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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Beijing Enterprises Water Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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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)**

**(1) CONNECTED TRANSACTION  
SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE  
INVOLVING CONNECTED PERSON  
(2) PROPOSED RE-ELECTION OF THE RETIRING DIRECTOR  
AND  
(3) NOTICE OF SPECIAL GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



FIRST SHANGHAI GROUP

FIRST SHANGHAI CAPITAL LIMITED  
第一上海融資有限公司

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A letter from the Board is set out from pages 5 to 17 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages IBC-1 to IBC-2 of this circular. A letter of advice from First Shanghai, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out from pages IFA-1 to IFA-26 of this circular.

A notice convening the special general meeting (the “SGM”) of Beijing Enterprises Water Group Limited (the “Company”) to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 29 March 2018 at 11:00 a.m., is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). Whether or not you are able to attend the SGM, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

6 March 2018

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## DEFINITIONS

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*In this circular, the following expressions have the meanings set out below unless the context otherwise requires.*

“acting in concert”	has the meaning as defined in the Hong Kong Codes on Takeovers and Mergers
“Announcement”	the announcement of the Company dated 24 January 2018 in relation to, among other things, the Subscription
“associate(s)”	has the meaning ascribed thereto it under the Listing Rules
“BEHL”	Beijing Enterprises Holdings Limited (Stock Code: 392), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange, and a controlling shareholder of the Company
“Board”	the board of Directors
“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
“Completion”	completion of the Subscription
“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
“Director(s)”	director(s) of the Company from time to time
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

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## DEFINITIONS

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“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 regulated activities (advising on corporate finance) under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholders other than (1) the Subscriber and its associates; and (2) those who have a material interest in the Subscription or are required by the Listing Rules to abstain from voting on the resolution approving the Subscription, the allotment and issue of the Subscription Shares and the transactions contemplated under the Subscription Agreement
“Last Trading Day”	23 January 2018, being the last trading day for the Shares before the date of the Subscription Agreement
“Latest Practicable Date”	1 March 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Committee”	has the meaning ascribed to such term in the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Placee(s)”	professional, institutional and other investors selected and procured by or on behalf of the Placing Agents as contemplated by the Placing Agreement
“Placing”	the placing of the Placing Shares pursuant to the terms of the Placing Agreement

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## DEFINITIONS

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“Placing Agents”	China International Capital Corporation Hong Kong Securities Limited, Daiwa Capital Markets Hong Kong Limited, Deutsche Bank AG, Hong Kong Branch, Haitong International Securities Company Limited and UBS AG, Hong Kong Branch
“Placing Agreement”	a conditional placing agreement entered into between the Company and the Placing Agents dated 24 January 2018 in relation to the Placing
“Placing Price”	HK\$5.9 per Placing Share
“Placing Share(s)”	450,000,000 Shares to be placed pursuant to the terms of the Placing Agreement
“PRC”	the People’s Republic of China, excluding, for the purposes of this circular, Hong Kong, Macau and Taiwan
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Subscription Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary shares of HK\$0.10 each in the capital of the Company
“Share Options”	Share Options to subscribe for Share(s) granted pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Shareholders at the special general meeting of the Company held on 28 June 2011
“Shareholder(s)”	holder(s) of the Share(s)

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## DEFINITIONS

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“Specific Mandate”	the specific mandate for the allotment and issue of the Subscription Shares, which is subject to approval by the Independent Shareholders voting by way of poll at the SGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Beijing Enterprises Environmental Construction Limited, being a controlling shareholder of the Company
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	a conditional subscription agreement entered into between the Subscriber and the Company dated 24 January 2018 in relation to the Subscription
“Subscription Price”	HK\$5.9 per Subscription Share, which is the same as the Placing Price
“Subscription Shares”	169,491,525 Shares to be subscribed for by the Subscriber and allotted to it pursuant to the terms of the Subscription Agreement
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“%”	per cent

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Li Yongcheng (*Chairman*)  
Mr. E Meng (*Vice Chairman*)  
Mr. Jiang Xinhao  
Mr. Zhou Min (*Chief Executive Officer*)  
Mr. Li Haifeng  
Mr. Zhang Tiefu  
Ms. Qi Xiaohong  
Mr. Ke Jian  
Mr. Tung Woon Cheung Eric  
Mr. Li Li

*Independent Non-executive Directors:*

Mr. Shea Chun Lok Quadrant  
Mr. Zhang Gaobo  
Mr. Guo Rui  
Mr. Wang Kaijun  
Dr. Lee Man Chun Raymond

*Registered office:*

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

*Head office and principal place of  
business:*

Rooms 6706-07, 67th Floor  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

6 March 2018

*To the Shareholders*

Dear Sir or Madam,

**(1) CONNECTED TRANSACTION  
SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE  
INVOLVING CONNECTED PERSON  
(2) PROPOSED RE-ELECTION OF THE RETIRING DIRECTOR  
AND  
(3) NOTICE OF SPECIAL GENERAL MEETING**

**INTRODUCTION**

Reference is made to the Announcement in relation to, among other things, the Subscription.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among others, (i) details of the Subscription Agreement; (ii) a letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from First Shanghai to the Independent Board Committee and the Independent Shareholders; (iv) the proposed re-election of the retiring Director; and (v) a notice of the SGM.

Following the Announcement, the conditions to the Placing Agreement have all been fulfilled and the Placing was completed on 1 February 2018. Pursuant to the Placing, 450,000,000 new Shares, representing approximately 4.9% of the issued share capital of the Company as enlarged by the issue of the Placing Shares, were issued to the Placees at a price of HK\$5.9 per Placing Share, ranking pari passu with all the other Shares in issue at that date. The proceeds from the Placing amounted to HK\$2,655 million.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Placees and their ultimate beneficial owner(s) are third parties independent of the Company and its connected persons, and not acting in concert with (i) one another; (ii) the Company, the directors, chief executive or substantial shareholders of the Company or its subsidiaries; (iii) the Subscriber or any party acting or presumed to be acting in concert with it; or any of their respective associates.

### (1) SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

On 24 January 2018, the Company entered into the Subscription Agreement with the Subscriber. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for 169,491,525 new Shares. The Subscription Shares will be issued at the Subscription Price which is equal to the Placing Price.

#### **The Subscription Agreement**

**Date:** 24 January 2018

#### **Parties**

- (A) the Company; and
- (B) the Subscriber.



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## LETTER FROM THE BOARD

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### Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, the Subscription Shares at the Subscription Price.

The Subscription Shares represents (i) approximately 1.9% of the issued share capital of the Company as at date of the Subscription Agreement; (ii) approximately 1.8% of the issued share capital of the Company as at Latest Practicable Date; and (iii) approximately 1.8% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares (assuming there is no other issue of Shares).

Based on the closing price of the Shares of HK\$6.26 per Share on 24 January 2018, the Subscription Shares have a market value of approximately HK\$1,061 million. The aggregate nominal value of the Subscription Shares is approximately HK\$16.9 million.

### Subscription Price

The Subscription Price is the same as the Placing Price and represents:

- (a) a discount of approximately 1.5% over the closing price of HK\$5.99 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 2.2% over the average closing price per Share of HK\$6.03 for the last five consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 2.0% over the average closing price per Share of HK\$6.02 for the last ten consecutive trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 15.5% to the closing price per Share of HK\$5.11 as quoted on the Stock Exchange on the Latest Practicable Date.

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## LETTER FROM THE BOARD

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The Subscription Price was set by reference to the Placing Price, which was the subject of arm's length negotiations between the Company and the Placing Agents with regard to the recent trading performance of the Shares and the business prospects of the Group. The Board has made reference to and taken into account (i) the fluctuation of the market prices of the Shares during the 12-month period from 1 January 2017 and up to and including the Last Trading Day (the "**Review Period**"); (ii) the Placing Price and the Subscription Price are within the range of daily closing prices of the Share during the Review Period, whereby the lowest of HK\$4.97 per Share was recorded on 5 January 2017, and the highest of HK\$6.70 was recorded on 7 November 2017; (iii) the Placing Price and the Subscription Price are close to the average closing price of the Shares of approximately HK\$6.07 per Share during the Review Period; and (iv) the Placing Price and the Subscription Price are close to the average closing price of the Shares of approximately HK\$6.02 per Share for the last ten trading days up to and including the Last Trading Day.

The Directors (excluding the members of the Independent Board Committee whose opinion is set out in the "Letter from the Independent Board Committee" in this circular) consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **Lock-up undertakings**

The Subscriber undertakes to and covenants with the Company that, unless in compliance with the requirements of the Listing Rules, the Subscriber shall not, in the period commencing on the completion date of the Subscription and ending on the date which is 90 days following Completion, dispose of, or enter into any agreement to dispose of or otherwise create any encumbrances in respect of, any of the Subscription Shares.

### **Conditions to Subscription**

Completion of the Subscription is conditional upon:

- (a) the passing of the resolution(s) at the SGM by the Independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the granting of the Specific Mandate to the Directors to allot and issue the Subscription Shares;

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## LETTER FROM THE BOARD

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- (b) the Listing Committee of the Stock Exchange granting listing of and permission to deal in all of the Subscription Shares (and such listing and permission not subsequently revoked prior to the delivery of the definite share certificate(s) representing allotment of the Subscription Shares to the Subscriber or its nominee(s)); and
- (c) in addition to condition (b) above, the Company having obtained each necessary consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver (including but not limited to those provided by the Hong Kong Securities and Futures Commission, the Stock Exchange or any other third party (if applicable)) in relation to the Subscription Agreement and/or the transactions contemplated hereunder, and such consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver not having been revoked or withdrawn.

If any of the above conditions is not fulfilled on or before the long stop date of 30 April 2018, the Subscription Agreement shall lapse and all the rights and obligations under the Subscription Agreement shall cease, save for any rights or obligations which may accrue prior to the date of such lapse.

### **Completion of the Subscription**

Completion of the Subscription is expected to take place on or before 5 May 2018 or such other later date as may be agreed by the Company and the Subscriber in writing.

On the date of Completion, the Subscriber shall pay to the Company the total consideration of HK\$1,000 million in cash for the subscription of the Subscription Shares and the Subscription Shares shall be allotted and issued to the Subscriber free from all encumbrances and ranking pari passu among themselves (and shall rank in full for dividends and other distributions declared or paid thereafter) and with the Shares then in issue.

### **Specific mandate to issue the Subscription Shares**

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

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## LETTER FROM THE BOARD

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### **Background of the Company and the Subscriber**

The Company is an investment company and the holding company of the Group. The Group is principally engaged in construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC and Malaysia; provision of sewage and reclaimed water treatment services in the PRC, the Republic of Singapore and Portuguese Republic; distribution and sale of piped water in the PRC and Portuguese Republic; provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in the PRC; and the licensing of technical know-how related to sewage treatment in the PRC.

The Subscriber is an investment company, the controlling shareholder of the Company and is wholly-owned by BEHL. BEHL is principally engaged in natural gas operations, brewery operations, water and environmental operations, as well as solid waste treatment operations in the PRC.

As at Latest Practicable Date, the Subscriber and parties acting in concert with it were interested in 3,824,367,831 Shares, representing 41.37% of the issued capital of the Company.

### **Implications under the Listing Rules**

The Subscriber is a controlling shareholder of the Company and therefore a connected person under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders at the SGM for the Subscription Agreement and the transactions contemplated thereunder. Save for the Subscriber and its associates, no Shareholder has a material interest in the Subscription Agreement and the transactions contemplated thereunder. As such, save for the Subscriber and its associates, no Shareholder is required to abstain from voting for the resolution to approve the Subscription Agreement and the transactions contemplated thereunder at the SGM.

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## LETTER FROM THE BOARD

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The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the Subscription Agreement and the transactions contemplated thereunder. The Company has appointed First Shanghai as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### Application for Listing

An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares on the main board of the Stock Exchange.

### Effect on the Shareholding of the Company

As at Latest Practicable Date, the Company has 9,245,197,196 Shares in issue.

The following table illustrates the shareholding structure of the Company (i) as at Latest Practicable Date; and (ii) immediately following the completion of the Subscription (assuming no change in the issued share capital of the Company since Latest Practicable Date other than the completion of the Subscription):

Shareholders	Shareholding			
	as at the Latest Practicable Date		Immediately after Completion	
	<i>Number of Shares</i>	%	<i>Number of Shares</i>	%
Subscriber and parties acting in concert with it <i>(Note 1)</i>	3,824,367,831	41.37	3,993,859,356	42.42
Public Shareholders <i>(Note 2)</i>	5,420,829,365	58.63	5,420,829,365	57.58
Total	<u>9,245,197,196</u>	<u>100.00</u>	<u>9,414,688,721</u>	<u>100.00</u>

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## LETTER FROM THE BOARD

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*Notes:*

- (1) As at the Latest Practicable Date, the Subscriber beneficially held 3,824,367,831 Shares. Beijing Enterprises Group Company Limited (“**BEGCL**”) was deemed to be interested in 3,824,367,831 Shares as a result of its indirect holding of such shares through the following entities:

<b>Name</b>	<b>Long positions in Shares</b>
Subscriber	3,824,367,831
BEHL ( <i>Note i</i> )	3,824,367,831
Modern Orient Limited (“ <b>MOL</b> ”) ( <i>Note ii</i> )	3,824,367,831
Beijing Enterprises Investments Limited (“ <b>BEIL</b> ”) ( <i>Note ii</i> )	3,824,367,831
Beijing Enterprises Group (BVI) Company Limited (“ <b>BE Group (BVI)</b> ”) ( <i>Note iii</i> )	3,824,367,831
BEGCL ( <i>Note iv</i> )	3,824,367,831

*Notes:*

- (i) The interest disclosed comprises the Shares owned by the Subscriber. The Subscriber beneficially holds 3,824,367,831 Shares (representing approximately 41.37% in the share capital of the Company). The Subscriber is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the Shares owned by the Subscriber.
- (ii) The interest disclosed comprises the Shares owned by BEHL (through the Subscriber). MOL and BEIL are the immediate shareholders of BEHL and collectively hold approximately 20.90% of the issued share capital of BEHL. Accordingly, each of MOL and BEIL is deemed to be interested in the Shares owned by BEHL (through the Subscriber).
- (iii) The interest disclosed comprises the Shares owned by BEIL and MOL (through BEHL and the Subscriber). BEHL is held directly as to 41.06% by BE Group (BVI). MOL is a wholly-owned Subsidiary of BEIL, which is in turn directly held as to approximately 72.72% by BE Group (BVI). Accordingly, BE Group (BVI) is deemed to be interested in the Shares indirectly owned by BEIL and MOL (through BEHL and the Subscriber).
- (iv) The interest disclosed comprises the Shares owned by BE Group (BVI) as detailed in note (iii) above. BE Group (BVI) is a wholly-owned subsidiary of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI).
- (2) including the Places.

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## LETTER FROM THE BOARD

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### FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

Save for the Placing, the Company has not carried out any other capital raising activities during the 12 months immediately preceding Latest Practicable Date.

#### Use of Proceeds

The gross proceeds of the Subscription will be approximately HK\$1,000 million. The net proceeds, after deduction of all relevant expenses incidental to the Subscription are estimated to be approximately HK\$999.5 million and the net subscription price per Share is HK\$5.90. The intended use of the net proceeds from the Subscription are as follows:

- (i) approximately HK\$715.5 million for repayment of loans;
- (ii) approximately HK\$105.0 million for the construction of water plants in the PRC under “Build-Operate-Transfer (BOT)”<sup>1</sup> projects; and
- (iii) approximately HK\$179.0 million for the construction of water environment comprehensive renovation projects in the PRC.

The gross proceeds from the Placing amounted to HK\$2,655 million. The net proceeds, after deduction of all relevant expenses incidental to the Placing are estimated to be approximately HK\$2,614.7 million. The intended use of the net proceeds from the Placing are as follows:

- (i) approximately HK\$472.0 million for repayment of loans;
- (ii) approximately HK\$823.0 million for the construction of water plants in the PRC under BOT projects;

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<sup>1</sup> *BOT is a form of project financing, wherein a private investor receives a concession from the local government or relevant public sector agency to finance, design, construct, own, and operate a facility stated in the concession contract. This enables the project proponent to recover its investment, operating and maintenance expenses in the project.*

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## LETTER FROM THE BOARD

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- (iii) approximately HK\$250.0 million for the acquisition of concession rights of “Transfer-Operate-Transfer (TOT)”<sup>2</sup> water projects in the PRC;
- (iv) approximately HK\$965.0 million for the construction of water environment comprehensive renovation projects in the PRC; and
- (v) approximately HK\$104.7 million as general working capital of the Group mainly for the payment of interest expenses, administrative expenses and operation expenses, including salaries and office rental expenses.

As at 23 February 2018, the actual use of the net proceeds from the Placing are as follows:

- (i) approximately HK\$5.5 million was used for the construction of water plants in the PRC under BOT projects;
- (ii) approximately HK\$45.6 million was used for the acquisition of concession rights of TOT water projects in the PRC; and
- (iii) approximately HK\$131.7 million was used for the construction of water environment comprehensive renovation projects in the PRC.

Should any of the above usages constitute notifiable and/or connected transaction of the Company, the Company will comply with the applicable requirement(s) under the Listing Rules.

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<sup>2</sup> *TOT is a business model in which a local government or relevant public sector agency conducts a transfer of asset rights, including operation and management rights, in wastewater treatment services to a private investor. In return for this, the private investor provides a one-off payment to the public sector in order to manage, operate, and maintain the wastewater treatment facilities for a certain period of time (usually 20-30 years). During the contract period, the private investor can achieve a level of revenues in order to recoup its initial investment and to make a profit. The facilities will be transferred back to the public sector at the end of the contract period without any compensation to the private investor.*



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## LETTER FROM THE BOARD

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### Reasons for and Benefits of the Subscription

The Subscription reflected the confidence and support for the development of the Company by BEHL, the controlling shareholder of the Company. The Subscription will accelerate the Company's growth by further strengthening the capital base and financial position of the Company and laying down a more solid foundation for the future business development, mergers and acquisitions. The revision of the "Law on the Prevention and Control of Water Pollution" passed by the Standing Committee of the National People's Congress of the PRC on 27 June 2017, imposed further obligation with respect to treatment of the water system that would trigger an enormous potential for market growth. On the other hand, the water environment renovation market, which features black-and-malodorous water body treatment, water system renovation and sponge city, exhibits outstanding performance. As such, the water market will enjoy a period of ample development opportunities in the coming year. The Company will seek opportunities in business expansion through various channels in order to create synergy in exploring the market. The Group will further gain an edge by creating and developing its own water environment comprehensive renovation projects and provide comprehensive solutions and services at all levels for environmental project implementation in the cities in which it operates. The proceeds from the Subscription can replenish working capital for the business development in order to grasp the huge opportunities in the water market.

Other than the Subscription, the Company has also considered the feasibility of other fund raising methods such as debt financing and other forms of equity financing. For debt financing, the Directors considered that it will incur interest burden on the Group. Due to the increasing trend of the interest rate in the debt market, it may not be practicable for the Group to obtain additional debt financing in a cost-effective manner and would usually incur heavier interest burden on the Group. Also, debt financing will inevitably further uplift the gearing position of the Group. The Directors have also considered other ways of equity financing, including pre-emptive equity issue. The Directors are of the view that though both open offer and rights issue would allow shareholders of the Company to maintain their respective pro-rata shareholding in the Company and at the same time strengthening the capital base of the Company, such fund raising exercises would be relatively more time-consuming, administratively burdensome and cost-ineffective as compared with any placing and/or subscription of new Shares, in particular view of its relatively larger fund raising size. Given the Group's current liquidity and gearing positions, the Directors regard that the Subscription, as a relatively more timely sources of funding to the Group, is more preferable method of fund raising for the Group, in particular view of the prevailing fiercer stock market sentiment.

None of the Directors has a material interest in the Subscription Agreement and the transactions contemplated thereunder and hence no Director has abstained from voting on the relevant board resolutions of the Company.

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## LETTER FROM THE BOARD

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Having (i) considered the above reasons behind for the Subscription to raise additional equity funding to strengthen its capital base and financial position; (ii) considered the Subscription could facilitate future business development, merger and acquisitions of the Group and save interest costs on its borrowings, and is in sizeable amount after taking into the Group's present liquidity and cash flow positions, any other appropriate alternative funding means; and (iii) noted that the Subscription Price offered to the Subscriber which is a connected person of the Company is exactly the same as the Placing Price offered to not less than six placees who are independent third parties with reference to the prevailing market price of the Shares, the Directors (excluding the members of the Independent Board Committee) consider that the terms of the Subscription Agreement and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Company, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **(2) PROPOSED RE-ELECTION OF RETIRING DIRECTOR**

Pursuant to Bye-law 91 of the Company, Dr. Lee Man Chun Raymond shall hold office until the SGM and, being eligible, offers himself for re-election. Biographical details of Dr. Lee Man Chun Raymond are set out in Appendix I to this circular.

### **(3) SGM**

A notice convening the SGM to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 29 March 2018 at 11:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. Shareholders of the Company are advised to read the notice and complete and return the form of proxy for use at the SGM enclosed with this circular in accordance with the instructions printed thereon.

A form of proxy for the SGM is enclosed with this circular and such form of proxy is also published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). To be valid, the enclosed form of proxy must be completed and signed in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll and the Company will then announce the results of the poll in the manner as prescribed under Rule 13.39(5) of the Listing Rules.

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## LETTER FROM THE BOARD

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To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for the Subscriber and its associates, no Shareholder is required to abstain from voting for the resolution to approve the Subscription Agreement and the transactions contemplated thereunder at the SGM.

As no Shareholder has an interest regarding the proposed re-election of the retiring director, no Shareholder is required to abstain from voting on this resolution to be proposed at the SGM.

### RECOMMENDATION

The Board (including the members of the Independent Board Committee after taking the advice of the Independent Financial Adviser) are of the opinion that the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM.

The Directors (excluding Dr. Lee Man Chun Raymond) also consider that the proposed re-election of Dr. Lee Man Chun Raymond as an independent non-executive Director are in the interests of the Company and the Shareholders. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the SGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix II to this circular.

Yours faithfully,  
By Order of the Board  
**Beijing Enterprises Water Group Limited**  
**Li Yongcheng**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

6 March 2018

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON**

We refer to the circular of the Company (the “**Circular**”) dated 6 March 2018 which this letter forms part.

Terms defined in the Circular have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether, the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and Shareholders as a whole and to the voting action that should be taken.

We wish to draw your attention to the letter from the Board and the letter of advice from First Shanghai as set out in the Circular.

Having considered the Subscription Agreement, the transactions contemplated thereunder and the advice given by First Shanghai, we are of the opinion that the Subscription Agreement and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Company, are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Independent Board Committee**

**Shea Chun Lok Quadrant**  
*Independent non-executive  
Director*

**Zhang Gaobo**  
*Independent non-executive  
Director*

**Guo Rui**  
*Independent non-executive  
Director*

**Wang Kaijun**  
*Independent non-executive  
Director*

**Lee Man Chun Raymond**  
*Independent non-executive  
Director*

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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*The following is the full text of the letter of advice from First Shanghai to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription pursuant to the Subscription Agreement (including the grant of Specific Mandate for the allotment and issue of the Subscription Shares) prepared for the purpose of inclusion in this circular.*



19th Floor, Wing On House  
71 Des Voeux Road Central  
Hong Kong

6 March 2018

*To the Independent Board Committee and  
the Independent Shareholders*

Beijing Enterprises Water Group Limited  
Rooms 6706-7, 67th Floor, Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

Dear Sirs,

### **CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE INVOLVING CONNECTED PERSON**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription pursuant to the Subscription Agreement (including the grant of the Specific Mandate for the allotment and issue of the Subscription Shares), details of which are contained in the circular to the Shareholders dated 6 March 2018 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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As set out in the “Letter from the Board” contained in the Circular, on 24 January 2018, the Company entered into the Placing Agreement with the Placing Agents in relation to the Placing of Placing Shares. Pursuant to the Placing Agreement, the Placing Agents have conditionally agreed with the Company to place, through the Placing Agents, on a fully underwritten basis, 450,000,000 new Shares to not less than six Placees at the Placing Price of HK\$5.90 per new Share.

The Placing Shares had been issued under the General Mandate granted by the Shareholders to the Directors pursuant to the resolution passed at the annual general meeting of the Company held on 1 June 2017.

Assuming that there was no change in the issued share capital of the Company between the date of the Placing Agreement and the completion of the Placing, the Placing Shares represented (i) approximately 5.12% of the existing issued share capital of the Company; (ii) approximately 4.87% of the issued share capital of the Company as enlarged by the issue of the Placing Shares; and (iii) approximately 4.78% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and Subscription Shares.

On 1 February 2018, the Board announced that all conditions of the Placing Agreement have been fulfilled and the completion of Placing took place on 1 February 2018 in accordance with the terms and conditions of the Placing Agreement. A total of 450,000,000 Placing Shares have been successfully placed by the Placing Agents to not less than six independent Placees at the Placing Price of HK\$5.90 per Placing Share pursuant to the terms and conditions of the Placing Agreement. The proceeds from the Placing amounted to HK\$2,655 million.

In addition, on 24 January 2018, the Company also entered into the Subscription Agreement with the Subscriber. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 169,491,525 new Shares. The Subscription Shares will be issued at the Subscription Price, which is equal to the Placing Price.

Assuming that there is no change in the issued share capital of the Company from the date of the Subscription Agreement and up to the completion of the Placing other than as a result of the Subscription, the Subscription Shares to be allotted and issued under the Subscription represents (i) approximately 1.93% of the issued share capital of the Company as at the date of the Subscription Agreement; (ii) approximately 1.89% of the issued share capital of the Company as enlarged by the Subscription Shares; and (iii) approximately 1.80% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and Subscription Shares.

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## **LETTER OF ADVICE FROM FIRST SHANGHAI**

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The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

The Placing and the Subscription are not inter-conditional on each other.

### **IMPLICATIONS UNDER THE LISTING RULES**

The Subscriber is the controlling shareholder of the Company and therefore a connected person under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will seek approval from the Independent Shareholders at the SGM for the Subscription Agreement and the transactions contemplated thereunder. Save for the Subscriber and its associates, no other Shareholder has a material interest in the Subscription Agreement and the transactions contemplated thereunder. As such, save for the Subscriber and its associates, no other Shareholder is required to abstain from voting on the resolution to approve the Subscription Agreement and the transactions contemplated thereunder at the SGM.

### **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Mr. Wang Kaijun and Dr. Lee Man Chun Raymond, has been established to advise the Independent Shareholders as to (i) whether the terms of the Subscription Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, conducted on normal commercial terms or better and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole; and (ii) give a recommendation to the Independent Shareholders in respect of the voting on the ordinary resolution(s) to be proposed at the SGM.



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## LETTER OF ADVICE FROM FIRST SHANGHAI

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We are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. As at the Latest Practicable Date, we were not aware of any relationships or interests between the Group and us during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to our independence to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders. Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Group.

### **BASIS OF OUR ADVICE**

In arriving at our recommendation, we have relied on the information and facts provided by the Company and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company (the “**Management**”). We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and the Management, for which they are solely responsible for, are true and accurate at the time they were made and will continue to be accurate at the date of the despatch of the Circular.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular while the omission of which would make any such statement contained in the Circular misleading. We consider that we have been provided with sufficient information to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstances which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations while the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors and the Management, nor have we conducted an independent investigation into the business and affairs of the Group.

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# LETTER OF ADVICE FROM FIRST SHANGHAI

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Subscription, we have taken into consideration the following principal factors:

### 1. Background of the Group

The Company is an investment company and the holding company of the Group.

The Group is principally engaged in construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC and Malaysia; provision of sewage and reclaimed water treatment services in the PRC, the Republic of Singapore and Portuguese Republic; distribution and sale of piped water in the PRC and Portuguese Republic; provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in the PRC; and the licensing of technical know-how related to sewage treatment in the PRC.

### 2. Financial information on the Group

#### *Overview*

Since the financial year ended 31 December (the “FY(s)”) 2012, the Group’s business operations have been growing satisfactorily in terms of revenue, operating profit and net profit for at least five consecutive FYs, including the FY 2016. The Group recorded a record high profit attributable to shareholders of the Company of approximately HK\$3,227.0 million for the FY 2016. The net profits over the years were basically attributed to the Group’s continuous increasing trend in revenue and operating profit from its continuing operations commencing from at least the FY 2012. Despite of the Group’s persistent profitable operating performance, the Group had a net current liability position as at 30 June 2017 and relatively higher gearing positions in the recent years, mainly because of its continuous debt raising exercises conducted in every FY by issuing corporate bonds and notes payable, so as to enhance its total equity and cash inflows from financing activities for financing its operating activities so far.

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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### *Review of operating performance*

Set out below is a summary of the consolidated financial information of the Group for the two FYs 2015 and 2016 and the six months ended 30 June 2017 as extracted from the annual report of the Company for the FY 2016 (the “**Annual Report**”) and the interim report of the Company for the six months ended 30 June 2017 (the “**Interim Report**”):

	For the FY ended 31 December		For the six months ended 30 June
	2015	2016	2017
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	13,502,957	17,354,833	9,126,016
Cost of sales	(8,536,057)	(11,569,994)	(6,068,949)
<b>Gross profit</b>	4,966,900	5,784,839	3,057,067
<i>Gross profit margin</i>	<i>36.8%</i>	<i>33.3%</i>	<i>33.5%</i>
Profit from operating activities	4,263,537	5,260,500	2,695,121
Profit before tax	3,545,559	4,643,755	2,652,325
<b>Profit for the year/period</b>	2,767,793	3,672,982	2,153,340
<i>Net profit margin</i>	<i>20.5%</i>	<i>21.2%</i>	<i>23.6%</i>
<b>Profit attributable to shareholders of the Company</b>	2,455,370	3,227,013	1,914,125

### *For the FY 2016 versus FY 2015*

The Group recorded revenue of approximately HK\$17,354.8 million for the FY 2016, representing an increase of approximately 28.5% when compared to that of approximately HK\$13,503.0 million for the FY 2015. Such increase was mainly due to the increase in revenue from construction services because of increase in construction work for comprehensive renovation projects and “Build-Operate-Transfer (BOT)” projects in Beijing, Xinjiang and Henan province, the PRC. (Note: BOT is a form of project financing, wherein a private investor receives a concession from the local government or relevant public sector agency to finance, design, construct, own, and operate a facility stated in the concession contract. This enables the project proponent to recover its investment, operating and maintenance expenses in the project.)

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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The Group recorded gross profit of approximately HK\$5,784.8 million for the FY 2016, representing an increase of approximately 16.5% when compared to that of approximately HK\$4,966.9 million for the FY 2015, but its gross profit margin slightly decreased from approximately 36.8% in the FY 2015 to 33.3% in the FY 2016.

The Group had recorded a record high net profit of approximately HK\$3,673.0 million for the FY 2016, representing an increase of approximately 32.7% when compared to that of approximately HK\$2,767.8 million for the FY 2015, while its net profit margin had also slightly increased from approximately 20.5% in the FY 2015 to 21.2% in the FY 2016.

*For the six months ended 30 June 2017 versus 30 June 2016*

The Group recorded revenue of approximately HK\$9,126.0 million for the six months ended 30 June 2017, representing an increase of approximately 16.2% when compared to that of approximately HK\$7,851.6 million for the corresponding period in the FY 2016. Such increase was mainly due to the increase in revenue from construction services for comprehensive renovation projects in Inner Mongolia, and water treatment services from “Transfer-Operate-Transfer (TOT)” projects and other projects acquired in the second half of the FY 2016. *(Note: TOT is a business model in which a local government or relevant public sector agency conducts a transfer of asset rights, including operation and management rights, in wastewater treatment services to a private investor. In return for this, the private investor provides a one-off payment to the public sector in order to manage, operate, and maintain the wastewater treatment facilities for a certain period of time (usually 20-30 years). During the contract period, the private investor can achieve a level of revenues in order to recoup its initial investment and to make a profit. The facilities will be transferred back to the public sector at the end of the contract period without any compensation to the private investor.)*

The Group recorded gross profit of approximately HK\$3,057.1 million for the six months ended 30 June 2017, representing an increase of approximately 13.2% when compared to that of approximately HK\$2,701.5 million for the corresponding period in the FY 2016, but its gross profit margin slightly decreased from approximately 34.4% for the six months ended 30 June 2016 to 33.5% for the corresponding period in the FY 2017.

The Group had recorded net profit of approximately HK\$2,153.3 million for the six months ended 30 June 2017, representing an increase of approximately 23.0% when compared to that of approximately HK\$1,751.2 million for the corresponding period in the FY 2016, while its net profit margin had also slightly increased from approximately 22.3% for the six months ended 30 June 2016 to 23.6% for the corresponding period in the FY 2017.

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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### *Review of financial position*

Set out below is the summary of the consolidated financial position of the Group as at 31 December 2015 and 2016 and 30 June 2017 as extracted from the Annual Report and the Interim Report, respectively:

	As at		As at
	31 December		30 June
	2015	2016	2017
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	46,338,746	59,072,381	66,893,791
Current assets	18,153,002	21,974,889	20,808,861
Total assets	64,491,748	81,047,270	87,702,652
Non-current liabilities	(26,428,482)	(33,665,339)	(32,991,393)
Current liabilities	(17,772,851)	(20,614,591)	(25,154,517)
Total liabilities	(44,201,333)	(54,279,930)	(58,145,910)
Total equity	20,290,415	26,767,340	29,556,742
Equity attributable to the owners			
of the Company	16,183,833	16,501,142	18,493,976
Cash and cash equivalents	6,373,831	10,921,037	7,536,954
Net current assets/(liabilities)	380,151	1,360,298	(4,345,656)
Current ratio	102.1%	106.6%	82.7%
Gearing ratio	121.6%	94.3%	102.4%
Net cash flows used in operating activities	(2,627,105)	(2,500,323)	(3,314,896)
Net cash flows used in investing activities	(3,746,325)	(2,028,722)	(213,442)
Net cash flows from/(used in)			
financing activities	7,064,872	9,468,745	(116,869)

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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*As at 31 December 2016 versus 31 December 2015*

As at 31 December 2016, the Group had current assets of approximately HK\$21,974.9 million (2015: approximately HK\$18,153.0 million), and current liabilities of approximately HK\$20,614.6 million (2015: approximately HK\$17,772.9 million), representing a net current asset position and current ratio of approximately HK\$1,360.3 million (2015: approximately HK\$380.2 million) and 106.6% (2015: approximately 102.1%), respectively. The Group's current ratio was marginally above 1.0 times, this level can still be regarded as healthy. As at 31 December 2016, the Group had cash and cash equivalents of approximately HK\$10,921.0 million (2015: approximately HK\$6,373.8 million).

The Group's total borrowings amounted to approximately HK\$36,170.9 million (2015: approximately HK\$31,047.6 million) comprised bank and other borrowings of approximately HK\$21,474.9 million (2015: approximately HK\$23,136.4 million), finance lease payables of approximately HK\$93.1 million (2015: approximately HK\$114.9 million), notes payable of approximately HK\$2,939.7 million (2015: approximately HK\$3,091.4 million) and corporate bonds of approximately HK\$11,663.2 million (2015: approximately HK\$4,704.9 million). All the corporate bonds and notes payable bear interest at fixed rates from 3.0% to 6.15% per annum. The Group's bank and other borrowings bear interest rates from 1.2% to 6.37% per annum.

The Group's gearing ratio as at 31 December 2016 accounted for approximately 94.3% (2015: approximately 121.6%), which is calculated as the sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, and then divided by its total equity as at 31 December 2016. The slight decrease in the gearing ratio of the Group as at 31 December 2016 was mainly due to the increase in total equity arising from the issue of perpetual capital instruments bonds of approximately HK\$6,305.0 million during the FY 2016. The corresponding proceeds were mainly utilised for the acquisition and construction of various water projects in the PRC.

*As at 30 June 2017 versus 31 December 2016*

As at 30 June 2017, the Group had current assets of approximately HK\$20,808.9 million (31 December 2016: approximately HK\$21,974.9 million), and current liabilities of approximately HK\$25,154.5 million (31 December 2016: approximately HK\$20,614.6 million), representing a net current liability position and current ratio of approximately HK\$4,345.6 million (31 December 2016: net current assets of approximately HK\$1,360.3 million) and 82.7% (31 December 2016: approximately 106.6%), respectively. The Group's current ratio was below 1.0 times, this means that the Group's liquidity was relatively tighter as at 30 June 2017. As at 30 June 2017, the Group had cash and cash equivalents of approximately HK\$7,537.0 million (31 December 2016: HK\$10,921.0 million).

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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The Group's total borrowings amounted to approximately HK\$37,788.8 million as at 30 June 2017 (31 December 2016: approximately HK\$36,170.9 million) comprised bank and other borrowings of approximately HK\$22,668.2 million (31 December 2016: approximately HK\$21,474.9 million), finance lease payables of approximately HK\$259.3 million (31 December 2016: approximately HK\$93.1 million), notes payable of approximately HK\$2,992.1 million (31 December 2016: approximately HK\$2,939.7 million) and corporate bonds of approximately HK\$11,869.2 million (31 December 2016: approximately HK\$11,663.2 million). All the corporate bonds and notes payable bear interest at fixed rates from 3.0% to 6.15% per annum.

The Group's gearing ratio as at 30 June 2017 accounted for approximately 102.4% (31 December 2016: 94.3%). The increase in the gearing ratio of the Group as at 30 June 2017 was mainly due to the decrease in cash and cash equivalents during the six months ended 30 June 2017. The corresponding funds were mainly utilised for the acquisition and construction of various water projects in the PRC.

### ***Conclusion***

In view of the facts that (i) the Group has been operating satisfactorily in terms of revenue, operating profit and net profit for at least five consecutive FYs, including the FY 2016 and the six months ended 30 June 2017; and (ii) the Group had net current liability position as at 30 June 2017 and relatively higher gearing positions in the recent years mainly due to the continuous debt raising activities by obtaining borrowings to finance its business developments, these scenarios show that the Group's profitability had been optimistic while its liquidity and financial stability were not strong enough. On such basis, we consider that it is necessary and justifiable for the Group to implement equity fund raising exercises to improve its current liquidity and gearing positions and finance its business developments and expansion, in particular view of the current fiercer stock market sentiment in contrast with the general expectation of rising interest rates globally and locally.

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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### 3. Reasons for and benefits of the Subscription and the use of proceeds

As mentioned in the “Letter from the Board” of the Circular, the Subscription reflected the confidence and support for the development of the Company by BEHL, the controlling shareholder of the Company. The Subscription will accelerate the Company’s growth by further strengthening the capital base and financial position of the Company and laying down a more solid foundation for the future business development, mergers and acquisitions. The revision of the “Law on the Prevention and Control of Water Pollution” passed by the Standing Committee of the National People’s Congress of the PRC on 27 June 2017, imposed further obligation with respect to treatment of the water system that would trigger an enormous potential for market growth. On the other hand, the water environment renovation market, which features black-and-malodorous water body treatment, water system renovation and sponge city, exhibits outstanding performance. As such, the water market will enjoy a period of ample development opportunities in the coming year. The Company will seek opportunities in business expansion through various channels in order to create synergy in exploring the market. The Group will further gain an edge by creating and developing its own water environment comprehensive renovation projects and provide comprehensive solutions and services at all levels for environmental project implementation in the cities in which it operates. The proceeds from the Subscription can replenish working capital for the business development in order to grasp the huge opportunities in the water market.

The gross proceeds of the Subscription will be approximately HK\$1,000 million. The net proceeds, after deduction of all relevant expenses incidental to the Subscription, are estimated to be approximately HK\$999.5 million and the net subscription price per Share is HK\$5.90. It is proposed that the proceeds from the Subscription will be applied as to the following manners:

- (i) approximately HK\$715.5 million for repayment of loans;
- (ii) approximately HK\$105.0 million for the construction of water plants in the PRC under BOT projects; and
- (iii) approximately HK\$179.0 million for the construction of water environment comprehensive renovation projects in the PRC.

The Directors consider that the terms of the Subscription Agreement and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Company, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.



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## LETTER OF ADVICE FROM FIRST SHANGHAI

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Based on our independent review of the Group's financial and cash flow positions, we consider that it is necessary for the Company to implement appropriate fund-raising exercise(s) to improve its liquidity and gearing positions, in particular view of its net current liability position of approximately HK\$4,345.6 million, current ratio at about 82.7% and relatively higher gearing ratio at about 102.4% as at 30 June 2017. The net proceeds from the Subscription of approximately HK\$999.5 million in addition to that of the Placing of approximately HK\$2,614.7 million can replenish and help to certain extent in these regards.

With regard to other ways of equity financing, the Directors advised that although both open offer and rights issue would allow shareholders of the Company to maintain their respective pro-rata shareholding in the Company and at the same time strengthening the capital base of the Company, such fund raising exercises would be relatively more time-consuming, administratively burdensome and cost-ineffective as compared with any placing and/or subscription of new Shares, in particular view of its relatively larger fund raising size. Given the Group's current liquidity and gearing positions, the Directors are of the opinion that the Placing and the Subscription as relatively more timely sources of funding to the Group is more preferable method of fund raising for the Group, in particular view of the prevailing fiercer stock market sentiment. We concur with the Directors' view in this regard.

In view of the general expectation that the US Federal Reserve will continue to raise interest rates in the coming years, which in turn will correspondingly affect the interest rates in Hong Kong offered by financial institutions, the Board has been hesitating to use any debt financing means (including further issue of corporate bonds and obtaining new bank/other borrowings) to raise funding, as such methods and larger funding size will further uplift the gearing position of, and would usually incur heavier interest burden on, the Group. Based on our independent review of the Annual Report and the Interim Report, we noted that the Group had net current liability position with current ratio at approximately 82.7% and relatively higher gearing level at approximately 102.4% as at 30 June 2017, and cost of borrowings ranging from approximately 1.20% to 6.13% per annum as at the Latest Practicable Date while the financial market has generally been expecting further increasing in interest rates locally and globally. Based on such understanding, we concur with the Directors' consideration of debt financing in such larger fund-raising size to be relatively inappropriate, unfavourable and uncertain when compared to equity financing by way of the Placing and the Subscription, in particular regard of the prevailing relatively fiercer stock market sentiment.

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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Having (i) considered the above reasons behind for the Subscription to raise additional equity funding to enhance its working capital position; (ii) considered the Subscription could facilitate future business development, merger and acquisitions of the Group and save interest costs on its borrowings, and is in sizeable amount after taking into the Group's present liquidity and cash flow positions, any other appropriate alternatives and the dilution effect to the existing shareholder of the Company; and (iii) noted that the Subscription Price offered to the Subscriber who is a connected person of the Company is exactly the same as the Placing Price offered to not less than six placees who are independent third parties with reference to the prevailing market price of the Shares, we are of the view that the Subscription is not conducted in the ordinary and usual course of business of the Group, as it shall be regarded as corporate financing activity instead of its usual operating activity; but the terms of the Subscription Agreement are on normal commercial terms as the either party thereto is treated fairly and equitably irrespective of whether they are independent third parties or connected person, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

#### **4. Background of the Subscriber and the reasons for the Subscription**

The Subscriber is an investment company, the controlling shareholder of the Company and is wholly-owned by BEHL. BEHL is principally engaged in natural gas operations, brewery operations, water and environmental operations, as well as solid waste treatment operations in the PRC.

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it were interested in 3,824,367,831 Shares, representing 41.37% of the issued capital of the Company.

Given the Subscriber has been a controlling shareholder of the Company, while the Subscription itself may allow the Subscriber to top-up its existing shareholding in the Company after completion of the Placing. Completion of the Placing took place on 1 February 2018 in accordance with the terms and conditions of the Placing Agreement. Should the Subscription not be implemented following completion of the Placing, the Subscriber's shareholding in the Company would fall to approximately 41.37% of the enlarged issued share capital of the Company, representing a slight dilution in its existing shareholding therein by approximately 2.11%. In view of such scenario, the present arrangement under the Subscription shall be commercially justifiable for procuring the Subscriber to subscribe for certain number of new Shares at the fair, equitable and comparable terms to other independent placees so as not to materially dilute its existing shareholding in the Company and bring in additional proceeds from the Subscription of approximately HK\$1,000 million without offering any privileged treatments, benefits and/or advantages to the Subscriber, which we consider to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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### 5. Principal terms and conditions of the Subscription Agreement

#### *The Subscription Agreement*

On 24 January 2018, the Company entered into the Subscription Agreement with the Subscriber. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 169,491,525 new Shares. The Subscription Shares will be issued at the Subscription Price at HK\$5.90 per Subscription Share which is equal to the Placing Price per Placing Share.

#### *Subscription Shares*

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 169,491,525 new Shares at the Subscription Price.

Assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the Closing Date other than as a result of the Subscription, the Subscription Shares to be allotted and issued under the Subscription represents (i) approximately 1.93% of the issued share capital of the Company as at the date of the Subscription Agreement; (ii) approximately 1.89% of the issued share capital of the Company as enlarged by the Subscription Shares; and (iii) approximately 1.80% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and Subscription Shares.

Based on the closing price of the Shares of HK\$6.26 per Share on 24 January 2018, the Subscription Shares have a market value of approximately HK\$1,061 million. The aggregate nominal value of the Subscription Shares is approximately HK\$16.9 million.

#### *Lock-up undertakings*

The Subscriber undertakes to and covenants with the Company that, unless in compliance with the requirements of the Listing Rules, the Subscriber shall not, in the period commencing on the completion date of the Subscription and ending on the date which is 90 days following the completion date of the Subscription, dispose of, or enter into any agreement to dispose of or otherwise create any encumbrances in respect of, any of the Subscription Shares.

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We consider that the aforesaid lock-up undertakings could lessen the probable selling pressure in the market that might be caused by the Subscription Shares, and would better maintain the Share price level during the lock-up period, which accordingly, are in the interests of the Company and the Shareholders as a whole.

### *Conditions precedent to the Subscription*

Completion of the Subscription is conditional upon:

- (a) the passing of the resolution(s) at the SGM by the Independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder, including the granting of the Specific Mandate to the Directors to allot and issue the Subscription Shares;
- (b) the Listing Committee of the Stock Exchange granting listing of and permission to deal in all of the Subscription Shares (and such listing and permission not subsequently revoked prior to the delivery of the definite share certificate(s) representing allotment of the Subscription Shares to the Subscriber or its nominee(s)); and
- (c) in addition to condition (b) above, the Company having obtained each necessary consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver (including but not limited to those provided by the Hong Kong Securities and Futures Commission, the Stock Exchange or any other third party (if applicable)) in relation to the Subscription Agreement and/or the transactions contemplated hereunder, and such consent, permit, approval, registration, filing, notice, confirmation, authorisation or waiver not having been revoked or withdrawn.

As at the Latest Practicable Date, none of the above conditions precedent to the Subscription had been fulfilled.

If any of the above conditions is not fulfilled on or before the long stop date of 30 April 2018, the Subscription Agreement shall lapse and all the rights and obligations under the Subscription Agreement shall cease, save for any rights or obligations which may accrue prior to the date of such lapse.

We consider that the conditions precedent to the Subscription are not unusual in all material respects.

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### *Completion of the Subscription*

Completion of the Subscription is expected to take place on or before 5 May 2018 or such other later date as may be agreed by the Company and the Subscriber in writing.

On the date of completion of the Subscription, the Subscriber shall pay to the Company the total consideration of HK\$1,000 million in cash for the subscription of the Subscription Shares and the Subscription Shares shall be allotted and issued to the Subscriber free from all encumbrances and ranking pari passu among themselves (and shall rank in full for dividends and other distributions declared or paid thereafter) and with the Shares then in issue, and the Placing Shares.

### *Specific mandate to issue the Subscription Shares*

The Subscription Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the SGM.

### *The Subscription Price*

To assess the fairness and reasonableness of the Subscription Price at HK\$5.90 per Subscription Share, we set out the following analyses for illustrative purpose:

		Price/value per Share approximately HK\$	Premium/ (discount) over/to at approximately %
(i)	The closing price as quoted on the Stock Exchange on the Last Trading Day	5.99	(1.50)
(ii)	The average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day	6.03	(2.16)
(iii)	The average closing price of the Shares as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day	6.02	(1.99)

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		Price/value per Share approximately <i>HK\$</i>	Premium/ (discount) over/to at approximately %
(iv)	Average of the closing prices of the Shares as quoted on the Stock Exchange for the trading period of the Shares with 12 complete calendar months from 1 January 2017 up to and including the Last Trading Day (the “ <b>Review Period</b> ”)	6.07	(2.80)
(v)	The Group’s audited consolidated net asset value per Share attributable to the shareholders of the Company as at 31 December 2016 (based on the audited net asset value of approximately HK\$16,501,142,000 and the then number of issued Shares of 8,737,867,196 as at 31 December 2016, being the date to which the latest audited financial results of the Group were made up)	1.89	212.17
(vi)	The Group’s unaudited consolidated net asset value per Share attributable to the shareholders of the Company as at 30 June 2017 (based on the unaudited net asset value of approximately HK\$18,493,976,000 as at 30 June 2017 and the number of issued Shares of 8,795,197,196 as at the date of the Subscription Agreement)	2.10	180.95
(vii)	The closing price of the Shares as quoted on the Stock Exchange as at the Latest Practicable Date	5.11	15.46

The Subscription Price was set by reference to the Placing Price, which was the subject of arm’s length negotiations between the Company and the Placing Agents with regard to the recent trading performance of the Shares and the business prospects of the Group. The Board has made reference to the fluctuation of the market prices of the Shares during the Review Period, and therefore fixed the Placing Price and the Subscription Price at HK\$5.90, which was very close to the then average closing price of the Shares immediately prior to the Last Trading Day and throughout the Review Period.

The Directors consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

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### *Historical price performance of the Shares*

Solely for illustration purposes, we consider that it is relevant to compare the closing price level of the Shares traded on the Stock Exchange during the Review Period against the Subscription Price. We consider that the Review Period represents a reasonable timeframe that covers the recent trend of the Share price reflecting the Company's fundamental financial performance and the business cycle in the corresponding period to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices of the Shares and the Subscription Price. The historical performance of the Share price for the Review Period is as follow:

	Highest closing price <i>HK\$</i>	Lowest closing price <i>HK\$</i>	Average daily closing price <i>HK\$</i>	Number of trading days in each month
<b>2017</b>				
January	5.500	4.970	5.256	19
February	5.720	5.450	5.585	20
March	5.910	5.480	5.690	23
April	6.400	5.900	6.112	17
May	6.240	5.730	6.003	20
June	6.210	5.810	6.093	22
July	6.630	5.930	6.259	21
August	6.650	6.240	6.487	22
September	6.590	6.170	6.371	21
October	6.670	6.290	6.468	20
November	6.700	6.100	6.369	22
December	6.120	5.930	6.028	19
<b>2018</b>				
January (up to and including the Last Trading Day)	6.210	5.970	6.068	16

*Source: the website of the Stock Exchange (www.hkex.com.hk)*

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During the Review Period, the closing price of the Shares had been fluctuating narrowly between the lowest of HK\$4.970 per Share, which was recorded on 5 January 2017, to the highest of HK\$6.700 recorded on 7 November 2017; whilst the average closing price per Share was approximately HK\$6.070 during the Review Period. Accordingly, the range of fluctuation between the lowest and highest closing prices of the Shares during the Review Period accounted for approximately 34.8%. Starting from the inception of the Review Period, the average daily closing price of the Shares had been gradually increasing from HK\$5.256 per Share in January 2017 to HK\$6.487 per Share in August 2017, but then dropped to HK\$6.068 per Share in January 2018. The closing price of the Shares was HK\$5.990 per Share as at the Last Trading Day. Following completion of the Placing on 1 February 2018, the closing price of the Shares had gradually decreased to HK\$5.110 as at the Latest Practicable Date.

Based on our independent research from the Stock Exchange website, other than the Company's respective routine final and interim results announcements for the FY 2016 and the six months ended 30 June 2017, we are not aware of any other public announcements made by the Company that were price sensitive in nature and thus, we believe that the prevailing Share price level already mirrored the Group's latest and actual operating performance, financial position and business prospects and outlook shall be a reliable and meaningful benchmark for the purpose of making reference in determining, and analysing the fairness and reasonableness of, the Subscription Price on the basis that the Directors did not aware of any unusual or obvious speculation activities in the market for the Shares during the Review Period.

### ***Historical trading volume of the Shares***

Based on our independent research and analysis, the average daily trading volume of the Shares per month was generally thin during the Review Period, which had always accounted for below 0.40% of the total number of the issued Shares from time to time during the Review Period. The average daily trading volume of the Shares had accounted for merely 0.21% of the total number of the issued Shares throughout the Review Period. The Directors are not aware of any particular events and/or public announcements which might materially affect the fluctuation of trading volume of the Shares during the Review Period.

Based on our independent review of (i) the historical price performance and trading volume of the Shares during the Review Period; (ii) the Group's unaudited net asset value of approximately HK\$2.10 per Share as at 30 June 2017; and (iii) its current relatively higher gearing level, we are of the view that the Board's basis in determining the Subscription Price is fair and reasonable.



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### *Comparison of recent issues of placing and/or subscription shares by other listed issuers*

To further assess the fairness and reasonableness of the Subscription Price, we have conducted a comparable analysis through identifying companies listed on the Stock Exchange which announced placing and/or subscription of new shares by using specific mandate during the last six complete calendar months commencing from 1 July 2017 up to the Last Trading Day, as we consider that six complete calendar months are appropriate benchmarks to reflect the recent market sentiment and the risk appetite of the investment community and the adopted time span can cover sufficient number of comparable placements or subscriptions to reflect the prevailing market trend.

Based on the above said criteria, we have, to the best of our effort by searching through published information on the Stock Exchange's website, identified an exhaustive list of 39 comparable transactions which involve all placing and/or subscription of new shares using specific mandate (the "**Comparable Issues**"). It should be noted that the Comparable Issues may have different principal businesses, market capitalisation, profitability and financial positions as compared to those of the Company. However, as the Comparable Issues can provide a general understanding and usual market practice of the pricing for this similar type of transaction in Hong Kong under the current market environment, we consider all of them to be relevant in assessing the fairness and reasonableness of the Subscription Price, irrespective of their respective market capitalisation and fund-raising size on the grounds that the Comparable Issues have their own business nature and prospects, profitability, financial positions, market capitalisation and funding needs/raising size etc., all of such background factors may not be closely correlated with each others; whilst different size of market capitalisation of listed issuers would not directly affect the terms of placing and/or subscription activities in the market, and selecting samples by market capitalisation and/or fund-raising size only may distort this analysis or even mislead the Independent Shareholders because such short-listed information may not able to present a complete, comprehensive and representative picture or analysis of all the equity fund raising exercises completed by all listed issuers on the Stock Exchange during the Review Period. For each of the 39 Comparable Issues identified, we compared the premium/(discount) of its issue price/placing price/subscription price over/(to) (i) the respective closing price on the last trading day; and (ii) the average closing price for the last five consecutive trading days prior to the date of the corresponding announcement summarized in the following table:

## LETTER OF ADVICE FROM FIRST SHANGHAI

Date of announcement	Company name (Stock Code)	Subscription or Placing	Subscription/ placing price HK\$	Premium/ (discount) over/ to the closing price of the shares as at the last trading day prior to the date of the corresponding announcement	Premium/ (discount) over/ to the average closing price of the shares for the last five consecutive trading days prior to the release of the corresponding announcement
				%	%
10/1/2018	New Sports Group Limited (299)	Placing and Subscription	0.50	(21.88)	(27.11)
3/1/2018	Huiyin Smart Community Co., Ltd. (1280)	Subscription	0.50	(29.58)	(28.77)
3/1/2018	Hua Hong Semiconductor Limited (1347)	Subscription	12.90	(18.56)	(20.21)
29/12/2017	Chinese People Holdings Company Limited (681)	Subscription	0.104	0.00	0.00
21/12/2017	New Focus Auto Tech Holdings Limited (360)	Subscription	0.42	(38.24)	(36.75)
14/12/2017	TSC Group Holdings Limited (206)	Subscription	0.67	(30.21)	(21.18)
13/12/2017	IDG Energy Investment Group Limited (650)	Subscription	1.00	(27.01)	(29.68)
6/12/2017	Brockman Mining Limited (159)	Subscription	0.10	(18.70)	(16.10)
5/12/2017	Blockchain Group Company Limited (364)	Subscription	0.03	114.29	111.27
30/11/2017	Asia Energy Logistics Group Limited (351)	Placing	0.1083	(26.82)	(29.95)
29/11/2017	AKM Industrial Company Limited (1639)	Subscription	1.50	(7.98)	(7.29)
24/11/2017	Mega Expo Holdings Limited (1360)	Placing	1.50	(17.13)	(18.03)
17/11/2017	Alibaba Health Information Technology Limited (241)	Subscription	4.00	(4.31)	(6.80)
9/11/2017	Trinity Limited (891)	Subscription	1.20	60.00	80.72
20/10/2017	U-Right International Holdings Limited (627)	Placing	0.22	(82.11)	(81.45)
13/10/2017	Rosan Resources Holdings Limited (578)	Subscription	0.20	34.23	32.10
11/10/2017	Eagle Legend Asia Limited (936)	Subscription	1.10	7.80	0.90
11/10/2017	Pak Tak International Limited (2668)	Placing and Subscription	0.224	(21.40)	(20.85)
11/10/2017	Richly Field China Development Limited (313)	Subscription	0.086	0.00	2.90
29/9/2017	Lenovo Group Limited (992)	Subscription	4.31	0.00	1.17
28/9/2017	AMAX International Holdings Limited (959)	Subscription	0.36	(6.49)	0.84
27/9/2017	ZH International Holdings Limited (185)	Subscription	0.223	9.13	7.73
14/9/2017	Starlight Culture Entertainment Group Limited (1159)	Subscription	4.50	(2.17)	(4.01)

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				%	%												
12/9/2017	Truly International Holdings Limited (732)	Placing and Subscription	2.02	(12.90)	(13.50)												
12/9/2017	Ourgame International Holdings Limited (6899)	Subscription	1.85	0.00	(0.43)												
1/9/2017	Kwan On Holdings Limited (1559)	Subscription	1.30	(4.40)	(3.70)												
30/8/2017	C&D International Investment Group Limited (1908)	Subscription	4.51	(12.30)	(11.88)												
22/8/2017	China Unicom (Hong Kong) Limited (762)	Subscription	13.24	7.12	11.45												
17/8/2017	Yida China Holdings Limited (3639)	Subscription	2.30	1.77	1.77												
17/8/2017	Yunfeng Financial Group Limited (376)	Subscription	6.50	3.50	13.12												
15/8/2017	China Hongqiao Group Limited (1378)	Placing	6.80	(3.55)	(4.33)												
8/8/2017	Legend Strategy International Holdings Group Company Limited (1355)	Subscription	1.00	(20.00)	(19.48)												
7/8/2017	Daqing Dairy Holdings Limited (1007)	Placing and Subscription	0.10	(96.95)	(97.25)												
1/8/2017	China Resources and Transportation Group Limited (269)	Placing and Subscription	0.23	(19.30)	(9.59)												
25/7/2017	Beijing Sports and Entertainment Industry Group Limited (1803)	Subscription	1.88	(21.00)	(20.33)												
18/7/2017	Guangdong Join-Share Financing Guarantee Investment Co., Ltd. (1543)	Placing	1.42	3.65	3.65												
14/7/2017	China Health Group Limited (673)	Subscription	0.20	23.46	17.65												
7/7/2017	Shenzhen Mingwah Aohan High Technology Corporation Limited (8301)	Placing and Subscription	0.60	(16.67)	(16.90)												
7/7/2017	O Luxe Holdings Limited (860)	Subscription	0.82	(19.61)	(12.77)												
39 Comparable Issuer			<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px 5px;"><b>Maximum</b></td> <td style="padding: 2px 5px;">114.29</td> <td style="padding: 2px 5px;">111.27</td> </tr> <tr> <td style="padding: 2px 5px;"><b>Average</b></td> <td style="padding: 2px 5px;">(8.06)</td> <td style="padding: 2px 5px;">(7.00)</td> </tr> <tr> <td style="padding: 2px 5px;"><b>Median</b></td> <td style="padding: 2px 5px;">(7.98)</td> <td style="padding: 2px 5px;">(7.29)</td> </tr> <tr> <td style="padding: 2px 5px;"><b>Minimum</b></td> <td style="padding: 2px 5px;">(96.95)</td> <td style="padding: 2px 5px;">(97.25)</td> </tr> </table>			<b>Maximum</b>	114.29	111.27	<b>Average</b>	(8.06)	(7.00)	<b>Median</b>	(7.98)	(7.29)	<b>Minimum</b>	(96.95)	(97.25)
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35 out of the 39 Comparable Issuer (see note below)			<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px 5px;"><b>Maximum</b></td> <td style="padding: 2px 5px;">34.23</td> <td style="padding: 2px 5px;">32.10</td> </tr> <tr> <td style="padding: 2px 5px;"><b>Average</b></td> <td style="padding: 2px 5px;">(8.84)</td> <td style="padding: 2px 5px;">(8.18)</td> </tr> <tr> <td style="padding: 2px 5px;"><b>Median</b></td> <td style="padding: 2px 5px;">(7.98)</td> <td style="padding: 2px 5px;">(7.29)</td> </tr> <tr> <td style="padding: 2px 5px;"><b>Minimum</b></td> <td style="padding: 2px 5px;">(38.24)</td> <td style="padding: 2px 5px;">(36.75)</td> </tr> </table>			<b>Maximum</b>	34.23	32.10	<b>Average</b>	(8.84)	(8.18)	<b>Median</b>	(7.98)	(7.29)	<b>Minimum</b>	(38.24)	(36.75)
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24/1/2018	Beijing Enterprises Water Group Limited (371)	Subscription	5.90	(1.50)	(2.16)												

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*Note:*

We have noted that there are four very extreme cases out of the 39 Comparable Issues, namely Blockchain Group Company Limited (Stock Code: 364), Trinity Limited (891), U-Right International Holdings Limited (Stock Code: 627) and Daqing Dairy Holdings Limited (Stock Code: 1007), with abnormally higher premium or deeper discount. For illustrative purposes only, the figures are calculated by excluding such four abnormal Comparable Issues.

*Source: the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk)*

As indicated in the above table setting out the issue statistics of the Comparable Issues, we noted the following scenario:

- (i) the slight discount of approximately 1.50% represented by the Subscription Price to the closing price on the Last Trading Day falls within the range of premiums/discounts represented by the 39 Comparable Issues on the relevant last trading days and above the average discount of approximately 8.06% thereof, which ranges very widely from a discount of approximately 96.95% to a premium of approximately 114.29%; and
- (ii) the slight discount of approximately 2.16% represented by the Subscription Price over the 5-day average closing price for the last five trading days up to and including the last trading day falls within the range of premiums/discounts represented by 5-day average closing prices of the 39 Comparable Issues on the relevant last five trading days and also above the average discount of approximately 7.00% thereof, which also ranges very widely from a discount of approximately 97.25% to a premium of approximately 111.27%.

Based on our findings from above analysis, we have noted that there are four very extreme cases out of the 39 Comparable Issues, namely Blockchain Group Company Limited (Stock Code: 364), Trinity Limited (891), U-Right International Holdings Limited (Stock Code: 627) and Daqing Dairy Holdings Limited (Stock Code: 1007), with abnormally higher premium or deeper discount. By excluding such four abnormal Comparable Issues from the above analysis, we can still maintain our view that the slight discounts of approximately 1.50% and 2.16%, as the case maybe, represented by the Subscription Price to the closing price on the Last Trading Day and the Subscription Price to the average closing prices for the last five consecutive trading days up to and including the Last Trading Day respectively, fall within the range of premiums/discounts represented by the remaining 35 Comparable Issues on the relevant last trading days, which ranges from a discount of approximately 38.24% to a premium of approximately 34.23%, with average and median discounts of approximately 8.84% and 7.98% respectively, which are also very close to the above table of analysis with 39 Comparable Issues.

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Having considered the above analysis and further taken into account (i) the Subscription Price of HK\$5.90 per Subscription Share represents a significant premium of approximately 180.95% over the unaudited net asset value per Share of approximately HK\$2.10 per Share as at 30 June 2017; (ii) the Subscription Price of HK\$5.90 per Subscription Share represented a considerable premium of approximately 15.46% over the closing price of the Shares of HK\$5.11 as at the Latest Practicable Date; (iii) the Group's liquidity and gearing positions as at 30 June 2017; and (iv) the Subscription Price offered to the Subscriber who is a connected person of the Company to be exactly the same as the Placing Price offered to not less than six placees who are independent third parties with reference to the prevailing market price of the Shares, we consider that the basis for determination of the Subscription Price with slight discount is commercially justifiable, and the terms of the Subscription Agreement are on normal commercial terms as the either party thereto is treated fairly and equitably irrespective of whether they are independent third parties or connected person, fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

### **6. Potential dilution effect on the shareholding of the Company**

As set out in the table showing the shareholding structure and changes of the Company in the "Letter from the Board" of the Circular, the shareholding of the existing public Shareholders as at the Latest Practicable Date (i.e. after completion of the Placing on 1 February 2018) was approximately 58.63%. The Subscription Shares to be subscribed by the Subscriber represent 1.83% of the existing issued share capital of the Company as at the Latest Practicable Date, and approximately 1.80% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares. On such basis, the shareholding of the existing public Shareholders will be diluted from approximately 58.63% to 57.58% upon the completion of the Subscription Agreement, we consider such dilution impact is minimal, inevitable and therefore acceptable.

### **7. Financial effect of the Subscription on the Group**

#### ***Earnings***

Save for the legal and professional fees/expenses to be incurred in relation to the Subscription, there will not be any immediate material impact on the earnings of the Group in this regard. Hence, immediately upon completion of the Subscription, there will be no immediate effect on the earnings of the Group.

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### ***Working capital***

According to the Interim Report, the Group had cash and cash equivalent balances of approximately HK\$7,537.0 million as at 30 June 2017. Assuming upon completion of the Subscription only, the Group's cash and liquidity positions will be improved as the cash and cash equivalent balances will increase by the net proceeds of approximately HK\$999.5 million to be generated therefrom. Accordingly, the cash and liquidity positions, net current liabilities and current ratio of the Group are expected to be improved upon the completion of the Subscription.

### ***Gearing position***

Based on the Interim Report, the Group had unaudited consolidated total equity, aggregate borrowings (comprising bank and other borrowings, corporate bonds, notes payable and finance lease payables) and cash and cash equivalents of approximately HK\$29,556.7 million, HK\$37,788.8 million and HK\$7,537.0 million, respectively, as at 30 June 2017, representing a gearing ratio (i.e. being calculated as the aggregate borrowings, net of cash and cash equivalents, to be divided by the total equity of the Group) of approximately 102.4% thereof. The Directors have expected that, following completion of the Subscription, the Group's capital base and net asset value would be enhanced, while its gearing level would be improved on the basis that a substantial portion (i.e. about 71.6%) of the net proceeds from the Subscription of approximately HK\$715.5 million will be applied for repayment of loans.

### ***Net asset value***

According to the Interim Report, the Group had unaudited consolidated net asset value of approximately HK\$18,494.0 million as at 30 June 2017, representing a net asset value per Share of approximately HK\$2.10 based on the number of 8,795,197,196 issued Shares as at the date of the Subscription Agreement. Upon completion of the Subscription only, the net asset value of the Group will be enhanced by the net proceeds of approximately HK\$999.5 million to be generated from the Subscription; whilst the net asset value per Share shall also increase because the Subscription Price of HK\$5.90 per Subscription Share is far above the net asset value per Share of HK\$2.10 as at 30 June 2017.

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## LETTER OF ADVICE FROM FIRST SHANGHAI

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### RECOMMENDATION

Having taken into account the above principal factors and reasons, we are of the view that the Subscription shall be regarded as corporate financing activity instead of usual operating activity of the Group, and therefore is not conducted in its ordinary and usual course of business; but the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders as well as the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve (i) the Subscription pursuant to the Subscription Agreement; and (ii) the Specific Mandate for the allotment and issue of the Subscription Shares.

Yours faithfully,  
For and on behalf of  
**First Shanghai Capital Limited**  
**Nicholas Cheng**  
*Director*

*Note:*

Mr. Nicholas Cheng has been the Responsible Officer of Type 6 (advising on corporate finance) regulated activity under the SFO, and has over 16 years of experience in corporate finance industry. He has participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong

Dr. Lee Man Chun Raymond (“**Dr. Lee**”), aged 47, CPPCC National Committee, *SBS JP*, was appointed as an independent non-executive director of the Company in June 2017. He was conferred the Honorary Degree of Doctor of Laws in 2014 and holds a Bachelor’s Degree in Applied Science from the University of British Columbia in Canada. Dr. Lee is the chairman as well as founder of Lee & Man Paper Manufacturing Limited, a company listed on main board of the Stock Exchange (Stock Code: 2314). From 2004 to 2017, Dr. Lee was an independent non-executive director of the listed company, Bossini International Holdings Limited (Stock Code: 592), a company listed on main board of the Stock Exchange. Dr. Lee is currently involved in a number of public engagements and has been awarded honorary citizenship of Dongguan and reputational citizenship of Changshu. Dr. Lee was awarded the “Young Industrialist Award of Hong Kong 2002” and received an award for “2003 Hong Kong Ten Outstanding Young Persons Selection Awardees”. Since December 2013, Dr. Lee was appointed as the member of Standing Committee, All-China Federation of Returned Overseas. In 2015, Dr. Lee was appointed as member of Council of City University of Hong Kong. Dr. Lee is currently appointed as president of Centum Charitas Foundation. Dr. Lee has over 24 years of operational experience in paper manufacturing and is experienced in professional formula of paper making and product development.

As at the Latest Practicable Date, Dr. Lee does not hold any Shares, underlying Shares or debenture of the Company and/or its associated corporation within the meaning of Part XV of the SFO.

Save as disclosed herein and as at the Latest Practicable Date, Dr. Lee does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company as defined in the Listing Rules.

Pursuant to Dr. Lee’s letter of appointment, his term of office is three years and subject to retirement by rotation and being eligible for re-election at annual general meetings of the Company in accordance with the Bye-laws of the Company.

Dr. Lee’s director’s fee is to be determined by the Board with reference to the prevailing market rate, the Company’s remuneration policy, his duties and responsibilities with the Group and his contribution to the Group. The total amount of remuneration of Dr. Lee for the year ended 31 December 2017 was HK\$60,000.

Save as disclosed herein and as at the Latest Practicable Date, Dr. Lee holds no other directorship in listed public companies in the last three years preceding the date of this circular.

Dr. Lee does not have any information which is required to be disclosed under Listing Rule 13.51(2)(h) to (v) of the Listing Rules. Save as disclosed above, there are no other matters relating to his re-election that need to be brought to the attention of the Shareholders.



## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately upon Completion (assuming there is no change to the issued share capital of the Company on or before Completion) were as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>15,000,000,000</u> Shares	<u>1,500,000,000.00</u>

Assuming there is no change to the issued share capital of the Company and none of the outstanding Share Options are being exercised on or before Completion:

<i>Shares in issue and to be issued:</i>	<i>HK\$</i>
9,245,197,196 Shares in issue as at the Latest Practicable Date	924,519,719.60
<u>169,491,525</u> Subscription Shares to be issued	<u>16,949,152.50</u>
<u>9,414,688,721</u> Shares in issue and fully paid immediately upon Completion	<u>941,468,872.10</u>

Save for the Share Options, as at the Latest Practicable Date, the Company has no other derivatives, outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

Save for the Share Options and other than pursuant to the Subscription Agreement, no capital of any member of the Group was under option, or agreed conditionally or unconditionally to be put under option as at the Latest Practicable Date.

As at the Latest Practicable Date, there were no arrangement under which future dividends are waived or agreed to be waived.

The Subscription Shares to be issued will be listed on the Stock Exchange. No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Subscription Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

### 3. DISCLOSURE OF INTERESTS

#### (i) Directors

##### (a) *Directors' interests in the Company and associated corporations*

Save as the Subscription, as at the Latest Practicable Date, the interests and short positions of the Directors in the Shares and the underlying Shares and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers of the Listing Rules were as follows:

##### (i) *Long positions in the shares and/or underlying Shares of the Company*

Name of Director	Nature of interest	Number of Shares held	Approximate of percentage of shareholding <i>(Note 2)</i>
Zhou Min	Beneficial owner and interest of corporation controlled by the director	308,076,110 <i>(Note 1)</i>	3.3323%
Li Haifeng	Beneficial owner	80,000	0.0009%
Li Li	Beneficial owner	10,000	0.0001%

(ii) *Long positions in the shares and/or underlying shares of the associated corporation of the Company*

Beijing Enterprises Clean Energy Group Limited (“BECEG”)

Name of Director	Nature of interest	Number of shares held	Approximate of percentage of shareholding <i>(Note 5)</i>
Zhou Min	Interest of corporation controlled by the director	1,824,086,800 <i>(Note 3)</i>	2.87%
Li Haifeng	Interest of corporation controlled by the director	1,127,175,080 <i>(Note 4)</i>	1.77%

*Notes:*

- (1) Mr. Zhou Min holds 400,000 Shares beneficially whereas 307,676,110 Shares as at Latest Practicable Date are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- (2) The percentage represented the number of Shares over the total issued Shares as at Latest Practicable Date of 9,245,197,196 Shares.
- (3) This represented the number of ordinary shares of BECEG of HK\$0.001 each (“BECEG Ordinary Shares”) held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
- (4) This represented the number of BECEG Ordinary Shares held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
- (5) The percentage represented the number of BECEG Ordinary Shares over the total issued shares of BECEG as at Latest Practicable Date of 63,525,397,057 shares.

*(iii) Long position in Share Options of the Company*

At the Latest Practicable Date, the following Directors had interests in the Share Options granted by the Company under the Share Option Scheme adopted by the Company on 28 June 2011:

Name of Director	Date of grant	Subscription price per share (HK\$)	Period during which Share Options outstanding are exercisable	Number of shares subject to the Share Option outstanding
Zhou Min	24/4/2013	2.244	24/4/2014-23/4/2023	56,000,000 <i>(Note)</i>
Li Haifeng	24/4/2013	2.244	24/4/2015-23/4/2023	22,600,000 <i>(Note)</i>
Tung Woon Cheung Eric	24/4/2013	2.244	24/4/2014-23/4/2023	9,000,000 <i>(Note)</i>
Li Li	24/4/2013	2.244	24/4/2015-23/4/2023	12,700,000 <i>(Note)</i>
Shea Chun Lok Quadrant	24/4/2013	2.244	24/4/2018-23/4/2023	400,000 <i>(Note)</i>
Zhang Gaobo	24/4/2013	2.244	24/4/2017-23/4/2023	800,000 <i>(Note)</i>
Guo Rui	24/4/2013	2.244	24/4/2018-23/4/2023	400,000 <i>(Note)</i>
Wang Kaijun	24/4/2013	2.244	24/4/2014-23/4/2023	2,000,000 <i>(Note)</i>

*Note:* The vesting of these Share Options is subject to the vesting schedules as set out in their respective offer letters.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executives of the Company and their associates had any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules.

***(b) Directors' interests in assets and contracts of the Company***

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2016, being the date to which the latest published audited financial statements of the Group were made up.

None of the Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

***(c) Directors' service contracts***

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

***(d) Directors' interests in competing businesses***

As at the Latest Practicable Date, none of the Directors or any of their respective close associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

At the Latest Practicable Date, save as disclosed below, none of the Directors was a director or an employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Names of companies which had such discloseable interest or short position	Position within such companies
Li Yongcheng	BEGCL	Director
	BE Group (BVI)	Director
	BEIL	Director
	MOL	Director
	BEHL	Director, Vice Chairman
E Meng	BEGCL	Vice General Manager, Chief Financial Officer
	BE Group (BVI)	Director
	BEIL	Director
	MOL	Director
	BEHL	Director, Executive Vice President
Jiang Xinhao	BEGCL	Vice General Manager
	BE Group (BVI)	Director
	BEIL	Director
	MOL	Director
	BEHL	Director, Vice President
Qi Xiaohong	BEHL	Vice President
Ke Jian	BEHL	Vice President
Tung Woon Cheung Eric	BEHL	Assistant President and General Manger of Finance Department

**(ii) Substantial Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were as follows:

Name of shareholders	Capacity in which Shares were held by	Number of Shares held	Approximate of percentage of shareholding <i>(Note 5)</i>
BEHL <i>(Note 1)</i>	Interest of controlled corporation	3,824,367,831	41.37%
MOL <i>(Note 2)</i>	Interest of controlled corporation	3,824,367,831	41.37%
BEIL <i>(Note 2)</i>	Interest of controlled corporation	3,824,367,831	41.37%
BE Group (BVI) <i>(Note 3)</i>	Interest of controlled corporation	3,824,367,831	41.37%
BEGCL <i>(Note 4)</i>	Interest of controlled corporation	3,824,367,831	41.37%

*Notes:*

- (1) The interest disclosed comprises the Shares owned by the Subscriber. The Subscriber beneficially holds 3,824,367,831 Shares (representing approximately 41.37% in the share capital of the Company). The Subscriber is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the Shares owned by the Subscriber.
- (2) The interest disclosed comprises the Shares owned by BEHL (through the Subscriber). MOL and BEIL are the immediate shareholders of BEHL and collectively hold approximately 20.90% of the issued share capital of BEHL. Accordingly, each of MOL and BEIL is deemed to be interested in the Shares owned by BEHL (through the Subscriber).
- (3) The interest disclosed comprises the Shares owned by BEIL and MOL (through BEHL and the Subscriber). BEHL is held directly as to 41.06% by BE Group (BVI). MOL is a wholly-owned subsidiary of BEIL, which is in turn directly held as to approximately 72.72% by BE Group (BVI). Accordingly, BE Group (BVI) is deemed to be interested in the Shares indirectly owned by BEIL and MOL (through BEHL and the Subscriber).
- (4) The interest disclosed comprises the Shares owned by BE Group (BVI) as detailed in note (3) above. BE Group (BVI) is a wholly-owned subsidiary of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI).
- (5) The percentage represented the number of Shares over the total issued Shares as at Latest Practicable Date of 9,245,197,196 shares.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO.

**4. LITIGATION**

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

**5. MATERIAL ADVERSE CHANGE**

The Directors are of the opinion that there are no material adverse changes in the financial or trading position of the Group since the date to which the latest published audited and unaudited accounts of the Company have been made up.

**6. EXPERT AND CONSENT**

The following is the qualification of the expert who has been named in this circular or has given opinions, letter or advices contained in this circular:

<b>Name</b>	<b>Qualification</b>
First Shanghai	a licensed corporation to carry out type 6 regulated activities (advising on corporate finance) under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder

As at the Latest Practicable Date, First Shanghai does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have been, since 31 December 2016 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

First Shanghai has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they are included.



**7. MISCELLANEOUS**

- (i) The company secretary of the Company is Mr. Tung Woon Cheung Eric, who is the executive Director of the Group and is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.
- (ii) The English text of this circular shall prevail over the Chinese text.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at Rooms 6706-07, 67th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday other than Saturday, Sunday and public holidays from the date of this circular, up to and including the date of the SGM:

- (a) the Subscription Agreement;
- (b) the Placing Agreement;
- (c) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix;
- (d) the letter of recommendation from the Independent Board Committee;
- (e) the letter of advice from First Shanghai; and
- (f) this circular.

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## NOTICE OF SPECIAL GENERAL MEETING

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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)**

**NOTICE IS HEREBY GIVEN THAT** a special general meeting (“**Meeting**”) of Beijing Enterprises Water Group Limited (the “**Company**”) will be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Thursday, 29 March 2018 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company. Unless otherwise indicated, capitalised terms used in this notice and the following ordinary resolutions shall have the same meanings as those defined in the circular of the Company dated 6 March 2018.

### **ORDINARY RESOLUTIONS**

1. “**THAT:**
  - (a) the subscription agreement dated 24 January 2018 (the “**Subscription Agreement**”) (a copy of which has been produced to the Meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) entered into between the Company as issuer and Beijing Enterprises Environmental Construction Limited as subscriber (the “**Subscriber**”) in respect of the issue of a total of 169,491,525 new shares (the “**Subscription Shares**”) of the Company and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
  - (b) subject to fulfilment of the conditions precedent set out in the Subscription Agreement, the allotment and issue of the Subscription Shares in accordance with the terms and conditions of the Subscription Agreement be and is hereby approved;

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## NOTICE OF SPECIAL GENERAL MEETING

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- (c) the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate (the “**Specific Mandate**”) to exercise the powers of the Company to allot and issue the Subscription Shares pursuant to the terms and conditions of the Subscription Agreement, whereby such Subscription Shares shall rank equally in all respects among themselves and with all fully paid ordinary shares of the Company in issue as at the date of allotment and issue. The Specific Mandate is in addition to, and shall not prejudice nor revoke, any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors prior to the passing of this resolution; and
- (d) any director of the Company be and is hereby authorised to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two directors of the Company or any director of the Company together with the secretary of the Company) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Subscription Agreement or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”
2. “**THAT** Dr. Lee Man Chun Raymond be re-elected as an independent non-executive Director and the Board of Directors be authorised to fix his remuneration.”

By Order of the Board  
**Beijing Enterprises Water Group Limited**  
**Li Yongcheng**  
*Chairman*

Hong Kong, 6 March 2018

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## NOTICE OF SPECIAL GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote instead of him/her. In the case of a recognised clearing house, it may authorise such person(s) as it thinks fit to act as its representative(s) at the Meeting and vote in its stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof.
3. Completion and return of the proxy form in respect of the proposed ordinary resolutions for the Meeting will not preclude a member from attending and voting in person at the Meeting (or any adjournment thereof) should he/she so wishes and in such event, the proxy form for the Meeting will be deemed to have been revoked.
4. The proposed ordinary resolution no. 1 set out in this notice will be voted by independent shareholders of the Company and by way of a poll.
5. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.
6. As at the date hereof, the board of directors of the Company comprises ten executive directors, namely Mr. Li Yongcheng (Chairman), Mr. E Meng (Vice Chairman), Mr. Jiang Xinhao, Mr. Zhou Min (Chief Executive Officer), Mr. Li Haifeng, Mr. Zhang Tiefu, Ms. Qi Xiaohong, Mr. Ke Jian, Mr. Tung Woon Cheung Eric and Mr. Li Li and five independent non-executive directors, namely Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Mr. Wang Kaijun and Dr. Lee Man Chun Raymond.