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(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1129)

## ANNOUNCEMENT

The Company announced that after trading hours on 15th March, 2007, China Water, a wholly-owned subsidiary of the Company, entered into the Heads of Agreement with the Management Committee of Shu Yang District Economic Development Zone, pursuant to which China Water has agreed to establish the Project Company in Shu Yang District Economic Development Zone in Jiangsu Province of the PRC, which will be principally engaged in the construction and operation of a water supply and sewage treatment plant in Shu Yang District in Jiangsu Province of the PRC.

The establishment of the Project Company shall be subject to the terms and conditions of a formal agreement including, inter alia, the total investment amount to be agreed upon by the parties. The establishment of the Project Company, if materialises, may constitute a notifiable transaction for the Company under the Listing Rules. Further announcement will be made by the Company when the formal agreement is signed.

**Shareholders and/or investors should note that the proposed establishment of the Project Company may or may not proceed. Accordingly, shareholders of the Company are therefore advised to exercise caution when trading in the Company's shares.**

The Company announced that after trading hours on 15th March, 2007, China Water Industry (Hong Kong) Limited ("China Water"), a wholly-owned subsidiary of the Company, entered into a non-legally binding heads of agreement (the "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 ("PRC"), pursuant to which China Water has agreed to establish a wholly-owned subsidiary (the "Project Company") in Shu Yang District Economic Development Zone in Jiangsu Province of the PRC, which will be principally engaged 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 sewage water treatment plant will be operated under Build-Operate-Transfer (BOT) arrangement whereby the Project Company will be granted the right to build and operate a sewage treatment plant in Shu Yang District in Jiangsu Province of the PRC for a term of 30 years. The ownership of the sewage treatment plant shall be transferred to the Management Committee of Shu Yang District Economic Development Zone after the expiry of the 30-year period.

The establishment of the Project Company shall be subject to the terms and conditions of a formal agreement including, inter alia, the total investment amount to be agreed upon by the parties. The establishment of the Project Company, if materialises, may constitute a notifiable transaction for the Company under the Listing Rules. Further announcement will be made by the Company when the formal agreement is signed.

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, the Management Committee of Shu Yang District Economic Development Zone is a third party 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.

Save as disclosed above and the entering into of 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) as disclosed in the Company's announcement dated 12th February, 2007, the Company confirms that there are no negotiations or agreements relating to intended acquisitions or realizations 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.

**Shareholders and/or investors should note that the proposed establishment of the Project Company may or may not proceed. Accordingly, shareholders of the Company are therefore advised to exercise caution when trading in the Company's shares.**

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

Hong Kong, 15th 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. Wang Xiao Bo, Mr. Zhong Wen Sheng, Mr. Sze Chun Ning, Vincent, Mr. Liu Bai Yue, Mr. Shi De Mao and Ms. Chu Yin Yin, Georgiana, 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.