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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1129)

ANNOUNCEMENT AND RESUMPTION OF TRADING

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

The Board announces that on 3 August 2010, the Purchaser entered into the MOU with the Vendor, the Vendor's Guarantor and the Vendor's PRC Co. for the possible acquisition of the entire issued share capital of the Target Company at a total consideration of not more than HK\$980 million, subject to the payment of the Adjusted Consideration. The Consideration and the Adjusted Consideration shall be satisfied in cash and by iMerchants allotting and issuing the Convertible Preference Shares and/or Convertible Bonds. The proposed Acquisition is subject to the entering into of the Sale and Purchase Agreement within 90 days from the date of the MOU.

The entering into of the Sale and Purchase Agreement, if it materialises, will constitute a notifiable transaction for the Company under the Listing Rules. Further announcement will be made by the Company when the Sale and Purchase Agreement is signed.

Shareholders and/or investors should note that the proposed Acquisition may or may not proceed and that no legally binding document has been executed. Accordingly, Shareholders and public investors are therefore advised to exercise caution when trading in the Shares.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 2:30 p.m. on 3 August 2010 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 6 August 2010.

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

The Board announces that on 3 August 2010, the Purchaser entered into the MOU with the Vendor, the Vendor's Guarantor and the Vendor's PRC Co. for the possible acquisition of the Sale Share, representing the entire issued share capital of the Target Company. Principal terms of the MOU are set out below:–

THE MOU

Parties

1. Purchaser: a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of iMerchants
2. Vendor: a company incorporated in the British Virgin Islands and beneficially owned by an Independent Third Party
3. Vendor's Guarantor: an ultimate individual shareholder of the Vendor
4. Vendor's PRC Co. a limited liability company established in the PRC and beneficially owned by two Independent Third Parties

As at the date of this announcement, the Target Company is wholly-owned by the Vendor. The Vendor is an investment holding company and beneficially owned by an Independent Third Party. The Vendor's PRC Co. is an investment holding company established in the PRC and owns 70% interest in the registered capital of the Project Company as at the date of this announcement.

Subject to the due diligence review to be conducted by iMerchants, based on the representation from the Vendor, the Project Company currently has the right to construct and operate a project relating to exploration and exploitation of natural gas in the PRC (the "**Phase I Project**") and will acquire from a large oil and gas producer and supplier in the PRC the right to construct and operate three other projects relating to exploration and exploitation of natural gas in the PRC (the "**Phase II Project**").

To the best of the directors' knowledge, information and belief having made all reasonable enquiry, each of the Vendor, the Vendor's Guarantor, the Vendor's PRC Co. and the Project Company together with its respective ultimate beneficial owner(s) is a third party independent of and not connected with (i) the Group; (ii) and the directors, chief executive or substantial shareholders of the Group or and their respective associates as defined in the Listing Rules.

Conditions Precedent

Under the MOU, each of the Vendor and the Vendor's Guarantor shall, within 120 days from the date of the MOU, procure that: (a) the Target Company has legally and effectively established a cooperative joint venture company ("**CJV**") whereby the Target Company shall be entitled to not less than 70% share of the CJV's profits or losses and nominate not more than 50% members to the board of directors of the CJV; (b) the CJV has legally and effectively owned the entire interest in the registered capital

of the Vendor's PRC Co.; and (c) the Vendor's PRC Co. has legally and effectively owned not less than 70% interest in the registered capital of the Project Company. Subject to the agreement between the Purchaser and the Vendor, further conditions precedents shall be included in the Sale and Purchase Agreement.

Consideration

The Consideration is estimated to be not more than HK\$980 million with reference to the information provided by the Vendor and preliminary assessment from an independent professional valuer of iMerchants which indicate that the fair market value of natural gas reserve in respect of the Phase I is estimated to be approximately HK\$2,500 million. The actual amount of the Consideration shall be determined with reference to (a) the fair market value of natural gas reserve to be shown in the valuation report in respect of the Phase I to be issued by an independent professional valuer appointed by iMerchants less a discount of 20% and (b) the proportion of the Target Company's effective interest in the share of the CJV's profits, subject to a cap amount of HK\$980 million. The Consideration shall be satisfied in cash and by iMerchants allotting and issuing the Convertible Preference Shares and/or issuing the Convertible Bonds.

Further details of the payment terms, the amount of cash, the principal amount of the Convertible Preference Shares and the Convertible Bonds forming part of the Consideration payable by the Purchaser to the Vendor for the Sale Share shall be included in the Sale and Purchase Agreement.

The issue price and conversion price of the Convertible Preference Shares and the Convertible Bonds shall be determined with reference to the average closing price of the iMerchants Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the MOU less a discount of 20%.

Adjustment to Consideration

There shall be an adjustment to the Consideration by allotting and issuing additional Convertible Preference Shares and/or issuing additional Convertible Bonds to the Vendor (the "**Adjusted Consideration**"). The Adjusted Consideration shall be determined with reference to (a) the fair market value of natural gas reserve to be shown in the valuation report in respect of the Phase II Project to be issued by an independent professional valuer appointed by iMerchants after Completion less a discount of 20% and (b) the proportion of the Target Company's effective interest in the share of the CJV's profits. If the payment of the Adjusted Consideration requires approval by the Shareholders and the iMerchants Shareholders at general meeting of the Company and iMerchants in accordance with the Listing Rules and the GEM Listing Rules, the Vendor agrees that the Adjusted Consideration shall be only be paid after having obtained the approval by the Shareholders and the iMerchants Shareholders at general meeting of the Company and iMerchants. Further details of the payment terms of the Adjusted Consideration shall be included in the Sale and Purchase Agreement.

Payment of Deposit

The Purchaser shall pay to the Vendor a refundable deposit in the sum of HK\$50 million in cash from internal resources of the Group as follows:–

1. HK\$5 million having been paid by the Purchaser to the Vendor upon the date of the MOU;
2. HK\$15 million payable from an escrow account established by the Purchaser in a firm of Hong Kong solicitors within 7 days from the date of signing of the Sale and Purchaser Agreement; and
3. HK\$30 million payable on the date of despatch of the circular in respect of the Acquisition by iMerchants and the Company.

If the parties fail to enter into the Sale and Purchase Agreement within 90 days from the date of the MOU, the Vendor shall immediately return the refundable deposit of HK\$5 million (without interest) to the Purchaser. As a security for the return of the said deposit, each of the Vendor's Guarantor and the Vendor's PRC Co. has jointly and severally, irrevocably and unconditionally guaranteed to the Purchaser that they shall be liable to pay to the Purchaser the sum of HK\$5 million within 3 days upon demand in the event that the Vendor fails to return such refundable deposit to the Purchaser pursuant to the MOU. Each of the Vendor's Guarantor and the Vendor's PRC Co. has agreed to undertake and warrant in the Sale and Purchase Agreement that they shall be liable to repay the refundable deposit HK\$50 million in the event that the Vendor or the Purchaser fails to complete the sale and purchase of the Sale Share in accordance with the terms and conditions of the Sale and Purchase Agreement.

Profit Guarantee

The Vendor and the Vendor's PRC Co. jointly and severally undertake and warrant to the Purchaser that the net profits after taxation of the Project Company for the Profit Guarantee Period shall be not less than HK\$420 million. If the net profits after taxation of the Project Company for the Profit Guarantee Period is less than HK\$420 million, the Purchaser shall be entitled to deduct the shortfall from the cash, the Convertible Preference Shares and/or the Convertible Bonds deposited at an escrow account established by the Vendor upon Completion. Further details of such mechanism shall be included in the Sale and Purchase Agreement.

Due Diligence

Upon the signing of the MOU, the Purchaser is entitled to commence due diligence review on the Target Group and the Phase I Project.

Exclusivity

The Vendor undertakes not to negotiate or discuss with any other third parties regarding the Acquisition for a period 90 days from the date of the MOU.

Formal Agreement

The MOU is non-legally binding save and except the Vendor's obligations and each of the Vendor's Guarantor and the Vendor's PRC Co.'s guaranteed obligations to return the refundable deposit of HK\$5 million to the Purchaser pursuant to the MOU. The Acquisition is therefore subject to the entering into of the Sale and Purchase Agreement. The entering into of the Sale and Purchase Agreement, if it materialises, will constitute a notifiable transaction for the Company under the Listing Rules. Further announcement will be made by the Company when the Sale and Purchase Agreement is signed.

Shareholders and/or investors should note that the proposed Acquisition may or may not proceed and that no legally binding document has been executed. Accordingly, Shareholders and public investors are therefore advised to exercise caution when trading in the Shares.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 2:30 p.m. on 3 August 2010 pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9:30 a.m. on 6 August 2010.

DEFINITIONS

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

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| “Acquisition” | the proposed acquisition of the Sale Share under the MOU |
| “Board” | the board of directors of the Company |
| “Company” | China Water Industry Group Limited, a company incorporated in the Cayman Islands and the shares of which are listed on the Main Board of the Stock Exchange |
| “Completion” | completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement |
| “Connected Persons” | has the meaning ascribed thereto in the GEM Listing Rules |
| “Consideration” | a maximum of HK\$980 million, being the consideration payable for the Sale Share |
| “Convertible Bonds” | the convertible bonds in the agreed form to be issued by iMerchants in favour of the Vendor to satisfy part of the Consideration |

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| “Convertible Preference Shares” | the convertible preference shares in the share capital of iMerchants to be allotted and issued to the Vendor to satisfy part of the Consideration |
| “Directors” | directors of the Company |
| “GEM” | the Growth Enterprise Market operated by the Stock Exchange |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on GEM |
| “Group” | the Company and its subsidiaries including iMerchants |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “iMerchants” | iMerchants Limited, a company incorporated in Hong Kong and a non wholly-owned subsidiary of the Company, the shares of which are listed on GEM |
| “iMerchants Shareholders” | holders of the shares of iMerchants |
| “Independent Third Parties” | third parties independent of the Company and the Connected Persons of the Company and is not a Connected Persons of the Company |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “PRC” | the People’s Republic of China |
| “Profit Guarantee Period” | the 3-year period commencing from the date of Completion |
| “Project Company” | a company incorporated in the PRC and owned by the Vendor’s PRC Co. and an Independent Third Party as to 70% and 30%, respectively as at the date of this announcement |
| “Purchaser” | a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of iMerchants |
| “Sale and Purchase Agreement” | a formal sale and purchase agreement to be entered into among iMerchants, the Purchaser, the Vendor, the Vendor’s Guarantor and the Vendor’s PRC Co. within 90 days from the date of the MOU in respect of the Acquisition |

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| “Sale Share” | one ordinary share of US\$1.00 each in capital of the Target Company, representing the entire issued share capital of the Target Company |
| “Shareholders” | holders of the Shares |
| “Shares” | ordinary shares of HK\$0.10 each in the issued share capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Target Company” | a company incorporated in the British Virgin Islands and wholly and beneficially owned by the Vendor |
| “Target Group” | the Target Company and its subsidiaries |
| “Vendor” | a company incorporated in the British Virgin Islands and beneficially owned by an Independent Third Party |
| “Vendor’s Guarantor” | an ultimate individual shareholder of the Vendor and an Independent Third Party |
| “Vendor’s PRC Co.” | a limited liability company established in the PRC and owned by two Independent Third Parties |
| “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, 5 August 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*