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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1129)

**(1) RESTRUCTURING OF EXISTING
CONVERTIBLE BONDS ISSUED IN 2007
AND**

**(2) ISSUE OF NEW HK DOLLAR
CONVERTIBLE BONDS TO BE ISSUED IN 2010**

After trading hours on 13 August 2010, the Company entered into Definitive Agreements with the Majority Investors, pursuant to which the Majority Investors have agreed to a consensual restructuring of their respective rights and obligations under the Existing Bonds, subject to and in accordance with the terms of each Definitive Agreement entered into with the relevant Majority Investors.

The total consideration payable by the Company in respect of the Existing Bonds is approximately HK\$403 million in cash and in kind in the form of the New Bonds (which shall be redeemed at maturity at 121.0119% of its aggregate principal amount) (excluding any interest costs and any discounts for early repayment and assuming the Existing Bonds and/or the New Bonds have not otherwise been redeemed, converted or purchased). Such total consideration shall be payable by the Company to Investors in a series of instalments commencing from August 2010 and ending in August 2012. As against such consideration, the Majority Investors shall withdraw their respective put redemption notices in respect of the Existing Bonds.

The New Bonds will be issued as part consideration for the repayment of the Existing Bonds. In relation to the aggregate principal amount of HK\$337 million of New Bonds, the Company has obligations to repurchase HK\$175 million of New Bonds from the Investors. In addition, the Majority Investors have agreed that the New Bonds subject to this Repurchase Obligation cannot normally be converted into Shares, redeemed or disposed of. The New Bonds issued for the Existing Bonds will otherwise be convertible into Shares at the initial Conversion Price of HK\$0.15 per Share. The Conversion Shares will rank *pari passu* in all respects with the Shares then in issue on the relevant date. Assuming full conversion of the New Bonds (excluding Repurchase Bonds) at the initial Conversion Price, the New Bonds will be convertible into 1,080,000,000 Shares, representing approximately 36.34% of the issued share capital of the Company as at the date of this announcement and approximately 26.65% of the issue share capital of the Company as enlarged by the full conversion of the New Bonds. Accordingly, the issue of the New Bonds and the Conversion Shares are subject to approval by the Shareholders and the Company will convene an EGM to consider and, if thought fit, pass the shareholder resolutions to approve the Specific Mandate.

Completion of the Definitive Agreements is not subject to any conditions precedent, save that, the issue of the New Bonds will be subject to, and conditional upon, the approval of the Specific Mandate by the Shareholders and such approval remaining in full force and effect. The Definitive Agreements may be terminated in certain circumstances. Please refer to the section headed “Conditions to the Issuance of the New Bonds” below for further information.

The Company and the Minority Investors are still in the process of finalising the final documentation and the Company will make a further announcement regarding the terms of the Minority Investors’ restructuring as soon as reasonably practicable after the final documentation has been signed.

RESTRUCTURING OF EXISTING CONVERTIBLE BONDS ISSUED IN 2007

The Company has entered into Definitive Agreements with the Majority Investors, pursuant to which the Majority Investors have agreed to a consensual restructuring of their respective rights and obligations under the Existing Bonds, subject to and in accordance with the terms of each Definitive Agreement entered into with the relevant Majority Investors.

The total consideration payable by the Company in respect of the Existing Bonds is approximately HK\$403 million in cash and in kind in the form of the New Bonds (which shall be redeemed at maturity at 121.0119% of its aggregate principal amount) (excluding any interest costs and any discounts for early repayment and assuming the Existing Bonds and/or the New Bonds have not otherwise been redeemed, converted or purchased). Such total consideration shall be payable by the Company to Investors in a series of instalments commencing from August 2010 and ending in August 2012. As against such consideration, the Majority Investors shall withdraw their respective put redemption notices in respect of the Existing Bonds.

The New Bonds will be issued as part consideration for the repayment of the Existing Bonds. In relation to the aggregate principal amount of HK\$337 million of New Bonds, the Company has Repurchase Obligations in respect of HK\$175 million of New Bonds. In addition, the Majority Investors have agreed that the Repurchase Bonds cannot normally be converted into Shares, redeemed or disposed of. The New Bonds issued will otherwise be convertible into Shares at the initial Conversion Price of HK\$0.15 per Share. The Conversion Shares will rank *pari passu* in all respects with the Shares then in issue on the relevant date. Assuming full conversion of the

New Bonds (excluding Repurchase Bonds) at the initial Conversion Price, the New Bonds will be convertible into 1,080,000,000 Shares, representing approximately 36.34% of the issued share capital of the Company as at the date of this announcement and approximately 26.65% of the issue share capital of the Company as enlarged by the full conversion of the New Bonds. Accordingly, the issue of the New Bonds and the Conversion Shares are subject to approval by the Shareholders and the Company will convene an EGM to consider and, if thought fit, pass the shareholder resolutions to approve the Specific Mandate.

ISSUE OF NEW HK DOLLAR CONVERTIBLE BONDS TO BE ISSUED IN 2010

Pursuant to the terms of the Definitive Agreements entered into by the Company with each of the New Bond Investors and subject to the Specific Mandate having been duly approved by the shareholders of the Company, the Company will issue New Bonds in aggregate principal amount of HK\$337 million to the Majority Investors as part consideration for the repayment of the Existing Bonds. The Issue Date for the issuance of the New Bonds is expected to take place in September 2010 after the EGM.

Conditions to the Issuance of the New Bonds

Completion of the Definitive Agreements entered into between the Company and the New Bond Investors is not subject to the fulfillment of any conditions precedent, save that, the issue of the New Bonds will be subject to, and conditional upon, the approval of the Specific Mandate by the Shareholders and such approval remaining in full force and effect.

Termination Rights Prior to Issuance of New Bonds

If either the Company or a New Bond Investor fails or is unable to perform any material obligation required to be performed by it for completion of such Bond Sale and Purchase Agreement, then the non-defaulting party shall not be obliged to proceed to completion and the non-defaulting Party may, in its absolute discretion, acting by written notice to the defaulting Party:

- (i) terminate the relevant Definitive Agreement; or
- (ii) elect to a one time deferral of the completion of relevant Definitive Agreement by not more than five days to such other date as it may specify in such notice.

Upon such notice being given such Definitive Agreement shall terminate and be of no further effect and neither the defaulting Party nor the non-defaulting Party shall be under any liability to each other in respect of such Definitive Agreement, except that each party shall remain liable for any liability arising prior to such termination.

Principal Terms of the New Bonds

The New Bonds will have the following principal terms:

- Issuer : The Company.
- Aggregate Principal Amount of the New Bonds : HK\$337,000,000.
- Issue Price : 100% of the principal of the New Bonds.
- Denomination : HK\$1,000,000.
- Status : The New Bonds constitute senior, direct, unsubordinated, unconditional and (subject to the provisions contained in the negative pledge) unsecured obligations of the Company and the New Bonds shall at all times rank *pari passu* and without any preference or priority among themselves.
- Interest and Default Interest : The New Bonds bear interest from 16 August 2010 at the rate of 0.25% per annum, payable semi-annually in arrear.
- If the Company fails to pay any sum in respect of the New Bonds when the same becomes due and payable, interest shall accrue on the overdue sum at the rate of 14.75% per annum from the due date.
- Conversion Price : The initial conversion price is HK\$0.15 per Share, representing a premium of approximately 14.5% over the closing price of HK\$0.131 per Share as quoted on the Stock Exchange on 13 August 2010.
- The conversion price is subject to adjustment upon the occurrence of certain prescribed events, namely, consolidation, subdivision or reclassification of the Shares, capitalisation of profits or reserves, capital distributions, rights issues of Shares or other securities and issues at less than current market price. The conversion price may not be reduced so that, on conversion of the New Bonds, Shares would be issued at a discount to their par value.
- Conversion Period : Subject to the terms and conditions of the New Bonds, a holder of the New Bonds has the right to convert any New Bond into Conversion Shares at any time on and after 15 October 2010 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on 9 August 2012.
- Ranking of Conversion Shares : The Conversion Shares will rank *pari passu* in all respects with the Shares then in issue on the relevant conversion date.

- Maturity : Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Bond at 121.0119% of its principal amount on 16 August 2012 plus interest accrued.
- Redemption at the Option of the Company : On or at any time prior to the Maturity Date, the Company may, having duly given not less than 15 nor more than 30 days' notice redeem all or some only of the New Bonds at a redemption price equal to, in the case of the redemption date falls before 16 August 2011, 133% of the principal amount of the New Bonds together with accrued interest up to the redemption date or, in the case where the redemption date falls after 16 August 2011, 166% of the principal amount of the New Bonds together with accrued interest up to the redemption date.
- Redemption for Tax Reasons : At any time the Company may, having given not less than 30 nor more than 60 days' due notice, redeem all or some only, of the New Bonds at a redemption price equal to the Early Redemption Amount together with accrued interest on the redemption date if (i) the Company satisfies the trustee immediately prior to the giving of such notice that the Company has or will become obliged to pay additional amounts as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or, as the case may be, Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 16 August 2010, and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the New Bonds then due.
- Redemption at the Option of the Holders : On 16 August 2011, the holder of each New Bond will have the right at such holder's option, to require the Company to redeem all or some only of the New Bonds of such holder on the redemption date at 109.9938% of their principal amount together with accrued interest.
- Redemption for Delisting or Change of Control : Following the occurrence of the following events:
- (i) when the Shares cease to be listed or admitted to trading on the Stock Exchange;
 - (ii) when there is a change of control of the Company; or

(iii) when the Shares are suspended from trading on the Stock Exchange for 20 consecutive trading days,

the holder of each New Bond will have the right at such holder's option, to require the Company to redeem all or some only of that holder's New Bonds at 103.5% of their Early Redemption Amount together with accrued interest in accordance with the terms and conditions of the New Bonds.

- Voting Rights : Prior to the conversion of the New Bonds, holders of the New Bonds will not have any right to attend or vote in any general meeting of the Company by virtue of their being holders of the New Bonds.
- Transferability : The New Bonds are freely transferable (subject to the Repurchase Obligations that the Company and the Majority Investors have agreed to).
- Pre-emptive Rights and Tag-Along Rights : Each holder of the New Bonds shall have a pre-emptive right in relation to any issue or sale of any new securities by the Company, including ordinary shares, preference shares, or equity-linked securities but excluding any securities issued pursuant to any employee share scheme and the Shares issued upon conversion of the Existing Bonds or New Bonds, to purchase up to its pro-rata portion at the same price at which the Company is proposing to offer to any third party, which right is exercisable by serving a written notice to the Company. In the event any holder does not exercise its pre-emptive right up to its pro-rata portion, then such holder's remaining pro-rata portion shall be offered to the other holders of the New Bonds, each of whom may additionally exercise its pre-emptive right up to its pro-rata portion of such remaining amount.

In the event that the Company sells or transfers (or proposes to sell or transfer) any Shares (excluding any Shares issued pursuant to any employee share scheme and the Shares issued upon conversion of the Existing Bonds or New Bonds) to a third party, each holder of the New Bonds shall be entitled to require the Company to procure such third party to purchase such holder's Tag Along Portion at a proportionate value equal to that paid by the third party for the Shares being sold by the Company. In the event any holder of the New Bonds does not exercise its tag along right up to its Tag Along Portion, such holder's remaining Tag-Along Portion shall be offered to the other holders of New Bonds, each of whom may additionally exercise its tag along right up to its Tag Along Portion of such remaining amount.

Further Indebtedness : So long as the New Bonds are outstanding, the Company shall not, and shall procure that none of its subsidiaries shall, incur any further Debt for which there is any recourse to the Company without the prior written consent of the holders representing over 50% in principal amount of the New Bonds then outstanding, unless the aggregate principal amount of such further Debt incurred after 3 August 2007 is less than US\$50,000,000, provided that (i) any amount of further Debt that is no longer outstanding (other than as a result of it being refinanced or replaced by Debt falling within paragraph (ii) below) and (ii) any amount of Debt incurred to refinance or replace Debt existing on 3 August 2007 (including the Original Bonds) and/or such further Debt and/or any amendment thereof, shall be expressly excluded.

Effect on Shareholding

The following table summarises the shareholding structure of the Company as at the date of this announcement and as a result of the full conversion of the New Bonds:

	As at the date of this announcement		Assuming the New Bonds (excluding Repurchase Bonds) are fully converted in Shares at the initial Conversion Price of HK\$0.15		Assuming the New Bonds (including the Repurchase Bonds) are fully converted at the initial Conversion Price and exercise of all outstanding Share Options ^(Note 1)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Boost Skill	265,479,000	8.93	265,479,000	6.55	265,479,000	5.08
Favor Jumbo (Note 2)	130,000,000	4.37	130,000,000	3.21	130,000,000	2.49
Sure Ability (Note 2)	55,000,000	1.85	55,000,000	1.36	55,000,000	1.05
Ms. Chu Yin Yin, Georgiana (Note 3)	5,432,000	0.18	5,432,000	0.13	8,432,000	0.16
Mr. Liu Bai Yue (Note 3)	–	0	–	0	5,000,000	0.09
Subtotal	455,911,000	15.33	455,911,000	11.25	463,911,000	8.87
Public: Bondholders	–	0.00	1,080,000,000	26.65	2,246,666,666	42.99
Other public Shareholders	2,515,944,000	84.67	2,515,944,000	62.10	2,515,944,000	48.14
Total	<u>2,971,855,000</u>	<u>100.00</u>	<u>4,051,855,000</u>	<u>100.00</u>	<u>5,226,521,666</u>	<u>100.00</u>

Notes:

1. The Majority Investors have agreed that the Repurchase Bonds cannot normally be converted into Shares, redeemed or disposed of.
2. Favor Jumbo Investments Limited (“Favor Jumbo”) and Sure Ability Limited (“Sure Ability”) are wholly owned subsidiaries of Boost Skill Investments Limited (“Boost Skill”).
3. Executive Directors of the Company.

None of the Bondholders will become substantial shareholders of the Company upon full conversion of the Convertible Bonds. There will not be a change in the board composition of the Company as a result of the issue of the Convertible Bonds.

As at the date of this announcement, the following Directors had interests as beneficial owner in options to subscribe for Shares granted under the share option scheme adopted by the Company on 17 January 2002:

Name of director	Exercise price (HK\$)	Exercise period	Number of underlying Shares (under share options of the Company)	Approximate shareholding % (Note)
Chu Yin Yin, Georgiana	0.335	11 January 2007 to 10 January 2017	3,000,000	0.10
Liu Bai Yue	0.420	17 January 2007 to 16 January 2017	5,000,000	0.17

Note: For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 2,971,855,000 Shares in issue as at the date of this announcement.

Reason for the Issue of the New Bonds

The New Bonds to be issued in part consideration for the repayment of the Existing Bonds forms an integral component of the commercial bargain struck between the Company and New Bond Investors.

The Board considers that the terms of each Definitive Agreement entered into with the New Bond Investors and the terms and conditions of the New Bonds are fair and reasonable, on normal commercial terms and are in the interest of the Company and its shareholders as a whole.

EGM

The issue of the New Bonds and the Conversion Shares is subject to approval by the Shareholders. Accordingly, an EGM will be convened to consider and, if thought fit, pass the shareholder resolutions to approve the Specific Mandate.

A circular containing, among other things, information regarding the details of the New Bonds and a notice convening the EGM, will be dispatched to the Shareholders as soon as practicable.

Use of Proceeds

The issue of the New Bonds will be used as part consideration for the repayment of the Existing Bonds. Consequently, the issue of the New Bonds will not raise any new funds for the Company.

Fund raising in the past 12 months

Save as disclosed below, the Company has not carried out any capital fund raising activities in the past 12 month period immediately prior to the date of this announcement:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds as at the date of this announcement
6 August 2009	Top-up placing of 450,479,000 existing shares and top-up subscription for 450,479,000 new Shares at HK\$0.295 per Share	Approximately HK\$128.39 million	For future business development and for general working capital of the Group	Approximately HK\$47.26 million has been utilized as intended and the remaining balance is kept at financial institutions and will be used for further expansion and general working capital of the Group
9 August 2010	Top-up placing of 265,476,000 existing shares and top-up subscription for 265,476,000 new shares at HK\$0.108 per share	Approximately HK\$27.85 million	For future business development and for general working capital of the Group	Approximately HK\$0.1 million has been utilized as intended and the remaining balance is kept at financial institutions and will be used for further expansion and general working capital for the Group

General

The New Bonds will not be listed on any stock exchange. The Shares are listed on the Stock Exchange and an application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The New Bonds and the Conversion Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The New Bonds are being issued outside the United States in reliance on Regulation S.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms will have the meaning ascribed to them:

“Board”	the board of Directors.
“Company”	China Water Industry Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange.
“Conversion Shares”	the Shares issuable on the conversion of the New Bonds.
“Debt”	in respect of any person means any indebtedness for or in respect of moneys borrowed or raised by such person for the purpose of raising finance, including (i) any indebtedness of such person under or in connection with any guarantee, debenture, note, bill of exchange or commercial paper or acceptance credit or letters of credit opened on behalf of such person, (ii) any liability in respect of rental payments so far as attributable to payments of capital under any lease or hire agreements entered into for the purpose of raising or obtaining finance, (iii) any indebtedness in respect of any purchase price for property or services the payment of which is deferred and (iv) any amounts raised under any transaction (including, without limitation, any forward sale or purchase agreements) having the commercial effect of a borrowing entered into by the relevant person in order to enable it (or, if it is liable with, or as surety for, any other person in respect of such indebtedness, such other person) to finance its operations or capital requirements.
“Definitive Agreements”	the definitive agreements each dated on or about 13 August 2010 entered into between the Company and each Investors in connection with the restructuring of the Existing Bonds.
“Directors”	the directors of the Company.
“Early Redemption Amount”	in respect of each HK\$1,000,000 principal amount of the New Bonds, the amount which represents for the holder of the New Bond a gross yield of 10% per annum, calculated on a semi-annual basis, and as adjusted for interest payable in respect of the Bonds rounded (if necessary) to the nearest dollar with 0.5 being rounded upwards.
“EGM”	an extraordinary general meeting of the Company to be convened to pass the shareholder resolutions to approve the Specific Mandate.
“Existing Bonds”	HK\$385,000,000 0.25% Convertible Bonds due 2012 issued in August 2007.

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC.
“Issue Date”	the date falling seven Hong Kong business days from the date when the Specific Mandate has been approved by the Shareholders, or such later date as the Company and the relevant Investors may agree.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange.
“Majority Investors”	The investors which collectively holding approximately 79% of the Existing Bonds.
“Maturity Date”	16 August 2012.
“Minority Investors”	The investors which collectively holding approximately 21% of the Existing Bonds.
“New Bonds”	Hong Kong Dollar Convertible Bonds due 2012 in the aggregate principal amount of HK\$337 million.
“Regulation S”	Regulation S under the Securities Act.
“Repurchase Bonds”	the New Bonds subject to the Repurchase Obligation.
“Repurchase Obligation”	the obligation of the Company to repurchase HK\$175 million New Bonds from the Investors in accordance with the terms of each Definitive Agreement.
“Securities Act”	the U.S. Securities Act of 1933, as amended.
“Share Repurchase Code”	the Hong Kong Code on Share Repurchases.
“Shareholder(s)”	holder of Share(s).
“Shares”	ordinary share(s) of par value of HK\$0.10 each in the share capital of the Company.
“Specific Mandate”	the specific mandate in relation to the issue of the New Bonds and the Conversion Shares issuable upon conversion of the New Bonds.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

“Tag Along Portion”

in respect to any holder of the New Bonds, the number of Shares owned by such holder (assuming that such holder has converted its New Bonds at the prevailing conversion price) multiplied by a fraction, the numerator of which is the number of Shares to be sold by the Company and the denominator of which is the total number of Shares outstanding (assuming that all holders have converted their New Bonds at the prevailing conversion price).

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

Hong Kong, 13 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*