



THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

27 November 2008

CRITICISM

of

**China Water Affairs Group Limited (the “Company”) (Stock Code: 855)
for breaching Rules 13.09(1) and 14.37 of the Rules Governing the Listing of Securities
on The Stock Exchange of Hong Kong Limited (the “Listing Rules”)**

The Stock Exchange of Hong Kong Limited (the “**Exchange**”) hereby publicly criticises the Company for its breach of Rule 13.09(1) and also Rule 14.37 of the Listing Rules in respect of its selective dissemination of unpublished price-sensitive information regarding the transactions (the “**Transactions**”) prior to the Company’s announcement dated 11 July 2007 (the “**Announcement**”), to an investment analyst (the “**Analyst**”) on the evening of 3 July 2007, and for failing to ensure confidentiality of information regarding the Transactions pending publication of the Announcement.

Facts

With effect from 9:30 a.m. on Tuesday, 3 July 2007, trading in the Company’s shares was suspended pending the release of an announcement regarding “*possible major transactions*”.

On the evening of 3 July 2007, during a telephone conversation (the “**Telephone Conversation**”), a member of the Company’s staff (the “**Staff Member**”) who was in charge of investor relations at the material time, disseminated certain unpublished price-sensitive information regarding the Transactions to the Analyst. The information disseminated included the Company’s disposal of its interest in China Environmental Water Holdings Limited to Wah Yuen Holdings Limited at a consideration of HK\$200 million, and details of how the consideration would be satisfied (collectively the “**Information**”).

At around 5:37 p.m. on 4 July 2007, the Company submitted, via its solicitors, the first draft of the Announcement disclosing the Transactions to the Exchange for clearance.

On 5 July 2007, an article regarding the Transactions written by the Analyst was published and distributed through the intranet of the Analyst’s employer and Bloomberg news channel.

At around 10:43 p.m. on 11 July 2007, the Company published on the Exchange’s website the Announcement disclosing the Transactions.

Trading in the Company’s shares resumed with effect from 9:30 a.m. on 12 July 2007.

Exchange's Investigations

Following investigation into this matter, the Exchange is of the view that:

1. the Company has breached Rule 13.09(1) of the Listing Rules, as:
 - (a) the Information was, at the time of the Telephone Conversation, unpublished information which might reasonably be expected to materially affect market activity in and the price of the Company's securities under Rule 13.09(1)(c); and
 - (b) the Staff Member's disclosure of the Information during the Telephone Conversation constituted selective dissemination of potentially price-sensitive information; and
2. the Company has also breached Rule 14.37 of the Listing Rules, as:
 - (a) the Company had not ensured confidentiality of the Information until publication of the Announcement as a result of the selective dissemination of the Information to the Analyst in the evening of 3 July 2007.

The Listing Division acknowledges that the Company has taken relatively prompt action in enhancing its internal control systems for ensuring even dissemination of potentially price-sensitive information and price-sensitive information. These include reducing the internal control measures into a set of written guidelines and recruiting a new investor relations officer to handle the Company's release of price-sensitive information to external parties.

Settlement

As a consequence of a settlement,

1. the Company accepts that it was in breach of Rules 13.09(1) and 14.37 in respect of the matters set out above (collectively the "**Breaches**"); and
2. the Company accepts the issue of a public statement of criticism against it for the Breaches.

Sanction

Accordingly, the Exchange hereby publicly criticises the Company for breaching Rules 13.09(1) and 14.37.

For the avoidance of doubt, the Exchange confirms that this criticism applies only to the Company and not to any past or present member of the Board of Directors of the Company.

Richard Williams, Head of Listing, said, “There is a misguided perception in some quarters of the market that selective disclosure of unpublished price sensitive information during a trading suspension is acceptable or of little or no regulatory significance because as no one can trade on the Exchange there can be no harm. This is far from the case. First, the recipients of such information are placed in the privileged position of having greater time to analyse and consider their response to the unpublished information. Second, recipients can conduct off-market transactions with certain counterparties. Third, selective disclosure damages the integrity of the market. It corrodes investor confidence and primarily for this reason the Exchange will continue to take actions to enforce the requirement that disclosure must be through HKEx EPS first.”