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中國水業集團有限公司*
CHINA WATER INDUSTRY GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

(Stock code: 1129)

DISCLOSEABLE TRANSACTIONS – PROVISION OF FINANCIAL ASSISTANCE

During the period from August 2009 to January 2011, the Company or its subsidiaries has made various BIHL Loans. During the period when iMerchants was a subsidiary of the Company, a subsidiary of iMerchants made the iMerchants Loans to a subsidiary of BIHL.

Jiangxi Shunda (a 51% owned subsidiary of the Company), Guixi Hengda and Mr. Chen Sujiang (as guarantor) entered into the Guixi Loan Agreement dated 9 September 2011, pursuant to which Jiangxi Shunda provided a loan of RMB20,000,000 to Guixi Hengda.

Jiangxi Shunda (a 51% owned subsidiary of the Company), Jiangxi Jiangong and Mr. Yang Siantai entered into the Investment Agreement dated 30 October 2011, pursuant to which Jiangxi Shunda has made an investment in an aggregate amount of RMB12,000,000 to Jiangxi Jiangong.

As certain of the applicable percentage ratios set out in Chapter 14 of the Listing Rules with respect to the BIHL Loans and the iMerchants Loans after aggregation under Rule 14.22 of the Listing Rules exceeded 5% but were not more than 25%, the grant of the BIHL Loans and the iMerchants Loans constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As certain of the applicable percentage ratios set out in Chapter 14 of the Listing Rules with respect to each of the advance made under the Guixi Loan Agreement and the Investment Agreement exceeded 5% but were not more than 25%, each of the advance to Guixi Hengda under the Guixi Loan Agreement and the investment in Jiangxi Jiangong under the Investment Agreement constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

BIHL LOANS AND IMERCHANTS LOANS

BIHL Loans

During the period from August 2009 to 31 January 2011, the Company or its subsidiaries have made various BIHL Loans. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of borrowers of the BIHL Loans was and is an Independent Third Party.

* *For identification purpose only*

Particulars of the BIHL Loans are as follows:–

Date of loan agreement	Principal amount	Interest Rate	Term
11 August 2009	RMB2 million (approximately HK\$2,227,000)	5% p.a.	6 months (further extension of 6 months pursuant to supplemental agreement dated 10 February 2010 and further extension of 12 months pursuant to further supplemental agreement dated 11 August 2010)
19 March 2010	HK\$3 million	5% p.a.	6 months (further extension of 12 months pursuant to supplemental agreement dated 18 September 2010)
21 December 2010	HK\$30 million (guaranteed by Yeung Ka Sing, Carson (“Mr. Yeung”), chairman and substantial shareholder of BIHL)	5% p.a.	12 months
31 January 2011	HK\$10.8 million	5% p.a.	12 months

The interest rate of 5% per annum was determined after arm’s length negotiation between the parties with reference to the best lending rate in Hong Kong at the relevant time.

HK\$5,700,000 of the BIHL Loans was repaid and HK\$43,180,721 has become due and payable. The Group intends to initiate legal proceedings against BIHL.

The Board at the time approved the BIHL Loans by majority vote on the basis that the provision of financial assistance to BIHL and its subsidiaries (at the best lending rates) could strengthen the Group’s relationship with both BIHL group and its chairman and substantial shareholder, Mr. Yeung Ka Sing, Carson (“Mr. Yeung”). They perceived that with a closer relationship the Group could benefit from Mr. Yeung’s extensive business connections in the PRC, through which good investment opportunities in the PRC may be identified. The Group has been pushing for repayment of the Loans advanced, and have as shown above, recovered HK\$5,700,000 of the BIHL Loan. HK\$40,746,000 of the BIHL Loans was impaired in the financial year ended 31 December 2011 as the Board considered the recoverability of such amount was remote, given that (i) the trading of shares of BIHL has been suspended since 30 June 2011, (ii) BIHL has failed to repay the BIHL Loans despite the Company’s repeated demands; and (iii) Mr. Yeung was arrested on 29 June 2011 for dealing in property knowing or believed to represent proceed of an offence.

iMerchants Loans

During the period from February 2008 to September 2010, iMerchants was a subsidiary of the Company. During such period, iMerchants Asia Limited (a wholly-owned subsidiary of iMerchants) made the following iMerchants Loans to Birmingham International Consultant Limited (formerly known as Universal Group Finance Limited, a wholly-owned subsidiary of BIHL):–

Date of loan agreement	Principal amount	Interest Rate	Term
9 April 2010	HK\$9 million	0.5% p.a.	12 months (further extension of 15 months pursuant to supplemental agreement dated 2 July 2010)
2 July 2010	HK\$1 million	0.5% p.a.	12 months

The iMerchants Loans were advanced without the prior approval of the Board when iMerchants was a subsidiary of the Company. iMerchants was a subsidiary of the Company from February 2008 to September 2010 and was then (and still is now) an independent issuer whose shares are listed on the Stock Exchange with a separate board of directors. During that period, although the Company reviewed the published quarterly reports of iMerchants, no specific disclosure was made in respect of the iMerchants Loans. In the circumstances, the Board express no opinion on the appropriateness of the iMerchants Loans.

ADVANCE TO GUIXI HENGDA

Jiangxi Shunda (a 51% owned subsidiary of the Company), Guixi Hengda and Mr. Chen Sujiang (as guarantor) entered into the Guixi Loan Agreement dated 9 September 2011, pursuant to which Jiangxi Shunda provided a loan of RMB20,000,000 to Guixi Hengda at an interest rate of 25% per annum for a period of 12 months commencing from 13 September 2011 and ending on 12 September 2012.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save that Mr. Chen Sujiang has 80% interest in a PRC joint venture in which the Group has a 20% interest, each of Guixi Hengda and its ultimate beneficial owners and Mr. Chen Sujiang was and is an Independent Third Party.

The interest rate of 25% per annum was determined after arm's length negotiation between the parties with reference to the lending rates offered by the local small loans lending companies.

The advance to Guixi Hengda was made without the prior approval of the Board. The Directors understand that the management of Jiangxi Shunda approved the advance with a view to obtaining a high return on the company's surplus cash. Taking into account the high return on the Group's surplus cash from the advance, the Directors consider that the terms of the advance are fair and reasonable and in the interests of the Shareholders as a whole.

ADVANCE TO JIANGXI JIANGONG

Jiangxi Shunda (a 51% owned subsidiary of the Company), Jiangxi Jiangong and Mr. Yang Siantai entered into the Investment Agreement dated 30 October 2011, pursuant to which Jiangxi Shunda has made an investment in an aggregate amount of RMB12,000,000 to Jiangxi Jiangong, in respect of which Jiangxi Shunda will receive a 20% return (i.e. RMB2,400,000). The investment is to fund the construction of phase 1 of Xinjiang Market (信江大市場) project in Yingtan, Jiangxi Province, the PRC (江西省鷹潭市).

The Investment Agreement provides that the advance (including the return accrued thereon) is to be repaid as follows:–

- (a) as to RMB4.8 million and investment return within 15 days after the construction unit's reimbursement of 20% of the construction guarantee money on the completion of the foundation and basement;
- (b) as to RMB4.8 million and investment return within 15 days after the construction unit's reimbursement of 30% of the construction guarantee money on completion of half of the project;
- (c) as to RMB4.8 million and investment return within 20 days after the construction unit's reimbursement of 30% of the construction guarantee money on completion of the project.

The principal amount of the investment together with the return accrued thereon should be paid within 10 months from the date of investment made (i.e. by 30 September 2012). If the third payment is not made after the 10-month period, or the first or second payment is not made after 20 days of reimbursement from the construction unit, a 30% return will be accrued on the overdue principal amount. It is expected that the foundation and basement will be completed in around late August 2012 and the project will be completed in January 2013.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of Jiangxi Jiangong and its ultimate beneficial owners and Mr. Yang Sintai was and is an Independent Third Party.

The return rate of 20% per annum was determined after arm's length negotiation between the parties with reference to expected profit margin of the entire project.

The investment under the Investment Agreement was made without the prior approval of the Board. The Directors understand that the management of Jiangxi Shunda approved the investment with a view to obtaining a high return on the company's surplus cash. Taking into account the high return on the Group's surplus cash from the investment, the Directors consider that the terms of the Investment Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

GENERAL INFORMATION AND LISTING RULES IMPLICATIONS

The Group is principally engaged in provision of water supply and sewage treatment as well as construction services in the PRC.

BIHL is an investment holding company. Its subsidiaries are principally engaged in apparel sourcing, apparel trading and provision of entertainment services. Trading in the shares of BIHL has been suspended since 30 June 2011.

Guixi Hengda is principally engaged in the business of property development in the PRC. Jiangxi Jiangong is principally engaged in the undertaking of construction projects in the PRC.

As certain of the applicable percentage ratios set out in Chapter 14 of the Listing Rules with respect to the BIHL Loans and the iMerchants Loans after aggregation under Rule 14.22 of the Listing Rules exceeded 5% but were not more than 25%, the grant of the BIHL Loans and iMerchants Loans constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As certain of the applicable percentage ratios set out in Chapter 14 of the Listing Rules with respect to each of the advance made under the Guixi Loan Agreement and the Investment Agreement exceeded 5% but were not more than 25%, each of the advance to Guixi Hengda under the Guixi Loan Agreement and the investment in Jiangxi Jiangong under the Investment Agreement constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The Company failed to publish announcements in respect of the above loans pursuant to Chapter 14 of the Listing Rules because management had failed to appreciate that financial assistance constituted “transactions” under Chapter 14 of the Listing Rules. In addition, Mr. Yang Bin, who was then the chief executive officer of the Company and responsible for overseeing the financials of the operating subsidiaries of the Company, did not report the Guixi Loan Agreement and Investment Agreement to other members of the Board, so that the existence of the advance and investment made thereunder were not brought to the attention of the other Directors of the Company in Hong Kong until March 2012.

Each of the Directors has since attended training from an accredited course provider to enhance his/her knowledge on the Listing Rules and the roles and responsibilities of directors of listed companies. The Company is also recruiting additional staff to its internal audit department. The Company has revised its internal control system relating to the finance management to enhance management control and introduce more stringent procedures to improve the existing internal control system. In particular, the Company has produced and implemented a manual on the provision of financial assistance to independent third parties on 1 May 2012 so as to reinforce the efficiency and effectiveness of the financial control of the Group. Internal training has been provided to the accounting staff of Group’s PRC operating subsidiaries to reinforce their understanding of the Group’s internal control requirements. Further, the Company has appointed an independent internal control auditor to conduct a thorough review of and make recommendations to improve the Company’s internal controls for compliance with the disclosure requirements under the Listing Rules.

DEFINITIONS

In this announcement, the following terms have the meanings set forth opposite them:–

“BIHL”	Birmingham International Holdings Limited, is a company incorporated the Cayman Islands with limited liability whose shares are listed on the main board of the Stock Exchange (stock code: 2309);
“BIHL Loans”	loans (other than iMerchants Loans) owed by BIHL or its subsidiaries to the Company or its subsidiaries as further described in the section headed “BIHL Loans” in this announcement;
“Board”	the board of Directors;
“Directors”	the directors of the Company;
“Group”	the Company and its subsidiaries;
“Guixi Hengda”	貴溪恆大房地產開發有限公司, a company incorporated in the PRC with limited liability;
“Guixi Loan Agreement”	loan agreement dated 9 September 2011, pursuant to which Jiangxi Shunda provided a loan of RMB20,000,000 to Guixi Hengda;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“iMerchants”	iMerchants Limited, a company in Hong Kong with limited liability whose shares are listed on the growth enterprise market of the Stock Exchange (stock code: 8009), and a subsidiary of the Company for the period from February 2008 to September 2010;
“iMerchants Loans”	loans owed by the subsidiary of BIHL to the subsidiary of iMerchants as further described in the section headed “iMerchants Loans” in this announcement;
“Investment Agreement”	investment and cooperation agreement dated 30 October 2011 entered into between Jiangxi Shunda, Jiangxi Jiangong and Mr. Yang Siantai, pursuant to which Jiangxi Shunda has made advance in an aggregate amount of RMB12,000,000 to Jiangxi Jiangong;
“Independent Third Party”	an individual or a company who is not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates;

“Jiangxi Jiangong”	江西建工第一建築有限責任公司, a company incorporated in the PRC with limited liability;
“Jiangxi Shunda”	江西省順大建築安裝工程有限公司, a company incorporated in the PRC with limited liability and a 51% owned subsidiary of the Company;
“Shareholders”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“HK\$”	Hong Kong dollars, lawful currency of Hong Kong.

For the purpose of this announcement, unless otherwise indicated, the exchange rates of RMB1 = HK\$1.114 has been used for currency translation, where applicable. Such exchange rates are for the purpose of illustration only and do not constitute a representation that any amount in HK\$ or RMB have been, could have been or may be converted at such or any other rates or at all.

By Order of the Board of
China Water Industry Group Limited
Wang De Yin
Chairman and Chief Executive Officer

Hong Kong, 3 August 2012

As at the date of this announcement, the board of directors of the Company comprises Mr. Wang De Yin, Mr. Lin Yue Hui, Mr. Liu Feng, Ms. Chu Yin Yin, Georgiana and Ms. Deng Xiao Ting, all being executive directors, and Mr. Chang Kin Man, Mr. Wu Tak Lung and Mr. Guo Chao Tian, all being independent non-executive directors.