

IN THE GRAND COURT OF THE CAYMAN ISLANDS
Financial Services Division

CAUSE NO. FSD 181 OF 2011 ()

IN THE MATTER OF CHINA WATER INDUSTRY GROUP LIMITED

AND in the matter of the Companies Law (2011 Revision)

AND the Grand Court Rules 1995 Order 102



PETITION

TO: The Grand Court of the Cayman Islands



THE PETITION of CHINA WATER INDUSTRY GROUP LIMITED shows as follows:

1. The object of this Petition is to seek an Order of the Court pursuant to section 15 of the Companies Law (2011 Revision) (the "Companies Law") confirming a reduction of the share capital of the Petitioner, CHINA WATER INDUSTRY GROUP LIMITED (the "Company").
2. The Company was incorporated on 27 July 2001 under the Companies Law as an exempted company with registration number CR-111882.
3. The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
4. As at the date of incorporation of the Company on 27 July 2001, its authorised share capital was HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each.
5. By resolutions of the sole shareholder of the Company passed on 28 December 2001, the authorised share capital of the Company was increased from HK\$100,000 divided

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into 1,000,000 ordinary shares of HK\$0.10 each to HK\$200,000 divided into 2,000,000 ordinary shares of HK\$0.10 each.

6. By resolutions of the then shareholders of the Company passed on 28 December 2001, the authorised share capital of the Company was increased from HK\$200,000 divided into 2,000,000 ordinary shares of HK\$0.10 each to HK\$400,000,000 divided into 4,000,000,000 ordinary shares of HK\$0.10 each.
7. By resolutions of the then shareholders of the Company passed on 29 June 2009, the authorised share capital of the Company was increased from HK\$400,000,000 divided into 4,000,000,000 ordinary shares of HK\$0.10 each to HK\$1,000,000,000 divided into 8,000,000,000 ordinary shares of HK\$0.10 each and 2,000,000,000 convertible preference shares of HK\$1.00 each.
8. The shares of the Company have been listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 17 January 2002, and are traded on the main board of the Stock Exchange under stock code 1129. Over the years, the Company has allotted and issued various tranches of ordinary shares. As at the date of this petition, the authorised share capital of the Company is HK\$2,200,000,000 divided into 2,000,000,000 ordinary shares of HK\$1.00 each and 2,000,000,000 convertible preference shares of HK\$0.10 each and its issued share capital is HK\$410,331,766 divided into HK\$410,331,766 ordinary shares of HK\$1.00 each, which have been fully paid-up or credited as fully paid-up.
9. The objects for which the Company was established are unrestricted and shall include, but without limitation:
 - (a) to act and to perform all the functions of a holding company in all its branches and to co-ordinate the policies, administration, management, supervision, control, research, planning, trading and any other activities of any subsidiary or affiliated company or companies wherever incorporated or

carrying on business or of any group of companies of which the Company or any subsidiary or affiliated company is now or may become a member or which are now or may become in any manner associated with or controlled directly or indirectly by the Company.

- (b) to carry on any other business of any nature whatsoever which may seem to the directors of the Company to be capable of being conveniently carried on in connection or conjunction with any business of the Company hereinbefore or hereinafter authorised or to be expedient with a view to rendering profitable or more profitable any of the Company's assets or utilising its know-how or expertise;
- (c) to act as an investment company and for that purpose to acquire and hold upon any terms and, either in the name of the Company or that of any nominee, shares, stock, debentures, debenture stock, annuities, notes, mortgages, bonds, obligations and securities, foreign exchange, foreign currency deposits and commodities, issued or guaranteed by any company wherever incorporated or carrying on business, or by any government, sovereign, ruler, commissioners, public body or authority, supreme, municipal, local or otherwise, by original subscription, tender, purchase, exchange, underwriting, participation in syndicates or in any other manner and whether or not fully paid up, and to make payments thereon as called up or in advance of calls or otherwise and to subscribe for the same, whether conditionally or absolutely, and to hold the same with a view to investment, but with the power to vary any investments, and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof, and to invest and deal with the moneys of the Company not immediately required upon such securities and in such manner as may be from time to time determined.

10. The Articles of Association of the Company provide, *inter alia*, as follows:

“14. The Company may by Special Resolution reduce its share capital or undistributable reserve in any manner authorised and subject to any conditions prescribed by law.”

11. By resolutions of the Company in accordance with section 14(1) of the Companies Law at an extraordinary general meeting held on 26 September 2011 (the “Special Resolution”), it was resolved:

AS AN ORDINARY RESOLUTION, THAT:

- (a) every ten (10) issued shares of HK\$0.10 each be consolidated into one (1) new share of HK\$1.00 each (“Consolidated Share(s)”), as a result of which all the 8,000,000,000 authorized and issued shares of the Company of HK\$0.10 each will be consolidated into 800,000,000 authorized and issued Consolidated Shares (“Share Consolidation”);
- (b) immediately upon (and subject to) the Share Consolidation becoming effective, the authorised share capital of the Company be increased from HK\$1,000,000,000 divided into (i) 800,000,000 Consolidated Shares and (ii) 2,000,000,000 convertible preference shares par value HK\$0.10 each to HK\$2,200,000,000 divided into (i) 2,000,000,000 Consolidated Shares and (ii) 2,000,000,000 convertible preference shares par value HK\$0.10 each by the creation of an additional 1,200,000,000 Consolidated Shares (the “Capital Increase”); and
- (c) any fractions of Consolidated Shares arising on the Share Consolidation pursuant to paragraph (a) of this resolution shall not be allocated to the holders of the existing shares otherwise entitled thereto but such fractions shall be aggregated and if possible sold for the benefit of the Company or be

dealt with in such other manner as the Company may agree from time to time.

AS A SPECIAL RESOLUTION, THAT:

(a) immediately upon (and subject to) the Share Consolidation and the Capital Increase becoming effective:

(i) clause 8 of the memorandum of association of the Company be deleted in its entirety and replaced with the following new clause 8:

“8. The share capital of the Company is HK\$2,200,000,000 divided into (i) 2,000,000,000 ordinary shares par value HK\$1.00 each; and (ii) 2,000,000,000 convertible preference shares par value HK\$0.10 each, with power for the Company insofar as permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to provisions of the Companies Law (2010 Revision) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinfore contained.”;

(ii) article 6 of the articles of association of the Company be deleted in its entirety and replaced with the following new article 6:

“6. The authorised share capital of the Company shall be HK\$2,200,000,000 divided into (i) 2,000,000,000 ordinary shares par value HK\$1.00 each; and (ii) 2,000,000,000 convertible preference shares par value HK\$0.10 each.”

AS A SPECIAL RESOLUTION, THAT:

- (a) subject to the Share Consolidation and Capital Increase becoming effective, the par value of every issued Consolidated Share of the Company be reduced from HK\$1.00 to HK\$0.50 by the reduction of HK\$0.50 on each issued Consolidated Share of par value of HK\$1.00 each (the “Capital Reduction”), with each such reduced share being treated as one fully paid up new share of par value HK\$0.50 each (the “New Shares”). Any liability of the holders of such New Shares to make any further contribution to the capital of the Company in respect of each such New Share shall be treated as satisfied, and the amount of issued capital thereby cancelled shall be made available for issue of New Shares of the Company;
- (b) the credit balance arising from the Capital Reduction of approximately HK\$205,166,000 be applied in any manner as permitted by the Companies Law Cap. 22 (Law 3 of 1961) of the Cayman Islands as amended and revised (the “Cayman Companies Law”) and other applicable laws to, including but not limited to, the setting off the accumulated losses of the Company as at the effective date of the Capital Reduction;
- (c) immediately upon (and subject to) the Capital Reduction and the Sub-Division (as defined below) becoming effective:
 - (i) clause 8 of the memorandum of association of the Company be deleted in its entirety and replaced with the following new clause 8:

“8. The share capital of the Company is HK\$2,200,000,000 divided into (i) 4,000,000,000 ordinary shares par value HK\$0.50 each; and (ii) 2,000,000,000 convertible preference shares par value HK\$0.10 each, with power for the Company insofar as permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to provisions of the Companies Law (2010 Revision) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinafore contained.”;

(ii) article 6 of the articles of association of the Company be deleted in its entirety and replaced with the following new article 6:

“6. The authorised share capital of the Company shall be HK\$2,200,000,000 divided into (i) 4,000,000,000 ordinary shares par value HK\$0.50 each; and (ii) 2,000,000,000 convertible preference shares par value HK\$0.10 each.”

AS AN ORDINARY RESOLUTION, THAT:

(a) immediately upon (and subject to) the Capital Reduction becoming effective, each authorised but un-issued Consolidated Share with a par value of HK\$1.00 each shall be sub-divided into 2 New Shares with a par value of HK\$0.50 each (the “Sub-division”);

- (b) all the New Shares in the capital of the Company after completion of the capital restructuring pursuant to this resolution shall rank pari passu in all respects with each other and have the same rights and privileges and be subject to the restrictions contained in the memorandum and articles of association of the Company as amended pursuant to paragraphs (c) of the special resolution set out above; and
- (c) the directors of the Company ("Directors") be and are hereby authorised to take all necessary steps and do all such other things and acts and execute all such other documents (including the affixation of the common seal of the Company where execution under seal is required) which they may in their absolute discretion consider necessary, desirable, or expedient for the purpose of giving effect to or implementing any of the foregoing."
12. The special resolution to approve and give effect to the Capital Reduction was duly passed at an extraordinary general meeting of the Company's shareholders held on 26 September 2011 in satisfaction of the requirements for passing a special resolution to approve the Capital Reduction under the Articles of Association of the Company and under the Companies Law.
13. The proposed Capital Reduction does not involve either the diminution of any liability in respect of unpaid capital and the Company has no intention to make any payment of paid up capital of the Company to its sole shareholder. Furthermore, the proposed Capital Reduction will not alter the underlying assets, business operations, management or financial position of the Company.
14. The form of Minute proposed to be registered is as follows:

"The issued ordinary share capital of China Water Industry Group Limited was by virtue of a Special Resolution passed on 26 September 2011 and with the sanction of an Order of the Grand Court of the Cayman Islands dated [insert date] 2011, reduced from HK\$1.00 to

HK\$0.50 per issued share by the reduction of HK\$0.50 on each issued share (the "Capital Reduction"). At the date of the registration of this Minute, all such shares have been fully paid up or deemed to be fully paid up. The authorised share capital of the Company, on the registration of this Minute, is HK\$2,200,000,000 divided into (i) 4,000,000,000 ordinary shares par value HK\$0.50 each; and (ii) 2,000,000,000 convertible preference shares par value HK\$0.10."

Your Petitioner, the Company, therefore prays as follows:

- (1) That the Capital Reduction of the Company proposed to be effected by the Special Resolution set forth in paragraph 5 of this Petition may be confirmed and that the above-mentioned Minute may be approved by the Court.
- (2) That to this end, all necessary inquiries and directions may be made and given.
- (3) Such further and other order as this Honourable Court shall think fit.

NOTE: It is intended to serve this Petition on CHINA WATER INDUSTRY GROUP LIMITED, at its registered office located at Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Dated this ^{8th} day of *November* 2011



CONYERS DILL & PEARMAN
Attorneys-at-Law for the Petitioner herein

Notice of Hearing

This Petition having been presented to the Court on the 9th day of November 2011 will be heard at the Law Courts, George Town, Grand Cayman on the ___ day of _____ 2011 at _____ am/pm or as soon thereafter as the Petition can be heard.

This Petition was filed by Conyers Dill & Pearman, Attorneys-at-Law for and on behalf of the Petitioner herein whose address for service is that of its Attorneys, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands

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