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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 TRANSACTION ACQUISITION OF GOLDTRUST WATER HOLDINGS LIMITED

On 27 April 2015 after trading hours, the Purchaser, a wholly owned subsidiary of the Company, entered into the Agreement with the Vendors pursuant to which the Purchaser agreed to purchase the Sale Shares from the Vendors at the total consideration of US\$109,712,736 in cash.

The Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The Agreement

Date: 27 April 2015

Parties:

1. AIRRO Cayman Holdings IV Corp. and Ms. Lu Hai as vendors; and
2. China Water International Limited as purchaser.

Subject matter:

The Sale Shares, being 100% of the issued share capital in the Target.

Consideration:

The Consideration for the Acquisition is US\$109,712,736 in cash to be paid upon Completion. Part of the Consideration in the sum of US\$17,852,795 represents payment in exchange for the 9.7% equity interest in Shenzhen Bus Group.

The Consideration was determined after arm's length negotiations between the Vendors and the Purchaser on normal commercial terms with reference to the financial and operating performance and growth prospect of the Target Group.

Conditions:

The obligations of the Vendors to sell the Sale Shares under the Agreement are conditional upon, amongst others, receipt of the Consideration and the representations and warranties of the Purchaser contained in the Agreement to be true and correct in all material respects.

The obligations of the Purchaser to purchase the Sale Shares under the Agreement are conditional upon, amongst others, AIRRO shall have exercised the drag along right provided under a shareholders and management agreement obligating Ms. Lu to sell such part of the Sales Shares owned by Ms. Lu; the Li Zhong Guarantees in respect of the Relevant Indebtedness of certain subsidiaries of the Target shall remain in force and effect and the representations and warranties of the Vendors contained in the Agreement shall be true and correct in all material respects.

The Purchaser shall also deliver a counter guarantee in favor of Mr. Li Zhong in respect of his obligations under the Li Zhong Guarantees regarding the Relevant Indebtedness of certain subsidiaries of the Target.

As Completion is subject to the fulfillment (or if applicable, waiver) of the Conditions set out in the Agreement, the Acquisition may or may not proceed and may terminate upon, among other conditions, breach of representation or warranty by, or failure to comply with its respective covenants by, either Vendors or Purchaser under the Agreement.

INFORMATION ON THE TARGET GROUP

The Target is an exempted company incorporated with limited liability in the Cayman Islands. The Target Group is principally engaged in water supply, sewage treatment and other water related businesses in the PRC. The Target Group currently has 15 water projects in various provinces in the PRC, including Guangdong, Shaanxi, Shandong and Jiangsu. In respect of water supply business, the Target Group has a total long-term design capacity of 1,050,000 tons per day (including 300,000 tons per day from completed projects in operation and the remaining capacity from projects in preparatory stage). In respect of sewage treatment business, the Target Group has a total long-term design capacity of 725,000 tons per day (including 350,000 tons per day from completed projects in operation and the remaining capacity from projects in preparatory stage). The Target Group also has concession contracts to manage various municipal drainage pipe network of approximately 3,000 km. In addition, the Target Group holds 9.7% equity interest in Shenzhen Bus Group which is principally engaged in providing public bus transportation services in Shenzhen.

After Completion, the Target will be accounted for as a subsidiary of the Company.

According to the unaudited consolidated accounts of the Target, the unaudited financial results of the Target are as follows:

	Net profit before taxation (RMB)	Net profit after taxation (RMB)
For the year ended 31 December 2013	30.25 million	21.51 million
For the year ended 31 December 2014	33.53 million	25.43 million

The unaudited consolidated net assets of the Target as at 31 December 2014 was approximately RMB470.07 million.

The unaudited consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”) of the Target for the year ended 31 December 2014 was approximately RMB64 million.

INFORMATION ON THE VENDORS

AIRRO is principally engaged in investment holding.

To the best of the Directors’ information and belief, and after making all reasonable enquiries, each of the Vendors and their respective ultimate beneficial owners are Independent Third Parties.

REASONS FOR THE ACQUISITION

The Group is principally engaged in city water supply and sewage treatment business in the PRC. The Company considers that the Acquisition will enable the Group to further strengthen its water supply, sewage treatment and other water related businesses in the PRC.

The Acquisition is expected to i) add 650,000 tons per day to the Group’s overall water supply and sewage treatment capacity; ii) contribute to the EBITDA of the Group; and iii) secure 1.13 million tons per day increase in overall water supply and sewage treatment capacity in the future. It is the single largest acquisition of the Group in terms of capacity increment.

The Acquisition, upon Completion, will not only expand the Group’s strategic coverage in Shandong and Shaanxi, increase the Company’s business scale, market share and brand awareness in Guangdong and Jiangsu, but will also create synergies with other existing water projects of the Company in Guangdong and Jiangsu. Together with the Group’s other water projects in Guangdong province, it will also form a business development and management hub in the Southern PRC market of the Group.

Furthermore, the Target has an outstanding management team who has been presented with an Award of Merit for operation and management (“O&M”) for eight consecutive years in the PRC water industry. It has also undertaken a number of municipal drainage pipe network O&M projects, with Class A Accreditation for Operation of Environmental Pollution Control Facilities by the Ministry of Environmental Protection, and Comprehensive Professional O&M Qualification from the Shenzhen Water Affairs Bureau. Its O&M experience and credibility built up over the years will expose the Group to a new line of business in the O&M projects. Combining both the Group’s experience on petrochemical waste water treatment and the Target Group’s experience and expertise in waste water treatment and O&M projects will also strengthen the Group’s ability in the development of high value added industrial waste water treatment business.

All these lay a solid foundation for a stronger development of the Company in the PRC water industry.

The Directors are of the view that the terms and conditions of the Acquisition are fair and reasonable and the Acquisition is in the interests of the Company and the shareholders of the Company as a whole.

LISTING RULES IMPLICATIONS

As the relevant percentages under Rule 14.07 of the Listing Rules is more than 5% but below 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and phrases have the following meanings:

“Acquisition”	the acquisition of the Sale Shares by the Purchaser pursuant to the Agreement
“Agreement”	the conditional share purchase agreement dated 27 April 2015 made between the Vendors and the Purchaser relating to the sale and purchase of the Sale Shares
“AIRRO”	AIRRO Cayman Holdings IV Corp.
“Board”	the board of directors of the Company
“Company”	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the Stock Exchange

“Completion”	completion of the Agreement after satisfaction of all Conditions
“Conditions”	the conditions to Completion as referred to in the paragraph headed “Conditions” in this announcement
“Consideration”	US\$109,712,736 being the total consideration for the Acquisition
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	an independent third party, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, who is not connected with the Company and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Li Zhong Guarantees”	The personal guarantee provided by Mr. Li Zhong in favor of (i) China Development Bank Corporation for a loan agreement entered into on 26 June 2009 by and between Goldtrust Group (Shenzhen) Co., Ltd. and Baoji Goldtrust Water Co. Ltd. and China Development Bank Corporation and (ii) China Development Bank Corporation for a loan agreement entered into on 25 September 2009 by and between Goldtrust Group (Shenzhen) Co., Ltd. and BaojiChencang Goldtrust Co., Ltd. and China Development Bank Corporation (the “ Relevant Indebtedness ”)
“Ms. Lu”	Ms. Lu Hai
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	China Water International Limited, a wholly owned subsidiary of the Company

“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	100% of the issued share capital in the Target owned by the Vendors
“Shenzhen Bus Group”	Shenzhen Bus Group Co., Ltd.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Goldtrust Water Holdings Limited, an exempted company incorporated with limited liability in the Cayman Islands
“Target Group”	the Target and its subsidiaries
“US\$”	United States Dollar, the lawful currency of the United States
“Vendors”	collectively AIRRO and Ms. Lu

By order of the Board
China Water Affairs Group Limited
Duan Chuan Liang
Chairman

Hong Kong, 27 April 2015

As at the date of this announcement, the Board comprises three executive Directors, being Mr. Duan Chuan Liang, Ms. Ding Bin and Ms. Liu Yu Jie, four non-executive Directors, being Mr. Chen Guo Ru, Mr. Zhao Hai Hu, Mr. Zhou Wen Zhi and Mr. Makoto Inoue, and four independent non-executive Directors, being Ms. Huang Shao Yun, Ms. Liu Dong, Mr. Chau Kam Wing and Mr. Ong King Keung.

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

* *For identification purposes only*