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**北控水務集團有限公司**

BEIJING ENTERPRISES WATER GROUP LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 371)**

**DISCLOSEABLE TRANSACTION  
IN RELATION TO THE FORMATION OF A JOINT VENTURE  
AND  
CONNECTED TRANSACTION  
IN RELATION TO THE PROVISION OF A LOAN**

**FORMATION OF THE JOINT VENTURE**

The Board is pleased to announce that on 20 June 2010, the Company has entered into the JV Agreement with Meishi in relation to the establishment of the Joint Venture in Dalian, the PRC for the building and construction of the works under the BT Project. Pursuant to the JV Agreement, the total registered capital of the Joint Venture was US\$98 million (equivalent to approximately HK\$762.3 million). The Company will inject US\$58.8 million (equivalent to approximately HK\$457.4 million) and Meishi will inject US\$39.2 million (equivalent to approximately HK\$304.9 million) to the Joint Venture representing 60% and 40% of the registered capital of the Joint Venture respectively. Each of the Company and Meishi will be required to inject 50% of its total registered capital into the Joint Venture within three months from the date of the issuance of the business license of the Joint Venture and the remaining 50% of the total registered capital into the Joint Venture within 6 months from the date of the issuance of the business license of the Joint Venture.

## **MAKING OF A LOAN BY THE COMPANY TO MEISHI**

In order to finance its investment in the Joint Venture, Meishi has entered into the Loan Agreement with the Company on 24 June 2010. Pursuant to the Loan Agreement, the Company will grant the Loan to Meishi in the sum of US\$35.2 million (equivalent to approximately HK\$273.8 million) repayable by Meishi to the Company on the first anniversary of the Loan Agreement. The repayment of the Loan is secured by the Share Charges and the Personal Guarantee.

## **IMPLICATIONS OF THE LISTING RULES**

As one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the transactions contemplated under the JV Agreement is/are greater than 5% but less than 25%, the entering into of the JV Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

## **CONNECTED TRANSACTION**

Upon the formation of the Joint Venture, it became a subsidiary of the Company and the Loan Agreement entered into between the Company and Meishi, being a controlling shareholder of the Joint Venture, became a connected transaction of the Company and subject to the applicable requirements under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (except for the profit ratio which is not applicable) as defined in Rule 14A.10 of the Listing Rules in respect of the connected transaction is less than 5%, under Rule 14A.32(1) of the Listing Rules, the entering into of the Loan Agreement is only subject to the reporting and announcement requirements and exempt from approval by the Shareholders (excluding those Shareholders who are required to abstain from voting on the resolution by the Listing Rules) at a general meeting under the Listing Rules.

## **INTRODUCTION**

The Board is pleased to announce that on 20 June 2010, the Company entered into the JV Agreement with Meishi in relation to the establishment of the Joint Venture in Dalian, the PRC for the building and construction of the works under the BT Project in Changxing Dao, Dalian, the PRC.

## **THE JV AGREEMENT**

### **Date**

20 June 2010

### **Parties**

- (1) the Company (in the capacity of holder of 60% equity interest in the Joint Venture)
- (2) Meishi (in the capacity of holder of 40% equity interest in the Joint Venture)

In order to regulate the future affairs relating to the business and management of, as well as the respective rights and obligations of the owners of the equity interests in, the Joint Venture, the Company and Meishi entered into the JV Agreement. The principal terms of the JV Agreement are as follows:

#### **(a) *Capital Contribution***

The Company will inject US\$58.8 million (equivalent to approximately HK\$457.4 million) and Meishi will inject US\$39.2 million (equivalent to approximately HK\$304.9 million) to the Joint Venture representing 60% and 40% of the registered capital of the Joint Venture respectively. Pursuant to JV Agreement, each of the Company and Meishi will be required to inject 50% of its total registered capital into the Joint Venture within three months from the date of the issuance of the business license of the Joint Venture and the remaining 50% of the total registered capital into the Joint Venture within 6 months from the date of the issuance of the business license.

#### **(b) *Operative term***

The operative term of the Joint Venture will be 30 years from the date of the issuance of the business license of the Joint Venture and such term shall be extended upon agreement by the Company and Meishi and subject to the approval by the relevant government authorities and applicable rules and regulations.

**(c) *Business scope***

The Joint Venture will engage in, among others, investment in such business projects as approved by the relevant government authorities and the Joint Venture will be responsible for all construction works for the BT Project, including sewage treatment, pipeline network and relevant infrastructures. After completion of the construction, the works will be transferred to the Liaoning Provincial Government.

**(d) *Board of directors of the Joint Venture***

The board of directors of the Joint Venture comprises 5 directors (including the chairman and vice chairman of the board of directors), as to 2 directors nominated by Meishi, 3 directors nominated by the Company. The directors shall serve a term of 3 years. The chairman and the vice chairman of the board of directors of the Joint Venture shall be nominated by the Company and Meishi respectively.

**(e) *Profit sharing***

Within three months after the end of each financial year of the Joint Venture, the board of directors of the Joint Venture would decide whether or not to declare any dividends or make any distributions to the equity holders. Any dividends declared or other kind of distributions of the Joint Venture made will be shared by the equity holders according to their respective equity interest in the Joint Venture.

**(f) *Transfer restrictions on the equity interest in the Joint Venture***

Any transfer of the equity interest of the Joint Venture by an equity holder, is subject to the written approval from the other equity holder (which shall have the right of first refusal in respect of such transfer) and of the relevant government authorities in the PRC.

## **INFORMATION OF THE PARTIES**

The Company is an investment company and the holding company of the Group. The Group is principally engaged in construction of sewage and water treatment plants, sewage treatment, water treatment and distribution, sales of sewage treatment facilities, the provision of technical services and licensing of technical know-how that are related to sewage treatment in the PRC.

Meishi is an investment company incorporated in Hong Kong and is wholly-owned by Mr. Wu.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE JV AGREEMENT**

The Directors are of the view that Changxing Dao Harbour Industrial Zone where the BT Project is located has been upgraded as a national economic and technological development zone and Changxing Dao is in a leading position in relation to the “Five Points, One Line” strategy regarding the opening up of the market in Liaoning Province.

The BT Project consists of Water Supply Main Project Phase II for Changxing Dao, Jian Liu Island Sewage Treatment Station and Ancillary Pipeline Projects. The Water Supply Main Project Phase II for the Changxing Dao is vital to the water supply in Changxing Dao and was listed as one of the major government projects in 2010.

The Directors consider that the BT Project can fully leverage the Group’s advantage on construction and management and that the business of the Joint Venture will strengthen the Group’s businesses development in the North East region of the PRC. It is expected that the Group will benefit from investment in the Joint Venture in the future. Therefore, the Directors are of the view that the entering of the JV Agreement is in the interests of the Company and its Shareholders as a whole.

## **THE LOAN AGREEMENT – A CONNECTED TRANSACTION**

### **Date**

24 June 2010

## **Parties**

- (1) the Company as the lender;
- (2) Meishi as the borrower; and
- (3) Mr. Wu as the guarantor of the Loan.

## **The Loan**

A term loan in the sum of US\$35.2 million (equivalent to approximately HK\$273.8 million) repayable on the first anniversary of the Loan Agreement.

## **Interest Rate**

Same as the benchmark interest rate for Renminbi loans of the People's Bank of China over the same period.

## **Security**

The repayment of the Loan and any amount due under the Loan Agreement is secured by the Shares Charges and the Personal Guarantee.

## **Events of Default**

The Loan will become immediately repayable in the following events of default:–

- (i) any creditor occupies all or any of the assets of Meishi or enforces execution of its assets or takes other legal procedures or seizes any of its assets;
- (ii) Meishi ceases or intends to cease any substantial parts of its business activities, or changes or intends to change its business nature;
- (iii) Meishi is subject to major litigation, arbitration or administrative proceedings.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE LOAN AGREEMENT**

Mr. Wu possesses the relevant marketing, management and operational skills for the Joint Venture and can assist in the operation of the Joint Venture. The provision of the Loan assists Mr. Wu to invest and involve in the Joint Venture and the Loan is itself sufficiently and properly secured.

None of the Directors have any material interest in the Loan Agreement. The Directors (including the independent non-executive Directors), consider that the Loan Agreement is made on normal commercial terms and on terms no less favourable to the Company than those available to independent third parties, and the terms are fair and reasonable though not in the ordinary and usual course of business of the Group but are in the interests of the Group and the Shareholders of the Company as a whole.

## **LISTING RULES REQUIREMENTS**

As one or more of the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules in respect of the JV Agreement is/are more than 5% but less than 25%, the JV Agreement constitutes a discloseable transaction for the Company under the Listing Rules.

Upon the formation of the Joint Venture, the Joint Venture became a subsidiary of the Company and the Loan Agreement entered into between the Company and Meishi, being a controlling shareholder of the Joint Venture, became a connected transaction of the Company and subject to the applicable requirements under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (except for the profit ratio which is not applicable) as defined in the Rule 14A.10 of the Listing Rules in respect of the connected transaction is less than 5%, under Rules 14A.32(1) of the Listing Rules, the entering into of the Loan Agreement is only subject to the reporting and announcement requirements and is exempt from approval by the Shareholders (excluding those Shareholders who are required to abstain from voting on the resolution by the Listing Rules) at a general meeting under the Listing Rules.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“BT Project”	means the build and transfer project for the construction of the sewage treatment and pipeline network and the relevant infrastructures for the Water Supply Main Project Phase II for Changxing Dao, Jian Liu Island Sewage Treatment Station and Ancillary Pipeline Projects. After completion of the construction for the BT Project, the works will be transferred to the Liaoning Provincial Government
“Company”	Beijing Enterprises Water Group Limited (Stock code: 371), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JV Agreement”	the JV Agreement entered into between the Company and the Meishi dated 20 June 2010
“Joint Venture”	北科(大連)投資有限公司 (Beike (Dalian) Investment Co., Ltd.)*, the equity joint venture enterprise set up between the Company and Meishi pursuant to the JV Agreement



“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	mean the loan granted by the Company to Meishi pursuant to the Loan Agreement in the sum of US\$35.2 million (equivalent to approximately HK\$273.8 million)
“Loan Agreement”	the loan agreement entered into between the Company and Meishi for the Loan on 24 June 2010
“Meishi”	Meishi International Investment Group Limited, a company incorporated in Hong Kong and is wholly owned by Mr. Wu
“Mr. Wu”	Mr. Wu Lizhong, the sole director and shareholder of Meishi
“Personal Guarantee”	the personal guarantee provided by Mr. Wu to the Company to secure the repayment of the Loan and any amount payable under the Loan Agreement dated 24 June 2010
“PRC”	the People’s Republic of China, for the purpose of this announcement, exclusively refer to Mainland China
“Shares”	The ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) the Shares

“Share Charges”	means the share charges both dated 24 June 2010 executed by Mr. Wu over the entire issued share capital of Meishi and by Meishi over 40% of the equity interest in the Joint Venture respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“US\$”	US dollars, the lawful currency of the United States

*The figures in US\$ are converted into HK\$ at the rate of US\$1:HK\$7.7785 throughout this announcement for indicative purpose only.*

*\* for identification purpose only*

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

Hong Kong, 24 June 2010

*As at the date of this announcement, the board of directors of the Company comprises ten executive directors, namely, Mr. Zhang Honghai (Chairman), Mr. Liu Kai, Mr. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong (Chief Executive Officer), Mr. Zhou Min, Mr. Li Haifeng, Ms. Qi Xiaohong, Mr. Ju Yadong and Mr. Zhang Tiefu and five independent non-executive directors, namely, Mr. Shea Chun Lok, Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun.*