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## **BEIJING ENTERPRISES WATER GROUP LIMITED**

**北控水務集團有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 371)**

### **(1) VERY SUBSTANTIAL ACQUISITION**

### **(2) CHANGE IN USE OF PROCEEDS OF TRANCHE 1 BOND**

### **(3) AMENDMENTS TO THE TERMS OF THE TRANCHE 2 BOND**

### **(4) RESUMPTION OF TRADING**

#### **THE ACQUISITION**

Reference is made to the announcement of the Company dated 14 August 2007 in relation to the proposed acquisition of an interest in a company with principal business in the sewage purification and treatment in the PRC.

The Board is pleased to announce that on 3 June 2008, the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendors, the Company and the Warrantors entered into the Acquisition Agreement. Pursuant to the Acquisition Agreement: (a) the Vendors agreed to sell and the Purchaser agreed to purchase the BVI Holdco Sale Shares (representing the entire issued share capital of the BVI Holdco) at a consideration of HK\$975,557,782; and (b) the Second Vendor agreed to use its best endeavours to procure the sale to the Purchaser, and the Purchaser agreed to procure the BVI Holdco to purchase the HK Holdco Sale Shares (representing the entire issued share capital of the HK Holdco) at a consideration of HK\$395,107,218. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Vendors and their respective ultimate beneficial owners is an Independent Third Party.

\* *For identification purposes only*

The BVI Holdco and the HK Holdco are investment holding companies, which upon completion of the conditions precedents as set out in the sections headed “Conditions Precedent” below, will be interested in approximately 62.94% and 25.49% equity interests in the PRC Holdco, respectively. The Acquired Group principally engages in waste water treatment in the PRC.

The consideration of HK\$975,557,782 for the BVI Holdco Sale Shares will be satisfied (i) as to HK\$386,253,657 by the issue of the BVI Holdco Consideration Shares; and (ii) as to HK\$589,304,125 by the issue of the BVI Holdco Convertible Bonds. The consideration of HK\$395,107,218 for the HK Holdco Sale Shares will be satisfied by (i) as to HK\$156,411,343 by the issue of the HK Holdco Consideration Shares; and (ii) as to HK\$238,695,875 by the issue of the HK Holdco Convertible Bonds.

### **CHANGE IN USE OF PROCEEDS OF THE TRANCHE 1 BOND**

Reference is made to the announcement by the Company dated 12 April 2007 in relation to the intended use of the proceeds received by the Company from the issue of the Tranche 1 Bond for investing in financial services sector, providing services such as asset management, corporate finance and securities dealing. In line with the change in the focus of the Group’s business, the Board has decided to change the application of the unused proceeds received from the Tranche 1 Bond to finance acquisitions in the water treatment and environmental business areas.

### **AMENDMENTS TO THE TERMS OF THE TRANCHE 2 BOND**

On 31 March 2008, the Company issued the Tranche 2 Bond to PWL. Pursuant to the terms and conditions of the Tranche 2 Bond, the right to convert the Tranche 2 Bond is subject to the Conversion Restriction. On 4 June 2008, the Company has waived the Conversion Restriction with respect to the Tranche 2 Bond. The conversion period of the Tranche 2 Bond will commence on 4 June 2008 and end on 14th day prior to the maturity date of the Tranche 2 Bond on 31 March 2011, being the third anniversary of the issue date of the Tranche 2 Bond.

### **UNDERTAKINGS TO EXERCISE THE FIRST CALL OPTION AND THE SECOND CALL OPTION, AND TO CONVERT THE FIRM BONDS, TRANCHE 1 BOND AND TRANCHE 2 BOND**

In anticipation of the possibility that the Company will not have sufficient public float after the Completion, the Company had held separate discussions with BEHL and PWL with a view to maintaining the public float by BEHL exercising the First Call Option and the Second Call Option and converting the First Option Bond, the Second Option Bond and the Firm Bond and by PWL converting the Tranche 1 Bond and the Tranche 2 Bond in full.

BEHL has undertaken with the Company to exercise the First Call Option and the Second Call Option and convert the resulting First Option Bond and Second Option Bond, and the Firm Bonds in full. Further, PWL has also undertaken to convert the Tranche 1 Bond and the Tranche 2 Bond in full.

## **GENERAL**

The Acquisition constitutes a very substantial acquisition on the part of the Company under the Listing Rules and is subject to the approval of the Shareholders at the SGM. Each of the Vendors and their associates is an Independent Third Party and does not hold any Shares as at the date of this announcement. Accordingly, no Shareholder is required to abstain from voting at the SGM. A circular containing, among other matters, further details of the Acquisition and a notice to convene the SGM will be despatched to the Shareholders in compliance with the Listing Rules.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 4 June 2008 pending the release of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 13 June 2008.

Reference is made to the announcement of the Company dated 14 August 2007 in relation to the proposed acquisition of an interest in a company with principal business in the sewage purification and treatment in the PRC.

## **ACQUISITION AGREEMENT**

### **Date:**

3 June 2008

### **Parties:**

Vendors:           the First Vendor  
                      the Second Vendor  
                      the Third Vendor

Purchaser:       the Purchaser

Guarantor:       the Company

Warrantors:      the First Warrantors  
                      the Second Warrantors  
                      the Third Warrantors

The principal activity of the First Vendor is investment holding. Based on the information provided by the First Vendor to the Company, the principal assets held by the First Vendor are the holding of approximately 27.52% of the enlarged issued share capital of the BVI Holdco. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the First Vendor and its ultimate beneficial owner, (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past; and (iv) is independent of and not connected with the Second Vendor or the Third Vendor and their respective associates.

The principal activity of the Second Vendor is investment holding. Based on the information provided by the Second Vendor to the Company, the principal assets held by the Second Vendor are the holding of approximately 44.96% of the enlarged issued share capital of the BVI Holdco. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Second Vendor and its ultimate beneficial owner, (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past; and (iv) is independent of and not connected with the First Vendor or the Third Vendor and their respective associates.

The principal activity of the Third Vendor is investment holding. Based on the information provided by the Third Vendor to the Company, the principal assets held by the Third Vendor are the holding of approximately 27.52% of the enlarged issued share capital of the BVI Holdco. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Third Vendor and its ultimate beneficial owner, (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past; and (iv) is independent of and not connected with the First Vendor or the Second Vendor and their respective associates.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Warrantors (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling shareholder, and its beneficial owners; and (iii) save for entering into the Acquisition Agreement, has no relationship, business or otherwise, with the Group at present or in the past. Furthermore, To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, (i) Terisa Yutinnie Liang is the shareholder and ultimate beneficial owner of the First Vendor; (ii) Hu Xiaoyong, Zhou Min and Hou Feng are the shareholders and ultimate beneficial owners of the Second Vendor; and (iii) Ngai Hiu Tung is the shareholder and ultimate beneficial owner of the Third Vendor.

Each of the First Warrantors guarantees to the Purchaser the due observance and performance by the First Vendor of all the agreements, obligations, commitments and undertakings stipulated in the Acquisition Agreement in respect of the sale and purchase of the First BVI Holdco Sale Shares. The First Warrantors further warrant that as at the date of the Acquisition Agreement and up to the First Completion Date, there is not and will not be any contingent liabilities or potential proceedings or arbitrations.

Each of the Second Warrantors guarantees to the Purchaser the due observance and performance by the Second Vendor of all the agreements, obligations, commitments and undertakings stipulated in the Acquisition Agreement in respect of the sale and purchase of the Second BVI Holdco Sale Shares and the HK Holdco Sales Shares. The Second Warrantors further warrant that as at the date of the Acquisition Agreement and up to the Second Completion Date, there is not and will not be any contingent liabilities or potential proceedings or arbitrations.

Each of the Third Warrantors guarantees to the Purchaser the due observance and performance by the Third Vendor of all the agreements, obligations, commitments and undertakings stipulated in the Acquisition Agreement in respect of the sale and purchase of the Third BVI Holdco Sale Shares. The Third Warrantors further warrant that as at the date of the Acquisition Agreement and up to the First Completion Date, there is not and will not be any contingent liabilities or potential proceedings or arbitrations.

The Guarantor guarantees to the Vendors the due observance and performance by the Purchaser of all the agreements, obligations, commitments and undertakings stipulated in the Acquisition Agreement. The Guarantor further warrants that as at the date of the Acquisition Agreement and up to the First Completion Date, there is not and will not be any contingent liabilities or potential proceedings or arbitration which has not been disclosed in the Company's annual report for the financial year ended 30 June 2007.

## **ASSETS TO BE ACQUIRED**

Subject to the terms and conditions of the Acquisition Agreement: (a) the Vendors agreed to sell to the Purchaser, and the Purchaser agreed to purchase the BVI Holdco Sale Shares at the BVI Holdco Consideration; and (b) the Second Vendor agreed to use its best endeavours to procure the sale of the HK Holdco Sale Shares, and the Purchaser agreed to procure the BVI Holdco to purchase the HK Holdco Sale Shares at the HK Holdco Consideration. The BVI Holdco Sales Shares and the HK Holdco Sales Shares represent the entire issued share capital of the BVI Holdco and the HK Holdco, respectively.

As at the date of this announcement, the BVI Holdco is in the process of acquiring 100% shareholding in China Field, a company owned as to 27.52% by the BVI Holdco, as to 44.96% by the Second Vendor and as to 27.52% by the Third Vendor. The Second Vendor and the Third Vendor will transfer their respective shareholdings in China Field in consideration for the equivalent number of shares of the BVI Holdco issued and allotted to them.

As at the date of this announcement, China Field holds approximately 62.94% equity interest in the PRC Holdco, as to approximately 25.49% equity interest in the PRC Holdco is being held by the Existing Shareholders of the PRC Holdco and as to 11.57% is being held by the Other Shareholders. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Other Shareholders and its ultimate beneficial owner, (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company's controlling Shareholder(s), and its beneficial owners; and (iii) has no relationship, business or otherwise, with the Group at present or in the past. The

HK Holdco entered into a number of equity transfer agreements dated 8 May 2008 with the Existing Shareholders of the PRC Holdco, pursuant to which the HK Holdco agreed to acquire an aggregate of approximately 25.49% equity interest from the Existing Shareholders of the PRC Holdco settled in cash. The transfer of the equity interest is subject to the approval by the relevant PRC governmental authority and it is expected that the approval will be obtained prior to the Second Completion Date.

The BVI Holdco and the HK Holdco are investment holding companies which will indirectly hold approximately 62.94% and 25.49% equity interests in the PRC Holdco upon the First Completion and the Second Completion, respectively. Upon the Second Completion, the BVI Holdco will be directly interested in the entire issued share capital of the HK Holdco, which in turn will directly hold an approximately 25.49% equity interest in the PRC Holdco. The BVI Holdco will therefore, indirectly hold approximately 88.43% equity interests in the PRC Holdco. The PRC Holdco, through its subsidiaries, is principally engaged in waste water treatment in China. Further information on the Acquired Group is set out in the section headed “Information on the Acquired Group” below.

As at the date of this announcement, the HK Holdco is owned as to approximately 48.7% by Allyking Holdings Limited, as to approximately 38.1% by Faith Access Holdings Limited, as to approximately 8.4% by Huge Jolly Holdings Limited and as to approximately 4.8% by Right Benefit Holdings Limited. To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, each of Allyking Holdings Limited, Faith Access Holdings Limited, Huge Jolly Holdings Limited and Right Benefit Holdings Limited and their respective ultimate beneficial owners (i) is an Independent Third Party; (ii) has no relationship, business or otherwise, with the Company’s controlling Shareholder(s), and its beneficial owners; (iii) has no relationship, business or otherwise, with the Group at present or in the past; and (iv) is independent of and not connected with the Vendors. If there is any change to the shareholding structure of the HK Holdco prior to the Second Completion, the Company will comply with the relevant requirements in the Listing Rules.

## **CONSIDERATION**

The Total Consideration payable by the Company to the Vendors being HK\$1,370,665,000 has been arrived at after arm’s length negotiations between the Company and the Vendors after taking into account, among others, the business prospects and the possible future earnings of the BVI Holdco Group, and the net asset value of the BVI Holdco and the HK Holdco, respectively. The Directors consider that the Consideration is fair and reasonable.

The BVI Holdco Consideration will be satisfied at the First Completion as follows:

- (i) as to HK\$131,364,555 by the allotment and issue of 190,383,413 Shares at the Issue Price, credited as fully paid, by the Company to the First Vendor or its nominee;
- (ii) as to HK\$123,524,547 by the allotment and issue of 179,021,082 Shares at the Issue Price, credited as fully paid, by the Company to the Second Vendor or its nominee;

- (iii) as to HK\$131,364,555 by the allotment and issue of 190,383,413 Shares at the Issue Price, credited as fully paid, by the Company to the Third Vendor or its nominee;
- (iv) as to HK\$137,150,381 by the issue of the First Convertible Bonds by the Company to the First Vendor or its nominee;
- (v) as to HK\$315,003,363 by the issue of the Second Convertible Bonds by the Company to the Second Vendor or its nominee; and
- (vi) as to HK\$137,150,381 by the issue of the Third Convertible Bonds by the Company to the Third Vendor or its nominee.

The HK Holdco Consideration will be satisfied at the Second Completion as follows:

- (i) as to HK\$156,411,343 by the allotment and issue of 226,683,106 Shares at the Issue Price, credited as fully paid, by the Company to the Second Vendor or its nominees; and
- (ii) as to HK\$238,695,875 by the issue of the HK Holdco Convertible Bonds by the Company to the Second Vendor or its nominees.

In the event that the Net Profits shall be less than RMB100 million, each of the Vendors shall compensate the Purchaser, at its option, in cash on a dollar-to-dollar basis in Hong Kong dollar based on the Agreed Exchange Rate within 10 business days from the date of release of the Relevant Accounts or by adjusting the BVI Holdco Consideration by deducting an amount equal to the Profit Shortfall and the principal amount of the First Convertible Bonds, the Second Convertible Bonds or the Third Convertible Bonds (as the case may be) shall be deemed to be repaid by the aforesaid compensation payable by the relevant holder(s) of the Convertible Bonds. The Vendors severally undertake to compensate the Purchaser the full amount of the shortfall within 10 business days from the date of release of the Relevant Accounts if the outstanding principal amount of the relevant Convertible Bonds is less than the Profit Shortfall.

Each of the Warrantors covenants with the Purchaser that subject to the applicable statutory limitation period under the laws of the PRC and Hong Kong, in the event of a breach of any of the Relevant Warranties, the Vendors shall compensate the Purchaser, at its option, in cash within 10 business days from the date of such claim (which shall have been adjudicated by competent court or arbitral tribunal or otherwise agreed), or by adjusting the BVI Holdco Consideration downward by the amount of the Purchaser's claim against the Warrantors for any loss or liability suffered by the Purchaser as a result of or in connection with any breach of the Relevant Warranties which the Purchaser may incur and the First Convertible Bonds, the Second Convertible Bonds and the Third Convertible Bonds shall be deemed to be repaid by the aforesaid compensation payable by the relevant Vendors (as the case may be). The Vendors severally undertake to compensate the Purchaser the full amount of the shortfall within 10 business days from the date of such claim if the outstanding principal amount of the relevant BVI Holdco Convertible Bonds is less than the amount of the claim for breach of the Relevant Warranties.

Each of the Warrantors covenants that it would indemnify and at all times keep indemnified the Purchaser (for itself and as trustee on behalf of the PRC Companies) on demand from and against any damages, losses, claims, costs of removal, loss of business, costs of reinstatement and any other liability of whatever nature arising as a result of or incidental to the earthquake in Sichuan Province, the PRC on 12 May 2008 and related aftershocks affecting the Acquired Group, in the amount representing the excess of RMB3 million payable, at its option, in cash by the Warrantors, or by adjusting the BVI Holdco Consideration downward by the amount of liability against the Warrantor, the First Convertible Bonds, the Second Convertible Bonds and the Third Convertible Bonds shall be deemed to be repaid by the amount payable by the relevant Warrantor. The Vendors severally undertake to compensate the Purchaser the full amount of the shortfall within 10 business days from the date of release of the Relevant Accounts if the outstanding principal amount of the relevant Convertible Bonds is less than the amount claimed.

Each of the Warrantors covenants with the Purchaser that if as at the second anniversary of the date of the Acquisition Agreement, all the receivable shown in the audited consolidated balance sheet of the PRC Holdco as at the First Completion Date could not be collected in full or realised of its full book value, the Vendors shall compensate the BVI Holdco, at its option, in cash on a dollar-to-dollar basis within 10 business days after the second anniversary of the date of the Acquisition Agreement, or by adjusting the BVI Holdco Consideration downward by the amount of outstanding receivable against the Warrantor for any loss or liability suffered by the Purchaser as a result of or in connection therewith, including without limitation, all costs and expenses which the Purchaser may incur, and the First Convertible Bonds, the Second Convertible Bonds or the Third Convertible Bonds shall be deemed to be repaid by the amount payable by the relevant holder(s) of the Convertible Bonds. The Vendors severally undertake to compensate the Purchaser the full amount of the shortfall within 10 business days after the second anniversary of the date of the Acquisition Agreement if the outstanding principal amount of the relevant Convertible Bonds is less than the amount claimed by the Purchaser.

In the event that any of the Company or the Acquired Group suffer or incur any loss or liability (which shall have been adjudicated by competent court or arbitration tribunal or otherwise as agreed) as stipulated in the First Tax Indemnity during the period between the First Completion Date and the second anniversary of the First Completion Date, the BVI Holdco Consideration shall be payable, at the options of the Vendors, in cash by the holders of the BVI Holdco Convertible Bonds, or by adjusting downwards by the amount equal to the Company's claim against the holders of the BVI Holdco Convertible Bonds for any loss or liability suffered or incurred by the Company or the Acquired Group as a result of or in connection with any claim which the Company or the Acquired Group may incur, the BVI Holdco Convertible Bonds shall be deemed to be repaid by such amount.



## CONDITIONS PRECEDENT

The First Completion of the Acquisition Agreement is conditional upon fulfillment of the following conditions:–

- (i) the approval by the Shareholders in general meeting of (a) increase in the authorised share capital of the Company (if applicable); (b) the Acquisition by the Purchaser of the BVI Holdco Shares, the HK Holdco Shares and the transactions contemplated under the Acquisition Agreement, including but not limited to the allotment and issue of the BVI Holdco Consideration Shares and the HK Holdco Consideration Shares, the issue of the BVI Holdco Convertible Bonds and the HK Holdco Convertible Bonds by the Company;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the BVI Holdco Consideration Shares, the HK Holdco Consideration Shares and the Conversion Shares;
- (iii) the continuous listing of and permission to deal in the issued Shares of the Company from the date hereof up to and including the First Completion Date save for any temporary suspension of dealing in compliance with the requirements of the Listing Rules;
- (iv) the Bermuda Monetary Authority granting its permission in respect of the increase in the authorised share capital of the Company; the allotment and issue and the subsequent free transferability of the BVI Holdco Consideration Shares, the Convertible Bonds and the Conversion Shares, if required;
- (v) the BVI Holdco having become the sole shareholder of China Field on terms satisfactory to the Purchaser;
- (vi) the BVI Holdco having settled the Relevant Loan in full by the allotment and issue of an aggregate of such number of Shares to the First Vendor, so that the First Vendor becomes interested in approximately 27.52% of the enlarged issued share capital of the Company, before the First Completion Date and the First Vendor having released and discharged the BVI Holdco from its obligations and liabilities in respect of the Relevant Loan;
- (vii) the receipt to the satisfaction of the Purchaser of legal opinion relating to the BVI Holdco, covering the due establishment and valid existence of the relevant entity under the laws of its establishment;
- (viii) the First Warranties remain true and accurate in all respects and not misleading in any respect as at the First Completion Date;
- (ix) all the requisite consents, authorisations, and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the Acquisition Agreement having been obtained by the Vendors;

- (x) the Purchaser being satisfied that there has been no Material Adverse Change as at the First Completion Date;
- (xi) no breach by the Warrantors of any obligations and undertakings under the Acquisition Agreement on the First Completion Date having occurred;
- (xii) each of the persons nominated by China Field having been appointed the directors of the PRC Holdco and the articles of association of the PRC Holdco having been duly amended so that the composition of the board of directors of the PRC Holdco is controlled by China Field on terms satisfactory to the Purchaser;
- (xiii) the Purchaser having received from the Vendors a legal opinion in a form satisfactory to the Purchaser to be issued by a reputable firm of PRC lawyers acceptable to the Purchaser confirming the change of directorship of the PRC Holdco and the amendment to the articles of association of the PRC Holdco as referred to in condition (xii) above have been effected in accordance with the PRC laws and regulations; and
- (xiv) the Company being able to maintain the public float requirement under Rule 8.08 of the Listing Rules upon the issue of the BVI Holdco Consideration Shares.

The Purchaser may waive the above conditions other than (i)(b), (ii), (iv) and (xiv) above. If the conditions above are not fulfilled or waived (as the case may be) on or before 30 September 2008 (or such other date as the Company and the Vendors may agree in writing), the Acquisition Agreement will be terminated, and all obligations of the Company and the Vendors under the Acquisition Agreement shall cease, provided that rights and liabilities of the parties thereto which have accrued prior to termination shall subsist.

The Second Completion of the Acquisition Agreement is conditional upon fulfillment of the following conditions:–

- (i) the First Completion having taken place;
- (ii) each of the Existing Shareholders of the PRC Holdco having transferred their respective equity interests in the PRC Holdco, representing approximately 25.49% in the PRC Holdco to the HK Holdco on terms satisfactory to the Purchaser;
- (iii) the Purchaser having notified the Second Vendor that it is satisfied with the results of its due diligence review on the HK Holdco;
- (iv) the Purchaser having received from the Second Vendor a legal opinion in a form satisfactory to the Purchaser to be issued by a reputable firm of PRC lawyers acceptable to the Purchaser confirming the transaction in (ii) above has been completed in accordance with the PRC laws and regulation;

- (v) the Second Warranties remain true and accurate in all respects and not misleading in any respect as at the Second Completion;
- (vi) the Purchaser being satisfied that there has been no Material Adverse Change as at the Second Completion Date;
- (vii) all other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of this Acquisition Agreement in connection with the sale and purchase of the HK Holdco Sale Shares having been obtained by the Vendors;
- (viii) there having been no breach by the Warrantors of any obligations and undertakings under the Acquisition Agreement on the Second Completion Date; and
- (ix) the Company being able to maintain the public float requirement under Rule 8.08 of the Listing Rules upon the issue of the HK Holdco Consideration Shares.

The Purchaser may waive the above conditions other than (i), (ii) and (ix) above. If the conditions above are not fulfilled or waived (as the case may be) on or before 3 June 2009 (or such other date as the Company and the Second Vendor may agree in writing), the Acquisition Agreement will be terminated, and none of the parties under the Acquisition Agreement shall be bound to proceed with the sale and purchase of the HK Holdco Sale Shares.

## **COMPLETION**

The First Completion shall take place on the date falling three business days after the fulfillment or waiver of the conditions precedent for the acquisition of the BVI Holdco Shares referred to above, or such later date as the Purchaser and the BVI Holdco may agree in writing.

The Second Completion shall take place on the date falling three business days after the fulfillment or waiver of the conditions precedent for the acquisition of the HK Holdco Shares referred to above, or such later date as the Purchaser and the Vendors may agree in writing.

## **BVI HOLDCO CONSIDERATION SHARES**

HK\$386,253,657 of the BVI Holdco Consideration is to be satisfied by the issue of 559,787,908 BVI Holdco Consideration Shares at the price of HK\$0.69 per BVI Holdco Consideration Share by the Company to the Vendors or their respective nominees at the First Completion.

The BVI Holdco Consideration Shares represent (i) 169.3% of the entire issued share capital of the Company as at the date of this announcement; (ii) approximately 62.9% of the entire issued share capital of the Company as enlarged by the issue of the BVI Holdco Consideration Shares; (iii) approximately 50.1% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares; (iv) approximately 16.6% of the entire issued share capital of the Company as enlarged by

the issue of the Consideration Shares, the shares to be issued upon full conversion of the Firm Bonds, Tranche 1 Bond and Tranche 2 Bond at their respective conversion price; and (v) approximately 12.3% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares, the shares to be issued upon full conversion of the Firm Bonds, Tranche 1 Bond and Tranche 2 Bond at their respective conversion price and the Conversion Shares upon full conversion of the Convertible Bonds at the Initial Conversion Price. Application will be made to the Listing Committee for the listing of, and permission to deal in, the BVI Holdco Consideration Shares.

## **HK HOLDCO CONSIDERATION SHARES**

HK\$156,411,343 of the HK Holdco Consideration is to be satisfied by the issue of 226,683,106 HK Holdco Consideration Shares at the price of HK\$0.69 per HK Holdco Consideration Share by the Company to the Second Vendor or its nominees at the Second Completion.

The Issue Price represents:

- (i) a discount of approximately 81.1% to the closing price of HK\$3.65 per Share as quoted on the Stock Exchange on 3 June 2008, being the last trading day prior to suspension of trading in the Shares on the Stock Exchange on 4 June 2008 at 9:30 a.m.
- (ii) a discount of approximately 80.9% to the average closing prices of approximately HK\$3.62 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 3 June 2008.
- (iii) a discount of approximately 79.5% to the average closing prices of approximately HK\$3.36 per Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 3 June 2008; and
- (iv) a premium of approximately 81.6% over the audited consolidated net asset value of the Company of approximately HK\$0.38 per Share as at 30 June 2007, being the date to which the latest audited financial statements of the Company were made up.

The HK Holdco Consideration Shares represent (i) 68.6% of the entire issued share capital of the Company as at the date of this announcement; (ii) approximately 40.7% of the entire issued share capital of the Company as enlarged by the issue of the HK Holdco Consideration Shares; (iii) approximately 20.3% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares; (iv) approximately 6.7% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares and the shares to be issued upon full conversion of the Firm Bonds, Tranche 1 Bond and Tranche 2 Bond at their respective conversion price; and (v) approximately 5.0% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares, the shares to be issued upon full conversion of the Firm Bonds, Tranche 1 Bond and Tranche 2 Bond at their respective conversion price and the Conversion Shares upon full conversion of the Convertible Bonds at the Initial Conversion Price. Application will be made to the Listing Committee for the listing of, and permission to deal in, the HK Holdco Consideration Shares.

## ISSUE PRICE

The Issue Price represents:

- (i) a discount of approximately 81.1% to the closing price of HK\$3.65 per Share as quoted on the Stock Exchange on 3 June 2008, being the last trading day prior to suspension of trading in the Shares on the Stock Exchange on 4 June 2008 at 9:30 a.m.
- (ii) a discount of approximately 80.9% to the average closing price of approximately HK\$3.62 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 3 June 2008.
- (iii) a discount of approximately 79.5% to the average closing prices of approximately HK\$3.36 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 3 June 2008.
- (iv) a premium of approximately 81.6% over the audited consolidated net asset value of the Company of approximately HK\$0.38 per Share as at 30 June 2007, being the date to which the latest audited financial statements of the Company were made up.

The Issue Price of the Consideration Shares has been arrived at after arm's length negotiations between the Company and the Vendors after taking in account, among others, the latest audited net asset value per Share of HK\$0.38 as at 30 June 2007, the historical persistent losses of the Group and the low historical trading volume of the Shares in general. The Directors consider that the Issue Price is fair and reasonable.

Prior to deciding on issuing the Consideration Shares as part of the consideration for the BVI Holdco Sale Shares and HK Holdco Sale Shares, the Company had explored other forms of fund raising methods, including bank borrowings, debt financing and proceeds from a rights issue of Shares. The Board is of the view that the Company would not be able to borrow at favourable terms given the present financial position of the Company. Moreover, the high interest rate will further affect the financial position of the Group. A rights issue of Shares entails negotiations with underwriters and there is uncertainty as to whether the Company will be able to find a suitable underwriter given the current market conditions. It also has relatively high transaction costs in comparison with the amount of funds being raised and takes longer time to complete.

Having considered various financing mechanisms to fund the Acquisition, the Board is of the view that issue of the Consideration Shares as part the consideration for the BVI Holdco Sale Shares and HK Holdco Sale Shares is appropriate for the following reasons: (i) the issue of the Consideration Shares and the Convertible Bonds for the Acquisition enables the Group to make an acquisition of a very significant business which it could not have afforded if cash consideration had been required; (ii) the Acquisition will significantly improve the revenue base and profitability of the Enlarged Group which is likely to lead to improved liquidity of the Shares; and (iii) the existing cash of the Group can be used for funding other possible acquisitions, the Directors consider that the current form of payment for the Acquisition is in the interests of the Company and the Shareholders as a whole.

## PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Set out below are the principal terms of the Convertible Bonds, which form part of the Total Consideration under the Agreement:–

Issuer: The Company

Principal amount:

First Convertible Bonds	–	HK\$137,150,381
Second Convertible Bonds	–	HK\$315,003,363
Third Convertible Bonds	–	HK\$137,150,381
HK Holdco Convertible Bonds	–	HK\$238,695,875

Maturity date: The date falling on the fifth anniversary of the date of issue by the Company of the First Convertible Bonds, the Second Convertible Bonds, the Third Convertible Bonds and the HK Holdco Convertible Bonds.

Initial conversion price and conversion: HK\$0.69 per Conversion Share.

The Initial 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 Vendors.

The Initial Conversion Price is subject to adjustments in the event of consolidation or subdivision of the Shares, the issue of Shares by way of capitalization of profits or reserves, the making of capital distribution by the Company, rights issue or the issue of Shares or convertible securities at a price which is less than 90% of the market price, the issue of Shares for acquisition of assets, and the purchase of the Shares by the Company, which may or may not occur. The Company considers that foregoing events of adjustment are normal and customary of their kind.

The Initial Conversion Price represents:

- (a) a discount of approximately 81.1% to the closing price of HK\$3.65 per Share as quoted on the Stock Exchange on 3 June 2008, being the last trading date prior to suspension of trading in the Shares on the Stock Exchange on 4 June 2008 at 9:30 a.m.;

- (b) a discount of approximately 80.9% to the average closing price of HK\$3.62 per Share as quoted on the Stock Exchange on the last five trading days up to and including 3 June 2008;
- (c) a discount of approximately 79.5% to the average closing price of HK\$3.36 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 3 June 2008; and
- (d) a premium of approximately 81.6% over the net asset value of the Company of approximately HK\$0.38 per Share as at 30 June 2008, being the date to which the latest audited financial statements of the Company were made up.

The holders of the Convertible Bonds shall have the right:

- (a) at any time during the period commencing from the business day after the second anniversary of the issue date and ending on and excluding the respective maturity date, both days inclusive, to convert the Convertible Bonds held by such holder of the Convertible Bonds in whole, or in any part representing at least HK\$10,000,000 and up to 75% of the outstanding principal amount of the Convertible Bonds (the “**Lock-up Bonds**”) into fully-paid Shares PROVIDED THAT, if at any time commencing from the business day after the respective issue date, BEHL is interested in less than 50% of the issued share capital of the Company, one-third of the principal amount of the Lock-up Bonds shall immediately become convertible into Shares and not subject to this restriction; and
- (b) at any time commencing from the business day after the respective issue date of the Convertible Bonds and ending on and excluding the respective maturity date (both days inclusive), to convert the Convertible Bonds held by such holders of the Convertible Bonds in whole, or in any part representing at least HK\$10,000,000 and up to 25% of the outstanding principal amount of the Convertible Bonds into fully paid Shares.

Holders of the Convertible Bonds shall not exercise any of the conversion rights attaching to the Convertible Bonds, if following such exercise, the Company’s minimum public float of the Shares as required under the Listing Rules cannot be maintained.

Notwithstanding the rights to convert under (a) and (b) above, during the applicable conversion period, the Company shall not accept any conversion notice and shall not issue any Conversion Shares thereof if, immediately following such issue, the holder of the Convertible Bonds, its associates and the parties acting in concert with it (including the First Vendor, the Second Vendor and the Third Vendor and their respective parties acting in concert with them) shall be interested in 25% or more of the enlarged issued share capital of the Company upon such issue.

**Ranking:** The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the other Shares in issue as at the date of issue of the Conversion Shares.

**Interest:** The Convertible Bonds shall not bear any interest.

**Transferability:** The Lock-up Bonds shall not be transferred by the holders of the Convertible Bonds during the period between the respective issue date of the Convertible Bonds and the second anniversary of the respective issue date (both days inclusive) of the Convertible Bonds without prior written consent of the Company. PROVIDED THAT if at any time commencing from the business day after the issue date of the respective Convertible Bonds and ending on the respective maturity date, BEHL is interested in less than 50% of the issued share capital of the Company, one-third of the principal amount of the Lock-up Bonds shall immediately become transferable in accordance with this condition.

Save for the aforesaid restrictions, the Convertible Bonds may be transferable in whole or in part in multiples of HK\$10,000,000, provided that if necessary, the prior approval of the Stock Exchange shall be required for any transfer to any transferee which is a connected person (as defined in the Listing Rules) of the Company.

**Voting rights:** The Convertible Bonds do not confer on the holder(s) of the Convertible Bonds the right to vote at a general meeting of the Company.

**Repayment and Redemption:** Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the Convertible Bonds at its principal amount on the respective maturity date.



In the event that the Net Profits shall be less than RMB100 million, the holders of the Convertible Bonds shall compensate the Purchaser equal to the Profit Shortfall, at its options, in cash on a dollar-to-dollar basis in Hong Kong dollar based on the Agreed Exchange Rate within 10 business days from the date of release of the Relevant Accounts or by adjusting the BVI Holdco Consideration by deducting an amount equal to the First Vendor: 27.52%, the Second Vendor: 44.96% and the Third Vendor: 27.52% of the Profit Shortfall and the relevant principal amount of the BVI Holdco Convertible Bonds shall be deemed to be repaid by the aforesaid compensation payable by the relevant holders of the BVI Holdco Convertible Bonds in accordance with the terms thereof.

Subject to the applicable statutory limitation period under the laws of the PRC and Hong Kong, in the event of a breach of the Relevant Warranties, the holder of the Convertible Bonds shall compensate the Company equal to the Company's claim (which shall be adjudicated by competent court or arbitration tribunal or otherwise as agreed), at its option, in cash within 10 business days from the date of such claim or by adjusting the BVI Holdco Consideration downward by the amount equal to the Company's claim against the holders of the BVI Holdco Convertible Bonds for any loss or liability suffered by the Company as a result of or in connection with any such breach which the Company may incur and the BVI Holdco Convertible Bonds shall be deemed to be repaid by the amount in accordance with the terms thereof.

Each of the Warrantors covenants that it would indemnify and at all times keep indemnified the PRC Holdco (for itself and as trustee on behalf of its subsidiaries) on demand from and against any damages, losses, claims, costs of removal, loss of business, costs of reinstatement and any other liability of whatever nature arising as a result of or incidental to the earthquake in Sichuan Province, the PRC on 12 May 2008 and related aftershocks affecting the Acquired Group, in the amount representing the excess of RMB3 million payable, at its options, in cash by the holders of the BVI Convertible Bonds or, by adjusting the BVI Holdco Consideration downward by the amount of liability against the holders of the BVI Holdco Convertible Bonds, the BVI Holdco Convertible Bonds shall be deemed to be repaid by the amount payable by the relevant holders of the BVI Holdco Convertible Bonds in accordance with the terms thereof.

In the event that any of the Company or the Acquired Group suffer or incur any loss or liability (which shall have been adjudicated by competent court or arbitration tribunal or otherwise as agreed) as stipulated in the First Tax Indemnity during the period between the First Completion Date and the second anniversary of the First Completion Date, the BVI Holdco Consideration shall be payable, at the options of the Vendors, in cash by the holders of the BVI Holdco Convertible Bonds or, by adjusting downwards by the amount equal to the Company's claim against the holders of the BVI Convertible Bonds for any loss or liability suffered or incurred by the Company or the Acquired Group as a result of or in connection with any claim which the Company or the Acquired Group may incur, the BVI Holdco Convertible Bonds shall be deemed to be repaid by such amount in accordance with the terms thereof.

Each of the Warrantors covenants with the Purchaser that if as at the second anniversary of the date of the Acquisition Agreement, all the receivable shown in the audited consolidated balance sheet of the PRC Holdco as at the First Completion Date could not be collected in full or realised of its full book value, the Vendors shall compensate the BVI Holdco, at its option, in cash on a dollar-to-dollar basis within 10 business days after the second anniversary of the date of the Acquisition Agreement, or by adjusting the BVI Holdco Consideration downward by the amount of outstanding receivable against the Warrantor for any loss or liability suffered by the Purchaser, and the BVI Holdco Convertible Bonds shall be deemed to be repaid by the amount payable by the relevant holders of the BVI Holdco Convertible Bonds.

Events of default:

On the occurrence of certain events of default specified in the Convertible Bonds (e.g. liquidation), the holder(s) of the Convertible Bonds shall be entitled to demand repayment of the relevant Convertible Bonds.

Listing:

No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made to the Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

Public float: The Company, at all times, shall use its reasonable endeavours to ensure that the relevant provisions as to the minimum public float requirement of the Listing Rules are complied with. Holders of the Convertible Bonds shall not exercise any of the conversion rights attaching to the Bonds, if following such exercise, the Company's minimum public float cannot be maintained. Accordingly, the Company will not issue the Conversion Shares, if following such issue, its minimum public float cannot be maintained.

Upon exercise in full of the conversion rights attaching to the Convertible Bonds, an aggregate of 1,200,000,000 Conversion Shares would fall to be allotted and issued by the Company at the Initial Conversion Price, which represents (i) approximately 363.3% of the existing issued share capital; (ii) approximately 107.5% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; (iii) approximately 35.6% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the shares to be issued upon full conversion of the Firm Bonds, the Tranche 1 Bond and the Tranche 2 Bond at their respective conversion price; and (iv) approximately 26.3% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the shares to be issued upon full conversion of the Firm Bonds, the Tranche 1 Bond and the Tranche 2 Bond at their respective conversion price and the Conversion Shares upon full exercise of the Convertible Bonds at the Initial Conversion Price.

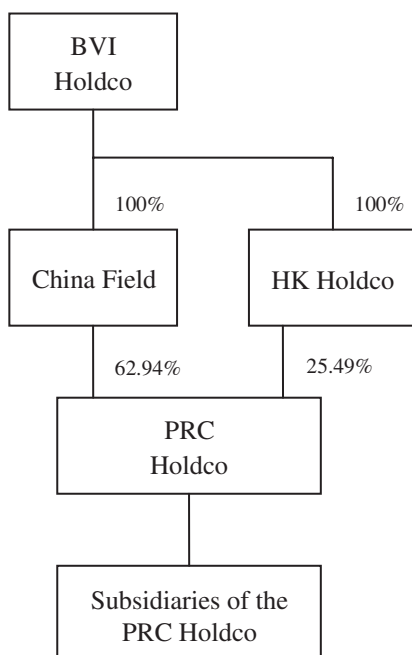
The Company will disclose by way of an announcement all relevant details of the conversion of the Convertible Bonds in the following manner:

- (a) the Company will make the monthly announcement on the website of the Stock Exchange and the Company. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in the table form:
  - (i) whether there is any conversion of the Convertible Bonds during the relevant month. If there is a conversion, details thereof including the conversion date, number of new Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - (ii) the amount of outstanding of the Convertible Bonds after the conversion, if any;
  - (iii) the total number of Shares issued pursuant to other transactions during the relevant month, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and
  - (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant months;

- (b) in addition to the monthly announcement, if the cumulative amount of the Conversion Shares issued pursuant to the conversion of the Convertible Bonds reaches 5% of the issued share capital of the Company as disclosed in the last monthly announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange and the Company including details as stated in (a) above for the period commencing from the date of the last monthly announcement or any subsequent announcement made by the Company in respect of the Convertible Bonds (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last monthly announcement or any subsequent announcement made by the Company in respect of the Bonds (as the case may be); and
- (c) if the Company forms the view that any issue of Conversion Shares will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Convertible Bonds as mentioned in (a) and (b) above.

## INFORMATION ON THE ACQUIRED GROUP

Set out below is a simplified group structure of the Acquired Group upon Completion:



### BVI Holdco

The BVI Holdco is a company incorporated in the BVI on 5 July 2005 with limited liability. Prior to the settlement of the Relevant Loan which was extended for the purposes of acquiring equity interests in the PRC Holdco, the BVI Holdco was wholly-owned by the First Vendor. As at the date of this announcement, the BVI Holdco is owned approximately as to 27.52% by the First Vendor, as to 44.96%

by the Second Vendor and as to 27.52% by the Third Vendor, as at the date of this announcement. Except for the indirect investment in the PRC Holdco, the BVI Holdco has not engaged in any other business since its incorporation.

The net assets of the BVI Holdco as at 31 December 2006 and 2007 per its unaudited management accounts prepared under HK GAAP are HK\$841,416 and HK\$78, respectively. During the year 2007, the BVI Holdco distributed all its retained earnings by way of dividend to its shareholders, hence the net asset of the BVI Holdco as at 31 December 2007 is HK\$78. According to its unaudited management accounts prepared under the HK GAAP, the profits before and after tax of the BVI Holdco for the year ended 31 December 2006 were both HK\$841,000 while profits before and after tax of the BVI Holdco for the year ended 31 December 2007 were both HK\$5.2 million. The profits attributable to the equity holders of the BVI Holdco for the years ended 31 December 2006 and 2007 per its unaudited management accounts prepared under HK GAAP are approximately HK\$841,000 and HK\$5,237,000, respectively. The BVI Holdco has not issued any audited financial statements in the past. An accountants' report on the BVI Holdco will be prepared and included in the circular to be despatched to the Shareholders in respect of the Acquisition. As the only investment held by the BVI Holdco during the relevant period was its investment in China Field, which was not treated as a subsidiary of BVI Holdco at the relevant time, the BVI Holdco did not have any subsidiary during the relevant period. Accordingly, the financial information to be included in the circular in respect of the BVI Holdco will be on a company level only which would also include certain financial information of China Field (such as its financial positions and results) which will be disclosed by way of a note for information purposes.

### **China Field**

China Field Development Limited, a company incorporated in Hong Kong with limited liabilities. The BVI Holdco is in the process of acquiring the entire issued share capital of China Field which is owned as to 27.52% by the BVI Holdco, as to 44.96% by the Second Vendor and as to 27.52% by the Third Vendor, as at the date of this announcement. The net assets of China Field on company level as at 31 December 2006 and 2007 are HK\$244 million and HK\$247 million, respectively. The loss before and after tax on company level for the year ended 31 December 2006 were both HK\$29,000 and profit before and after tax on company level for the year ended 31 December 2007 was HK\$20 million. As at the date of this announcement, China Field does not own any assets save and except for its interest in the PRC Holdco.

As China Field did not have control over the board of directors of the PRC Holdco, the PRC Holdco was treated as a jointly-controlled entity rather than a subsidiary of China Field during the relevant period. Accordingly, the financial information of China Field on a company level only will be included in the circular to be dispatched to the Shareholders in respect of the Acquisition.

### **HK Holdco**

The HK Holdco is a company incorporated in Hong Kong and principally engages in investment holding. As at the date of this announcement, an approximately 25.49% equity interest in the PRC Holdco is in process of being transferred to the HK Holdco. Upon the Second Completion, the BVI Holdco shall be

interested in the entire issued share capital of the HK Holdco, which in turn will hold approximately 25.49% equity interest in the PRC Holdco. Given that the HK Holdco was not incorporated as at 31 December 2007, no accountants' report will be prepared for the relevant period. According to the unaudited management accounts, the net assets of the HK Holdco as of 30 April 2008 was HK\$731,580 and the profit for the period from the date of its incorporation to 30 April 2008 was nil.

## **PRC Holdco**

The PRC Holdco, through its subsidiaries, engages in waste water treatment in the PRC. Since September 2006, the PRC Holdco was beneficially owned as to 62.94% by China Field, as to 11.57% by 成都太然投資有限公司(Chengdu Nature Investment Co., Ltd.\*), as to 9.45% by 成都德文投資有限公司(Chengdu Dewen Investment Co., Ltd.\*), as to 11.56% by the Other Shareholders, as to 1.57% by 成都六木投資有限公司(Chengdu Liumu Investment Co., Ltd.\*), as to 0.79% by 成都博滙投資有限公司(Chengdu Bohui Investment Co., Ltd.\*), and as to 2.12% by 16 individuals. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the then shareholders of the PRC Holdco and their respective ultimate beneficial owners is an Independent Third Party save for China Field and the Other Shareholders who continue to hold interests in the PRC Holdco upon completion of the Acquisition.

Upon completion of the Acquisition, the PRC Holdco will be owned as to 62.94% by China Field, as to 25.49% by the HK Holdco and as to 11.57% by the Other Shareholders. As both China Field and the HK Holdco are wholly-owned by the BVI Holdco, the BVI Holdco will therefore, indirectly hold approximately 88.43% equity interests in the PRC Holdco.

The audited consolidated profit attributable to equity holders of the PRC Holdco for the years ended 31 December 2006 and 2007 per its audited financial statements prepared under the PRC GAAP are approximately RMB37,247,000 and RMB71,531,000, respectively. The audited consolidated net assets of the PRC Holdco as at 31 December 2006 and 2007 per its audited financial statements prepared under the PRC GAAP are approximately RMB411,461,000 and RMB451,426,000, respectively.

A consolidated accountants' report on the PRC Holdco's financial information which will be prepared under HK GAAP, for each of the three years ended 31 December 2007 will be included in the circular to be despatched to the Shareholders in respect of the Acquisition.

As at the date of this announcement, the Purchaser has not yet decided upon the board composition of members of the Acquired Group. The Purchaser intends to appoint the majority of the board members in China Field and the PRC Holdco to ensure the consolidation of their accounts to the Company. In addition, the Purchaser also considers appointing the experts in the water business to serve as board members of the Acquired Group. As at the date of this announcement, none of the substantial shareholders of the BVI Holdco and the HK Holdco is, or is proposed to be, a controller or is an associate of a controller. Upon Completion, the BVI Holdco, the HK Holdco and the PRC Companies will become subsidiaries of the Company and their results will be consolidated into the Group's financial statements.

## REASONS FOR THE ACQUISITION

The Company has been reviewing various opportunities with an aim to diversify its business into water treatment and environmental business. The Directors consider that the Acquisition is in line with the Company's business objective. The Directors also believe that the Group will benefit from the Acquired Group's extensive management background, experience and track record in the waste water treatment sector in the PRC. The Acquired Group is engaged in environmental business, particularly, in the investment in and management of residential and industrial waste water treatments, management of treatment plants, as well as the provision of related consulting services. As at the date of this announcement, the Acquired Group has 13 water treatment plants located in various provinces in the PRC, such as Sichuan, Hunan, Shandong, Guandong and Zhejiang with an aggregate water treatment capacity of approximately 1 million tonne per day. Set out below is a table detailing the project names, designed capacity and guaranteed water volume of the water treatment plants currently operated by the Acquired Group:

<b>Project Name</b>	<b>Designed capacity (tonne/day)</b>
Changsha	180,000
Qingdao Jiaonan	60,000
Mianyang	150,000
Guangzhou Zhongye	100,000
Taizhou	40,000
Heze	80,000
Jiangyou	50,000
Qingdao Jiaozhou	50,000
Guangzhou Nansha	50,000
Qingdao Shangma	40,000
Longquan	20,000
Shuangliu	25,000
Huayang	20,000

Based on the Directors' knowledge, the Acquired Group is one of the leading waste water treatment companies in the PRC. In addition to the Acquired Group's existing waste water treatment facilities, the Acquired Group is currently in the process of evaluating the acquisitions of certain waste water treatment projects in other provinces and cities in the PRC, namely Guangdong province, Shandong province, Guizhou province, Sichuan province. Coupled with the Company's financial resources, the Acquisition will enable the Group to expand further into sewage purification and treatment and environmental business.

In light of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Apart from the Acquisition, the Group is currently actively evaluating other opportunities which will facilitate the Group's expansion plan in the waste water treatment, sewage purification and treatment, and environmental business. The Group has also signed memorandum of understanding with each of (i) 南鄭縣人民政府 on 5 April 2008; (ii) 漢中市城鄉建設管理局(Hanzhong City Chengxiang Construction Bureau\*) on 5 April 2008; (iii) 保定市人民政府(the People's Government of Baoding Municipal\*) on 28 March 2008; (iv) 安徽國禎環保節能科技股份有限公司(Anhui Guozhen Huanbao Jieneng Science and Technology Company Limited\*) on 16 April 2008; and waste water treatment projects with total capacity of approximately 1.01 million tonnes per day for waste water treatment. The memoranda of understandings are non-legally binding and subject to further due diligence and negotiations.

The Group is also evaluating certain waster water treatment and water supply projects in provinces such as Beijing, Fujian, Yunnan, Shangdong and Helonjiang with a total capacity of approximately 1.85 million tonnes per day for waste water treatment and 2.94 million tonnes per day for water supply.

Further announcement(s) in respect of the above-mentioned possible acquisitions will be made by the Company as and when appropriate in accordance with the Listing Rules.

## **AMENDMENTS TO THE TERMS OF THE TRANCHE 1 BOND AND THE TRANCHE 2 BOND**

On 31 March 2008, the Company issued the Tranche 2 Bond to PWL. The principal terms and conditions of the Tranche 2 Bond is summarised in the circular of the Company dated 3 May 2007. Pursuant to their terms and conditions, the Tranche 1 Bond and the Tranche 2 Bond is subject to the Conversion Restriction. Accordingly, the bondholders of the Tranche 1 Bond may exercise conversion rights attaching to the Tranche 1 Bond on or after 27 January 2008. The bondholders of the Tranche 2 Bond may not exercise the conversion rights attaching to the Tranche 2 Bond until 1 October 2008.

On 4 June 2008, the Company has waived the Conversion Restriction with respect to the Tranche 2 Bond.

The conversion period of the Tranche 2 Bond will commence on 4 June 2008 and end on 14th day prior to the maturity date of the Tranche 2 Bond on 31 March 2011, being the third anniversary of the issue date of the Tranche 2 Bond.

The waiver of the Conversion Restriction in respect of the Tranche 2 Bond does not represent a material variation to the terms of the Tranche 2 Bond as the holder of the Tranche 2 Bond is entitled to convert pursuant to the terms of the Tranche 2 Bond. The waiver of the Conversion Restriction merely creates a timing difference by allowing the holder of the Tranche 2 Bond to exercise its right to convert at an earlier time.

Furthermore, with the removal of the Conversion Restriction, the issue of Shares pursuant to conversion of the Tranche 2 Bond, the increase in the Company's equity base could be brought forward. Furthermore, removing the Conversion Restriction of the Tranche 2 Bond could improve the Company's debt to equity ratio which would enhance the Company's ability to raise additional capital through bank borrowings or



debt financing, if and when required. The Board further considers that the cancellation of the Conversion Restriction is on normal commercial terms and based on negotiations on an arm's length basis. In view of the above, the Board is of the view that the removal of Conversion Restriction is fair and reasonable and in the interests of Company and the Shareholders as a whole.

### **Undertakings to exercise the First Call Option and the Second Call Option, and to convert the Firm Bonds, Tranche 1 Bond and Tranche 2 Bond**

In anticipation of the possibility that the Company will not have sufficient public float after the Completion, the Company had separate discussions with BEHL and PWL with a view to maintaining the public float by BEHL exercising the First Call Option and the Second Call Option and converting the First Option Bond, the Second Option Bond and the Firm Bond and by PWL converting the Tranche 1 Bond and the Tranche 2 Bond.

BEHL has undertaken with the Company to exercise the First Call Option and the Second Call Option and convert the resulting First Option Bond and Second Option Bond, and the Firm Bonds in full. Further, PWL has also undertaken to convert the Tranche 1 Bond and the Tranche 2 Bond in full.

Pursuant to the terms of the Firm Bonds, the Tranche 1 Bond, the Tranche 2 Bond, the First Option Bond and the Second Option Bond, the holders of such bonds shall not exercise any of the conversion rights, if following such exercise, the Company's minimum public float of the Shares as required under the Listing Rules cannot be maintained.

## EFFECT ON THE SHAREHOLDING STRUCTURE

The following chart depicts the effects of the issues of the Consideration Shares and the Convertible Bonds on the shareholding structure of the Company based on the issued share capital and shareholding structure of the Company as at the date of this announcement and assuming Completion having taken place, conversion in full of the Convertible Bonds into Conversion Shares at the Initial Conversion Price and conversion in full of the Firm Bonds, the First Option Bond, the Second Option Bond, the Tranche 1 Bond and the Tranche 2 Bond, without taking into account issue of new Shares, if any, after the date of this announcement and prior to Completion:

	As at the date of this announcement		Immediately after the issue of the Consideration Shares upon First Completion, full conversion of the Firm Bonds, the First Option Bond, the Second Option Bond, the Tranche 1 Bond and the Tranche 2 Bond but before the issue of any Conversion Shares**		Immediately after the issue of the Consideration Shares upon Second Completion, full conversion of the Firm Bonds, the First Option Bond, the Second Option Bond, the Tranche 1 Bond and the Tranche 2 Bond but before issue of any Conversion Shares**		Immediately after the issue of the Consideration Shares, full conversion of the Firm Bonds, the First Option Bond, the Second Option Bond, the Tranche 1 Bond and the Tranche 2 Bond and the Conversion Shares upon conversion of the Convertible Bonds at the Initial Conversion Price	
	Number of Shares	Approximate percentage of shareholding %	Number of Shares	Approximate percentage of shareholding %	Number of Shares	Approximate percentage of shareholding %	Number of Shares	Approximate percentage of shareholding %
BEHL	247,000,000	74.8%#	1,997,000,000	63.6%#	1,997,000,000	59.3%#	1,997,000,000	43.7%#
PWL	19,797,875	6.0%^	519,797,875	16.5%#	519,797,875	15.5%#	519,797,875	11.4%#
Aster Well Limited	13,957,000	4.2%^	13,957,000	0.4%^	13,957,000	0.4%^	13,957,000	0.3%^
First Vendor	-	-	190,383,413	6.1%^	190,383,413	5.7%^	389,152,081	8.5%#*
Second Vendor	-	-	179,021,082	5.7%#	179,021,082	5.3%#	635,547,695	13.9%#*
Third Vendor	-	-	190,383,413	6.1%^	190,383,413	5.7%^	389,152,081	8.5%#*
Allyking Holdings Limited	-	-	-	-	86,434,268	2.5%^	218,339,685	4.8%^
Faith Access Holdings Limited	-	-	-	-	10,744,799	0.3%^	27,142,148	0.6%^
Huge Jolly Holdings Limited	-	-	-	-	19,109,386	0.6%^	48,271,795	1.0%^
Right Benefit Holdings Limited	-	-	-	-	110,394,673	3.3%^	278,865,529	6.1%^
Mr. Chase J Wong, an executive Director	394,800	0.1%#	394,800	-#	394,800	-#	394,800	-#
Other public shareholders	49,135,774	14.9%^	49,135,774	1.6%^	49,135,774	1.4%^	49,135,774	1.1%^
<b>Total</b>	<b>330,285,449</b>	<b>100.0%</b>	<b>3,140,073,357</b>	<b>100.0%</b>	<b>3,366,756,463</b>	<b>100.0%</b>	<b>4,566,756,463</b>	<b>100.0%</b>
Non-public Shareholders (sum of #)	247,000,000	74.9%	2,695,818,957	85.9%	2,696,213,757	80.1%	3,152,740,370	69.0%
Public Shareholders (sum of ^)	82,890,649	25.1%	444,254,400	14.1%	670,542,706	19.9%	1,414,016,093	31.0%

- # Being non-public Shareholders in the context of the above shareholding structure table.
- ^ Being public Shareholders in the context of the above shareholding structure table.
- \* Pursuant to the terms of the Convertible Bonds, conversion of the First Convertible Bonds, the Second Convertible Bonds and the Third Convertible Bonds will not be allowed if following such exercise, the First Vendor, the Second Vendor, the Third Vendor and their respective associates, taken together, directly or indirectly, will control or be interested in 25% or more of the entire issued Shares, and therefore no general offer obligation will be resulted.
- \*\* For illustration purposes only.

**As shown in the illustrative table above, the Company will not have sufficient public float of 25% as required under the Listing Rules after the issue of the BVI Holdco Consideration Shares upon the First Completion and after the issue of the Consideration Shares upon the Second Completion. Pursuant to the terms of the Acquisition Agreement, the First Completion and the Second Completion are conditional upon the Company being able to maintain the public float requirement under Rule 8.08 of the Listing Rules upon the issue of the BVI Holdco Consideration Shares and the HK Holdco Consideration Shares, respectively. In addition, pursuant to the terms of the Convertible Bonds, holders of the Convertible Bonds shall not exercise any of the conversion rights attaching to the Convertible Bonds, if following such exercise, the Company' minimum public float of the Shares as required under the Listing Rules cannot be maintained. The Company will take the necessary steps, including but not limited to, issue of new Shares by the Company and/or placement of Shares by existing Shareholders, to ensure that sufficient public float for the Shares will be maintained.**

**FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS AND CHANGE IN USE OF PROCEEDS FOR THE TRANCHE 1 BOND**

<b>Date of announcement</b>	<b>Capital raising activities</b>	<b>Net proceeds HK\$ million</b>	<b>Intended use of proceeds as set out in the announcement</b>	<b>Amount of proceeds remain unused as at the date of this announcement (HK\$ million)</b>	<b>Proposed use of proceeds</b>
27 July 2007, 21 June 2007 and 12 April 2007	Issue of the Tranche 1 Bond	100	<ul style="list-style-type: none"> <li>Invest in financial services sector, providing services such as asset management, corporate finance and securities dealing (the intended use of proceeds has been changed to finance acquisitions in water treatment and environmental business areas)</li> </ul>	75	<ul style="list-style-type: none"> <li>To invest in those projects that the Company has entered into memorandum of understanding and for future investment in water treatment businesses in the PRC.</li> </ul>
7 April 2008 and 28 January 2008	Issue of new Shares and the Firm Bonds	298	<ul style="list-style-type: none"> <li>20%-30% for possible acquisition in a company which is principally engaged in sewage purification and treatment in the PRC;</li> <li>60%-70% for investment and development of water treatment and environmental business; and</li> <li>10%-20% as general working capital</li> </ul>	298	<ul style="list-style-type: none"> <li>To invest in those projects that the Company has entered into memorandum of understanding and for future investment in water treatment businesses in the PRC as well as general working capital.</li> </ul>
31 March 2008 and 12 April 2007	Issue of the Tranche 2 Bond	100	<ul style="list-style-type: none"> <li>General working capital</li> </ul>	100	<ul style="list-style-type: none"> <li>General working capital.</li> </ul>

There is no change to the intended use of the proceeds received by the Company from the issue of new Shares, the Firm Bonds and the Tranche 2 Bond.

Reference is made to the announcement by the Company dated 12 April 2007 in relation to the intended use of the proceeds received by the Company from the issue of the Tranche 1 Bond for investing in financial services sector, providing services such as asset management, corporate finance and securities dealing. In line with the change in the focus of the Group's business, the Directors has decided to change the application of the unused proceeds received from the Tranche 1 Bond to finance acquisition opportunities in the waste water treatment and environmental business areas, including the Acquired Group.

## **LISTING RULES IMPLICATIONS**

The Acquisition Agreement constitutes a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules and is therefore subject to the Shareholders' approval. As at the date of this announcement, the Vendors and their associates do not own or hold any Shares. As no Shareholders have any material interest in the Acquisition, no Shareholders are required to abstain from voting at the SGM on the resolution to approve the Acquisition Agreement and the transactions contemplated therein.

A circular, containing, among others, (i) details of the Acquisition and the Total Consideration; and (ii) a notice of the SGM will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 4 June 2008 pending the release of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 13 June 2008.

## **TERMS USED IN THE ANNOUNCEMENT**

In this announcement, the following terms have the following meanings:

“Agreed Exchange Rate”	the exchange rate between HK\$ and RMB being the average of the highest exchange rate and the lowest exchange rate quoted by Bank of China on the date of this Agreement (i.e. 3 June 2008)
“Acquired Group”	the BVI Holdco Group which, upon the Second Completion, shall include the HK Holdco
“Acquisition”	the proposed acquisition by the Company of the BVI Holdco Shares and HK Holdco Shares pursuant to the Acquisition Agreement
“Acquisition Agreement”	the sale and purchase agreement dated 3 June 2008 entered into between the Purchaser, the Vendors, the Company and the Warrantors (as supplemented by the Supplemental Agreement)
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audited Accounts”	the PRC Holdco Accounts and the China Field Accounts

“BEHL”	Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong holding approximately 74.80% of the existing issued share capital of the Company as at the date of this announcement, whose shares are listed on the main board of the Stock Exchange
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“BVI Holdco”	Gainstar Limited, a company incorporated in the BVI with limited liability
“BVI Holdco Consideration”	the BVI Holdco Consideration Shares and the BVI Holdco Convertible Bonds
“BVI Holdco Consideration Shares”	559,787,908 new Shares to be issued by the Company to the Vendors or their respective nominees at the Issue Price to satisfy part of the BVI Holdco Consideration
“BVI Holdco Convertible Bonds”	the First Convertible Bonds, the Second Convertible Bonds and the Third Convertible Bonds
“BVI Holdco Group”	the BVI Holdco, China Field, the PRC Holdco and PRC Companies
“BVI Holdco Sale Shares”	the First BVI Holdco Sale Shares, the Second BVI Holdco Sale Shares and the Third BVI Holdco Sale Shares
“Call Options”	has the meaning given to it in the announcement of the Company dated 28 January 2008
“China Field”	China Field Development Limited, a company incorporated in Hong Kong with limited liabilities
“China Field Accounts”	the audited consolidated accounts of China Field for the financial year ended 31 December 2006 including the audited balance sheet of China Field as at 31 December 2006 and the audited profit and loss account of China Field for the financial year ended 31 December 2006

“China Field Management Accounts”	the unaudited management accounts of China Field for the financial year ended 31 December 2007 and the four months ended on the Management Accounts Date including the unaudited balance sheet of China Field as at the Management Accounts Date and the unaudited profit and loss account of China Field for the financial year ended 31 December 2007 and the four months ended on the Management Accounts Date
“Company”	Beijing Enterprises Water Group Limited, a company incorporated in Bermuda with limited liability, whose Shares are listed on the main board of the Stock Exchange
“Company Management Accounts”	means the unaudited management accounts of the Company for the period from 5 July 2005 (date of incorporation) to 31 December 2007 and the four months ended on the Management Accounts Date including the unaudited balance sheet of the Company as at the Management Accounts Date and the unaudited profit and loss account of the Company for the period from 5 July 2005 (date of incorporation) to 31 December 2007 and the four months ended on the Management Accounts Date
“Completion”	completion of the First Completion and Second Completion
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration Shares”	the BVI Holdco Consideration Shares and the HK Holdco Consideration Shares
“Controller”	has the meaning ascribed to it under the Listing Rules
“Conversion Restriction”	the right to convert the Tranche 1 Bond and the Tranche 2 Bond is exercisable after six months following their respective issue date
“Conversion Shares”	New Shares to be issued by the Company upon any conversion of the Convertible Bonds
“Convertible Bonds”	The BVI Holdco Convertible Bonds and the HK Holdco Convertible Bonds
“Directors”	directors of the Company
“Existing Shareholders of the PRC Holdco”	Terisa Yutinnie Liang, Hu Xiaoyong, Zhou Min, Hou Feng and Ngai Hiu Tung held in aggregate approximately 25.49% in the PRC Holdco as at the date of this announcement

“Firm Bonds”	the zero coupon bond in the aggregate principal amount of HK\$200 million issued by the Company to BEHL on 7 March 2008
“First BVI Holdco Sale Shares”	the 67,293,158 ordinary shares of US\$1 each in the share capital of the BVI Holdco, representing approximately 27.52% of the issued share capital of the BVI Holdco
“First Call Option”	has the meaning given to it in the announcement of the Company dated 28 January 2008
“First Completion”	Completion of the sale and purchase of the BVI Holdco Sale Shares
“First Completion Date”	the date on which First Completion will take place, being the third business day after all conditions precedent pertaining to the acquisition of the BVI Holdco Sale Shares pursuant to the Acquisition Agreement have been fulfilled or waived or such other date as the Company and the Vendors may agree in writing
“First Convertible Bonds”	The convertible bonds in the principal amount of HK\$137,150,381 to be issued by the Company to the First Vendor or its nominee on the First Completion to satisfy part of the BVI Holdco Consideration
“First Option Bond”	the zero coupon bond in the aggregate principal amount of HK\$300 million to be issued by the Company to BEHL upon exercise of the First Call Option
“First Tax Indemnity”	a deed of tax indemnity to be entered into between the Warrantors, the Purchaser and the BVI Holdco, pursuant to which the Warrantors undertake to indemnify the Purchaser (for itself and as trustee for the Acquired Group) in respect of, inter alia, (i) any assessment, notice, demand or action taken by the Inland Revenue Department of Hong Kong or any other statutory or governmental authority in Hong Kong or in any other part of the world (other than the PRC) from which it appears that any member of the Acquired Group is liable or is sought to be made liable to make any payment or deprived of any relief of taxation; or (ii) any loss, liability, claim, damage that any member of the Acquired Group is liable to or is sought to be made liable to make any payment
“First Vendor”	Besto Holdings Limited, a company incorporated in the BVI with limited liability
“First Warranties”	the warranties, representations and/or undertakings given or made by the Warrantors under the Acquisition Agreement



“First Warrantors”	the First Vendor and Terisa Yutinnie Liang
“Group”	the Company and its subsidiaries, and following completion of the Acquisition Agreement means the Group and its then subsidiaries which will include the BVI Holdco and the HK Holdco
“Guarantor”	the Company
“HK GAAP”	the generally accepted accounting principles in Hong Kong
“HK Holdco”	Monico Investments Limited, a company incorporated in Hong Kong with limited liability
“HK Holdco Consideration”	the HK Holdco Consideration Shares and the HK Holdco Convertible Bonds
“HK Holdco Consideration Shares”	226,683,106 new Shares to be issued by the Company to the Second Vendor or its nominees at the Issue Price to satisfy part of the HK Holdco Consideration
“HK Holdco Management Accounts”	the unaudited management accounts of HK Holdco for the period from 4 January 2008 (date of incorporation) to the Management Accounts Date including the unaudited balance sheet of the HK Holdco as at the Date of the Management Accounts Date and the unaudited profit and loss account of the HK Holdco for the period from 4 January 2008 to the Management Accounts Date
“HK Holdco Sales Shares”	the 731,580 ordinary shares of HK1.00 each in the share capital of the HK Holdco, representing the entire issued share capital of the HK Holdco
“HK Holdco Convertible Bonds”	the convertible bonds in the principal amount of HK\$238,695,875 to be issued by the Company to the Second Vendor or its nominees on the Second Completion to satisfy part of the HK Holdco Consideration
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	a third party independent of the Company and its connected persons (as defined under the Listing Rules)
“Initial Conversion Price”	HK\$0.69 per Conversion Share (subject to adjustment)
“Issue Price”	HK\$0.69 per BVI Holdco Consideration Shares or HK Holdco Consideration Shares

“Listing Committee”	the listing sub-committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Accounts”	the PRC Holdco Management Accounts, the China Field Management Accounts, the HK Holdco Management Accounts and the Company Management Accounts
“Management Accounts Date”	30 April 2008
“Material Adverse Change”	any event, change in or effect on any member of the BVI Holdco Group (for the purpose of the First Completion only) or the HK Holdco (for the purpose of the Second Completion only) (as the case may be) that, individually or in the aggregate, has had or is reasonably expected to have a material adverse effect on the business, condition (financial or otherwise), results of operations, and assets and prospects of any member of the BVI Holdco Group or the HK Holdco (as the case may be)
“Net Profits”	the consolidated profit attributable to equity holders of the PRC Holdco after tax, minority interests and extraordinary items for the year ending 31 December 2008 as shown in the Relevant Accounts less any finance costs derived from addition equity contribution of the Purchaser and calculated based on the People’s Bank of China lending rate of the corresponding period
“Other Shareholders”	四川省科學城海天實業總公司(Sichuan Province Science and Technology City Industrial Co., Ltd.*); 四川久遠投資控股集團有限公司 (Sichuan Jiuyuan Investment Holdings Co., Ltd.*) and 中國工程物理研究院環保中心 (China Construction Environmental Research Center*)
“PRC”	the People’s Republic of China
“PRC Companies”	the PRC Holdco and its subsidiaries
“PRC Holdco”	中科成環保集團有限公司(Z.K.C Environmental Group Co., Ltd.), a sino-foreign joint venture established in the PRC
“PRC Holdco Accounts”	means the audited consolidated financial statements of the PRC Holdco for the financial year ended on the Accounts Date including the audited consolidated balance sheet of the PRC Holdco as at the Accounts Date and the audited consolidated profit and loss account of the PRC Holdco for the financial year ended 31 December 2007 prepared in accordance with PRC GAAP

“PRC Holdco Management Accounts”	the unaudited consolidated management accounts of PRC Holdco for the four months ended on the Management Accounts Date including the unaudited consolidated balance sheet of the PRC Holdco as at the Management Accounts Date and the unaudited consolidated profit and loss account of the PRC Holdco for the financial year ended on the Management Accounts Date
“Profit Shortfall”	means (a) the shortfall between RMB100 million and the Net Profits; or (b) RMB\$100 million if the Net Profits are zero or less than zero
“Purchaser”	Good Strategy Group Limited, an indirect wholly-owned subsidiary of the Company
“PWL”	Pioneer Wealth Limited, a company incorporated in the BVI holding approximately 6.0% of the issued share capital of the Company as at the date of this announcement
“Relevant Accounts”	means the audited consolidated financial statements of the PRC Holdco for the financial year ending 31 December 2008 prepared in accordance with Hong Kong Financial Reporting Standards (which, except for HK(IFRIC)-Int 12 <i>Service Concession Arrangements</i> , include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations that have become effective for annual accounting period beginning on or before 1 January 2008) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong
“Relevant Loan”	the sum of HK\$67 million extended by the First Vendor to the BVI Holdco for the purposes of acquiring equity interests in the PRC Holdco
“Relevant Warranties”	(a) the Acquired Group had no contingent liabilities on or before the First Completion Date; (b) the Acquired Group was not involved in any civil, criminal, governmental or any proceedings or investigate of whatever nature before any tribunal or panel and no such proceedings are threatened or pending on or before the First Completion Date; and (c) no member of the Acquired Group had committed or was liable for any criminal, illegal, unlawful act on or before the First Completion Date
“Second BVI Holdco Sale Shares”	the 109,900,506 ordinary shares of US\$1 each in the share capital of the BVI Holdco, representing approximately 44.96% of the issued share capital of the BVI Holdco

“Second Call Option”	has the meaning given to it in the announcement of the Company dated 28 January 2008
“Second Completion”	the completion of the sale and purchase of the HK Holdco Sale Shares
“Second Completion Date”	the date on which Second Completion will take place, being the third business day after all conditions precedent pertaining to the acquisition of the HK Holdco Sale Shares pursuant to the Acquisition Agreement have been fulfilled or waived or such other date as the Company and the Vendors may agree in writing
“Second Convertible Bonds”	the convertible bonds in the principal amount of HK\$315,003,363 to be issued by the Company to the Second Vendor or its nominee on the First Completion to satisfy part of the BVI Holdco Consideration
“Second Option Bond”	the zero coupon bond in the aggregate principal amount of HK\$200 million to be issued by the Company to BEHL upon exercise of the Second Call Option
“Second Vendor”	Tenson Investment Limited, a company incorporated in the BVI with limited liability
“Second Warrantors”	the Second Vendor, Hu Xiaoyong, Zhou Min and Hou Feng
“Second Warranties”	the warranties, representations and/or undertakings given or made by the Warrantors under the Acquisition Agreement
“SGM”	the special general meeting of the Company to be convened to approve the Acquisition Agreement and transactions contemplated therein
“Share(s)”	share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	has the meaning given to it in the announcement of the Company dated 28 January 2008
“Supplemental Agreement”	the supplemental agreement dated 11 June 2008 entered into between the Purchaser, the Vendors, the Warrantors and the Company

“Third BVI Holdco Sale Shares”	the 67,293,158 ordinary shares of US\$1 each in the share capital of the BVI Holdco, representing approximately 27.52% of the issued share capital of the BVI Holdco
“Third Convertible Bonds”	the convertible bonds in the principal amount of HK\$137,150,381 to be issued by the Company to the Third Vendor or its nominee on the First Completion to satisfy part of the BVI Holdco Consideration
“Third Vendor”	Newton Finance Holdings Limited, a company incorporated in the BVI with limited liability
“Third Warrantors”	the Third Vendor and Ngai Hiu Tung
“Total Consideration”	the BVI Holdco Consideration and the HK Holdco Consideration
“Tranche 1 Bond”	the bond in the principal amount of HK\$100 million issued by the Company to PWL on 27 July 2007
“Tranche 2 Bond”	the bond in the principal amount of HK\$100 million issued by the Company to PWL on 31 March 2008
“Vendors”	the First Vendor, the Second Vendor and the Third Vendor
“Warrantors”	the First Warrantors, the Second Warrantors and the Third Warrantors
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By Order of the Board  
**Beijing Enterprises Water Group Limited**  
**Zhang Honghai**  
*Chairman*

Hong Kong, 12 June 2008

*As at the date of this announcement, the board of directors of the Company comprises six executive Directors, namely, Mr. Zhang Honghai (Chairman), Mr. Liu Kai, Mr. E Meng, Mr. Jiang Xinhao Ms. Qi Xiaohong and Mr. Ju Yadong and three independent non-executive Directors, namely, Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo and Mr. Guo Rui.*

\* *For identification purposes only*