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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)

**CONNECTED TRANSACTION
IN RELATION TO THE SUBSCRIPTION OF THE REGISTERED
CAPITAL OF BEIJING ENTERPRISES GROUP FINANCE CO., LTD.**

On 31 December 2021, the Company agreed to subscribe by way of cash for the registered capital of BG Finance. The Company shall pay to BG Finance an amount of RMB150,525,000 (equivalent to approximately HK\$184,383,000), of which approximately RMB112,124,000 (equivalent to approximately HK\$137,344,000) will be injected into BG Finance as registered capital and approximately RMB38,401,000 (equivalent to approximately HK\$47,039,000) will be its capital reserve, being the consideration of the Capital Subscription, which will be funded by the internal resources of the Group. Following the Capital Subscription, the Group will continue to hold 6.69% equity interest of the enlarged registered capital of BG Finance.

LISTING RULES IMPLICATIONS

Each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of BEGCL being an ultimate controlling shareholder of each of BEHL and the Company as well as BEHL being a controlling shareholder of the Company. As each of BEGCL and BEHL beneficially owns not less than 30% equity interest in BG Finance, BG Finance is an associate of each of BEGCL and BEHL, therefore, the Capital Subscription will constitute connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Capital Subscription exceed 0.1% but less than 5%, the entering into the Capital Increase Agreement constitute connected transaction of the Company subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CAPITAL SUBSCRIPTION

On 31 December 2021, the Company agreed to subscribe by way of cash for the registered capital of BG Finance. The Company shall pay to BG Finance an amount of RMB150,525,000 (equivalent to approximately HK\$184,383,000), of which approximately RMB112,124,000 (equivalent to approximately HK\$137,344,000) will be injected into BG Finance as registered capital and approximately RMB38,401,000 (equivalent to approximately HK\$47,039,000) will be its capital reserve, being the consideration of the Capital Subscription, which will be funded by the internal resources of the Group. Following the Capital Subscription, the Group will continue to hold 6.69% equity interest of the enlarged registered capital of BG Finance.

Shareholding structure of BG Finance before and after the Capital Increase:

| Shareholders | Registered capital before Capital Increase (RMB 100 million) | Percentage of equity interest before Capital Increase | Registered capital after Capital Increase (RMB 100 million) | Percentage of equity interest after Capital Increase |
|---------------------|---|---|--|--|
| BEGCL | 7.0592 | 35.14% | 12.948664 | 35.14% |
| Beijing Gas | 4.9827 | 24.80% | 9.13918 | 24.80% |
| Yanjing Brewery | 2.2269 | 11.08% | 4.083908 | 11.08% |
| BEHL | 1.7911 | 8.91% | 3.284416 | 8.91% |
| BJI | 1.3433 | 6.69% | 2.464544 | 6.69% |
| The Company | 1.3433 | 6.69% | 2.464544 | 6.69% |
| Municipal Institute | 1.3433 | 6.69% | 2.464544 | 6.69% |
| | | | | |
| Total | 20.0898 | 100.00% | 36.8498 | 100.00% |

Consideration

Consideration for Capital Subscription is RMB150,525,000 (equivalent to approximately HK\$184,383,000) payable in full by the Company within 10 business days from the day that BG Finance confirmed by a written notice stating that all conditions precedent are satisfied and requested for the payment of Capital Increase. The consideration was arrived at after arm's length negotiation between the Group and BG Finance principally based on its potential development prospect.

The consideration for the Capital Subscription to be made by the Company shall be satisfied by the internal resources of the Group.

Financial Information of BG Finance

Set out below is a summary of certain consolidated audited financial information of BG Finance for the two financial years ended 31 December 2019 and 31 December 2020 prepared in accordance with the generally accepted accounting principles of the PRC.

| | <u>For the year ended 31 December</u> | |
|----------------------------|---|---|
| | 2020 | 2019 |
| | Audited | Audited |
| Net asset value | Approximately RMB2,666,693,000 (equivalent to approximately HK\$3,266,525,000) | Approximately RMB2,595,835,000 (equivalent to approximately HK\$3,179,729,000) |
| Net profit before taxation | Approximately RMB194,953,000 (equivalent to approximately HK\$238,805,000) | Approximately RMB271,651,000 (equivalent to approximately HK\$332,755,000) |
| Net profit after taxation | Approximately RMB152,523,000 (equivalent to approximately HK\$186,831,000) | Approximately RMB207,775,000 (equivalent to approximately HK\$254,511,000) |

Conditions Precedent

Capital Subscription is conditional upon, *inter alia*, the approval for the Capital Increase being obtained, and all necessary approval and permits from the relevant regulatory authorities being obtained by BG Finance.

The aforesaid conditions precedent shall be fulfilled or waived in any event not later than the six months after the signing of the Capital Increase Agreement or such other date as agreed by all parties.

REASONS FOR AND BENEFITS OF THE CAPITAL SUBSCRIPTION

BG Finance (as a non-bank financial service institution) acts as a platform to provide members companies of BEGCL with intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

After this Capital Increase, the financial service capability of BG Finance will be further improved. By accepting the financial services provided by BG Finance, the Group will broaden its financing channel, lower financing costs, improve funding efficiency and strengthen capital risk resistance ability in a better way. In addition, as a shareholder of BG Finance which has relatively stable revenue, the Group will achieve a comparatively stable return on investment.

As Ms. Sha Ning, an executive Director of the Company, is a director of BG Finance and has abstained from voting on the relevant board resolutions of the Company approving the Capital Increase Agreement. Save as above, none of the Directors has material interest in the Capital Increase Agreement, no Director has abstained from voting on the relevant board resolutions of the Company.

The terms of the Capital Increase Agreement were determined after arm's length negotiation between the parties. The Directors (including the independent non-executive Directors) having considered the terms and conditions of the Capital Increase Agreement, are of the view that its terms and conditions are on normal commercial terms and in the ordinary and usual course of business of the Group, which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION OF THE COMPANY, BEGCL, BEHL, BEIJING GAS, YANJING BREWERY, BJI, MUNICIPAL INSTITUTE AND BG FINANCE

The Company

The Company is a company incorporated in Bermuda with limited liability whose Shares are listed on the main board of the Stock Exchange. 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 plants and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC, Malaysia and Australia and Republic of Botswana; provision of sewage and reclaimed water treatment services in the PRC, the Republic of Singapore, Portuguese Republic, Australia and New Zealand; distribution and sale of piped water in the PRC, Portuguese Republic and Australia; 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 Australia; and the licensing of technical know-how related to sewage treatment in the PRC.

BEGCL

BEGCL is a state-owned enterprise established in the PRC and is wholly-owned by the People's Government of Beijing Municipality. The ultimate beneficial owner of BEGCL is the People's Government of Beijing Municipality. BEGCL is principally engaged in investments and investment management etc.

BEHL

BEHL is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 392). The ultimate controlling shareholder of BEHL is BEGCL and the ultimate beneficial owner of BEGCL is the People's Government of Beijing Municipality. BEHL and its subsidiaries are principally engaged in integrated public utilities operator with principal activities focusing on gas, water and environment, solid waste treatment and beer business.

Beijing Gas

Beijing Gas is a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of BEHL. The ultimate controlling shareholder of BEHL is BEGCL and the ultimate beneficial owner of BEGCL is the People's Government of Beijing Municipality. It is principally engaged in distribution and sale of piped gas and gas-related equipment.

Yanjing Brewery

Yanjing Brewery is a company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000729). As at the date of this announcement, BEHL indirectly holds approximately 79.77% equity interest in Beijing Yanjing Brewery Investment Co., Ltd.* (北京燕京啤酒投資有限公司), a company incorporated in the PRC with limited liability, which directly holds approximately 57.40% equity interest in Yanjing Brewery. Yanjing Brewery is an indirect non-wholly owned subsidiary of BEHL. The ultimate controlling shareholder of BEHL is BEGCL and the ultimate beneficial owner of BEGCL is the People's Government of Beijing Municipality. It is principally engaged in production and sale of beer.

BJI

BJI is a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of BEGCL and the ultimate beneficial owner of BEGCL is the People's Government of Beijing Municipality. It is principally engaged in investments and assets management in the PRC.

Municipal Institute

Municipal Institute is a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of BEGCL and the ultimate beneficial owner of BEGCL is the People's Government of Beijing Municipality. It is principally engaged in the businesses such as comprehensive urban public utilities projects and urban planning design in the PRC.

BG Finance

BG Finance is incorporated in the PRC with limited liability. To the best of directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of the announcement, BG Finance is held by BEGCL, Beijing Gas, Yanjing Brewery, BEHL, the Company, BJI, Municipal Institute as to approximately 35.14%, 24.80%, 11.08%, 8.91%, 6.69%, 6.69% and 6.69% equity interests respectively.

BG Finance is held as to 44.79% equity interests in aggregate by BEHL and its subsidiaries and as to 48.52% equity interests in aggregate by BEGCL and its subsidiaries excluding BEHL and its subsidiaries and the Company. According, each of BEGCL and BEHL beneficially owns not less than 30% equity interest in BG Finance, BG Finance is an associate of each of BEGCL and BEHL. The ultimate controlling shareholder of BG Finance is BEGCL and ultimate beneficial owner of BEGCL is the People's Government of Beijing Municipality.

The establishment of BG Finance as a non-bank financial services institute has been approved by China Banking and Insurance Regulatory Commission. BG Finance acts as a platform of BEGCL for provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services, etc.

LISTING RULES IMPLICATIONS

Each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of BEGCL being an ultimate controlling shareholder of each of BEHL and the Company as well as BEHL being a controlling shareholder of the Company. As each of BEGCL and BEHL beneficially owns not less than 30% equity interest in BG Finance, BG Finance is an associate of each of BEGCL and BEHL, therefore, the Capital Subscription will constitute connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Capital Subscription exceed 0.1% but less than 5%, the entering into the Capital Increase Agreement constitute connected transaction of the Company subject to the reporting and announcement requirements but exempt from the circular and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, terms used hereunder shall have the following meanings:

| | |
|------------------------------|---|
| “associates” | has the meaning ascribed to it under the Listing Rules; |
| “BEGCL” | Beijing Enterprises Group Company Limited* (北京控股集團有限公司), a company incorporated in the PRC with limited liability, is a substantial shareholder of the Company; |
| “BEHL” | Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 392), is a substantial shareholder of the Company; |
| “Beijing Gas” | Beijing Gas Group Company Limited* (北京市燃氣集團有限責任公司), a company incorporated in the PRC with limited liability, is an indirect wholly-owned subsidiary of BEHL; |
| “BG Finance” | Beijing Enterprises Group Finance Co., Ltd.* (北京控股集團財務有限公司) is a company incorporated in the PRC with limited liability. As at the date of this Announcement, BG Finance is held by BEGCL, Beijing Gas, Yanjing Brewery, BEHL, the Company, BJI, Municipal Institute as to approximately 35.14%, 24.80%, 11.08%, 8.91%, 6.69%, 6.69% and 6.69% equity interests respectively; |
| “BJI” | Beijing Holdings Jingtai Investment Management Co., Ltd.* (北京北控京泰投資管理有限公司), a company incorporated in the PRC with limited liability and is a subsidiary of BEGCL; |
| “Board” | the board of Directors; |
| “Capital Increase” | the proposed increase of the registered capital of BG Finance from RMB2.00898 billion to RMB3.68498 billion; |
| “Capital Increase Agreement” | the agreement dated 31 December 2021 entered into by BG Finance, BEGCL, Beijing Gas, Yanjing Brewery, BEHL, the Company, BJI and Municipal Institute in relation to Capital Increase; |

| | |
|---------------------------|---|
| “Capital Subscription” | the capital injection into BG Finance in an amount of RMB150,525,000 (equivalent to approximately HK\$184,383,000) made by the Company as described under the heading “CAPITAL SUBSCRIPTION” above; |
| “Company” | Beijing Enterprises Water Group Limited (stock code: 371), a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange; |
| “connected person” | has the meaning ascribed to it under the Listing Rules; |
| “controlling shareholder” | has the meaning ascribed to it under the Listing Rules; |
| “Director(s)” | the director(s) of the Company; |
| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong; |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “Municipal Institute” | Beijing General Municipal Engineering Design & Research Institute Co., Ltd.* (北京市市政工程設計研究總院有限公司), a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of BEGCL; |
| “PRC” | the People’s Republic of China; |
| “Shareholder(s)” | the shareholder(s) of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “subsidiaries” | has the meaning ascribed to it under the Listing Rules; |

“substantial shareholder” has the meaning ascribed to it under the Listing Rules;

“Yanjing Brewery” Beijing Yanjing Brewery Co., Ltd.* (北京燕京啤酒股份有限公司), a company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000729) and is an indirect non-wholly owned subsidiary of BEHL; and

“%” per cent.

For the purpose of this announcement and for illustrative purpose only, RMB is converted into HK\$ at the rate of HK\$1:RMB0.81637. No representation is made that any amounts in RMB has been or could be converted at the above rates or at any other rates.

On Behalf of the Board
Beijing Enterprises Water Group Limited
Li Yongcheng
Chairman

Hong Kong, 31 December 2021

As at the date of this announcement, the Board comprises nine executive directors, namely Mr. Li Yongcheng (Chairman), Mr. Jiang Xinhao, Mr. Zhou Min (Chief Executive Officer), Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Ke Jian, Ms. Sha Ning, Mr. Tung Woon Cheung Eric and Mr. Li Li, one non-executive director, namely Mr. Zhao Feng and five independent non-executive directors, namely Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Mr. Wang Kaijun and Mr. Chau On Ta Yuen.

** For identification purpose only*