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(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1129)

DISCLOSEABLE TRANSACTION REGARDING DEEMED DISPOSAL OF iMERCHANTS LIMITED BY DILUTION

On 23 October 2009, the Consideration Shares were issued and allotted upon completion of the Acquisition. On 8 and 9 June 2010, 140,000,000 iMerchants Shares and 300,000,000 iMerchants Shares were issued and allotted respectively upon the exercise of the conversion rights attaching to 140,000,000 Convertible Preference Shares and 300,000,000 Convertible Preference Shares respectively in the aggregate principal amount of HK\$17,600,000 at the issue price of HK\$0.04 each by a holder of the Convertible Preference Shares. Upon the issue and allotment of the Consideration Shares and the Allotments, the Company's interest in iMerchants was diluted by approximately 17.75% to approximately 67.23%. iMerchants remains as an indirect non wholly-owned subsidiary of the Company.

The aggregate of the issue and allotment of the Consideration Shares and the Allotments constituted a deemed disposal on the part of the Company under Rule 14.29 of the Listing Rules. As one of the relevant ratios exceeds 5% but is less than 25%, the issue and allotment of the Consideration Shares and the Allotments constituted a discloseable transaction of the Company under Rule 14.06 of the Listing Rules.

Reference is made to the circular of the Company dated 31 August 2009 in relation to, among others, the Acquisition and the joint announcement of the Company and iMerchants dated 23 October 2009 in relation to, among others, the completion of the Acquisition involving the issue of the Consideration Shares, convertible bond and the Convertible Preference Shares of iMerchants.

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Upon the issue and allotment of the Consideration Shares and the Allotments, the Company's interest in iMerchants was diluted by approximately 17.75% to approximately 67.23%. iMerchants remains as an indirect non wholly-owned subsidiary of the Company.

The following table illustrates the dilution effect of the Company's interest in iMerchants upon the issue and allotment of the Consideration Shares and the Allotments:

	Immediately before the issue of		Upon the issue of		Upon the Share Subdivision became effective		As at 8 June 2010		As at 9 June 2010	
	the Consideration Shares iMerchants Shares	%	the Consideration Shares iMerchants Shares	%	iMerchants Shares	%	iMerchants Shares	%	iMerchants Shares	%
Company (Note 1)	481,223,500	84.98	481,223,500	76.66	2,406,117,500	76.66	2,406,117,500	73.38	2,406,117,500	67.23
Public shareholders of iMerchants										
- Rightshine Holdings Limited and its associate (Note 2)	-	0.00	61,522,160	9.80	307,610,800	9.80	140,010,800	4.27	300,010,800	8.38
- Other public shareholders	85,031,500	15.02	85,031,500	13.54	425,157,500	13.54	732,757,500	22.35	872,757,500	24.39
	<u>566,255,000</u>	<u>100.00</u>	<u>627,777,160</u>	<u>100.00</u>	<u>3,138,885,800</u>	<u>100.00</u>	<u>3,278,885,800</u>	<u>100.00</u>	<u>3,578,885,800</u>	<u>100.00</u>

Notes:

1. The Company indirectly holds the interest in iMerchants through a wholly-owned subsidiary, Bonus Raider Investments Limited.
2. The vendor of the very substantial acquisition of iMerchants as disclosed in the circular of the Company dated 31 August 2009. The interest of the vendor and its associates in iMerchants shall not exceed 9.9% of the issued share capital of iMerchants from time to time.

GENERAL

The aggregate of the issue and allotment of the Consideration Shares and the Allotments constituted a deemed disposal on the part of the Company under Rule 14.29 of the Listing Rules. As one of the relevant ratios exceeds 5% but is less than 25%, the issue and allotment of the Consideration Shares and the Allotments constituted a discloseable transaction of the Company under Rule 14.06 of the Listing Rules.

The Company is an investment holding company. The Group is principally engaged in the provision of water supply and sewage treatment business in the PRC. iMerchants is an investment holding company and the iMerchants Group is principally engaged in investment in financial and investment products as well as manufacture and trading of ceramic sewage products.

DEFINITIONS

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

“Acquisition” the acquisition of the entire issued share capital of Supreme Luck International Limited

“Allotments” the issue and allotment of 140,000,000 iMerchants Shares and 300,000,000 iMerchants Shares on 8 June 2010 and 9 June 2010 respectively, upon the exercise of the conversion rights attaching to 140,000,000 Convertible Preference Shares and 300,000,000 Convertible Preference Shares respectively by a holder of the Convertible Preference Shares

“Board” the board of Directors

“Company”	China Water Industry Group Limited, a company incorporated in the Cayman Islands and the issued China Water Shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the same meaning ascribed to it under the Listing Rules
“Consideration Shares”	a total of 61,522,160 shares of iMerchants of HK\$0.2 each (before the Share Subdivision became effective) issued and allotted on 23 October 2009 upon the completion of the Acquisition
“Convertible Preference Shares”	a total of 14,692,389,200 unlisted non-redeemable convertible preference shares of HK\$0.04 each (as adjusted by the Share Subdivision) issued and allotted on 23 October 2009 upon the completion of the Acquisition
“Directors”	directors of the Company
“iMerchants”	iMerchants Limited, a non wholly-owned subsidiary of China Water incorporated in Hong Kong and the issued iMerchants Shares of which are listed on the Growth Enterprise Market of the Stock Exchange
“iMerchants Group”	iMerchants and its subsidiaries
“iMerchants Shares”	ordinary shares of HK\$0.04 each in the issued share capital of iMerchants
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administration Region of the PRC and Taiwan
“Share Subdivision”	the proposed subdivision of each share of iMerchants and convertible preference share of iMerchants of HK\$0.2 each into 5 subdivided iMerchants Shares and 5 subdivided Convertible Preference Shares respectively with effective from 2 November 2009
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By order of the board
China Water Industry Group Limited
Li Yu Gui
Chairman

Hong Kong, 9 June 2010

As at the date of this announcement, the board of directors of the Company comprises Mr. Li Yu Gui, Mr. Yang Bin, Mr. Liu Bai Yue, Ms. Chu Yin Yin, Georgiana and Mr. Li Wen Jun, all being executive Directors, and Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Gu Wen Xuan, all being independent non-executive Directors.

* for identification purpose only