to 50% of the total liability.

The Deed

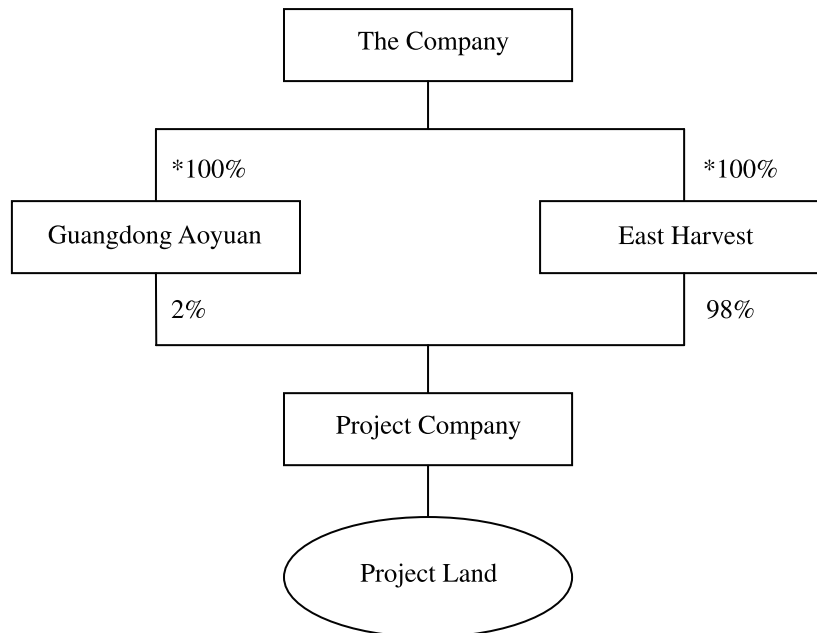
On 28 March 2008, with a view to forming a long-term strategic business relationship for Future Commercial Landuse Projects, the Company further entered into the Deed with MGPA Co pursuant to which the Company will grant to MGPA Co for a term of five (5) years commencing on the date of the Deed, a first right to participate in any Future Commercial Landuse Projects subject to the terms and conditions of the Deed.

As the total registered capital of the Project Company and the construction loan exceeds 5% but does not exceed 25% of one or more of the applicable percentage ratios (as defined in the Listing Rules), the MOU constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular containing, among other things, detailed information of the transaction contemplated under the MOU will be despatched to the Shareholders as soon as possible.

INTRODUCTION

The Company acquired the Project Land through the Project Company, its indirect wholly-owned subsidiary.

The present corporate structure of the Project Company is as follows:



* *Intermediate holding companies are not shown in the above chart.*

On 28 March 2008, the Company entered into the MOU with MGPA Co in relation to a joint development of the Project Land as described below.

MOU

Date

28 March 2008

Parties

1. the Company; and

2. MGPA Co, an Independent Third Party.

Co-operation

Pursuant to the MOU, the Company and MGPA Co agreed that the Group will implement an internal reorganization including establishment of the JV Company and an acquisition of the entire issued shares of East Harvest from the Company by the BVI Co.

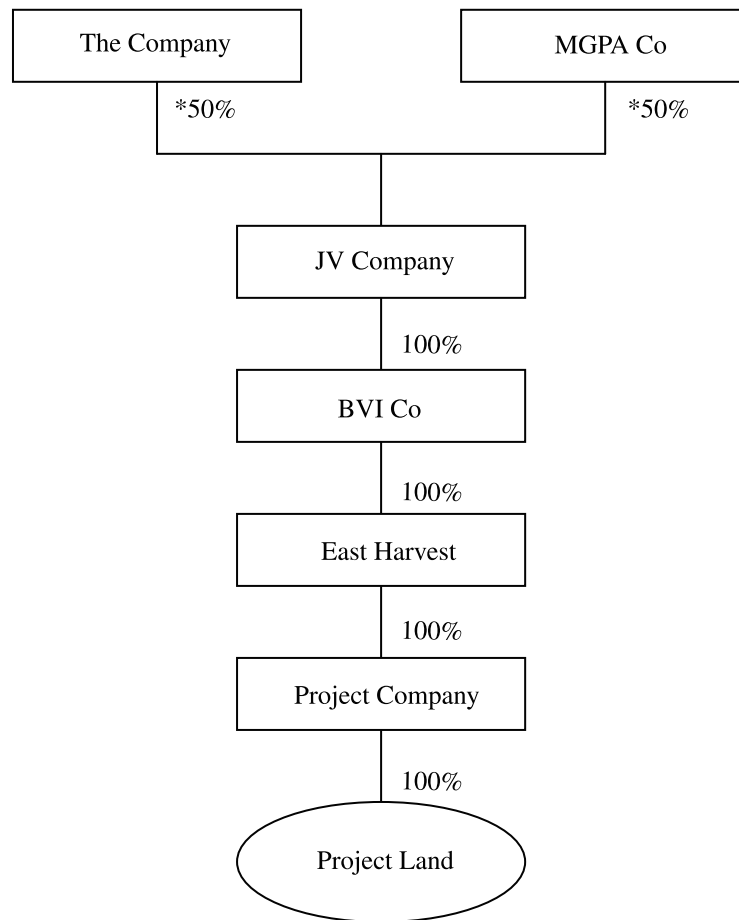
After the establishment of the JV Company,

- (a) MGPA Co will pay 49% of the registered capital of the Project Company in consideration of which the Company will transfer 50% shareholding in the JV Company to MGPA Co;
- (b) MGPA Co will pay 1% of the registered capital of the Project Company in consideration of which the JV Company will allot and issue one (1) non-voting redeemable preference share to MGPA Co;
- (c) as long as Guangdong Aoyuan holds its equity interest in the Project Company, MGPA Co will hold one (1) non-voting redeemable preference share in the JV Company, which will entitle MGPA Co, among others, to receive preferential dividend equal to 2% of the distributions by the Project Company before any dividend payable on the ordinary shares in the JV Company;
- (d) Guangdong Aoyuan will enter into an equity transfer agreement with East Harvest to transfer its 2% equity interest in the Project Company to East Harvest; and
- (e) when Guangdong Aoyuan transfers its equity interest in the Project Company to East Harvest, the Company will also subscribe for one (1) non-voting redeemable preference share in the JV Company at a subscription price equal to the cost (including purchase price) of purchasing such equity in the Project Company by East Harvest. The Project Company will then become a wholly foreign owned enterprise.

Information on the Project Company

Name	:	Guangzhou Aoyu Real Estate Development Co., Ltd. (廣州奧譽房地產開發有限公司)
Date of Incorporation	:	18 February 2008
Place of Incorporation	:	PRC
Scope of business	:	development, construction, sale and lease of property for use of commercial and financial industries on the Project Land
Existing shareholders	:	Guangdong Aoyuan (2%); and East Harvest (98%)
Registered capital	:	HKD750,000,000
Current Term	:	18 February 2008 – 18 February 2009

Upon completion of the above, the corporate structure of the JV Company and its subsidiaries will be as follows:



* *Intermediate holding companies are not shown in the above chart.*

Financial information of the JV Company and its subsidiaries

As at the date of this announcement, (1) the JV Company and the BVI Co are not yet incorporated and (2) the registered capital of the Project Company has not been paid up.

Information on East Harvest

	Three months ended 31 March 2008 (Unaudited) HK\$	Since incorporation on 28 May 2007 to 31 December 2007 (Unaudited) HK\$
Net gain before taxation	<u><u>1,147,653</u></u>	<u><u>951,014</u></u>
Net gain after taxation	<u><u>1,147,653</u></u>	<u><u>951,014</u></u>
	As at 31 March 2008	As at 31 December 2007
Net assets	<u><u>2,098,669</u></u>	<u><u>951,015</u></u>

Information on the Project Company

	Since incorporation on 18 February 2008 (Unaudited) HK\$
Net gain before taxation	<u><u>—</u></u>
Net gain after taxation	<u><u>—</u></u>
	As at 31 March 2008
Net assets	<u><u>—</u></u>

Conditions Precedent

The obligation of MGPA Co to pay the Contribution is subject to, inter alia, satisfaction of or waiver by MGPA Co the following conditions:

- (a) satisfactory results of the due diligence conducted by MGPA Co;
- (b) issuance of a formal business licence issued by the relevant authority to the Project Company for a minimum of twenty (20) years permitting the Project Company to own, develop and dispose the Project Land;
- (c) Guangdong Aoyuan will enter into an equity transfer agreement with East Harvest to transfer its 2% equity interest in the Project Company to East Harvest; and
- (d) execution of the Deed.

Upon satisfaction or waiver of condition precedents and payment of the Contribution by MGPA Co, each of the Company and MGPA Co will hold 50% shareholding in the JV Company.

Foreign Exchange Policy

In the event that there are (a) changes in China's foreign exchange laws, regulations or policy and/or (b) further restrictions on foreign investment in the PRC domestic real property market, resulting in a material adverse effect on the establishment of the above corporate structure as agreed and/or the operation of the Project Company, the Company and MGPA Co will negotiate in good faith to achieve an alternative investment structure or to adjust the development budget of the Project Land (as the case may be), in the best interest of the Project Company.

Construction Loan

The Company and MGPA Co also agreed to provide the necessary corporate guarantees in order to assist the Project Company to secure a construction loan in the total sum not less than RMB500,000,000, to fund the development, construction and other costs in relation to the Project Land. The liability of each party in the corporate guarantee shall be separate and be limited to 50% of the total liability. At the present stage, the maximum corporate guarantees that each of the Company and MGPA Co has committed to provide is RMB250,000,000.

Investment Period and Restrictions on Sale

Under the MOU, the Company and the JV Company agreed to retain its respective equity interest in the Project Company and the BVI Co during the construction of the Project Land.

After completion of construction of the Project Land, any disposal of the equity interest in the JV Company shall be subject to the other party's right of first refusal. In addition, each party shall have a drag-along right when it disposes its equity interest or a tag-along right when the other party disposes its equity interest in the JV Company.

Board of Directors

The board of each of the JV Company and the BVI Co shall consist of six (6) members, whilst East Harvest and the Project Company shall consist of four (4) members. Each the Company and MGPA Co shall nominate a number of directors in accordance with their equity interests in the above companies. As long as Guangdong Aoyuan retains its equity interest in the Project Company, one (1) of the directors of the Project Company nominated by the Company shall be nominated by Guangdong Aoyuan.

THE DEED

On 28 March 2008, with a view of forming a long-term strategic business relationship for Future Commercial Landuse Projects with MGPA Co, the Company further entered into the Deed with MGPA Co pursuant to which the Company will grant to MGPA Co for a term of five (5) years commencing from the date of the Deed, a first right to participate in any Future Commercial Landuse Projects subject to the terms and conditions of the Deed. Neither MGPA Co nor its associates (as defined in the Listing Rules) has any relationship with the Company and its connected persons (as defined in the Listing Rules) other than the fact that MGPA Co will be the joint venture partner of the Company in respect of the Project Company.

REASONS FOR ENTERING INTO THE MOU AND THE DEED

The principal activities of the Group comprise the property development and property investment in the PRC. The principal business of the Project Company is the development and construction of the Project Land.

MGPA Co is a wholly owned subsidiary of a real estate investment fund advised by Macquarie Global Property Advisors (Bermuda) Limited. Macquarie Global Property Advisors (Bermuda) Limited is an independently managed private equity real estate fund advisory company focused on real estate investment in Asia and Europe. Macquarie Global Property Advisors (Bermuda) Limited advised investments in over US\$10 billion in assets throughout these two regions. Its advised investments include development and redevelopment projects, joint-venture investments and real estate operating companies in the office, retail, industrial, residential, and hotel sectors.

Macquarie Global Property Advisors (Bermuda) Limited is majority owned (51%) and managed by its senior management team. The remaining 49% of the business is owned by Macquarie Group, a diversified international provider of banking, financial, advisory and investment services, headquartered in Sydney, Australia.

The Deed, being one of the conditions precedent of the MOU, is part and parcel of the transaction. The Directors have considered the MOU and the Deed as a whole and are of the view that the co-operation with MGPA Co will develop a long term strategic relationship with an international reputable investor and enhance more investment opportunities for the Company in the future.

Both the MOU and the Deed were approved by the Board and the Directors are of the view that the terms of the MOU and the Deed are on normal commercial terms which are fair and reasonable and in the interests of Shareholders as a whole, except two (2) non-executive Directors and two (2) independent non-executive Directors are of the view that the Deed will restrict the Company's choice of joint venture partners in the Future Commercial Landuse Projects for the coming 5 years.

FINANCIAL EFFECTS OF THE DISPOSAL

Upon completion of the transfer of the shares in the JV Company to MGPA Co, the JV Company and its subsidiaries will cease to be the subsidiaries of the Company.

The assets of the Project Company comprised of the Project Land of RMB 647,290,000 and other receivables, based on the unaudited management account of the Project Company as at 31 March 2008. As the registered capital of the Project Company has not been paid up, the assets of the Project Company are represented by its account payables. As the Project Company has not commenced any business, there would not be any material income statement items and assets, except the Project Land. Upon completion of the disposal, 50% of the shareholding of the JV Company and its subsidiaries would be disposed of including 50% of the net assets of East Harvest and the Project Company. Accordingly, on the assumption that the share capital of the Project Company of HK\$750,000,000 is properly paid up upon completion of the disposal, the Company is expected to have a loss on the disposal of approximately HK\$1,049,000 (being the difference between 50% of the net assets of East Harvest and the Project Company, i.e. approximately HK\$376,049,000 and the amount to be contributed by MGPA Co of approximately HK\$375,000,000) upon completion of the disposal.

USE OF PROCEEDS FROM THE DISPOSAL

The proceeds payable by MGPA Co will be used to pay up 50% of the registered capital of the Project Company.

IMPLICATION UNDER THE LISTING RULES

As part of the joint venture arrangements between the Company and MGPA Co, the Company will transfer 50% of the entire issued share capital of the JV Company to MGPA Co in consideration of which MGPA Co will be responsible for paying up 50% of the registered capital of the Project Company. Upon completion of the transfer of the shares in the JV Company to MGPA Co, the JV Company and its subsidiaries will cease to be the subsidiaries of the Company.

As the total registered capital of the Project Company and the corporate guarantee provided by the Company for the construction loan exceeds 5% but does not exceed 25% of one or more of the applicable percentage ratios (as defined in the Listing Rules), the MOU constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular containing, among other things, detailed information of the transaction contemplated under the MOU will be despatched to the Shareholders as soon as possible.

DEFINITIONS

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

“Board”	the board of Directors
“BVI Co”	a wholly-owned subsidiary to be incorporated by the Company under the laws of the British Virgin Islands
“Company”	China Aoyuan Group Property Limited, a company incorporated under the laws of the Cayman Islands, the shares of which are listed on the Stock Exchange
“Contribution”	the USD equivalent of HKD375,000,000, being 50% of the registered capital of the Project Company
“Deed”	a deed dated 28 March 2008 entered into between the Company and MGPA Co in relation to the Future Commercial Landuse Projects
“Directors”	the directors of the Company
“East Harvest”	East Harvest Investment Limited (耀發投資有限公司), a company incorporated under the laws of Hong Kong and a wholly-owned subsidiary of the Company
“Future Commercial Landuse Projects”	<p>any investment by the Company and/or its affiliates in any development of developed or undeveloped Land or refurbishment of any building on Land into a property to be used for commercial purpose; or any mixed-use project in developed or undeveloped Land and building on Land with at least 50% of the gross floor area to be used for commercial purpose, in the PRC (excluding Hong Kong and the Macau Special Administrative Region of the PRC), to be undertaken by the Company and/or its affiliates (or to be participated in by any of them) after the date of the Deed and in relation to which:</p> <ul style="list-style-type: none">(a) the estimated project cost of the investment by the Company and/or any of its affiliates is not less than USD100 million;(b) a wholly foreign owned enterprise or an equity joint venture is or is to be set up in which the Company has a 50% or more equity interest therein; and(c) the Company and/or its affiliates have resolved to seek a joint venture partner for the investment

“Group”	the Company and its subsidiaries
“Guangdong Aoyuan”	Guangdong Aoyuan Properties Co., Ltd. (廣東奧園置業有限公司), a company incorporated under the laws of the PRC and a wholly-owned subsidiary of the Company
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party/ Parties”	a third party/parties who is/are not a connected person(s) (as defined in the Listing Rules) of the Company and who together with its/their ultimate beneficial owner are independent of the Company and of connected persons (as defined in the Listing Rules) of the Company
“JV Company”	a wholly-owned subsidiary to be incorporated by the Company under the laws of British Virgin Islands
“Land”	a land with land use described in its land use certificate issued by the authority as commercial and service land (商服用地) or similar classification under the National Land Specification (全國土地分類) published by the PRC Ministry of Land and Resources from time to time
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the legal binding memorandum of understanding dated 28 March 2008 entered into between the Company and MGPA Co
“MGPA Co”	MGP Asia III Holdings (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of a real estate investment fund advised by Macquarie Global Property Advisors (Bermuda) Limited
“PRC”	The People’s Republic of China
“Project Company”	Guangzhou Aoyu Real Estate Development Co., Ltd. (廣州奧譽房地產開發有限公司), a sino-foreign equity joint venture incorporated under the laws of the PRC and held as to 98% by East Harvest and 2% by Guangdong Aoyuan

“Project Land”	a parcel of land located at north to Fude Road, South downtown, Panyu District (番禺區中心城區南區福德路北側政府儲備用地南區地塊2-1) with a land area of 89,475 square meters, in which 64,861 square meters is for construction and 24,614 square meters is for municipal roads. Its estimated construction area is around 179,977 square meters, in which 172,674 square meters is for commercial and financial use and 7,303 square meters is for public car parks
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	the ordinary shares of the Company of HK\$0.01 each
“Shareholder(s)”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	United States dollars, the lawful currency of the United States of America
“%”	per cent

By order of the Board
China Aoyuan Property Group Limited
Guo Zi Wen
Chairman and chief executive officer

Hong Kong, 9 April 2008

As at the date of this announcement, the executive directors of the Company are Mr. Guo Zi Wen, Mr. Guo Zi Ning, Mr. Zhang Jian Jun and Mr. Hu Da Wei; the non-executive directors of the Company are Mr. Paul Steven Wolansky and Mr. Leung Ping Chung, Hermann (Mr. Leung Ping Chung, Hermann is also the alternate director of Mr. Paul Steven Wolansky); and the independent non-executive directors of the Company are Mr. Song Xian Zhong, Mr. Ma Kwai Yuen and Mr. Tsui King Fai.