
THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Water Industry Group Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1129)

SPECIFIC MANDATE TO ISSUE NEW HK DOLLAR CONVERTIBLE BONDS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening the extraordinary general meeting of China Water Industry Group Limited to be held at Boardroom 5, Ground Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 20 September 2010 at 9:30 a.m. is set out on pages 17 to 18 of this circular. Whether or not you are able to attend the extraordinary general meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit at the branch share registrar of the Company in Hong Kong, Union Registrars Limited at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting or any adjourned meeting (as the case may be) should you so wish.

* *for identification purpose only*

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DEFINITIONS

In this circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

“Board”	the board of Directors.
“Company”	China Water Industry Group Limited, a company incorporated in the Cayman Islands with limited liability whose 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 13 August 2010 entered into between the Company and each Majority Investor in connection with the restructuring of the Existing Bonds.
“Directors”	the directors of the Company.

DEFINITIONS

“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 Bonds a gross yield of 10% per annum, calculated on a semiannual 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”	the extraordinary general meeting of the Company to be held at Boardroom 5, Ground Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 20 September 2010 at 9:30 a.m. or any adjournment thereof to consider and, if appropriate, to approve the resolution as set out in the Notice.
“Existing Bonds”	HK\$385,000,000 0.25% Convertible Bonds due 2012 issued in August 2007.
“Group”	the Company and its subsidiaries taken as a whole.
“HK\$” or “HK Dollar”	Hong Kong dollars, the lawful currency of Hong Kong.
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC.
“Latest Practicable Date”	31 August 2010, being the latest practicable date in ascertaining certain information in this circular.
“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.
“New Bonds”	HK Dollar Convertible Bonds due 2012 in the aggregate principal amount of HK\$337 million.
“Pro-Rata Portion”	with respect to any holder of the New Bonds (other than the Company and its subsidiaries), the percentage of outstanding New Bonds held by such holder of the New Bonds.

DEFINITIONS

“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 in New Bonds from the Majority Investors in accordance with the terms of each Definitive Agreement.
“Securities Act”	the U.S. Securities Act of 1933, as amended.
“Shareholder(s)”	holder of Share(s).
“Share Repurchases Code”	the Code of Share Repurchases issued by the Securities and Futures Commission of Hong Kong.
“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).

LETTER FROM THE BOARD



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

Executive Directors:

Mr. Li Yu Gui (*Chairman*)
Mr. Yang Bin (*Chief Executive Officer*)
Mr. Liu Bai Yue (*Chief Operating Officer*)
Ms. Chu Yin Yin, Georgiana
Mr. Li Wen Jun

Registered office:

Butterfield House,
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Independent Non-executive Directors:

Mr. Chang Kin Man
Mr. Wu Tak Lung
Mr. Gu Wen Xuan

*Head office and principal place
of business in Hong Kong:*

Room 1207, 12th Floor
West Tower, Shun Tak Centre
No. 168-200 Connaught Road Central
Hong Kong

3 September 2010

To the Shareholders

Dear Sir or Madam,

**SPECIFIC MANDATE TO ISSUE NEW HK DOLLAR CONVERTIBLE BONDS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to provide you with information in respect of the ordinary resolution to be proposed at the EGM to approve the Specific Mandate.

The Notice setting out the details of the resolution to be proposed at the EGM is set out on pages 17 to 18 of this circular.

* *for identification purpose only*

LETTER FROM THE BOARD

SPECIFIC MANDATE TO ISSUE CONVERTIBLE BONDS

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 held by the Majority Investors is approximately HK\$403 million comprising of approximately HK\$66 million in cash payable in instalments, HK\$162 million in aggregate principal amount of New Bonds (excluding the Repurchase Bonds) and HK\$175 million in aggregate principal amount of Repurchase Bonds (which will be repurchased by the Company in instalments and exchanged for cash in accordance with its Repurchase Obligation) (excluding any interest costs).

Subject to the Specific Mandate having been duly approved by the Shareholders, the New Bonds will be issued as part consideration for the repayment of the Existing Bonds held by the Majority Investors. Upon issuance of the New Bonds (which is expected to take place in September 2010 after the EGM), the Majority Investors' remaining interests in the Existing Bonds shall be repurchased and replaced with interests in the New Bonds (which will include the Repurchase Bonds).

Although the New Bonds have an aggregate principal amount of HK\$337 million, the Company has agreed with the Majority Investors to repurchase HK\$175 million of the New Bonds (being the Repurchase Bonds) in instalments in exchange for cash. Such repurchases will be made as exempt share repurchases under the Share Repurchases Code. The Repurchase Bonds will be repurchased by the Company in cash at a repurchase price per Repurchase Bond that would give the relevant Majority Investor a return equal to the sum total of the principal and accreted yield due on each Existing Bond held by it as at 3 August 2010 (being the original put option redemption date under the Existing Bonds). Such repurchases will be made in December 2010, July 2011 and March 2012. The relevant Repurchase Bonds will be cancelled following settlement of each repurchase by the Company. The Majority Investors have agreed that the Repurchase Bonds cannot be converted into Shares, redeemed or disposed of, unless the Company is unable to complete its Repurchase Obligations.

Save for the restrictions on the Repurchase Bonds, the New Bonds issued for the Existing Bonds will 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 the 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 Latest Practicable Date and approximately 26.65% of the issue share capital of the Company as enlarged by the full conversion of the New Bonds (excluding the Repurchase Bonds). Assuming full conversion of the New Bonds (including the Repurchase Bonds) at the initial

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conversion price, the New Bonds will be convertible into 2,246,666,666 Shares, representing approximately 75.60% of the issued share capital of the Company as at the Latest Practicable Date and approximately 43.05% of the issue share capital of the Company as enlarged by the full conversion of the New Bonds (including the Repurchase Bonds). Accordingly, the issue of the New Bonds and the Conversion Shares are subject to approval by the Shareholders and the Company will convene the EGM (a notice of which is set out on pages 17 to 18 of this circular) to consider and, if thought fit, pass the shareholder resolution to approve the Specific Mandate.

Conditions to the Issuance of the New Bonds

Completion of the Definitive Agreements entered into between the Company and the Majority Investors is not subject to the fulfillment of any conditions precedent except for the approval of the Specific Mandate by the Shareholders and such approval remaining in full force and effect.

The Issue date for the issuance of the New Bonds is expected to take place on 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 Majority Investors may agree.

Termination Rights Prior to Issuance of New Bonds

If either the Company or a Majority Investor fails or is unable to perform any material obligation required to be performed by it for completion of the relevant Definitive 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.

Pre-emptive Rights and Tag Along Rights

The Company has agreed that certain limited participation rights in respect of future share issuance or sales by the Company would be given to the holders of the New Bonds in accordance with the terms and conditions of the New Bonds. Details of such rights are set out in the section headed “Principal Terms of the New Bonds”.

In the case of the pre-emptive rights, the holders of the New Bonds will not have any Shareholder rights prior to conversion of the New Bonds (by virtue of their being holders of

LETTER FROM THE BOARD

the New Bonds) and hence will not be able to participate in any pre-emptive issue of securities to its Shareholders or any capitalisation issue undertaken by the Company.

In the case of the tag along rights, the Company believes that the tag along rights granted to the holders of the New Bonds is in the interests of the Company and Shareholders as a whole as (i) it is part of overall commercial bargain reached for the consensual restructuring of the Existing Bonds (in which the Company was, among other things, able to extend the maturity of the amounts owed by it and make payments on a deferred basis) and (ii) it will reduce the Company's indebtedness if the tag along rights are exercised by the holders of the New Bonds (since such holders will need to convert their New Bonds into Conversion Shares).

Principal Terms of the New Bonds

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 <i>pari passu</i> 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.

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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.

The Conversion Price was determined with reference to the prevailing market price of the Shares and was negotiated on an arm's length basis between the Company and the Majority Investors.

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 conversion notice is deposited) on 9 August 2012.

Ranking of Conversion Shares : The Conversion Shares to be issued upon conversion will be allotted and issued pursuant to the Specific Mandate to be sought at the EGM.

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 as provided herein, the Company will redeem each Bond at 121.0119% of its principal amount on 16 August 2012 plus interest accrued.

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- 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.

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- 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 restrictions on conversion, redemption and disposal that the Company and the Majority Investors have agreed to in respect of the Repurchase Bonds).

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 Existing Bonds) and/or such further Debt and/or any amendment thereof, shall be expressly excluded.

LETTER FROM THE BOARD

Effect on Shareholding

The following table summarises the shareholding structure of the Company as at the Latest Practicable Date and as a result of the full conversion of the New Bonds:

	As at the Latest Practicable Date		Assuming the New Bonds (excluding the Repurchase Bonds) are fully converted in Shares at the initial Conversion Price of HK\$0.15 per Share		Assuming the New Bonds (including the Repurchase Bonds) are fully converted at the initial Conversion Price of HK\$0.15 per Share (Note 1)	
			No. of Shares	%	No. of Shares	%
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Boost Skill	265,479,000	8.93	265,479,000	6.55	265,479,000	5.09
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	5,432,000	0.10
Subtotal	455,911,000	15.33	455,911,000	11.25	455,911,000	8.73
Public:						
Bondholders	–	0.00	1,080,000,000	26.65	2,246,666,666	43.05
Other public Shareholders	2,515,944,000	84.67	2,515,944,000	62.10	2,515,944,000	48.22
Total	<u>2,971,855,000</u>	<u>100.00</u>	<u>4,051,855,000</u>	<u>100.00</u>	<u>5,218,521,666</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.

Contrary to the announcement published by the Company on 13 August 2010, one or more of the holders of the New Bonds may become substantial shareholders (as such term is defined in the Listing Rules) of the Company upon full conversion of the New Bonds. The Company does not expect a change in its controlling shareholder (as such term is defined in the Listing Rules) by reason of only the New Bonds (excluding the Repurchase Bonds) being converted

LETTER FROM THE BOARD

in full. The Company does not expect the Repurchase Bonds to be converted because of the restrictions mentioned in this circular.

As at the Latest Practicable Date, 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 Latest Practicable Date.

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 Majority Investors to restructure Majority Investors' rights and obligations under the Existing Bonds. The key reasons for the Company and the Majority Investors agreeing to have the Repurchase Bonds form part of the New Bonds rather than issuing separate convertible bonds are to minimise negotiation time required for the restructuring and reduce costs, especially since it has been agreed that the Repurchase Bonds will be repurchased on the relevant repurchase dates at the relevant repurchase price.

The Board considers that the terms of each Definitive Agreement entered into with the Majority 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. In particular, (i) the issue of the New Bonds will lessen the cash flow pressure on the Company by extending the maturity term of a substantial portion of the amounts that would otherwise be owed to the Majority Investors on 3 August 2010 and encourage conversion of the New Bonds into Conversion Shares (with the initial conversion price at HK\$0.15 per Share); and (ii) any interest and premium payable by the Company on the New Bonds would at least be comparable to the overall funding costs that the Company would incur in respect of funding from other independent non-bank financial institutions which are not connected to the Company.

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.

LETTER FROM THE BOARD

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 Latest Practicable Date:

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds as at the Latest Practicable Date
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 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 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.

The Company confirms, as at the date hereof, that, to the best of its knowledge and belief, (a) each of the Majority Investors and its associates (as such term is defined in the Listing Rules) are independent third parties who are not connected persons (as such term is defined in Listing Rules) of the Company; (b) there are no arrangements that the Company is aware of to transfer the New Bonds to connected persons of the Company and (c) none of the holders of the New Bonds have any relationship with the vendors or their associates regarding the very substantial acquisition announced on 8 May 2009.

The Company further confirms that it will comply with the relevant Listing Rule requirements in relation to each repurchase of Repurchase Bonds (including complying with Rule 13.31 of the Listing Rules).

LETTER FROM THE BOARD

EXTRAORDINARY GENERAL MEETING

The Notice is set out on pages 17 to 18 of this circular. At the EGM, resolution will be proposed to approve, inter alia, the issue of the Specific Mandate. In compliance with Listing Rules, the ordinary resolution will be voted by way of poll and the results of the EGM will be published after the EGM.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the website of the Stock Exchange (www.hkex.com.hk). In order to be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited at the branch share registrar of the Company in Hong Kong, Union Registrars Limited at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of authority, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. The completion and return of the form of proxy will not preclude any Shareholder from attending and voting at the meeting if so wished.

RESPONSIBILITY STATEMENT

This circular includes particulars given for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading and deceptive, and there are no other facts the omission of which would make any statement herein misleading.

RECOMMENDATION

The Directors consider that the approval of the Specific Mandate and issuance of the New Bonds is in the best interests of the Company and the Shareholders. The Directors therefore recommend the Shareholders to vote in favour of the resolution as set out in the Notice on pages 17 to 18 of this circular.

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

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

NOTICE IS HEREBY GIVEN that the Extraordinary General Meeting of China Water Industry Group Limited (the “**Company**”) will be held at Boardroom 5, Ground Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Monday, 20 September 2010 at 9:30 a.m. to consider and, if thought fit, pass with or without modification the following ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** subject to, and in accordance with, the terms of the definitive agreements (the “**Definitive Agreements**”) dated 13 August 2010 between the Company and the majority investors (a copy of each Definitive Agreement and a copy of the terms and conditions of the New Bonds are produced to the meeting for the purpose of identification), (1) the issue of the new HK Dollar Convertible Bonds due 2012 in the aggregate principal amount of HK\$337 million (the “**New Bonds**”) and the conversion rights attached thereto and (2) the issue and allotment of shares of the Company (the “**Shares**”) upon the exercise of the conversion rights attaching to the New Bonds at the then prevailing conversion price (subject to adjustment), which at the initial conversion price of HK\$0.15 per Share will result in 2,246,666,666 Shares to be issued upon full conversion of the New Bonds shall be and is hereby unconditionally approved and a specific mandate granted in respect thereof and (3) any of the directors of the Company (“**Director**”) or the secretary of the Company be and is hereby authorised on behalf of the Company:

- (A) to issue the New Bonds and the conversion rights attached thereto;
- (B) to issue and allot such number of Shares as required upon exercise of the conversion rights attaching to the New Bonds at the then prevailing conversion price (subject to adjustment) in accordance with the terms and conditions of the New Bonds; and

* *for identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (C) to sign, seal, execute and/or deliver all such documents and do all such deeds, acts, matters and things as any of the Directors may in his discretion consider necessary or desirable for the purpose of or in connection with the issue of the New Bonds and/or allotment and issue of the Shares upon conversion of the New Bonds and/or all transactions contemplated thereunder.”

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

Registered office:

Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1167
Cayman Islands

*Head office and principal place of
business in Hong Kong:*

Room 1207, 12th Floor
West Tower, Shun Tak Centre
No. 168-200 Connaught Road Central
Hong Kong

Hong Kong, 3 September 2010

Notes:

- (1) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at branch share registrar of the Company in Hong Kong, Union Registrars Limited at 18/F., Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (2) In the case of joint holders of shares in the Company, the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holders, seniority being determined by the order in which names stand in the register of members.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting in person at the extraordinary general meeting or any adjournment.
- (4) As at the date of this notice, 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.