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中國水務集團有限公司*
China Water Affairs Group Limited

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock code: 855)

DISCLOSEABLE AND CONNECTED TRANSACTION

On 28 March 2008, the Purchaser and the JV Partner entered into the Agreement, pursuant to which the Company conditionally agreed to acquire 70% of the registered capital of each of the Targets from the JV Partner. The Targets are mainly engaged in the supply of raw water, tap water and purified water, water supply network engineering and sewage treatment in Huizhou City, Guangdong Province, the PRC.

The transaction contemplated under the Agreement constitutes a discloseable transaction for the Company under the Listing Rules. Since the JV Partner is a substantial shareholder of a non-wholly owned subsidiary of the Company, the Acquisition also constitutes a connected transaction for the Company and is subject to approval by Independent Shareholders on which voting shall be taken by poll at the SGM. A circular containing information on the Acquisition, the recommendation of the Independent Board Committee, the opinion letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

BACKGROUND

Reference is made to the announcement of the Company dated 27 April 2007 and circular of the Company dated 21 May 2007 in relation to the JV Agreement, pursuant to which the Company and the JV Partner agreed to set up a joint venture company which will be principally engaged in water supply, water sewage treatment, related installation and water related business in Huizhou City, Guangdong Province, the PRC. In June 2007, the Purchaser, namely 惠州中水水務發展有限公司 (Huizhou China Water Affairs Development Company Limited), was set up pursuant to the JV Agreement, which is owned as to 70% by the Company and as to 30% by the JV Partner.

* For identification purposes only

In January 2008, the JV Partner offered for sale the 70% equity interests in each of the Targets through an open tender conducted on the HAE, which is an organization authorized by the Huizhou Municipal Government and serves as a comprehensive platform for assets and equity transactions. To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, HAE is a third party independent of the Company and its connected persons (as defined in the Listing Rules), and it has no relationship with the Group nor the JV Partner. The Purchaser submitted a bid in response to the tender in January 2008. The Board is pleased to announce that the Purchaser has been successfully awarded the tender and the Purchaser entered into the Agreement with the JV Partner on 28 March 2008 to acquire 70% equity interests in each of the Targets. Details of the Acquisition are set out below.

THE AGREEMENT DATED 28 MARCH 2008

Parties:

- (i) JV Partner (as the vendor); and
- (ii) the Purchaser

The JV Partner is a company wholly owned by the local government of Huizhou City and is principally engaged in investment holding, infrastructure projects financing and management in Huizhou City, Guangdong Province, the PRC. As at the date of the Agreement, the JV Partner owns 30% equity interest in the Purchaser, which is in turn a 70%-owned subsidiary of the Company. Accordingly, the JV Partner is a connected person under the Listing Rules. Apart from the JV Agreement and being one of the owners of the Purchaser, the Group has not involved in any other transaction with the JV Partner.

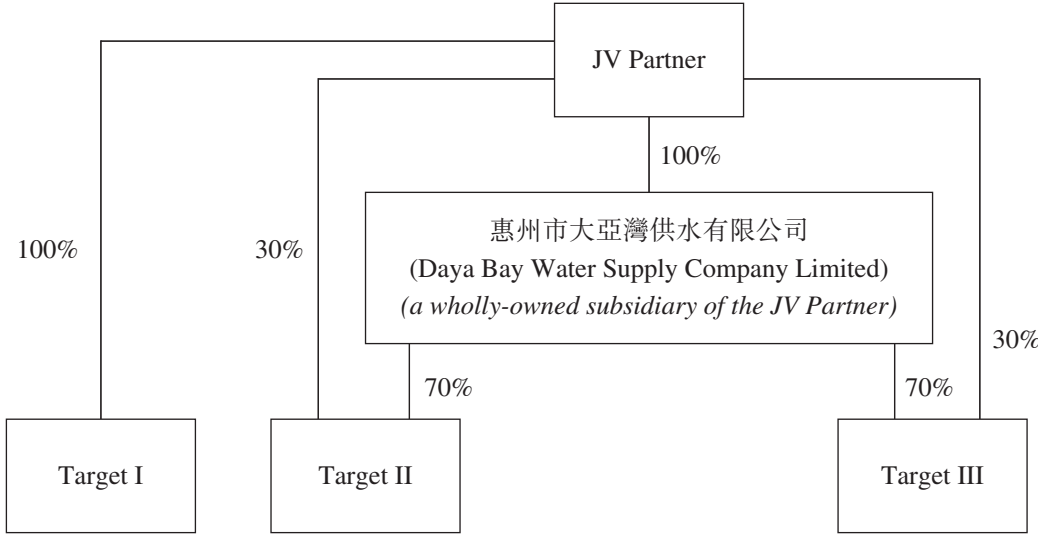
Assets being acquired:

Pursuant to the Agreement, the Purchaser agreed to acquire and the JV Partner agreed to sell, and procure its subsidiary to sell, 70% equity interest in each of the Targets, being

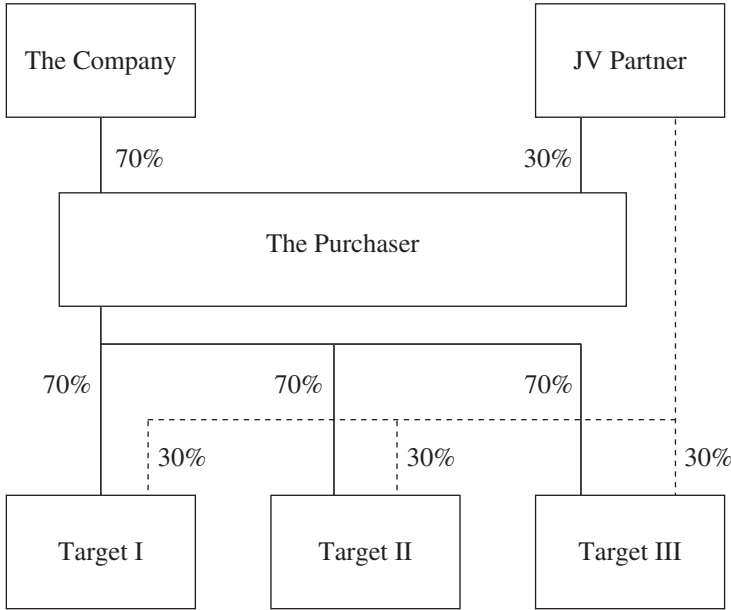
- (1) Target I – 惠州市大亞灣自來水總公司 (Huizhou Daya Bay Running Water General Company);
- (2) Target II – 惠州市大亞灣清源環保有限公司 (Huizhou Daya Bay Qingyuan Environmental Protection Co., Limited);
- (3) Target III – 惠州市大亞灣溢源淨水有限公司 (Huizhou Daya Bay Yiyuan Purified Water Co., Limited).

As at the date of the Agreement, the JV Partner either directly or indirectly (through its subsidiary) held 100% equity interest in each of the Targets.

Set out below is the ownership structure of the Targets as at the date of the Agreement:



Set out below is the ownership structure of the Targets immediately after completion of the Acquisition:



Consideration:

The Consideration is RMB190,126,500 (equivalent to approximately HK\$209,139,150), payable by the Purchaser in cash as follows:

- (i) RMB95,063,250 (representing 50% of the aggregate consideration and equivalent to approximately HK\$104,569,575) shall be payable within 5 business days after signing of the Agreement; and

- (ii) RMB95,063,250 (representing 50% of the aggregate consideration and equivalent to approximately HK\$104,569,575) shall be payable within 3 months after payment of the first installment of the Consideration as described in (i) above.

RMB30 million (equivalent to approximately HK\$33 million) had been paid by the Purchaser as deposit when it submitted the bid for the relevant tender to HAE in January 2008. Such deposit paid will form part of the payment for the Consideration as mentioned in (i) above.

The Consideration is determined based on an open tender process conducted through HAE and is equivalent to the ask price by the Vendor and the bid price submitted by the Purchaser. The Group shall finance the Acquisition by internal resources. Upon completion of the Acquisition, each of the Targets will become non-wholly owned subsidiary of the Company and their assets and results will be consolidated into the accounts of the Group.

Conditions:

Completion of the Agreement is conditional upon fulfilment of the following conditions:

- (i) approval of the Agreement by the relevant PRC government authorities having been obtained;
- (ii) new articles of each the Targets having been agreed and executed by the JV Partner and the Purchaser;
- (iii) approval of the Agreement by the directors of each of the Targets;
- (iv) passing of necessary resolution(s) by the Independent Shareholders to approve the Acquisition, the Agreement and transactions contemplated therein;
- (v) payment by the Purchaser of the first part of the Consideration in accordance with the term set out in point (i) of the paragraph headed “Consideration” above;
- (vi) there being no material breach by the JV Partner and the Purchaser of any of the warranties or other terms of the Agreement; and
- (vii) the JV Partner and the Purchaser having performed their respective undertakings contained in the Agreement concerning, among other things, the conduct of business of the Targets in the normal and ordinary course and maintenance of the financial position of the Targets without material change prior to completion of the Agreement.

The above conditions are to be fulfilled on or before 10 June 2008 (or such later date as may be agreed between the Company and the Purchaser in writing).

INFORMATION ON THE TARGETS

Target I is principally engaged in the business of tap water supply and water pipes network engineering. The tap water supply capacity of Target I reaches 90,000 m³ per day. Based on the accounts of Target I prepared under the PRC GAAP, Target I incurred net losses of approximately RMB10.1 million (audited) and RMB10.7 million (unaudited) (equivalent to approximately HK\$11.1 million and HK\$11.8 million respectively) for each of the years ended 31 December 2006 and 2007 respectively. The net losses were mainly attributable to the finance cost incurred for bank and other borrowings. The Board expects that after completion of the Acquisition, results of Target I shall be improved through restructuring of management and implementation of cost control measures.

Target II is principally engaged in the provision of sewage treatment service for both domestic and industrial uses in Huizhou City, Guangdong Province, the PRC. Target II is equipped with newly built and technologically advanced sewage treatment facilities. Target II started test-running in September 2006 and commenced operation in July 2007, with sewage treatment capacity reaches 80,000 m³ per day. Target II did not record any income or expenses during 2006. According to the unaudited management accounts of Target II prepared under the PRC GAAP, Target II incurred net loss of approximately RMB18.8 million (equivalent to approximately HK\$20.7 million) for the year ended 31 December 2007. The net loss was mainly attributable to the pre-operating expenses incurred in the set-up stage of the company. The Board expects that after completion of the Acquisition, results of Target II in its first full year of operation in 2008 shall be improved through expansion in customer base and improvement in operation efficiency.

Target III has not yet commenced operation as at the date of the Agreement. Following completion of the construction of its principal production plant, Target III will be principally engaged in the supply of raw water, tap water and purified water for both domestic and industrial uses. Target III will be equipped with channel network to draw raw water from rivers in the Daya Bay district for further processing or supplying to for industrial users. The production facilities will also include a purification plant for the processing and supply of tap water for domestic use. The large-scale water supply channels and water pipes network of Target III in the Daya Bay district are expected to have total water supply capacity of 250,000 m³ per day. The first stage of construction with water supply capacity of 120,000 m³ per day will soon be completed. Target III did not record any income or expenses during 2006 and 2007. It is expected that Target III will commence operation in or around May 2008. It is also expected that certain large scale oil companies and industrial plants based in the Daya Bay district would be major customers of Target III. The Directors expect that Target III will start contributing profit to the Group from 2009.

As at 31 December 2007, the aggregate unaudited net asset value of the Targets amounted to approximately RMB94.3 million (equivalent to approximately HK\$103.7 million).

REASONS FOR THE ACQUISITION

The Group is principally engaged in city water supply and sewage treatment business in the PRC.

As stated in the 2008 interim report of the Company, the Group will continue to expand its water operation into different cities within China. The Board believes that the potential investment returns from the water supply and sewage treatment sectors are promising given the increasing demand as a result of the accelerating economic development in the PRC. The Board is of the view that the entering into of the Agreement allows the Group to expand its water supply networks and sewage treatment business in the PRC.

As mentioned in the paragraph headed “Information on the Targets” above, the aggregate unaudited net asset value of the Targets amounted to approximately RMB94.3 million (equivalent to approximately HK\$103.7 million) as at 31 December 2007, which comprised net liabilities of Target I of approximately RMB98.9 million (equivalent to approximately HK\$108.8 million), and net assets of Target II and Target III of approximately RMB193.2 million (equivalent to approximately HK\$212.5 million) in aggregate. Since the tender launched by the JV Partner on the HAE included all the three Targets as a package, it is not allowable for the Company to selectively acquire some but not all the Targets. In view of the relatively significant amount of net liabilities of Target I, the Company intends that it would not put substantial further resources to develop Target I. Nevertheless, the Directors believe that with the Company’s expertise in the managing water supply business, the operation efficiency and financial results of Target I can be improved after the completion of the Acquisition.

The Directors foresee that the demand for water for both domestic and industrial use in Huizhou City will continue to remain strong. The Directors are optimistic about the prospects of the Targets given the economic growth and industrial development in Huizhou City. In particular, Target II and Target III are equipped with newly built plants and facilities and strong production capacity. The Company believes that Target II and Target III can contribute positively to the Group’s earnings when they commence full operation.

Based on the above, the Directors (other than the independent non-executive Directors who will give their view on the Acquisition after taking into account the advice of the independent financial adviser) consider that the terms of the Agreement are on normal commercial terms, fair and reasonable and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

LISTING RULES APPLICATION

The transaction contemplated under the Acquisition constitutes a discloseable transaction of the Company. As at the date of the Agreement, the JV Partner owns 30% equity interest of the Purchaser, a non-wholly owned subsidiary of the Company. Accordingly, the JV Partner is a connected person under the Listing Rules and the Acquisition also constitutes a connected transaction of the Company. As the applicable ratios as defined under the Listing Rules exceed 2.5% and the Consideration exceeds HK\$10 million, the Acquisition is subject to approval of the Independent Shareholders on which voting shall be taken by poll. The JV Partner and its associates shall abstain from voting on the Acquisition at the SGM.

The Independent Board Committee will be constituted to advise the Independent Shareholders on the Acquisition. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

GENERAL

A circular containing information on the Acquisition, the recommendation of the Independent Board Committee, the opinion letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and the notice of the SGM will be despatched to the Shareholders as soon as practicable.

As at the date of this announcement, the Board comprises two executive Directors, being Mr. Duan Chuan Liang and Mr. Li Ji Sheng, four non-executive Directors, being Mr. Wu Jiesi, Mr. Chen Guo Ru, Mr. Zhao Hai Hu and Mr. Zhou Wen Zhi, and four independent non-executive Directors, being Ms. Huang Shao Yun, Ms. Liu Dong and Mr. Chau Kam Wing and Mr. Ong King Keung.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Acquisition”	the acquisition by the Purchaser of 70% equity interests in each of the Targets pursuant to the Agreement
“Agreement”	the agreement dated 28 March 2008 entered into between the Purchaser and the JV Partner in relation to the Acquisition
“Board”	board of the Directors

“Company”	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, whose issued Shares are listed on the Main Board of the Stock Exchange (Stock code: 855)
“Consideration”	RMB190,126,500 (equivalent to approximately HK\$209,139,150), being the aggregate consideration for the Acquisition pursuant to the Agreement
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HAE”	惠州市產權交易所 (Huizhou Assets Exchange)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholder(s)”	Shareholders other than the JV Partner and its associates
“Independent Board Committee”	an independent committee of the Board comprising independent non-executive Directors to be constituted to make recommendations to the Independent Shareholders on the voting as regards the Acquisition
“JV Agreement”	the joint venture agreement dated 27 April 2007 entered into between the Company and the JV Partner for the establishment of the Purchaser
“JV Partner”	惠州市投資管理有限公司 (Huizhou Investment Management Company)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, the Macao Special Administrative Region and Taiwan
“PRC GAAP”	generally accepted accounting principles in the PRC

“Purchaser”	惠州中水水務發展有限公司 (Huizhou China Water Affairs Development Company Limited), a 70%-owned subsidiary of the Company established in the PRC pursuant to the JV Agreement
“Shareholder(s)”	holder(s) of share(s) of the Company
“SGM”	the special general meeting of the Company to be held to consider and, if thought fit, approve the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Targets”	Target I, Target II and Target III
“Target I”	惠州市大亞灣自來水總公司 (Huizhou Daya Bay Running Water General Company)
“Target II”	惠州市大亞灣清源環保有限公司(Huizhou Daya Bay Qingyuan Environmental Protection Co., Limited)
“Target III”	惠州市大亞灣溢源淨水有限公司(Huizhou Daya Bay Yiyuan Purified Water Co., Limited)
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“m ³ ”	cubic metre(s)
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For the purpose of this announcement, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1 to HK\$1.10.

The English translation of Chinese names is included for information purpose only and should not be regarded as their official English translation.

By Order of the Board
Duan Chuan Liang
Chairman

Hong Kong, 28 March 2008