



(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1129)

MAJOR AND CONNECTED TRANSACTION AND RESUMPTION OF TRADING OF SHARES

The Board is pleased to announce that the Purchaser, a wholly owned subsidiary of the Company, finalized the terms of the Agreement and entered into the Agreement with the Vendor at 12:45 p.m. on 12 March 2007. Pursuant to the Agreement, the Purchaser has agreed to purchase and the Vendor has agreed to sell the Sale Shares and the Sale Loan for a total consideration of RMB30 million which will be paid in cash at Completion.

The Sale Shares represent a 60% of the entire issued share capital in Onfar International. Onfar International is an investment holding company and is the registered and beneficial owner of a 51% equity interest in the JV. As at the date of this announcement, the Purchaser holds a 40% of the entire issued share capital in Onfar International. Upon Completion, the Purchaser will hold the entire issued share capital in Onfar International and Onfar International will become a wholly-owned subsidiary of the Company.

The Acquisition together with the acquisition of a 40% of the entire issued share capital and a 40% of the shareholder's loan in Onfar International by the Purchaser as disclosed in the Company's announcement dated 5 October 2006 and circular dated 27 October 2006 constitute a major transaction for the Company pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules. As the Vendor is a Substantial Shareholder, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Vendor and its associates shall abstain from voting at the SGM in respect of the resolution to approve the Acquisition. Hantec Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee of the Company in respect of the Acquisition.

A circular containing (i) further information on the Acquisition; (ii) a letter from the independent financial adviser containing its advice to the Independent Board Committee; (iii) the recommendation of the Independent Board Committee; (iv) accountants' report of Onfar International; and (v) a notice convening the SGM will be despatched to the Shareholders in accordance with the Listing Rules as soon as practicable.

At the request of the Company, trading in Shares on the Stock Exchange was suspended with effect from 2:30 p.m. on Monday, 12 March 2007 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 15 March 2007.

INTRODUCTION

The Purchaser, a wholly owned subsidiary of the Company, finalized the terms of the Agreement and entered into the Agreement with the Vendor at 12:45 p.m. on 12 March 2007. Pursuant to the Agreement, the Purchaser has agreed to purchase and the Vendor has agreed to sell the Sale Shares and the Sale Loan for a total consideration of RMB30 million in cash.

As disclosed in the Company's announcement dated 5 October 2006 and the circular dated 27 October 2006, on 3 October 2006, the Purchaser entered into an agreement with the Vendor under which the Purchaser agreed to acquire a 40% of the entire issued share capital and a 40% of the shareholder's loan in Onfar International for a consideration of HK\$36 million (the "First Acquisition"). Following the completion of the First Acquisition on 14 November 2006, the Purchaser holds a 40% of the entire issued share capital of Onfar International. As disclosed in the Company's announcement dated 26 February 2007, the Company was in discussion with Vendor in respect of acquiring controlling interest in Onfar International.

Onfar International is an investment holding company without operation since its incorporation. Its major asset is a 51% equity interest in the JV. Currently, Onfar International is an associated company of the Group and the Group has adopted equity method to account for the interests in Onfar International for consolidated financial statement purpose.

THE AGREEMENT

Date

12 March 2007

Parties

Purchaser:

Billion City Investments Limited, a wholly-owned subsidiary of the Company

Vendor:

Boost Skill Investments Limited, a company incorporated in the British Virgin Islands

The Vendor is a Substantial Shareholder who holds 11.93% equity interest in the Company and carries on the business of investment holding with its sole asset being its shareholding interest in Onfar International, which directly holds a total of 51% equity interest in the JV.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, save for the First Acquisition, the Company does not have any prior transactions or relationship with the Vendor.

The Acquisition

Interest to be acquired

Pursuant to the terms of the Agreement, the Vendor has agreed to sell and the Purchaser has agreed to purchase the Sale Shares and the Sale Loan.

The Sale Shares represent a 60% of the entire issued share capital of Onfar International while the Sale Loan represents all the obligations, liabilities and debts owing or incurred by Onfar International to the Vendor as at 31 December 2006.

Consideration

The consideration payable for the Sale Shares and the Sale Loan shall be RMB30 million which will be paid in cash at Completion in lump sum.

The Consideration shall be satisfied from the Group's internal resources.

The Consideration for the Acquisition was arrived at after arm's length negotiations between the parties by reference to business prospects of the JV and 60% equity interest of Onfar International in an amount of HK\$9.85 million and Shareholder's Loan in an amount of HK\$13.6 million of Onfar International acquired as shown in the unaudited consolidated financial statements of Onfar International as at 31 December 2006, which were prepared in accordance with the Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by Hong Kong Institute of Certified Public Accountants. The Directors (including the independent non-executive Directors) are of the view that the Consideration is on normal commercial terms, is fair and reasonable and in the interest of the Company and Shareholders as a whole.

Information on Onfar International and the JV

Onfar International is a limited company incorporated in the British Virgin Islands on 10 March 2005. In September 2005, Onfar International acquired a 51% equity interest in the JV, which is accounted for in the books of Onfar International as a subsidiary using the acquisition accounting method. The financial results of the JV are consolidated into Onfar International's consolidated financial statements.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the remaining 49% equity interest in the JV are owned by Yichun Urban Construction Investments & Development Corporation* (宜春市城市建設投資開發總公司), an Independent Third Party. The Company has no current intention to acquire the remaining 49% equity interest in the JV.

As at the date of this announcement, the Vendor is interested in 60% of the entire issued share capital in Onfar International and the cost of investment of the Vendor in 60% of the entire issued share capital in Onfar International is HK\$13.6 million.

The JV was incorporated on 14 June 2005 after the restructuring of the assets of a state-owned water supply enterprise, Yichun Water Industry Company* (宜春市供水公司), in Yichun City, Jiang Xi Province, the PRC. The JV has been engaging in the water supply industry by supplying drinkable water to the residents in Yichun City. The JV has been granted a 30 years' licence starting from 21 November 2004 (being the date on which the licence was initially granted to Yichun Water Industry Company) till 20 November 2034 to supply drinkable water in Yichun City. So far as the Directors are aware of, having made all reasonable enquiry, save for the investment in JV, Onfar International has no other investments.

As at 31 December 2006, the sole investment of Onfar International was a 51% equity interest in the JV and the major liability was the Shareholder's Loan. As at 31 December 2006, the major assets of the JV included water pipes network, factory building and plant and machinery for water processing, consumable stock, prepaid land use rights, and certain investments in a sewage processing and water supply project and the major liabilities consisted of mainly long term borrowing of approximately HK\$31.8 million and sundry accruals and payables.

The tables below set forth the unaudited financial information of Onfar International and the JV for the two years ended 31 December 2005 and 31 December 2006, which were prepared on a consolidated basis under Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by Hong Kong Institute of Certified Public Accountants.

Onfar International

	For the year ended 31 December 2005 (HK\$'000)	For the year ended 31 December 2006 (HK\$'000)
Profits before taxation	3,817	6,722
Profits after taxation	2,994	6,321

The JV

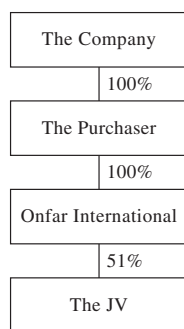
	For the year ended 31 December 2005 (HK\$'000)	For the year ended 31 December 2006 (HK\$'000)
Profits before taxation	3,843	6,747
Profits after taxation	3,019	6,346

As at 31 December 2006, the unaudited net asset value of Onfar International and the JV were HK\$16.41 million and HK\$76.62 million, respectively.

Upon Completion, the Group will hold the entire issued share capital in Onfar International and Onfar International will become a wholly-owned subsidiary of the Company. The financial results of Onfar International will be consolidated into the Group's consolidated financial statements after Completion.

Upon Completion, the JV will become a 51% owned subsidiary of the Company. The financial results of the JV will be consolidated into the Group's consolidated financial statements after Completion.

The following diagram shows the shareholding structure of Onfar International immediately after Completion.



Conditions precedent to completion:

Completion is conditional upon the following conditions being fulfilled or waived (other than condition (i)) by the Purchaser on or before 30 June 2007 or such other date as the parties may otherwise agree as at Completion:

- (i) the Company having obtained the necessary approval the Independent Shareholders at the SGM approving the transactions contemplated under the Agreement, including but not limited to the purchase of the Sale Shares and the Sale Loan;
- (ii) the Purchaser having conducted a due diligence investigation in respect of Onfar International Limited and the JV including but not limited to the affairs, business, assets, legal and financing structure of Onfar International and the JV and the Purchaser being satisfied with the results of such due diligence investigation;
- (iii) no event having occurred since the date of signing of the Agreement to the Completion Date, the consequence of which is to materially and adversely affect the financial position, business or property, results of operations or business prospects of Onfar International and the JV and such material adverse effect shall not have been caused;
- (iv) the warranties contained in the Agreement remaining true and accurate and not misleading at the Completion Date as if repeated at the Completion Date and at all times between the date of the Agreement and the Completion Date; and
- (v) the Purchaser having obtained a PRC legal opinion in form and substance to its satisfaction on the transactions contemplated under the Agreement.

If any of the conditions has not been fulfilled or waived by the Purchaser on or before 30 June 2007 or such later date as the parties may otherwise agree, either the Vendor or the Purchaser shall be entitled to rescind the Agreement whereupon the provisions of the Agreement shall from such date have no further force and effect and no party to the Agreement shall have any liability under them (without prejudice to the rights of the parties in respect of any antecedent breaches).

Completion

Completion of the Agreement shall take place within the fifth Business Day after the date of the fulfillment or waiver of all the conditions precedent required to be fulfilled before Completion on or before 30 June 2007 or such other date as the parties may otherwise agree.

SHAREHOLDING STRUCTURE

The table below shows the shareholding structure of the Company as of the date of this announcement:

	<i>Number of Share</i>	<i>%</i>
The Vendor	180,000,000	11.93
Wang Xiao Bo (Note 1)	130,150,000	8.62
Sze Chun Ning, Vincent (Note 2)	55,000,000	3.64
Wang Chia Chin and his associates (Note 3)	16,180,000	1.08
Public Shareholders	1,127,900,000	74.73
Total	1,509,230,000	100.00

Notes:

- 1. These 130,150,000 Shares are held by Favor Jumbo Investments Limited, a company is beneficially wholly-owned by Mr. Wang Xiao Bo, an executive Director.
- 2. These 55,000,000 Shares are held by Sure Ability Limited, a company is beneficially wholly-owned by Mr. Sze Chun Ning, Vincent, an executive Director.
- 3. These 16,180,000 Shares are held and beneficially owned by Ms. Ko Su Mei, the spouse of Mr. Wang Chia Chin, an executive Director. Under the SFO, Mr. Wang Chia Chin is deemed to be interested in these 16,180,000 Shares.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The JV is principally engaged in the supply of water to urban areas, investing, developing and managing water-related projects in the PRC. The Acquisition represents a good opportunity for the Company to participate in the growing water supply industry in the PRC, which may bring in potential financial gains to the Company and enable the Company to broaden its revenue base which would have a positive impact on the Company's profitability.

The Directors confirm that the Consideration have been determined after arm's length negotiations between the parties. The Directors (including the independent non-executive Directors) are of the view that the Acquisition is in the interest of the Group and the terms of the Acquisition are in normal commercial terms, which are fair and reasonable and in the interests of the Shareholders as a whole.

INFORMATION ON THE GROUP

The Company is currently engaged in the manufacture and sale of high-end aluminium chassis as well as certain middle-to-low-end computer related products, such as iron computer chassis and power supply and trading of watches and accessories. The Company will continue with its existing business following the Acquisition. The Company has also involved in investments in water supply-related projects in the PRC as disclosed in the circulars of the Company dated 27 October 2006 and 10 November 2006. The Acquisition, upon Completion, will add to the Group's PRC investment portfolio. The Acquisition is in line with the Company's business strategy. Other than the Acquisition and the entering into a non-legally binding memorandum of understanding with the People's Government of Hedong District in Linyi City and Linyi City Hedong District Water Supply Company Limited as announced in the Company's announcement dated 12th February 2007, the Company has not identified other investment targets in water supply and water-related industries.

LISTING RULES IMPLICATIONS

The Acquisition together with the acquisition of a 40% of the entire issued share capital and 40% of the shareholder's loan in Onfar International as disclosed in the Company's announcement dated 5 October 2006 and circular dated 27 October 2006 constitute a major transaction for the Company pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules. As the Vendor is a Substantial Shareholder, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. The Vendor and its associates shall abstain from voting at the SGM in respect of the resolution to approve the Acquisition. Hantec Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee of the Company in respect of the Acquisition.

A circular containing (i) further information on the Acquisition; (ii) a letter from the independent financial adviser containing its advice to the Independent Board Committee; (iii) the recommendation of the Independent Board Committee; (iv) accountants' report of Onfar International; and (v) a notice convening the SGM will be despatched to the Shareholders in accordance with the Listing Rules as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in Shares on the Stock Exchange was suspended with effect from 2:30 p.m. on Monday, 12 March 2007 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 15 March 2007.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares and the Sale Loan by the Purchaser as contemplated under the Agreement
“Agreement”	the agreement dated 12 March 2007 entered into between the Purchaser and the Vendor in relation to the Acquisition
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays and Sundays) on which commercial banks are generally open for banking business in Hong Kong
“Company”	China Water Industry Group Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange
“Completion”	the completion of the Acquisition in accordance with the terms and conditions of the Agreement, which shall take place on or before 30 June 2007 (or such later date as may be agreed between the parties)
“Completion Date”	the date of completion of the Acquisition in accordance with the terms and conditions of the Agreement
“Consideration”	RMB30,000,000, being the total consideration payable by the Purchaser to the Vendor for the Acquisition
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	a committee of independent non-executive Directors, comprising Messrs. Chang Kin Man, Wu Tak Lung and Gu Wen Xuan to advise the Independent Shareholders on the Acquisition
“Independent Shareholders”	Shareholders other than the Vendor and its associates
“Independent Third Party/Parties”	third party(ies) (including its/their ultimate beneficial owner) which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, is/are independent of and not connected with the Company and its subsidiaries, the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules
“JV”	Yichun Water Industry Co. Limited (宜春市供水有限公司), a Sino-foreign equity joint venture incorporated in the PRC in which Onfar International beneficially owns a 51% equity interest
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Onfar International”	Onfar International Limited (安發國際有限公司), a company incorporated in the British Virgin Islands with limited liability, owned as to 40% by the Purchaser and 60% by the Vendor and directly holds a total of 51% equity interest in the JV
“PRC”	the People's Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Purchaser”	Billion City Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned by the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Loan”	the shareholder's loan owing by Onfar International to the Vendor in the amount of HK\$13,602,000 as at 31 December 2006
“Sale Shares”	60 shares of US\$1.00 each in Onfar International, representing 60% of its entire issued share capital
“SFO”	The Securities and Futures Ordinance
“SGM”	special general meeting of the Company
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Vendor”	Boost Skill Investments Limited, a company incorporated in the British Virgin Islands and a Substantial Shareholder of the Company
“%”	per cent

By Order of the Board
China Water Industry Group Limited
Chu Yin Yin, Georgiana
Executive Director and Company Secretary

Hong Kong, 13 March 2007

As at the date of this announcement, Mr Wang Chia Chin, Mr Zhong Wen Sheng, Mr Wang Xiao Bo, Mr Sze Chun Ning, Vincent, Mr. Liu Bai Yue, Mr Shi De Mao and Ms Chu Yin Yin, Georgiana are executive Directors, Mr Huang Yuan Wen and Mr Pang Shi Ying are non-executive Directors; and Mr Chang Kin Man, Mr Wu Tak Lung and Mr Gu Wen Xuan are independent non-executive Directors.

* for identification purpose only