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If you have sold or transferred all your shares in Beijing Enterprises Water Group Limited, you should at once hand this circular to the purchaser or 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)

SHARE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONSIDERATION SHARES AND NOTICE OF SPECIAL GENERAL MEETING

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



粵海證券有限公司

GUANGDONG SECURITIES LIMITED

A notice convening a special general meeting of Beijing Enterprises Water Group Limited to be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 11:00 a.m. on 22 August 2011 is set out on pages 41 to 42 of this circular. A form of proxy for use at the special general meeting of the Company is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). If you are unable to attend the meeting in person, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders is set out on page 16 of this circular. A letter from Guangdong Securities Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 33 of this circular.

29 July 2011

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquisition”	the proposed acquisition by the Purchaser of the Sale Shareholding pursuant to the Master Agreement
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (other than a Saturday, Sunday, public holiday or a day on which a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours and the Stock Exchange is open for the business of dealing in securities
“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”	the completion of the Acquisition contemplated under the Master Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the aggregate consideration of RMB195.36 million (equivalent to approximately HK\$235.12 million) for the sale of the Sale Shareholding pursuant to the Master Agreement
“Consideration Shares”	59,035,792 new Shares at HK\$2.134 per Share of a maximum total value of RMB104.68 million to be allotted and issued to the Vendor and/or its nominee, as part consideration for the Acquisition, upon Completion and each a “Consideration Share”

DEFINITIONS

“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the conditional equity transfer agreement dated 11 June 2011 made between Violet Passion and the Vendor pursuant to which Violet Passion agreed to purchase and the Vendor agreed to sell the Sale Shareholding
“Group”	the Company and its subsidiaries from time to time
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Master Agreement and the transactions contemplated thereunder
“HK\$”	Hong Kong dollars, the lawful currency for the time being of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Shea Chun Lok, Quadrant, Mr. Zhang Gaobo and Mr. Guo Rui, all being independent non-executive Directors, which has been formed for the purpose of advising the Independent Shareholders in relation to the Master Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) other than the Vendor and Violet Passion and their respective associates and those Shareholders (including any Directors) who may have a material interest in the Acquisition and are required to abstain from voting in respect of the resolution(s) to be voted on at the SGM of the Company to be held for the purpose of considering, and if thought fit, to approve the Master Agreement and the transactions contemplated thereunder

DEFINITIONS

“Last Trading Day”	5 July 2011, the last full trading day for the Shares on the date of the Master Agreement
“Latest Practicable Date”	26 July 2011, being the latest practicable date for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the conditional transfer of rights and benefits agreement entered into between the Purchaser, the Vendor, Violet Passion and the Company on 5 July 2011 in relation to the Acquisition
“PRC” or “China”	the People’s Republic of China, for the purpose of this circular, exclusively refer to the mainland China
“Purchaser”	BEWG Environmental Group Co., Ltd., a company incorporated in the PRC with limited liability and a subsidiary of the Company
“RMB” and “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sale Shareholding”	an aggregate of 11.03% of the entire registered capital (paid up) of the Target held by the Vendor as at the Latest Practicable Date and at Completion
“SGM”	the special general meeting of the Company to be held for the purpose of considering, and if thought fit, to approve the Master Agreement and the transactions contemplated thereunder
“Share(s)”	existing ordinary shares of HK\$0.10 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Target”	深圳北控創新投資有限公司 (Shenzhen Bei Kong Chuang Xin Investment Co. Ltd.*), a company incorporated in the PRC and which is held as to 11.03% by the Vendor and the remaining of 88.97% by the Purchaser as of the Latest Practicable Date
“Target Group”	the Target and its subsidiaries
“Vendor”	深圳市泰合環保有限公司 (Shenzhen City Taihe Huanbao Co., Ltd.*), a company incorporated in the PRC with limited liability wholly-owned by Mr. Qiao Wei (喬巍先生) and which holds 11.03% of the entire registered capital of the Target as at the Latest Practicable Date
“Violet Passion”	Violet Passion Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“%”	per cent.

For the purpose of this circular, the exchange rate of RMB1.00 = HK\$1.2035 has been used for currency translation, where applicable. Such exchange rates are for illustration purposes and do not constitute representations that any amount in RMB or HK\$ have been, could have been or may be converted at such rates.

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese names shall prevail.

* For identification purposes only

LETTER FROM THE BOARD



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. Zhang Honghai (*Chairman*)
Mr. E Meng
Mr. Jiang Xinhao
Mr. Hu Xiaoyong (*Chief Executive Officer*)
Mr. Zhou Min
Mr. Li Haifeng
Mr. Zhang Tiefu
Mr. Hou Feng
Ms. Qi Xiaohong
Mr. Ke Jian
Mr. Ju Yadong

Registered Office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

*Head office and principal place
of business in Hong Kong:*

66th Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Independent Non-executive Directors:

Mr. Shea Chun Lok, Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Ms. Hang Shijun
Mr. Wang Kaijun

29 July 2011

To the Shareholders

Dear Sir/Madam,

**SHARE TRANSACTION
AND CONNECTED TRANSACTION IN RELATION TO THE
ISSUE OF CONSIDERATION SHARES
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

References are made to the announcements of the Company dated 5 July 2011 (the “**Announcement**”) and 11 July 2011. On 5 July 2011, the Company, the Purchaser, a subsidiary of the Company, the Vendor and Violet Passion had entered into the Master Agreement pursuant to which the Purchaser has conditionally agreed to undertake, and Violet Passion agreed to transfer its

LETTER FROM THE BOARD

rights and benefits under the Equity Transfer Agreement and as consideration for the Acquisition, there shall be payable to the Vendor and/or its nominee, by cash of a total amount of RMB90.68 million (equivalent to approximately HK\$109.13 million) (of which cash of RMB180,000 (equivalent to approximately HK\$217,000) has, as of the Latest Practicable Date, been paid by the Company as refundable deposit to the Vendor and/or its nominee in accordance with the terms of the Master Agreement, with the remaining amount of RMB90.5 million in cash (equivalent to approximately HK\$108.92 million) payable by the Purchaser to the Vendor and/or its nominee on Completion), to the Vendor and/or its nominee and the Company agreed to issue and allot a total of 59,035,792 Consideration Shares at HK\$2.134 per Share amounting to a maximum total value of RMB104.68 million (equivalent to approximately HK\$125.98 million) to the Vendor and/or its nominee and on such terms and conditions as further discussed in the Announcement and in this circular. Completion is subject to, among other things, the obtaining of all necessary regulatory approvals, which are in turn subject to the obtaining of approval from the Independent Shareholders, who shall consider, and if thought fit, approve the Acquisition by voting at the SGM.

The purpose of this circular is to (i) provide you with information in relation to the Master Agreement and the transactions contemplated thereunder, (ii) set out the recommendations of the Independent Board Committee in relation to the Master Agreement and the transactions contemplated thereunder; (iii) set out the advice of Guangdong Securities to the Independent Board Committee and the Independent Shareholders in relation to the Master Agreement and the transactions contemplated thereunder; and (iv) give you a notice of the SGM set out on pages 41 to 42 of this circular.

THE ACQUISITION

- Date: 5 July 2011
- Parties: (1) Violet Passion
(2) Vendor
(3) Purchaser
(4) The Company

As the Vendor is a substantial shareholder of the Target, the Vendor is a connected person of the Company. Violet Passion is an associate of the Vendor and is therefore a connected person of the Company.

LETTER FROM THE BOARD

Subject

The rights and benefits of Violet Passion under the Equity Transfer Agreement pursuant to which the Purchaser shall, upon the satisfaction of certain conditions precedent as set out in the Master Agreement, acquire the Sale Shareholding, being 11.03% of the entire registered capital of the Target as at the Latest Practicable Date, from the Vendor for a total consideration of RMB195.36 million to be settled partly in cash and the remainder by the issue and allotment of Consideration Shares as further discussed below. The Vendor shall, upon the satisfaction of certain conditions precedent as set out in the Master Agreement, sell the Sale Shareholding to the Purchaser rather than to Violet Passion.

The Target was incorporated on 25 February 2002. Set out below is the key financial information on the Target Company based on its audited consolidated financial statements for the two financial years ended 31 December 2010 prepared under the PRC Accounting Standards:

<i>(RMB'000)</i>	Year Ended 31 December,	
	2010 (audited)	2009 (audited)
Revenue	231,377	164,696
Profit before taxation and extraordinary items	30,247	18,461
Profit after taxation and extraordinary items	31,794	22,238

According to the audited financial statements of the Target as at 31 December 2010, the consolidated net asset value of the Target was approximately RMB371.70 million (equivalent to approximately HK\$447.34 million).

Consideration for the Sale Shareholding

The Consideration payable by the Purchaser for the Acquisition pursuant to the Master Agreement shall be an aggregate of RMB195.36 million (equivalent to approximately HK\$235.12 million), which shall be satisfied partly by payment in cash of a total amount of RMB90.68 million (of which cash of RMB180,000 has, as at the Latest Practicable Date, been paid by the Company as refundable deposit to the Vendor and/or its nominee in accordance with the Master Agreement, with the remaining amount of RMB90.5 million in cash payable by the Purchaser to the Vendor and/or its nominee on Completion) and partly by way of an allotment and issue by the Company of a total of 59,035,792 Consideration Shares (credited as fully paid) at HK\$2.134 per Share amounting to a maximum total value of RMB104.68 million to the Vendor and/or its nominee on Completion. The issue price per Consideration Share was arrived at the average closing price in the five consecutive trading days immediately before the date of the Announcement (the “**Issue Price**”).

LETTER FROM THE BOARD

The Consideration Shares represent approximately 0.86% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 0.85% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration Shares will be allotted and issued under a special mandate to be sought from Independent Shareholders at the SGM. Application has been made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares when allotted and issued shall rank pari passu with all other Shares in issue in the share capital of the Company. There is no restriction on the subsequent sale of the Consideration Shares by the Vendor and/or its nominee.

The Consideration was arrived at on an arm's length commercial basis between the parties to the Master Agreement by reference to the existing operating results, earning capacity, future growth prospects, overall financial performance and net asset value of the Target as at 31 December 2010. The Issue Price represents:–

- (a) a discount of approximately 8.4% to the closing price of HK\$2.33 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) the average closing price of the Shares as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Day, being approximately HK\$2.134 per Share;
- (c) a premium of approximately 3.4% to the average closing price of the Shares as quoted on the Stock Exchange for the last ten consecutive full trading days up to and including the Last Trading Day, being approximately HK\$2.064 per Share; and
- (d) a discount of approximately 4.3% over the closing price of HK\$2.23 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The registered capital of the Target as at 31 December 2010 is RMB300 million. The original purchase costs to the Vendor regarding the Sale Shareholding was RMB102.42 million. The Consideration of RMB195.36 million represents approximately 52.56% of the audited consolidated net asset value of the Target as at 31 December 2010.

LETTER FROM THE BOARD

The payment method of issuing the Consideration Shares as partial settlement of the Consideration will not only enlarge the equity base of the Company, but also eliminate the burden of the Group arising from the cash settlement. The Directors (including the independent non-executive Directors) consider that the terms and the Consideration under the Master Agreement and the Issue Price to be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Conditions Precedent

Completion of the Master Agreement is conditional upon the obtaining of all necessary regulatory approvals, which are in turn subject to the obtaining of approval from the Independent Shareholders and:-

- (i) the Target having obtained the necessary business licence;
- (ii) the provision of various confirmation letters and official supporting documents by the Vendor and/or Violet Passion (as the case may be) in respect of the Acquisition including a no-claims letter, forfeiture of profit-sharing rights under the Target's articles of association, resignation of the directors appointed by the Vendor on the board of directors of the Target, payment of all relevant tax expenses and an indemnity in relation thereto, completion of all procedural and registration requirements and compliance with all legal requirements for completing the transactions contemplated under the Master Agreement;
- (iii) the provision by the Vendor and Violet Passion of board resolutions and shareholders' resolutions approving the transactions contemplated under the Master Agreement; and
- (iv) the listing committee of the Stock Exchange granting the approval for the listing of, and permission to deal in, the Consideration Shares.

If any of the above conditions precedent has not been fulfilled or waived by the parties to the Master Agreement within 60 Business Days after the date of the Master Agreement (or such other dates as the parties may otherwise agree), either party shall be entitled to rescind the Master Agreement whereupon the provisions of the Master Agreement shall from such date have no further force and effect and no party to the Master Agreement shall have any liability hereunder (without prejudice to the rights of the parties in respect of any antecedent breaches) and the entire amount of the refundable deposit shall be refunded to the Company. As at the Latest Practicable Date, none of the above conditions have been completely fulfilled.

LETTER FROM THE BOARD

Completion

Completion shall take place within 15 Business Days upon the fulfilment or waiver of all the conditions precedent required to be fulfilled before Completion. Upon Completion, the Target will become a wholly-owned subsidiary of the Company and will be accounted for as such in the Group's financial statements.

SHAREHOLDING STRUCTURE

For illustrative purpose, the following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of all the Consideration Shares, which are prepared on the assumptions that there would be no changes in the issued share capital of the Company and the shareholdings of the Vendor and/or its nominees from the Latest Practicable Date to the date of issue of all the Consideration Shares:

Name of Shareholders	Shareholding as at the Latest Practicable Date		Shareholding immediately after allotment and issue of the Consideration Shares	
	<i>Number of</i>		<i>Number of</i>	
	<i>Shares</i>	<i>Approximate %</i>	<i>Shares</i>	<i>Approximate %</i>
Beijing Enterprises Environmental Construction Limited ("BE Environmental") (Note 1)	3,047,556,993	44.49	3,047,556,993	44.11
Tenson Investment Limited (Note 2)	684,789,919	10.00	684,789,919	9.91
Vendor and/or its nominees	–	–	59,035,792	0.85
Existing public Shareholders	<u>3,117,787,782</u>	<u>45.51</u>	<u>3,117,787,782</u>	<u>45.13</u>
 Total	 <u><u>6,850,134,694</u></u>	 <u><u>100.00</u></u>	 <u><u>6,909,170,486</u></u>	 <u><u>100.00</u></u>

Notes:

- Beijing Enterprises Group Company Limited is deemed to be interested in 3,047,556,993 Shares as a result of its indirect holding of such Shares through the following entities including its wholly-owned subsidiaries:–

Name	Long position in Shares
BE Environmental	3,047,556,993
Beijing Enterprises Holdings Limited ("BEHL")	3,047,556,993
Beijing Enterprises Group (BVI) Company Limited	3,047,556,993
Beijing Enterprises Group Company Limited	3,047,556,993

LETTER FROM THE BOARD

BE Environmental beneficially holds 3,047,556,993 Shares. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

2. The share capital of Tenson Investment Limited is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive Directors.

INFORMATION OF THE GROUP

Information of the Group

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

Information of the Purchaser

The Purchaser is a limited liability company established in the PRC and a subsidiary of the Company. It is principally engaged in investment holding.

INFORMATION OF THE VENDOR, VIOLET PASSION AND THE TARGET

Information of the Vendor and Violet Passion

The Vendor is a company incorporated in the PRC and who holds 11.03% of the entire registered capital of the Target as at the Latest Practicable Date. It is principally engaged in investment holding. Violet Passion is an investment holding company and has no other operation.

Information of the Target

The Target is a limited liability company established in the PRC on 25 February 2002 and which is held as to 11.03% by the Vendor and the remaining of 88.97% by the Purchaser as at the Latest Practicable Date. The Target Company is principally engaged in water treatment business.

LETTER FROM THE BOARD

Financial Information of the Target

In accordance with the generally accepted accounting principles in the PRC, the audited consolidated profit before and after taxation of the Target for the year ended 31 December 2010 was approximately RMB30,247,000 and RMB31,794,000, and the audited consolidated net assets of the Target as at 31 December 2010 was approximately RMB371.70 million (equivalent to approximately HK\$447.34 million).

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Target is principally engaged in investment holding. The subsidiaries of the Target are principally engaged in water treatment business. Violet Passion is an investment holding company and has no other operation.

The Company currently shares 60% profit of the Target Group despite it owns 88.97% interest in the Target Group as at the Latest Practicable Date, whereas the Vendor shares the remaining 40% profit of the Target Group through owning the remaining 11.03% of the Target Group as at the Latest Practicable Date. This profit sharing arrangement flowed from the previous pre-existing business arrangement, as announced by the Company on 30 June 2009, between the Purchaser and the previous joint venture partner of the Target Group, 鴻橋投資有限公司 (Hong Qiao Investment Company Limited*) in consideration of its persistent contribution to the Target Group in terms of the extensive experience and expertise in the future development and advancement of the projects owned by the Target Group. The Company will account for 100% of the Target Group's profit after Completion.

As mentioned in the Announcement, the Acquisition would be beneficial to both the Target and the Group. As a listed company, the Company would enhance the level of corporate governance of the Target. On the other hand, the Target becoming a wholly-owned subsidiary of the Group would enable the Group to fully secure and control the Target Group's water treatment business.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the Master Agreement are on normal commercial terms and the terms of the Master Agreement, which were determined after arm's length negotiations between the Company, the Purchaser, the Vendor and Violet Passion, are fair and reasonable and in the best interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

IMPLICATIONS UNDER LISTING RULES

As the Vendor is a substantial shareholder of the Target, the Vendor is a connected person of the Company, and the transactions contemplated under the Master Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios in respect of the transactions contemplated under the Master Agreement is less than 5%, the transactions contemplated under the Master Agreement constitute a share transaction of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The Consideration Shares represent approximately 0.86% and approximately 0.85% of the existing issued share capital and the enlarged issued share capital of the Company, respectively, as at the Latest Practicable Date. The Directors, having considered the Acquisition and the number of Consideration Shares to be issued to the Vendor and/or its nominee under the Master Agreement and, on the other hand, the balancing of the interests of the Shareholders in line with Rule 2.03(4) of the Listing Rules whereby all holders of listed securities should be treated fairly and equally, took the view that, the Acquisition should nevertheless be put to the Independent Shareholders to be voted on at the SGM. A SGM will therefore be convened at which ordinary resolution(s) to approve the Acquisition together with the transactions contemplated thereunder will be considered. In accordance with the Listing Rules, the Vendor and Violet Passion and their respective associates and those Shareholders (including any Directors) who may have a material interest in the Acquisition will abstain from voting in respect of the resolution(s) to be voted on at the SGM to approve the Acquisition and any vote to be exercised by the Independent Shareholders at the SGM shall be taken by way of poll. To the best knowledge, belief and information of the Directors, having made all reasonable enquiries, although the Vendor and Violet Passion and their respective associates may have a material interest in the Acquisition, they have no shareholding in the Company as of the Latest Practicable Date. No Shareholder is therefore required to abstain from voting on the resolution(s) put forward at the SGM.

None of the Directors has a material interest in the Master Agreement and the transactions contemplated thereunder or was required to abstain from voting on the Board resolution for considering and approving the same.

LETTER FROM THE BOARD

SGM

The notice of the SGM is set out on pages 41 to 42 of this circular. At the SGM, resolutions will be proposed to the Independent Shareholders to consider, and if thought fit, to confirm, ratify and approve the Master Agreement and the transactions contemplated thereunder, including the approval of a specific mandate to allot and issue the Consideration Shares.

A form of proxy for use at 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). To be valid, the form of proxy must be completed and signed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the SGM.

In accordance with the requirements of the Listing Rules, the vote in respect of the ordinary resolutions to approve the Master Agreement and the transactions contemplated thereunder at the SGM shall be conducted by way of poll. An announcement will be made by the Company following the conclusion of the SGM to inform you of the results of the SGM.

RECOMMENDATION

The Independent Board Committee, comprising Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo and Mr. Guo Rui, all being independent non-executive Directors, has been formed to consider the terms of Master Agreement and transactions contemplated thereunder and to advise the Independent Shareholders in this regard. Guangdong Securities has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition.

Your attention is drawn to the letter of recommendation from the Independent Board Committee to the Independent Shareholders set out on page 16 of this circular, and the letter of advice from Guangdong Securities to the Independent Board Committee and the Independent Shareholders set out on pages 17 to 33 of this circular.

LETTER FROM THE BOARD

Having noted and considered the reasons stated under the section captioned “Reasons for and Benefits of the Acquisition”, the Directors (including the independent non-executive Directors whose views have been set out in this circular on page 16 after taking into account of the advice of Guangdong Securities) considered that the Master Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares, are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to approve the Master Agreement and the transactions contemplated thereunder. No Director has material interests in the transactions contemplated under the Master Agreement.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular and the notice of the SGM.

Yours faithfully,
For and on behalf of the Board of
Beijing Enterprises Water Group Limited
Zhang Honghai
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 371)

29 July 2011

To the Independent Shareholders

Dear Sir or Madam,

We have been appointed as members of the Independent Board Committee to advise you in connection with the Master Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares, details of which are set out in the letter from the Board in a circular dated 29 July 2011 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

Guangdong Securities has been appointed to advise us and the Independent Shareholders on whether the terms of the Master Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and whether the Master Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Details of its advice are set out on pages 17 to 33 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 5 to 15 of the Circular.

Having considered the advice and recommendation of Guangdong Securities, we consider the Master Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares, to be fair and reasonable so far as the Independent Shareholders are concerned and are in the best interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM to approve the Master Agreement and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares.

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*

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.



Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

29 July 2011

*To: The independent board committee and the independent shareholders of
Beijing Enterprises Water Group Limited*

Dear Sirs,

SHARE TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ISSUE OF CONSIDERATION SHARES

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 29 July 2011 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 11 June 2011, the Vendor and Violet Passion entered into the Equity Transfer Agreement, pursuant to which the Vendor has conditionally agreed to sell and Violet Passion has conditionally agreed to purchase the Sale Shareholding. The Sale Shareholding represents 11.03% of the total registered capital of the Target which is held by the Vendor.

Subsequently on 5 July 2011, the Company, the Purchaser, the Vendor and Violet Passion entered into the Master Agreement, pursuant to which (i) the Purchaser agreed to undertake, and Violet Passion agreed to transfer its rights and benefits under the Equity Transfer Agreement to the Purchaser; and (ii) the Vendor shall sell the Sale Shareholding to the Purchaser rather than to Violet Passion at the Consideration of RMB195.36 million (equivalent to approximately HK\$235.12 million). Since the Purchaser already holds 88.97% of the total registered capital of the Target, the Purchaser will become the sole shareholder of the Target upon Completion.

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As the Vendor is a substantial shareholder of the Target, the Vendor is a connected person of the Company, and the transactions contemplated under the Master Agreement constitute connected transactions for the Company under Chapter 14A of the Listing Rules. As stated in the Board Letter, the Directors took the view that the Acquisition should be put to the Independent Shareholders' approval at the SGM; whereby, according to the Board Letter, no Shareholder is required to abstain from voting in respect of the relevant resolution(s) to approve the Master Agreement and the transactions contemplated thereunder. An Independent Board Committee comprising Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo and Mr. Guo Rui (all being independent non-executive Directors) has also been established to advise the Independent Shareholders on (i) whether the terms of the Master Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve the Master Agreement and the transactions contemplated thereunder at the SGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

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We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Purchaser, the Target, the Vendor, Violet Passion or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

(1) Background of the Acquisition

Information on the Group

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

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Set out below is a summary of the audited consolidated financial information on the Group for the two years ended 31 December 2010 as extracted from the Company's annual report for the year ended 31 December 2010 (the "Annual Report"):

	For the year ended 31 December 2010 <i>HK\$'000</i>	For the year ended 31 December 2009 <i>HK\$'000</i>	Year on year change %
Revenue	6,348,060	1,730,013	266.94
Gross profit	1,121,808	515,930	117.43
Profit for the year attributable to Shareholders	512,512	192,711	165.95

From the above table, we noted that the Group's revenue for the year ended 31 December 2010 had increased significantly by approximately 266.94% as compared to the prior year. According to the Annual Report, such significant increase was mainly driven by the construction revenue deriving from the build transfer projects of the Group in the PRC.

As further extracted from the Annual Report, the Group's business has extended to 14 provinces across the PRC, with a total of 79 water plants which include 62 sewage treatment plants, 13 water supply plants, three reclaimed plants and one seawater desalination plant, and the project total designed daily water processing capacity has reached 5,909,500 tons. The Target Group also operates an entrusted operation project at the 深圳布吉污水處理廠 (Shenzhen Buji Sewage Treatment Plant*) in Shenzhen, the PRC, which is the largest domestic underground sewage treatment plant in the PRC at present. The Company considers that the operation of such project could enrich the Group's management experience, techniques and management talents in the operation of large scale underground sewage treatment plant. Going forward, the Group will continue to consolidate its advantageous resources, explore the market, expand its principal business scale, and promote high quality and rapid principal businesses development.

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Information on the Target Group

As extracted from the Board Letter, the Target is a company incorporated in the PRC and was held as to 11.03% and 88.97% by the Vendor and the Purchaser respectively as at the Latest Practicable Date. The Target is an investment holding company and its subsidiaries are principally engaged in the water treatment business.

Upon our further enquiries with the Company, we understand that the Target Group focuses on the provision of the water supply and sewage treatment services in Shenzhen, Shandong province and Anhui province of the PRC. Moreover, the Target Group started to contribute revenue and profits to the Group since the Target was first acquired as to 60% by the Purchaser in 2008, and its profitability has also been expanding persistently thereafter.

Tabularised below is a summary of the audited financial information on the Target Group for the two years ended 31 December 2010 which were prepared in accordance with the PRC accounting standards:

	Year ended 31 December 2010 RMB'000	Year ended 31 December 2009 RMB'000
Revenue	231,377	164,696
Profit before taxation and extraordinary items	30,247	18,461
Profit after taxation and extraordinary items	31,794	22,238
		As at 31 December 2010 RMB'000
Net asset value		371,681

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(2) Reasons for and benefits of the Acquisition

During our discussion with the Company, we understand that it is one of the business strategies of the Group, being an integrated water system solution provider, to continue focusing on the water treatment business. In this regard, the Purchaser acquired for 60% shareholding interest in the Target in 2008. In view of, among other things, the then satisfactory financial performance and future prospects of the Target Group, subsequently, the Group also proceeded with the acquisition of a further 28.97% shareholding interest in the Target in 2009. As represented by the Company, it is the Group's current intention to consolidate its interests in and exert total control over the Target Group.

We noted from the Annual Report that in early 2011, the No. 1 Document of the Central Committee of the Chinese Communist Party had clearly put forward the strategic measures of taking stringent water resources management as a means to accelerate the transformation of economic development. Since then, various local governments in the PRC have shifted their pursuit from sole economic growth to sustainable development focusing on health, education as well as environmental protection. The comprehensive development and utilisation of water has also gradually become the core of urban comprehensive needs and the main stream of the future water industry competition.

As further advised by the Company, under the current national policies of the PRC government to support water and garbage treatment, prevention and control of water pollution, the Company expected that the Target Group's business would be able to maintain the growing momentum in the future and thereby continues to contribute profits to the Group. For our due diligence purpose, we have also searched over the official websites of the PRC government bodies regarding the aforementioned government policies, including but not limited to the 12th five-year plan of the PRC. Based on our findings, we concur with the Directors that the current approving national policies of the PRC government to support water and garbage treatment, prevention and control of water pollution would probably be favourable to the future business of the Target Group.

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In addition, with reference to the Board Letter, the Company expected that the Acquisition would be beneficial to both the Target and the Group given that as a listed company, the Company would enhance the level of corporate governance of the Target; on the other hand, the Target becoming a wholly-owned subsidiary of the Group would enable the Group to fully secure and control the water treatment business of the Target Group.

Having considered the above reasons for and possible benefits of the Acquisition to the Group, we are of the view that the Acquisition, which is not conducted in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole.

(3) Principal terms of the Master Agreement

The Master Agreement

On 5 July 2011, the Company, the Purchaser, the Vendor and Violet Passion entered into the Master Agreement, pursuant to which (i) the Purchaser agreed to undertake, and Violet Passion agreed to transfer its rights and benefits under the Equity Transfer Agreement to the Purchaser; and (ii) the Vendor shall sell the Sale Shareholding to the Purchaser rather than to Violet Passion at the Consideration of RMB195.36 million (equivalent to approximately HK\$235.12 million). The Consideration shall be satisfied in the following manner:

- (i) partly by payment in cash of a total amount of RMB90.68 million (equivalent to approximately HK\$109.13 million) (of which RMB180,000 (equivalent to approximately HK\$217,000) shall be payable by the Company as refundable deposit within 12 days from the date of the Master Agreement, and the remaining amount of RMB90.50 million (equivalent to approximately HK\$108.92 million) shall be payable by the Purchaser to the Vendor and/or its nominee(s) upon Completion); and
- (ii) partly by way of the allotment and issue by the Company of a total of 59,035,792 Consideration Shares at the Issue Price of HK\$2.134 per Consideration Share amounting to a maximum total value of RMB104.68 million (equivalent to approximately HK\$125.98 million) to the Vendor and/or its nominee(s) upon Completion.

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As confirmed by the Company, the Consideration was arrived at after arm's length negotiations among the parties to the Master Agreement by reference to the existing operating results, earning capacity, future growth prospects, overall financial performance and net asset value of the Target as at 31 December 2010. As at the Latest Practicable Date, the deposit under the Master Agreement of RMB180,000 (equivalent to approximately HK\$217,000) had been fully paid by the Company.

Completion of the Master Agreement is conditional upon the conditions precedent contained therein being fulfilled or waived (as the case may be) by the parties to the Master Agreement.

Application has been made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when allotted and issued, shall rank *pari passu* with all other Shares in issue in the share capital of the Company.

Trading multiples analysis for the Acquisition

In order to assess the fairness and reasonableness of the Consideration, we have performed a trading multiples analysis which includes the price to earnings ratio (“**PER**”) and the price to book ratio (“**PBR**”) analysis. We have searched for companies listed on the Stock Exchange engaging in similar lines of business as the Target Group, i.e. the water supply and sewage treatment businesses, and generating a majority of revenue from such businesses (the “**Market Comparables**”) for comparison purpose. We have also excluded companies which recorded both net losses and net liabilities during their latest financial years as per their latest published financial information. To the best of our knowledge and endeavour, we identified eight companies which met the said criteria. In order to ensure the comparability of the Market Comparables, we consider that we should not relax the above selection criteria despite that there are only eight Market Comparables. It should be noted that the businesses, operations and prospects of the Target Group are not exactly the same as the Market Comparables, and we have not conducted any in-depth investigation into the businesses and operations of the Market Comparables.

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Set out below are the implied PERs and the implied PBRs of the Market Comparables based on their closing prices as at the Last trading Day, and their latest published financial information:

Company name (Stock code)	Principal business	Year end date	Market capitalisation as at the Last Trading Day (HK\$ million)	PER (times)	PBR (times)
Interchina Holdings Company Limited (202)	Environmental protection and water treatment operation; property investment operation and securities and financial operation.	31/3/2011	4,914.76	N/A (Note 1)	1.15
Guangdong Investment Limited (270) (Note 2)	Investment holdings, property holdings and investment, investing in infrastructure and energy projects, water supply, hotel ownership and operations, hotel management and department stores operation.	31/12/2010	26,419.01	9.38	1.21
Beijing Enterprises Water Group Limited (371)	Construction of sewage and water treatment plants, sewage treatment, water treatment and distribution, sales of sewage treatment facilities, the provision of technical services and licensing of technical know-how that are related to sewage treatment in the PRC.	31/12/2010	15,960.81	28.29	3.15
Mongolia Investment Group Limited (402) (Note 3)	Provision of maintenance and construction works on civil engineering contracts including waterworks engineering, road works and drainage and slope upgrading services in Hong Kong.	31/3/2011	708.24	N/A (Note 1)	0.42
China Water Affairs Group Limited (855)	Provision of water supply and sewage treatment; development of properties for sale and investment in properties; construction of road and other municipal works; manufacture and sale of concrete products.	31/3/2011	4,572.55	7.61	1.06

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Company name (Stock code)	Principal business	Year end date	Market capitalisation as at the Last Trading Day (HK\$ million)	PER (times)	PBR (times)
Sound Global Limited (967)	Design and construction of water and wastewater treatment facilities, operation and maintenance of water and wastewater treatment facilities and manufacture of water and wastewater treatment equipment.	31/12/2010	5,482.50	15.75	2.35
Tianjin Capital Environmental Protection Group Company Limited (1065)	Processing of sewage water, tap water and recycled water.	31/12/2010	8,996.88 (Note 4)	12.29	0.77 (Note 5)
China Water Industry Group Limited (1129)	Provision of water supply, sewage treatment; and construction of water supply and sewage treatment infrastructure.	31/12/2010	344.68	N/A (Note 1)	0.55
Maximum				28.29	3.15
Minimum				7.61	0.42
Average				14.67	1.33
The Company				15.36 (Note 6)	4.77 (Note 7)

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

Notes:

1. The selected companies recorded net losses for their latest financial year.
2. According to the 2010 annual report of Guangdong Investment Limited, around 53% of its total assets are related to the water distribution business.
3. According to the 2011 annual report of Mongolia Investment Group Limited (“**Mongolia Investment**”), around 79% of its total assets are related to the mining and exploration business.
4. The market capitalisation of Tianjin Capital Environmental Protection Group Company Limited (“**Tianjin Capital**”) was calculated based on the numbers of A shares and H shares of Tianjin Capital and the closing prices per A share and H share of Tianjin Capital as at the Last Trading Day.
5. The PBR for Tianjin Capital was calculated based on its latest published first quarterly report.

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6. As confirmed by the Company, although the Company owns 88.97% of the total registered capital of the Target, the Company is only entitled to 60% of the profit of the Target Group. The Acquisition will therefore increase the profit sharing of the Company in the Target Group from 60% to 100%, and accordingly 40% of the consolidated profit after taxation and extraordinary items of the Target Group was used when calculating the implied PER of the Consideration.
7. On the basis that the Company's shareholding in the Target will increase from 88.97% to 100% upon Completion, 11.03% of the consolidated net asset value of the Target Group was used when calculating the implied PBR of the Consideration.

As depicted by the above table, the implied PERs of the Market Comparables ranged from approximately 7.61 times to 28.29 times, with an average of approximately 14.67 times. The implied PER of the Consideration of approximately 15.36 times is thus within the said range and is slightly above the average of the Market Comparables.

We also noticed that the implied PBRs of the Market Comparables ranged from approximately 0.42 times to 3.15 times, with an average of approximately 1.33 times. Among the Market Comparables, we further noted that Mongolia Investment announced its acquisition of a coal mine in the PRC in December 2009 and around 79% of its total assets as at 31 March 2011 is related to the mining and exploration business. We are therefore of the view that the implied PBR of Mongolia Investment is unsuitable to be used in our trading multiples analysis. The implied PBRs of the Market Comparables (excluding Mongolia Investment) should range from approximately 0.55 times to 3.15 times, with an average of approximately 1.46 times. Hence, the implied PBR of the Consideration of approximately 4.77 times is higher than the maximum PBR of the Market Comparables (excluding Mongolia Investment). Such comparison result may illustrate that the Consideration is inferior to the market valuation in terms of premiums over book values of listed companies with similar lines of business as the Target Group. Nonetheless, we are of the view that while considering the fairness and reasonableness of the Consideration, Independent Shareholders should also take into account other important factors such as (i) it is the Group's business strategy to continue focusing on its water treatment business and to consolidate its interests in and exert total control over the Target Group; (ii) the Target Group's profitability has been expanding persistently since the Target was first acquired as to 60% by the Purchaser in 2008; and (iii) the positive outlook of the water treatment business in the PRC which would likely to be favourable to the future business of the Target Group and thereby allowing the Target Group to continue to contribute profits to the Group.

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Having taken into account the basis of the Consideration and the results of the trading multiples analysis as set forth above, we consider that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Issue of the Consideration Shares

The Issue Price of HK\$2.134 per Consideration Share represents:

- (i) a discount of approximately 4.30% to the closing price of HK\$2.23 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 8.41% to the closing price of HK\$2.33 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) the average closing price of the Shares for the last five consecutive full trading days prior to the Last Trading Day, being approximately HK\$2.134 per Share; and
- (iv) a premium of approximately 3.39% over the average closing price of the Shares for the last ten consecutive full trading days prior to the Last Trading Day, being approximately HK\$2.064 per Share.

As set out in the Board Letter, the Issue Price was determined with reference to the average closing price of the Shares for the five consecutive full trading days immediately before the date of the Master Agreement.

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In order to assess the fairness and reasonableness of the Issue Price, we have identified, to the best of our knowledge and as far as we are aware of, 11 merger and acquisition transactions, during the recent period from 6 May 2011 to the Last Trading Day, by listed companies in Hong Kong which involved the issue of consideration shares (the “Share Comparables”). It should be noted that the businesses, operations and prospects of the Company are not the same as the Share Comparables and we have not conducted any in-depth investigation into the businesses and operations of the Share Comparables. The Share Comparables are hence only used to provide a general reference for the recent common market practice of companies listed on the Stock Exchange in merger and acquisition transactions which involved the issue of consideration shares, and we consider the two-month period before the date of the Master Agreement to be suitable having balanced the population size and the recency of the Share Comparables for such purpose. The table below illustrates our relevant findings:

Company name	Stock code	Date of announcement	Premium/(Discount) of the issue price over/to the closing price of the shares on the last trading days prior to the release of the relevant announcements/ the dates of the relevant agreements %
New Focus Auto Tech Holdings Limited	360	28 June 2011	9.09
Tai Shing International (Holdings) Limited	8103	24 June 2011	1.76
Tech Pro Technology Development Limited	3823	20 June 2011	9.89
NagaCorp Limited	3918	13 June 2011	(12.50)
China Lumena New Materials Corporation	67	6 June 2011	2.13
Lenovo Group Limited	992	1 June 2011	(2.18)
Vitop Bioenergy Holdings Limited	1178	31 May 2011	(48.98)
Culture Landmark Investment Limited	674	27 May 2011	25.85
TLT Lottainment Group Limited	8022	25 May 2011	(3.95)
AGTech Holdings Limited	8279	23 May 2011	(9.09)
Shougang Concord International Enterprises Company Limited	697	6 May 2011	0.00
Maximum			25.85
Minimum			(48.98)
Average			(2.54)
The Company	371	5 July 2011	(8.41)

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

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We noted from the above table that the issue prices of the Share Comparables ranged from a discount of approximately 48.98% to a premium of approximately 25.85% to/over the respective closing prices of their shares on the last trading days prior to the release of the relevant announcements/the dates of the relevant agreements. When evaluating the Share Comparables, we are also of the view that Vitop Bioenergy Holdings Limited and Culture Landmark Investment Limited are rather outliers within the Share Comparables, and if those two companies are excluded, the issue prices of the Share Comparables would range from a discount of approximately 12.50% to a premium of 9.89% to/over the respective closing prices of their shares on the last trading days prior to the release of the relevant announcements/the dates of the relevant agreements. The Issue Price, which represents a discount of approximately 8.41% to the closing price of the Shares of HK\$2.33 as quoted on the Stock Exchange on the Last Trading Day, thus falls within the market range of the Share Comparables in both of the aforesaid two scenarios.

In light of (i) the fact that the Issue Price was determined with reference to the prevailing market prices of the Shares and is equivalent to the average closing price of the Shares for the five consecutive full trading days immediately before the date of the Master Agreement; and (ii) the market analysis as detailed above, we are of the view that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

Other terms of the Master Agreement

We have also reviewed the other major terms of the Master Agreement and are not aware of any terms which are uncommon. Consequently, we consider that the terms of the Master Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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(4) Possible dilution effect on the shareholding interests of the existing public Shareholders

The table below demonstrates the possible shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately after the allotment and issue of the Consideration Shares upon Completion:

	As at the Latest Practicable Date		Immediately after the allotment and issue of the Consideration Shares upon Completion	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Beijing Enterprises Environmental Construction Limited ("BE Environmental") (Note 1)	3,047,556,993	44.49	3,047,556,993	44.11
Tenson Investment Limited (Note 2)	684,789,919	10.00	684,789,919	9.91
The Vendor and/or its nominee(s)	–	–	59,035,792	0.85
Existing public Shareholders	<u>3,117,787,782</u>	<u>45.51</u>	<u>3,117,787,782</u>	<u>45.13</u>
Total	<u>6,850,134,694</u>	<u>100.00</u>	<u>6,909,170,486</u>	<u>100.00</u>

Notes:

- Beijing Enterprises Group Company Limited is deemed to be interested in 3,047,556,993 Shares as a result of its indirect holding of such Shares through the following entities including its wholly-owned subsidiaries:–

Name	Long position in the Shares
BE Environmental	3,047,556,993
Beijing Enterprises Holdings Limited ("BEHL")	3,047,556,993
Beijing Enterprises Group (BVI) Company Limited	3,047,556,993
Beijing Enterprises Group Company Limited	3,047,556,993

BE Environmental beneficially holds 3,047,556,993 Shares. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

- The share capital of Tenson Investment Limited is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive Directors.

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As demonstrated by the above table, the shareholding interests of the existing public Shareholders in the Company would be diluted by approximately 0.38 percent point as a result of the allotment and issue of the Consideration Shares. Taking into account (i) the reasons for and possible benefits of the Acquisition to the Group; and (ii) the terms of the Master Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the aforementioned minimal level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

(5) Possible financial effects of the Acquisition

The Target is a non wholly-owned subsidiary of the Company. Upon Completion, the Company's shareholding interest in the Target will increase from 88.97% to 100%. The Company confirmed that upon Completion, the financial results of the Target Group will be fully consolidated into the financial statements of the Group.

Effect on net assets and gearing

As extracted from the Annual Report, the audited consolidated net assets of the Group were approximately HK\$5,067.95 million as at 31 December 2010. The Company expected that the Group's net assets would increase upon Completion. Furthermore, the Group's gearing level (being calculated as net debt over total equity) was approximately 1.30 times as at 31 December 2010 as referred to in the Annual Report. The Company confirmed that the gearing level of the Group would not be materially affected by the Acquisition.

Effect on earnings and working capital

In light of the future prospects of the Target Group, the Company is of the view that the Acquisition would likely to have a positive impact on the future earnings of the Group. Regarding the working capital position of the Group, given that the Company will satisfy part of the cash Consideration by the internal resources of the Group, the Group's working capital would be reduced due to the Acquisition.

It should be noted that the aforementioned analyses are for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon Completion.

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RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Master Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition, which is not conducted in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Master Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

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

Authorized share capital

<i>Shares</i>	<i>HK\$</i>
<u>15,000,000,000</u> (as at the Latest Practicable Date)	<u>1,500,000,000</u>

Issued and fully paid up

<i>Shares</i>	<i>HK\$</i>
6,850,134,694 (as at the Latest Practicable Date)	685,013,469
59,035,792 (maximum number of Consideration Shares to be issued)	5,903,579
<u>6,909,170,486</u> Total	<u>690,917,048</u>

3. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares and underlying Shares of the Company or 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 (the “Model Code”), were as follows:

Long positions in the Shares and/or underlying Shares

Name of Directors	Nature of interest	Number of Shares and/ or underlying Shares	Approximate percentage of the Company’s issued share capital <i>(Note 2)</i>
Mr. Hu Xiaoyong	Interest of controlled corporation <i>(Note 1)</i>	684,789,919	10.00%
Mr. Zhou Min	Interest of controlled corporation <i>(Note 1)</i>	684,789,919	10.00%

Notes:

- Messrs. Hu Xiaoyong, Zhou Min and Hou Feng, all being executive Directors, are interested in Tenson Investment Limited as to approximately 52.62%, 44.93% and 2.45%, respectively. Tenson Investment Limited holds 684,789,919 Shares.
- The percentage represented the number of Shares over the total issued share capital of the Company as at the Latest Practicable Date of 6,850,134,694 Shares.

Save as disclosed above, as at the Latest Practicable Date, there were no interest of the Directors or chief executives of the Company in the Shares and the underlying Shares of the Company 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.

- (b) Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in the Shares and/or underlying Shares

Name of Shareholders	Nature of interest	Long position in the Shares	Approximate percentage of the Company's issued share capital
Beijing Enterprises Group Company Limited (Note 1)	Interests of controlled corporations	3,047,556,993 (Note 1)	44.49%
BEHL (Note 1)	Interests of controlled corporations (Note 1)	3,047,556,993	44.49%
Tenson Investment Limited (Note 2)	Directly beneficially owned	684,789,919	10.00%

Notes:

1. Beijing Enterprises Group Company Limited is deemed to be interested in 3,047,556,993 Shares as a result of its indirect holding of such Shares through the following entities including its wholly-owned subsidiaries:–

Name	Long position in Shares
BE Environmental	3,047,556,993 (i)
BEHL	3,047,556,993 (i)
Beijing Enterprises Group (BVI) Company Limited	3,047,556,993 (i)
Beijing Enterprises Group Company Limited	3,047,556,993 (i)

BE Environmental beneficially holds 3,047,556,993 Shares. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

2. Mr. Zhang Honghai, being the executive director of the Company, is director of both BEHL and Beijing Enterprises Group Company Limited. Mr. E Meng, being the executive director of the Company, is director of both BEHL and BE Environmental. Mr. Jiang Xinhao, being the executive director of the Company, is director of BEHL.
3. The share capital of Tenson Investment Limited is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive Directors.
4. There were no outstanding convertible securities, option or otherwise as at the Latest Practicable Date.
5. The percentage represented the number of Shares over the total issued share capital of the Company as at the Latest Practicable Date of 6,850,134,694 Shares.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors or the chief executives of the Company) who had interests or short positions in the shares or 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 or as recorded in the register required to be kept under Section 336 of the SFO and/or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company.

4. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2010 (being the date to which the latest published audited financial statements of the Group were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and his or her respective associates was considered to have an interest in a business which competes or is likely to compete, enter directly or indirectly, with the business of the Group other than those business to which the Directors and his or her associates who appointed to represent the interests of the Company and/or the Group.

6. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given opinion or advice, which are contained or referred to in this circular:

Name	Qualification
Guangdong Securities	a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO

Guangdong Securities 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 it appears.

As at the Latest Practicable Date, Guangdong Securities:

- (a) did not have any direct or indirect interest in any assets which have since 31 December 2010 (being the date to which the latest published audited financial statements of the Group were made up) been 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; and
- (b) did 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.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance to the Group and no litigation or claim of material importance to the Group was known to the Directors to be pending or threatened by or against any member of the Group.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position or outlook of the Group since 31 December 2010, being the date to which the latest published audited consolidated accounts of the Group were made up.

10. GENERAL

- (a) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (c) The principal share registrar and transfer office of the Company is at Butterfield Fulcrum Group (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM 08, Bermuda.
- (d) The Hong Kong branch share registrar and transfer office of the Company is at Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The company secretary and the qualified accountant of the Company is Mr. Tung Woon Cheung, Eric, a Certified Public Accountant of both the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.
- (f) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any weekday (public holidays excepted) at the head office and principal place of business of the Company in Hong Kong at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;
- (b) the written consent from Guangdong Securities as referred to under the section headed "Qualification and consent of expert" in this appendix;
- (c) the letter from Guangdong Securities as set out from pages 17 to 33 of this circular;
- (d) all the agreements/contracts as referred to in this circular; and
- (e) this circular.

NOTICE OF SPECIAL GENERAL MEETING



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 (the “**Meeting**”) of the shareholders of Beijing Enterprise Water Group Limited (the “**Company**”) will be held at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong at 11:00 a.m. on 22 August 2011 for the purpose of considering as special business and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the Acquisition (as defined in the Company’s circular (the “**Circular**”) dated 29 July 2011 of which this notice of special general meeting forms part) as provided under the master agreement dated 5 July 2011 (the “**Master Agreement**”) entered into between the Company, BEWG Environmental Group Co., Ltd., a subsidiary of the Company, as the purchaser (“**Purchaser**”), 深圳市泰合環保有限公司 (Shenzhen City Taihe Huanbao Co., Ltd.*) as the vendor (“**Vendor**”) and Violet Passion Holdings Limited (a copy of which has been tabled at the meeting marked “A” and signed by the chairman of the Meeting for the purpose of identification), be and is hereby approved;
- (b) the directors of the Company (the “**Directors**”) be and are hereby authorized to issue up to 59,035,792 shares having a par value of HK\$0.10 each in the share capital of the Company (the “**Consideration Shares**”) at an issue price of HK\$2.134 per Consideration Shares and on the terms and conditions as set out in the Master Agreement and that the Directors be and are hereby authorized to do all such things and acts and sign all such documents which they consider desirable or expedient to implement and/or give effect to any matters in relation thereto or in connection therewith;
- (c) the Master Agreement and all relevant provisions in the Master Agreement and the transactions relating to the Acquisition contemplated under the Master Agreement, including the allotment and issue of the Consideration Shares (the “**Acquisition Transactions**”) be and are hereby approved, confirmed and ratified; and

NOTICE OF SPECIAL GENERAL MEETING

- (d) any one director of the Company be and is hereby authorised for and on behalf of the Company to do all such further acts and things and execute all such further documents and take all steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Master Agreement and/or the Acquisition Transactions and to approve any changes and amendments thereto as such director may consider necessary, desirable or expedient.”

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

Hong Kong, 29 July 2011

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. In the case of a recognised clearing house, it may authorize 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 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof.
3. As at the date of this notice of the Meeting, the board of directors of the Company comprises eleven executive Directors, namely Mr. Zhang Honghai (*Chairman*), Mr. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong (*Chief Executive Officer*), Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Hou Feng, Ms. Qi Xiaohong, Mr. Ke Jian and Mr. Ju Yadong, and five independent non-executive Directors, namely Mr. Shea Chun Lok, Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun.