

# China Water Industry Group Limited 中國水業集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1129)

## (1) PLACING OF EXISTING SHARES AND (2) SUBSCRIPTION OF NEW SHARES AND (3) RESUMPTION OF TRADING

PLACING AGENT



DBS ASIA CAPITAL LIMITED

### PLACING OF SHARES

The Company had been in negotiations regarding a top-up placing by the Company on 22 March 2007 and on 23 March 2007, the Company and the Vendors entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent agreed on a best effort basis to place up to 300,000,000 existing Shares at the Placing Price of HK\$1.06 per Placing Share on behalf of the Vendors to more than six independent professional, institutional and/or individual investors who are third parties independent of and not connected persons of the Company or any of its associates and are not or will not be acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) with the Vendors, the Company or its subsidiaries (as defined under the Listing Rules).

The Placing Price represents (i) a discount of 1.85% to the closing price of HK\$1.08 per Share as quoted on the Stock Exchange on 21 March 2007, being the last trading day immediately before the date of the Placing Agreement and the last full trading day before the terms of the Placing and the Subscription were fixed; (ii) a discount of approximately 5.36% to the average of the closing prices of approximately HK\$1.12 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 22 March 2007; (iii) a discount of approximately 3.81% to the average of the closing prices of approximately HK\$1.102 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 22 March 2007; and (iv) a premium of approximately 890.65% over net asset value per Share of approximately HK\$0.107 as at 31 December 2005 as shown in the audited consolidated balance sheet of the Group made up to 31 December 2005.

The Placing Price was arrived at after arm's length negotiations among the Company, the Vendors and the Placing Agent with reference to the closing price as shown above. The Directors (including independent non-executive Directors) consider that the Placing Price and the terms of the Placing Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### SUBSCRIPTION OF SHARES

The Company had been in negotiations regarding a top-up placing by the Company on 22 March 2007. On 23 March 2007, the Vendors also entered into the Subscription Agreement with the Company pursuant to which the Vendors agreed to subscribe for up to 300,000,000 New Shares, which is equal to the number of Placing Shares that are placed under the Placing. The Subscription is conditional upon (i) the completion of the Placing; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in all of the New Shares and such listing and permission no substantially revoked prior to the delivery of the definitive certificates of title representing the New Shares. An application will be made to the Listing Committee of the Stock Exchange for granting approval for the listing of, and permission to deal in, all of the New Shares.

The New Shares represent approximately 16.22% of the issued share capital of the Company as enlarged by the allotment and issue of the New Shares. The New Shares are to be issued under the General Mandate.

The net proceeds of the Subscription of approximately HK\$308,400,000 will be applied as to HK\$262,000,000 by the Group to finance the further expansion of its business in water supply and water-related industries in Mainland China and the balance of HK\$46,400,000 for general working capital of the Group.

**As the Placing and Subscription are subject to the fulfillment of a number of conditions and may or may not proceed to completion, Shareholders and prospective investors are advised to exercise caution when dealing in the Shares of the Company.**

### UNUSUAL PRICE AND VOLUME MOVEMENTS

The Board has noted increases in the price and trading volume of the shares of the Company in the morning of 22 March 2007 and wishes to state that it is not aware of any reasons for such increases save as those disclosed in this announcement, the First Proposed Transaction, the Second Proposed Transaction and the Third Proposed Transaction.

### RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been suspended with effect from 2:30 p.m. on 22 March 2007 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 27 March 2007.

### PLACING AGREEMENT

The Company had been in negotiations regarding a top-up placing by the Company on 22 March 2007. On 23 March 2007, the Company and the Vendors entered into the Placing Agreement with the Placing Agent pursuant to which, the Placing Agent agreed with the Vendors to place up to 300,000,000 existing Shares on behalf of the Vendors at the Placing Price.

### SUBSCRIPTION AGREEMENT

The Company had been in negotiations regarding a top-up placing by the Company on 22 March 2007. On 23 March 2007, the Vendors entered into the Subscription Agreement pursuant to which, on the date upon which all conditions of the Subscription have been fulfilled, and in any event not later than 14 days after the date of the Subscription Agreement, the Company will allot and issue up to 170,000,000 and 130,000,000 New Shares to Boost Skill and Favor Jumbo respectively, which is equal to the total number of Placing Shares that are placed under the Placing, at the Subscription Price.

Details of the Placing and the Subscription are set out below.

#### I. Placing

##### The Vendors:

Boost Skill, which currently holds 180,000,000 Shares or approximately 11.61% of the existing issued share capital of the Company. Boost Skill and parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) with it held less than 50% of voting rights of the Company for at least 12 months immediately preceding the date of the Placing Agreement and the Subscription Agreement.

Favor Jumbo, which currently holds 130,150,000 Shares or approximately 8.40% of the existing issued share capital of the Company. Favor Jumbo and parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) with it held less than 50% of voting rights of the Company for at least 12 months immediately preceding the date of the Placing Agreement and the Subscription Agreement.

##### The Placing Agent:

DBS Asia Capital Limited, the Placing Agent and its ultimate beneficial owner(s) are third party independent of the Company and its connected persons. The Placing Agent will receive a placing commission of 3% of the amount equal to the Placing Price multiplied by the number of Placing Shares. The placing commission was arrived at after arm's length negotiations between the Company and the Placing Agent. The Directors (including independent non-executive Directors) are of the view that the placing commission is fair and reasonable and in the interest of the Company and its shareholders as a whole.

##### The Placees:

There will be not less than six placees, who will be independent professional, institutional or other investors selected and procured by the Placing Agent.

The placees will be third party independent of the Group and not connected persons (as defined in the Listing Rules) of the Group, or any of its associates and are not acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) with the Vendors, the Company or its subsidiaries (as defined under the Listing Rules) and that no placee will become substantial Shareholder as a result of the Placing.

##### Number of Placing Shares:

Up to 300,000,000 Placing Shares on a best efforts basis. The Placing Shares represent 19.35% of the existing issued share capital of the Company and approximately 16.22% of the issued share capital of the Company as enlarged by the allotment and issue of the New Shares. Further announcement will be made on the number of Placing Shares successfully placed upon completion of the Placing.

#### Placing Price:

HK\$1.06 per Placing Share (exclusive of stamp duty, brokerage (if any), Stock Exchange trading fees and SFC transaction levy), which represents:

- a discount of 1.85% to the closing price of HK\$1.08 per Share as quoted on the Stock Exchange on 21 March 2007, being the last full trading day immediately before the date of the Placing Agreement and the last full trading day before the date of the Subscription Agreement;
- a discount of approximately 5.36% to the average of the closing prices of approximately HK\$1.12 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 22 March 2007; and
- a discount of approximately 3.81% to the average of the closing prices of approximately HK\$1.102 per Share as quoted on the Stock Exchange for the last ten consecutive days up to and including 22 March 2007; and
- a premium of approximately 890.65% over net asset value per Share of approximately HK\$0.107 as at 31 December 2005 as shown in the audited consolidated balance sheet of the Group made up to 31 December 2005.

The Placing Price was arrived at after arm's length negotiations among the Company, the Vendors and the Placing Agent by reference to the closing price of the Shares on 21 March 2007. The Directors (including independent non-executive Directors) consider that the Placing Price and the terms of the Placing Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

#### Rights:

The Placing Shares will be sold free of any liens, charges, encumbrances and other third party rights, and rank pari passu with all other issued Shares as at the date of this announcement in all respects, including the right to receive all dividends declared, made or paid on or after the date of the Placing Agreement.

#### Completion of the Placing:

Completion of the Placing is expected to take place on 29 March 2007 (or at such other time and date as may be agreed between the Vendors and the Placing Agent).

#### II. Subscription

##### The Issuer:

The Company

##### The Subscribers:

Boost Skill, which, as at the date of this announcement, is interested in approximately 11.61% of the existing issued share capital of the Company. Immediately after completion of the Placing, the total shareholding of Boost Skill will be reduced to approximately 0.65% of the existing issued share capital of the Company. The Subscription will then increase the total shareholding of Boost Skill to approximately 9.73% of the issued share capital of the Company as enlarged by the allotment and issue of the New Shares.

Favor Jumbo, which, as at the date of this announcement, is interested in approximately 8.40% of the existing issued share capital of the Company. Immediately after completion of the Placing, the total shareholding of Favor Jumbo will be reduced to approximately 0.01% of the existing issued share capital of the Company. The Subscription will then increase the total shareholding of Favor Jumbo to approximately 7.03% of the issued share capital of the Company as enlarged by the allotment and issue of the New Shares.

Each of Boost Skill and Favor Jumbo and parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) with it held less than 50% of voting rights of the Company for at least 12 months immediately preceding the date of the Placing Agreement and the Subscription Agreement.

#### Number of New Shares:

Equivalent to the number of Shares placed pursuant to the Placing. Assuming all the 300,000,000 Placing Shares have been placed, the New Shares represent 19.35% of the existing issued share capital of the Company and approximately 16.22% of the issued share capital of the Company as enlarged by the allotment and issue of the New Shares.

#### Subscription Price:

HK\$1.06 per New Share, which is equivalent to the Placing Price. In line with the market practice, the Company will bear all costs and expenses of the Subscription and will reimburse Boost Skill and Favor Jumbo all costs and expenses incurred by them in respect of the Placing because it is the fund raising conducted by the Company. Based on the estimated expenses for the Placing and the Subscription, the net subscription price is approximately HK\$1.03 per Share.

#### Rights:

The New Shares, when allotted and issued, will rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the New Shares, including the right to receive all dividends and distributions declared, paid or made on or after the date of allotment.

#### Mandate to issue the New Shares:

The New Shares are to be issued under the General Mandate. Under the General Mandate, up to 310,019,600 Shares, representing 20 % of the issued Shares as at the date of the extraordinary general meeting of the Company held on 20 March 2007, may be issued by the Company. As at 20 March 2007, the date of the passing of the resolution to grant the General Mandate, the issued share capital of the Company was 1,550,098,000 Shares. As at the date of this announcement, no Shares have been issued under the General Mandate and the Company has the issued share capital of 1,550,098,000 Shares.

#### Conditions of the Subscription:

The Subscription is conditional upon the following conditions having been fulfilled by 4 April 2007:

- the completion of the Placing; and
- the Listing Committee of the Stock Exchange granting the listing of and permission to deal in all of the New Shares and such listing and permission no substantially revoked prior to the delivery of the definitive certificates of title representing the New Shares.

In the event that the conditions of the Subscription are not fulfilled in full by the date stipulated, the Subscription Agreement and all rights and obligations under the Subscription Agreement will cease and terminate.

#### Completion of the Subscription:

Completion of the Subscription will take place on the date upon which all conditions of the Subscription have been fulfilled. The Subscription must be completed and the New Shares must be issued on or before 4 April 2007, being 14 days after the date of the Subscription Agreement. If the Subscription is to be completed thereafter, it will constitute a connected transaction under the Listing Rules and require compliance with all the relevant requirements under Chapter 14A of the Listing Rules, including but not limited to the issue of a separate announcement and approval of the independent Shareholders.

#### Application for listing:

Application will be made by the Company to the Listing Committee of the Stock Exchange for granting approval for the listing of, and permission to deal in, all of the New Shares.

#### CHANGES OF SHAREHOLDING STRUCTURE

The changes of the shareholding structure of the Company as a result of the Placing and the Subscription, assuming all the Placing Shares are sold in full, are as follows:

Shareholder	Shareholding at the date of this announcement and immediately before completion of the Placing and the Subscription		Shareholding immediately after completion of the Placing but before completion of the Subscription		Shareholding immediately after completion of the Placing and the Subscription	
		%		%		%
Favor Jumbo Investments Limited (Note 1)	130,150,000	8.40	150,000	0.01	130,150,000	7.03
Sure Ability Limited (Note 2)	55,000,000	3.55	55,000,000	3.55	55,000,000	2.97
Wang Chia Chin* and his associate (Note 3)	16,588,000	1.07	16,588,000	1.07	16,588,000	0.90
Boost Skill Investments Limited (Note 4)	180,000,000	11.61	-	-	-	-
<b>Sub-total:</b>	<b>381,738,000</b>	<b>24.63</b>	<b>71,738,000</b>	<b>4.63</b>	<b>201,738,000</b>	<b>10.09</b>
<i>Public Shareholders</i>						
Boost Skill Investments Limited (Note 4)	-	-	10,000,000	0.65	180,000,000	9.73
Placees	-	0	300,000,000	19.35	300,000,000	16.22
Other Shareholders	1,168,360,000	75.37	1,168,360,000	75.37	1,168,360,000	63.15
<b>Sub-total:</b>	<b>1,168,360,000</b>	<b>75.37</b>	<b>1,478,360,000</b>	<b>95.37</b>	<b>1,648,360,000</b>	<b>89.10</b>
<b>Total:</b>	<b>1,550,098,000</b>	<b>100.00</b>	<b>1,550,098,000</b>	<b>100.00</b>	<b>1,850,098,000</b>	<b>100.00</b>

\* a Director

Note:

- A company beneficially wholly-owned by Mr. Wang Xiao Bo, an executive Director.
- A company beneficially wholly-owned by Mr. Sze Chun Ning, an executive Director.
- An executive Director.
- A company beneficially wholly-owned by Mr. Liu Peng Cheng who does not have any role in the Group.

There is no relationship between Boost Skill, Favor Jumbo, Sure Ability Limited and Wang Chia Chin and their respective ultimate beneficial owners.

The Company has no other existing outstanding convertibles.

#### REASONS FOR THE PLACING AND SUBSCRIPTION

The Group is principally engaged in the manufacture and sale of high-end aluminum 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. One of the principal activities of the Group is investments in water supply and other water-related industries in Mainland China.

The Board considers that it is beneficial to the Company and the Shareholders as a whole to raise capital by way of the Placing and the Subscription as it will broaden the capital and shareholder base of the Company and thereby increasing the liquidity of the Shares.

The net proceeds of the Subscription of approximately HK\$308,400,000 will be applied as to HK\$262,000,000 for further expansion of the Group's business in water supply and water-related industries in Mainland China by way of new acquisition(s) and the balance of HK\$46,400,000 for general working capital of the Group.

As disclosed in the announcement of the Company dated 13 March 2007, the Company, through its wholly-owned subsidiary, entered into the agreement dated 12 March 2007 with Boost Skill Investments Limited, a substantial shareholder (as defined under the Listing Rules) of the Company in relation to the acquisition of 60% of the entire issued share capital in Onfar International Limited (安發國際有限公司) and the shareholder's loan owing by Onfar International Limited to Boost Skill Investments Limited in the amount of HK\$13,602,000 as at 31 December 2006 for a total consideration of RMB30,000,000 (the "First Proposed Transaction"). The First Proposed Transaction will be financed from internal resources of the Company.

As disclosed in the announcement of the Company dated 12 February 2007, the Company had entered into a non-legally binding memorandum of understanding with the People's Government of Hedong District in Linyi City\* (臨沂市河東區人民政府) and Linyi City Hedong District Water Supply Company Limited\* (臨沂市河東區自來水有限公司) in relation to the Company's proposed capital contribution in the form of cash in the aggregate sum of RMB18,000,000 for the establishment of a joint venture company principally engaged in water supply business in Linyi City, Hedong District, Shandong Province, PRC (the "Second Proposed Transaction"). As at the date of this announcement, the Company has not yet determined the ultimate financing method for the Second Proposed Transaction, if materialises, and/or other potential investment opportunities in the future.

As disclosed in the announcement of the Company dated 15 March 2007, the Company, through its wholly-owned subsidiary, entered into a non-legally binding heads of agreement with the Management Committee of Shu Yang District Economic Development Zone in Jiangsu Province\* (江蘇省沭陽縣經濟開發區管理委員會) of the People's Republic of China (the "PRC") in relation to the establishment of a wholly-owned subsidiary in Shu Yang District Economic Development Zone in Jiangsu Province of the PRC to principally engage in the construction and operation of a water supply plant with a water supply capacity of 30,000 tons per day and a sewage treatment plant with a sewage water treatment capacity of 15,000 tons per day (the "Third Proposed Transaction"). As at the date of this announcement, the Company has not yet determined the ultimate financing method for the Third Proposed Transaction, if materialises, and/or other potential investment opportunities in the future.

Save for the First Proposed Transaction, the Second Proposed Transaction and the Third Proposed Transaction, as at the date of this announcement, the Group has not targeted any such new projects.

The Directors (including independent non-executive Directors) consider that the Placing Agreement and Subscription Agreement are entered into upon normal commercial terms following arm's length negotiations among the Company, the Vendors and the Placing Agent and that the terms of the Placing Agreement and Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The Group has conducted the following fund raising activities during the 12 months immediately preceding the date of this announcement:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the date of this announcement
1 February 2007	Top-up Placing of 230,000,000 Shares	approximately HK\$109,300,000	HK\$95,000,000 for further expansion of the Group's business in water supply and water-related industries in the PRC by way of new acquisitions, and the balance of HK\$14,300,000 for general working capital of the Group	The amount of HK\$95,000,000 set aside for further expansion has not yet been used but the amount of approximately HK\$9,600,000 out of HK\$14,300,000 reserved for general working capital has been used as general working capital of the Group

#### UNUSUAL PRICE AND VOLUME MOVEMENTS

The Board has noted the increase in the price and trading volume of the shares of the Company in the morning of 22 March 2007 and wishes to state that it is not aware of any reasons for such increase in price and trading volume save as those disclosed in this announcement, the First Proposed Transaction, the Second Proposed Transaction and the Third Proposed Transaction.

Save as disclosed above, the Board also confirms that there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

#### RESUMPTION OF TRADING

At the request of the Company, trading in the Shares has been suspended with effect from 2:30 p.m. on 22 March 2007 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 27 March 2007

#### DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meaning:

"Board"	the board of Directors
"Boost Skill"	Boost Skill Investments Limited, a Shareholder of the Company beneficially wholly-owned by Mr. Liu Peng Cheng
"Company"	China Water Industry Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to this term under the Listing Rules
"Directors"	directors of the Company
"Favor Jumbo"	Favor Jumbo Investments Limited, a Shareholder of the Company beneficially wholly-owned by Mr. Wang Xiao Bo, an Executive Director
"General Mandate"	the general mandate to allot, issue and deal with Shares granted to the Directors by the Shareholders by a resolution passed at the extraordinary general meeting of the Company held on 20 March 2007
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"New Shares"	up to 300,000,000 Shares for which the Vendors have conditionally agreed to subscribe up to 300,000,000 Shares pursuant to the Subscription Agreement
"Placing"	the placing of the Placing Shares by the Placing Agent on behalf of the Vendors pursuant to the Placing Agreement
"Placing Agent"	DBS Asia Capital Limited
"Placing Agreement"	the conditional placing agreement dated 23 March 2007 and entered into between the Vendors, the Company and the Placing Agent in respect of the Placing
"Placing Price"	the placing price of HK\$1.06 per Placing Share
"Placing Shares"	up to 300,000,000 Shares beneficially owned by the Vendors and which will be placed by the Placing Agent on behalf of the Vendors pursuant to the Placing Agreement
"PRC"	the People's Republic of China
"Share(s)"	ordinary share(s) of HK\$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Subscription"	the subscription for the New Shares by the Vendors pursuant to the Subscription Agreement
"Subscription Agreement"	the conditional subscription agreement dated 23 March 2007 and entered into between the Vendors and the Company in respect of the Subscription
"Subscription Price"	the subscription price of HK\$1.06 per New Share
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendors"	collectively Boost Skill and Favor Jumbo
"HK\$"	Hong Kong dollars, the lawful currency for the time being of Hong Kong
"%"	per cent.

By Order of the Board  
**Chu Yin Yin, Georgiana**  
Executive Director

Hong Kong, 26 March 2007

\* for identification purpose only

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