



(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1129)

ANNOUNCEMENT FORMATION OF A JOINT VENTURE COMPANY AND RESUMPTION OF TRADING

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

The Board is pleased to announce that on 11 April 2007, China Water (HK) and the JV Partner entered into the JV Agreement after trading hours, pursuant to which China Water (HK) and the JV Partner have agreed to establish the JV Company which will be principally engaged in the provision of public service in respect of water supply and the provision of related services in Linyi City, Hedong District, Shandong Province, the PRC.

On the same day, China Water (HK), the People's Government of Hedong District and the JV Partner entered into the Concession Agreement after trading hours, pursuant to which the JV Company has been granted the exclusive concession of the provision of public service in respect of water supply in Linyi City, Hedong District, Shandong Province, the PRC for a term of 30 years commencing from the date of business license of the JV Company.

At the request of the Company, trading in Shares on the Stock Exchange was suspended with effect from 9:30 on 12 April 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 on 13 April 2007.

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

Reference is made to an announcement made by the Company dated 12 February 2007 in relation to, among other things, a non-legally binding memorandum of understanding entered into among the Company, the People's Government of Hedong District and the JV Partner for the establishment of the JV Company.

On 11 April 2007, China Water (HK) and the JV Partner entered into the JV Agreement after the trading hours, pursuant to which China Water (HK) and the JV Partner have agreed to establish the JV Company which will be principally engaged in the provision of public service in respect of water supply and the provision of related services in Linyi City, Hedong District, Shandong Province, the PRC.

On the same day, China Water (HK), the People's Government of Hedong District and the JV Partner entered into the Concession Agreement after the trading hours, pursuant to which the JV Company has been granted the exclusive concession of the provision of public service in respect of water supply in Linyi City, Hedong District, Shandong Province, the PRC for a term of 30 years commencing from the date of business license of the JV Company.

THE JV AGREEMENT

Date: 11 April 2007
Parties: China Water (HK)
the JV Partner

To the best of the Directors' knowledge, information and belief, the Company does not have any prior transactions or relationship with each of the JV Partner and its ultimate beneficial owner.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the JV Partner and its ultimate beneficial owner, the People's Government of Hedong District, is an Independent Third Party.

Business scope: The JV Company will be principally engaged in the provision of public service in respect of water supply and the provision of related services in Linyi City, Hedong District, Shandong Province, the PRC

Period of operation: 30 years from the date of the business license of the JV Company

Capital structure: The total investment of the JV Company will be RMB45 million (equivalent to approximately HKD45.45 million). Pursuant to the JV Agreement, the JV Company shall be owned as to 60% by the Company and as to 40% by the JV Partner.

The registered capital of the JV Company is RMB30 million (equivalent to approximately HKD30.3 million), of which RMB18 million (equivalent to approximately HKD18.18 million) (representing 60% of the registered capital) will be contributed by China Water (HK) in cash and satisfied from the Group's internal resources and RMB12 million (equivalent to approximately HKD12.12 million) (representing 40% of the registered capital) will be contributed by the JV Partner by way of injecting assets of a newly set up water supply factory (the "Assets") in Hedong District, Shandong Province, the PRC to the JV Company. The Assets will be valued before the end of April 2007 by a PRC valuer, being an Independent Third Party by using the replacement cost method.

The registered capital of the JV Company shall be contributed by China Water (HK) and the JV Partner in the following manner:

(i) China Water (HK) shall contribute RMB9 million (equivalent to approximately HKD9.09 million) in Hong Kong dollar in cash within 30 days upon receipt of the business license by the JV Company. China Water (HK) shall contribute the remaining balance of RMB9 million (equivalent to approximately HKD9.09 million) in Hong Kong dollar within 30 days upon the completion of transfer of legal titles of all of the Assets.

(ii) The JV partner shall transfer the legal titles of all of the Assets to the JV Company within 6 months upon the receipt of the business license by the JV Company.

Profit distribution: After taking into account the adjustments as stated below, profits (the "Adjusted Profit") of the JV Company will be distributed in accordance with the following manner:

(i) For the first two years from the date the JV Company commences its operation, the JV Company shall not distribute any part of its Adjusted Profit if its annual return on investment is below 8%.

(ii) For the first two years from the date the JV Company commences its operation, the JV Company shall distribute the Adjusted Profit to China Water (HK) and the JV Partner in proportion to their respective equity interests if its annual return on investment reaches 8%.

(iii) For the third year from the date the JV Company commences its operation, the JV Company shall use an amount of not more than 20% of the registered capital to compensate China Water (HK) if its annual return on investment is below 8%.

(iv) If the annual return on investment achieves 8% or above, the JV Company shall distribute the Adjusted Profit in the following manner:

- the portion of Adjusted Profit relating to the 8% of the annual return on investment shall be distributed to China Water (HK) and the JV Partner in the ratio of 60% and 40%, respectively;

- the portion of Adjusted Profit in excess of the 8% of the annual return on investment shall be distributed to China Water (HK) and the JV Partner in the ratio of 50% and 50%, respectively.

The Adjusted Profit is calculated as follows: A - (B + C + D + E)

where:

A is the net profit of the JV Company for the year.

B is the accumulated losses of the JV Company as at the year ended, if any.

C is the staff bonus and welfare reserve for the JV Company calculated as 2% of the net profit of the JV Company for the year.

D is the enterprise back up reserve for the JV Company calculated as 3% of the net profit of the JV Company for the year.

E is the enterprise development reserve for the JV Company calculated as 5% of the net profit of the JV Company for the year.

The Company expects that the business license of the JV Company will be issued on or around July 2007. Accordingly, the expected date for the JV Company to commence its operations is on or around July 2007.

Board composition: The board of the JV Company shall comprise of five directors, of which China Water (HK) shall nominate three directors and the JV Partner shall nominate two directors.

Upon completion of the transaction contemplated under the JV agreement, the JV Company will become a 60% indirectly owned subsidiary of the Company and its results will be consolidated into the financial statements of the Company.

CONCESSION AGREEMENT

Date: 11 April 2007

Parties: China Water (HK)
the JV Partner
the People's Government of Hedong District

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the JV Partner and its ultimate beneficial owner, the People's Government of Hedong District, is an Independent Third Party.

Concession: Pursuant to the Concession Agreement, the JV Company which is established in accordance with the JV Agreement will be granted the exclusive concession of the provision of public service in respect of water supply and the provision of related services in Linyi City, Hedong District, Shandong Province, the PRC for a term of 30 years commencing from the date of the business license of the JV Company. Pursuant to the Concession Agreement, the unit price of water supply and the related services will be set in accordance with the governmental policy.

INFORMATION ON THE JV PARTNER

The JV Partner is principally engaged in the provision of public service in respect of water supply and the provision of related services in Linyi City, Shandong Province, the PRC.

REASONS FOR ESTABLISHMENT OF THE JV COMPANY

The Group 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 transaction contemplated under the JV Agreement. The Company has also involved in investment in water supply-related projects in the PRC as disclosed in the circular of the Company dated 27 October 2006 and 10 November 2006. The formation of JV Company is in line with the Company's business strategy.

The JV Company will be principally engaged in the provision of public service in respect of water supply and the provision of related services. The formation of JV Company 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.

In view of the above, the Directors (including independent non-executive Directors) consider that terms of the JV Agreement and the Concession Agreement which have been negotiated on an arm's length basis and on normal commercial terms, are fair and reasonable and are in the interests of the Company and the Shareholders are concerned.

GENERAL

Based on the interim results of the Company for the period ended 30 June 2006, the transaction contemplated under the JV Agreement would constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules as the relevant percentage ratios (as defined in the Listing Rules) exceed 5% but less than 25%. However, after taking into account of the completion of the placings of new Shares as announced by the Company on 1 February 2007 and 26 March 2007, the relevant adjusted percentage ratios (as defined in the Listing Rules) fall below 5%, accordingly, the transaction contemplated under the JV Agreement does not constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Save as disclosed herein, the Company confirms that there are no negotiations or agreements relating to the transaction contemplated under the JV Agreement 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.

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DEFINITIONS

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

"Board"	the board of Directors
"Business Day(s)"	any day except Saturdays and Sundays on which banks in Hong Kong are open for business
"China Water (HK)"	China Water Industry (Hong Kong) Limited (中國水業(香港)有限公司), a company incorporated in Hong Kong and an indirectly wholly owned subsidiary of the Company
"Company"	China Water Industry Group Limited (中國水業集團有限公司*), a company incorporated in the Cayman Islands with limited liability and whose issued Shares are listed on the Main Board of the Stock Exchange
"Concession"	the exclusive concession of the provision of public service in respect of water supply and the provision of related services in Linyi City, Hedong District Shandong Province, the PRC for a period of 30 years
"Concession Agreement"	the concession agreement dated 11 April 2007 entered into between China Water (HK), the People's Government of Hedong District and the JV Partner for the Concession
"Directors"	the directors, including non-executive directors and independent non-executive directors, of the Company from time to time
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third party(ies) (including its/their ultimate beneficial owner) which to the Directors' knowledge, information and belief having made all reasonable enquiry, is/are independent of 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 Agreement"	the joint venture agreement dated 11 April 2007 entered into among China Water (HK) and the JV Partner for the establishment of the JV Company
"JV Company"	臨沂河東水業有限責任公司 (Linyi Hedong Water Affairs Company Limited*)
"JV Partner"	臨沂市河東區自來水公司 (Linyi City Hedong District Water Supply Company*), a company wholly owned by the People's Government of Hedong District
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"People's Government of Hedong District"	臨沂市河東區人民政府 (the People's Government of Hedong District in Linyi City*)
"PRC"	the People's Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Shares"	shares of HK\$0.10 each in the share capital of the Company
"Shareholder(s)"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC

Unless otherwise specified in this announcement, translation of RMB into HK\$ is made in this announcement, for illustration purpose only, at the rate of RMB1 to HK\$1.01. No representation is made that any amount in RMB could have been or could be converted at such rate or any other rates.

By Order of the Board
Chu Yin Yin, Georgiana
Executive Director and Company Secretary

Hong Kong, 12 April 2007

As at the date hereof, the Board 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.

* For identification purposes only