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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)**

## **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009**

### **HIGHLIGHTS**

- The Group has successfully transformed itself into a leading integrated water system solution provider, engaging in the provision of sewage treatment service, the construction service, the sewage technical service and the water supply service.
- Total daily design capacity for sewage treatment was 2,252,500 tonnes as at 30 June 2009 representing a significant increase of 52% as compared with the capacity of 1,480,000 tonnes as at 31 December 2008. Total daily design capacity for water supply increased from 50,000 tonnes as at 31 December 2008 to 150,000 tonnes as at 30 June 2009.
- Revenue reached HK\$434.6 million for the six months ended 30 June 2009.
- EBITDA amounted to HK\$132.8 million. The profit attributable to the shareholders of the Company before imputed interest on convertible bonds was HK\$65.1 million.
- Profit attributable to shareholders of the Company for the six months ended 30 June 2009 was HK\$41.9 million which was substantially turned around from a loss of HK\$4.8 million in the same period of last year.
- Basic earnings per share for the period was HK1.48 cents.

The board of directors (the “Board”) of Beijing Enterprises Water Group Limited (the “Company”) is pleased to announce the unaudited interim consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2009 with the comparative figures for the corresponding period in 2008. The result is stated as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	Notes	For the six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
REVENUE	2	434,638	–
Cost of sales		<u>(260,722)</u>	<u>–</u>
Gross profit		173,916	–
Other income and gains, net		7,264	6,712
Selling and distribution costs		(604)	–
Administrative expenses		(55,792)	(3,116)
Other operating expenses, net		<u>(8,000)</u>	<u>–</u>
PROFIT FROM OPERATING ACTIVITIES	3	116,784	3,596
Finance costs	4	(64,290)	(8,348)
Share of profit of an associate		<u>4,040</u>	<u>–</u>
PROFIT/(LOSS) BEFORE TAX		56,534	(4,752)
Tax	5	<u>(4,245)</u>	<u>(2)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u><u>52,289</u></u>	<u><u>(4,754)</u></u>
Attributable to:			
Shareholders of the Company		41,923	(4,754)
Minority interests		<u>10,366</u>	<u>–</u>
		<u><u>52,289</u></u>	<u><u>(4,754)</u></u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	6		
Basic		<u><u>HK1.48 cents</u></u>	<u><u>(HK1.96 cents)</u></u>
Diluted		<u><u>HK1.45 cents</u></u>	<u><u>N/A</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	For the six months	
	ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit/(loss) for the period	52,289	(4,754)
Other comprehensive income/(loss):		
Share issue expenses	–	(2,469)
Exchange differences on translation of foreign operations	<u>(1,906)</u>	<u>455</u>
Other comprehensive loss for the period, net of tax	<u>(1,906)</u>	<u>(2,014)</u>
Total comprehensive income/(loss) for the period, net of tax	<u><b>50,383</b></u>	<u><b>(6,768)</b></u>
Attributable to:		
Shareholders of the Company	40,288	(6,768)
Minority interests	<u>10,095</u>	<u>–</u>
	<u><b>50,383</b></u>	<u><b>(6,768)</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2009

		<b>30 June 2009</b>	31 December 2008
		<b>(Unaudited)</b>	(Audited)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment		<b>201,946</b>	13,414
Prepaid land premiums		<b>16,050</b>	–
Goodwill		<b>1,469,663</b>	1,466,915
Operating concessions		<b>630,667</b>	429,589
Other intangible assets		<b>1,973</b>	1,656
Interest in an associate		<b>29,325</b>	25,313
Available-for-sale investment		<b>454</b>	454
Trade receivables	7	<b>1,286,951</b>	1,238,309
Prepayments, deposits and other receivables		<b>16,878</b>	119,324
Deferred tax assets		<b>28,160</b>	27,112
		<hr/>	<hr/>
Total non-current assets		<b>3,682,067</b>	3,322,086
Current assets:			
Inventories		<b>8,326</b>	4,133
Amounts due from contract customers		<b>220,042</b>	200,462
Trade receivables	7	<b>171,685</b>	144,376
Prepayments, deposits and other receivables		<b>226,371</b>	302,099
Restricted cash and pledged deposits		<b>9,085</b>	8,066
Cash and cash equivalents		<b>614,288</b>	834,936
		<hr/>	<hr/>
Total current assets		<b>1,249,797</b>	1,494,072
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b><u>4,931,864</u></b>	<b><u>4,816,158</u></b>

		<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
	<i>Notes</i>		
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to shareholders of the Company:			
Issued capital		<b>331,637</b>	240,507
Reserves		<b>2,069,581</b>	1,517,794
		<b>2,401,218</b>	1,758,301
Minority interests		<b>284,360</b>	239,656
<b>TOTAL EQUITY</b>		<b><u>2,685,578</u></b>	<b><u>1,997,957</u></b>
Non-current liabilities:			
Other payables and accruals		<b>57,927</b>	69,328
Bank and other borrowings		<b>965,248</b>	986,868
Convertible bonds		<b>632,244</b>	669,275
Finance lease payable		<b>7,712</b>	10,559
Provision for major overhauls		<b>79,637</b>	69,006
Deferred income		<b>38,215</b>	1,178
Deferred tax liabilities		<b>62,721</b>	59,707
Total non-current liabilities		<b><u>1,843,704</u></b>	<u>1,865,921</u>
Current liabilities:			
Trade payables	8	<b>105,206</b>	85,195
Other payables and accruals		<b>92,726</b>	632,205
Income tax payable		<b>20,522</b>	17,328
Bank and other borrowings		<b>178,679</b>	212,241
Finance lease payable		<b>5,449</b>	5,311
Total current liabilities		<b><u>402,582</u></b>	<u>952,280</u>
<b>TOTAL LIABILITIES</b>		<b><u>2,246,286</u></b>	<b><u>2,818,201</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>4,931,864</u></b>	<b><u>4,816,158</u></b>

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2009, the Group was involved in the following principal activities:

- 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 Mainland China, the People's Republic of China (the "PRC").
- trading of computer and related products in Hong Kong and the PRC.

As at 30 June 2009 and the date of this announcement, the immediate holding company of the Company is Beijing Enterprises Environmental Construction Limited which is incorporated in the British Virgin Islands and is a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("BEHL"), (stock code: 392). The ultimate holding company of BEHL is 北京控股集團有限公司, which is a state-owned enterprise established in the PRC and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

### 1.2. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2009 are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

As a result of the change of financial year end date of the Company from 30 June to 31 December with effect from 4 March 2008, the interim financial report of the Company for 2008 covers the twelve months period from 1 July 2007 to 30 June 2008. To enhance the comparability of the current period's financial statements, the comparative amounts shown for condensed consolidated income statement, condensed consolidated statement of comprehensive income and related notes have been prepared to cover the six months period from 1 January 2008 to 30 June 2008.

These condensed interim consolidated financial statements have not been audited, but have been reviewed by the Company's audit committee.

### 1.3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Except for the adoption of a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations issued by the HKICPA, which are generally effective for accounting periods beginning on or after 1 January 2009, the accounting policies and basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are the same as those used in the annual financial statements for the period from 1 July 2007 to 31 December 2008.

Amongst all, the adoption of the following new and revised standards had resulted in additional disclosures as further explained below:

HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>

- (a) HKFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group’s major customers.
- (b) HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes to the titles of the main statements). The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income, with all items of income and expense recognised in the income statement, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present the information in two linked statements.

The adoption of other new or revised standards and interpretation has had no material effect on these unaudited interim condensed consolidated financial statements.

## 2. REVENUE AND SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts and service contracts relating to sewage treatment, net of business tax and government surcharges; (2) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax, business tax and government surcharges; (3) the value of license fees, net of business tax and government surcharges; (4) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; and (5) the imputed interest income on service concession arrangements.

### Segment Information

The following tables present revenue and profit for the Group's business and geographical segments for the period ended 30 June 2009:

	Eastern China <i>HK\$'000</i>	Southern China <i>HK\$'000</i>	Western China <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue</b>					
Sewage treatment	60,031	77,576	44,428	–	182,035
Construction services	24,247	104,892	25,513	–	154,652
Water supply	8,074	–	16,469	–	24,543
Sales of sewage treatment facilities	–	44,541	–	–	44,541
Sewage technical services	–	–	–	28,867	28,867
Total	<u>92,352</u>	<u>227,009</u>	<u>86,410</u>	<u>28,867</u>	<u>434,638</u>
<b>Segment results</b>					
Sewage treatment	12,775	18,905	20,304	–	51,984
Construction services	3,924	10,779	4,362	–	19,065
Water supply	(1,737)	–	1,973	–	236
Sales of sewage treatment facilities	–	11,799	–	–	11,799
Sewage technical services	–	–	–	18,936	18,936
Total profit from principal business	14,962	41,483	26,639	18,936	102,020
Corporate income and expenses	–	–	–	(26,378)	(26,378)
Share of profit of an associate	–	–	–	4,040	4,040
Profit before imputed interest on convertible bonds	14,962	41,483	26,639	(3,402)	79,682
Imputed interest on convertible bonds	–	–	–	(23,148)	(23,148)
Profit before tax	14,962	41,483	26,639	(26,550)	56,534
Tax	3,646	1,181	(7,002)	(2,070)	(4,245)
Profit for the period	<u>18,608</u>	<u>42,664</u>	<u>19,637</u>	<u>(28,620)</u>	<u>52,289</u>
<b>Profit attributable to shareholders of the Company</b>					
Sewage treatment	14,931	15,418	13,117	–	43,466
Construction services	2,374	7,633	2,384	–	12,391
Water supply	(165)	–	1,316	–	1,151
Sales of sewage treatment facilities	–	11,799	–	–	11,799
Sewage technical services	–	–	–	17,579	17,579
Others	–	–	–	(44,463)	(44,463)
Total	<u>17,140</u>	<u>34,850</u>	<u>16,817</u>	<u>(26,884)</u>	<u>41,923</u>

No segment information was presented for the period ended 30 June 2008 as no business activity was carried out by the Group during such period and thus all the income and expenses were unallocated.



### 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of sewage treatment services rendered	65,916	–
Cost of construction contracts	134,846	–
Cost of consultancy services rendered	3,298	–
Cost of water sold	13,310	–
Cost of goods sold	32,752	–
Depreciation	4,054	22
Amortisation of operating concessions*	10,600	–
Amortisation of other intangible assets*	891	–

\* The amortisation of operating concessions and other intangible assets for the period are included in “Cost of sales” and “Administrative expenses” on the face of condensed consolidated income statement, respectively.

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and other loans wholly repayable within five years	40,685	–
Imputed interest on convertible bonds	23,148	8,348
Interest on a finance lease	539	–
Total interest expenses	64,372	8,348
Increase in discounted amounts of provision for major overhauls arising from the passage of time	1,010	–
Total finance costs	65,382	8,348
Less: Interest included in cost of construction contracts	(1,092)	–
	64,290	8,348

## 5. TAX

No provision of Hong Kong profits tax has been made for the current period as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2008: Nil).

The income tax provision in respect of operations in Mainland China is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries enjoy income tax exemptions and reductions, by reason that these companies are engaged in the operations of sewage treatment.

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current:		
Mainland China	8,315	–
(Over)/Underprovision in prior periods	(6,102)	2
Deferred	2,032	–
	<hr/>	<hr/>
Total tax charge for the period	<u>4,245</u>	<u>2</u>

## 6. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the period attributable to shareholders of the Company of HK\$41,923,000 (six months ended 30 June 2008: loss of HK\$4,754,000), and the weighted average of 2,840,213,507 (six months ended 30 June 2008: 241,950,284) ordinary shares in issue during the period.

The calculation of diluted earnings per share amount for the six months ended 30 June 2009 is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the interest on the dilutive convertible bonds; and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of all dilutive convertible bonds into ordinary shares. Except for the ZKC Convertible Bonds 1 and 2 issued by the Company on 24 July 2008 and 6 April 2009 respectively, as defined in the circular of the Company dated 30 June 2008, all other convertible bonds had a dilutive effect on the basic earnings per share for the six months ended 30 June 2009.

A diluted loss per share amount for the six months ended 30 June 2008 is not presented as all the convertible bonds had an anti-dilutive effect on the basic earnings per share for the period.

**6. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY  
(Continued)**

The calculation of the basic and diluted earnings per share amounts for the six months ended 30 June 2009 is based on the following data:

	<b>For the six months ended 30 June 2009 HK\$'000</b>
<b>Earnings</b>	
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	41,923
Interest on dilutive convertible bonds	<u>5,858</u>
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	<u><u>47,781</u></u>
	<b>For the six months ended 30 June 2009</b>
<b>Number of ordinary shares</b>	
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	2,840,213,507
Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares	<u>455,276,243</u>
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u><u>3,295,489,750</u></u>

## 7. TRADE RECEIVABLES

The Group's trade receivables mainly arise from the sewage treatment service and consultancy service. The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, and can be extended up to three months for major customers. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the statement of financial position date, based on the invoice date and net of impairment, is as follows:

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Billed:		
Within 3 months	<b>133,288</b>	64,540
4 to 6 months	<b>30,055</b>	42,121
7 to 12 months	<b>7,915</b>	35,661
1 to 2 years	<b>427</b>	2,054
	<b>171,685</b>	144,376
Unbilled	<b>1,286,951</b>	1,238,309
	<b>1,458,636</b>	1,382,685
Portion classified as current assets	<b>(171,685)</b>	(144,376)
Non-current portion	<b><u>1,286,951</u></b>	<b><u>1,238,309</u></b>

Included in the Group's trade receivables at the statement of financial position date is an amount of HK\$35,454,000 (31 December 2008: Nil) due from a fellow subsidiary, arising from transactions carried out in the ordinary course of business of the Group. The balances are unsecured, interest-free and are repayable within credit period to those offered to the major customers of the Group.

## 8. TRADE PAYABLES

An aged analysis of the trade payables as at the statement of financial position date, based on the invoice date, is as follows:

	<b>30 June 2009 (Unaudited) HK\$'000</b>	31 December 2008 (Audited) HK\$'000
Within 3 months	67,352	45,965
4 to 6 months	9,125	12,911
7 months to 1 year	15,466	2,561
1 to 2 years	8,109	12,508
2 to 3 years	3,375	4,390
Over 3 years	1,779	6,860
	<u>105,206</u>	<u>85,195</u>

The trade payables are non-interest-bearing and unsecured and are normally settled on 60-day terms. The carrying amounts of these balances approximate to their fair values.

## 9. EVENT AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 3 July 2009 and 28 July 2009, certain of the Tranche 2 Bond and the ZKC Convertible Bonds 2 in principal amounts of HK\$40,000,000 and HK\$34,090,784 were converted into 100,000,000 and 49,406,933 new ordinary shares of the Company at conversion prices of HK\$0.40 and HK\$0.69, respectively, resulting in additional issued share capital and share premium of the Company of HK\$14,941,000 and HK\$62,960,000, respectively.

## 10. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2009 amounted to HK\$847,215,000 (31 December 2008: HK\$541,792,000) and HK\$4,529,282,000 (31 December 2008: HK\$3,863,878,000), respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Introduction

For the six months ended 30 June 2009, the Group's revenue reached HK\$434.6 million, as compared with no revenue in the same period last year. No revenue was recorded since the Group was undergoing business reform in last period. The Group's strategic move to water service market was gradually paying off, contributing to a significant turnaround from a loss of HK\$4.8 million last period to a profit attributable to shareholders of HK\$41.9 million for the current period. Basic earnings per share for the period was HK1.48 cents (loss per share last period: HK1.96 cents). The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

In August 2008, the Group realigned its business direction to water service market through the acquisition of Beijing Enterprises ZKC Environmental Group Co., Ltd (formerly known as ZKC Environmental Group Co., Ltd) ("BE-ZKC"), a leading operator in China's sewage treatment market. During the period, BE-ZKC was our key profit driver. Its net profit for the period was HK\$73.4 million\*. Based on the Group's 88.43% equity interest in BE-ZKC, the net profit attributable to the Group was HK\$67.0 million\*.

### 2. Business Review

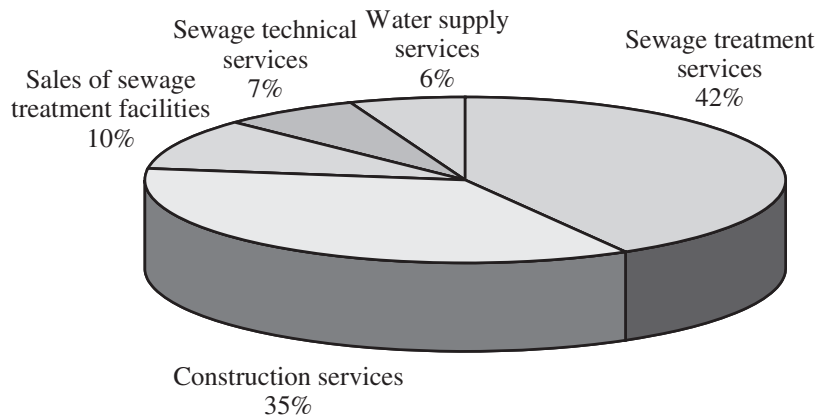
The principal business of the Group includes sewage treatment services, construction services, sales of sewage treatment facilities, sewage technical services and water supply services. The analysis of the Group's financial results during the period is set out in details below:

	Revenue		GP ratio		Net profit attributable to the Group*	
	HK\$'M	%	%	%	HK\$'M	%
Sewage treatment services	182.0	42%	58%		43.5	50%
Construction services	154.7	35%	13%		12.4	14%
Sales of sewage treatment facilities	44.5	10%	27%		11.8	14%
Sewage technical services	28.9	7%	93%		17.6	20%
Water supply services	24.5	6%	38%		1.1	2%
Business results	<u>434.6</u>	<u>100%</u>			86.4	<u>100%</u>
Others <sup>#</sup>					(44.5)	
Total					<u>41.9</u>	

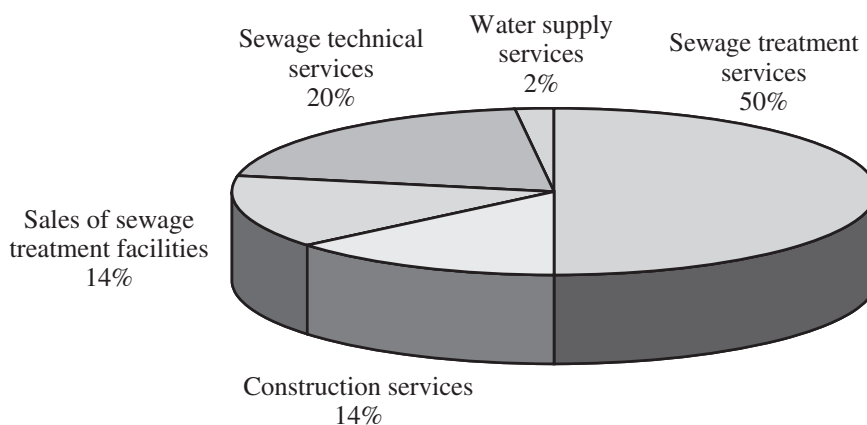
\* After the elimination of intragroup transaction between BE-ZKC and the Group

# Others included a share of profit of an associate (after deduction of minority interests) of HK\$3.6 million, head office overheads of HK\$25.0 million and convertible bonds interest of HK\$23.1 million.

## Revenue



## Net profit attributable to the Group\*



### 3. Operating Segments Analysis

#### *Sewage treatment services*

##### General situation

Being one of the leading integrated water system solution providers in China's sewage treatment market, our projects have already extended to 25 cities and 9 provinces across China. As at 31 December 2008, the Group has 20 sewage treatment projects. Leveraging on our dedicated efforts, the number of sewage treatment project on hand was increased to 32 as at 30 June 2009. The design capacity was increased by 772,500 tonnes per day to 2,252,500 tonnes per day, representing an increase of 52% as compared with the capacity of 1,480,000 tonnes per day as at 31 December 2008. The increment of 772,500 tonnes per day includes Build-Operate-Transfer ("BOT") projects of 407,500 tonnes, Transfer-Operate-Transfer ("TOT") projects of 265,000 tonnes and a concession project of 100,000 tonnes per day. As at 30 June 2009, sewage treatment capacity of 1,140,000 tonnes per day are in operation and the remaining 1,112,500 tonnes per day are either under construction or in legal transfer process. The average price of water treatment is approximately HK\$1.05 per tonne. The actual aggregate processing volume for the period was 157.5 million tonnes (average daily processing volume of 861,000 tonnes) contributing revenue of

HK\$182 million during the period, which represents 42% of the Group's total revenue. Net profit attributable to the Group was HK\$43.5 million. The information of sewage treatment service in China is as follows:

#### Western China

Through the extensive experience of BE-ZKC in Western China, the Group has secured twelve sewage treatment projects with total daily design capacity of 762,500 tonnes, representing an increase of 347,500 tonnes per day or 83.7% as compared with 415,000 tonnes per day last year. Included in the design capacity is 315,000 tonnes per day in operation and the remaining capacity of 447,500 tonnes per day have not yet started operation. These projects are Mianyang, Jiangyou, Huayang, Shuangliu, Longquan, Guizhou Jinyang, Pengzhou, Guigang, Hezhou, Guiyang Qingzhen, Mianyang Nong Ke Qu and Qingbaijing. They are mainly located in Guangxi, Sichuan and Guizhou. The actual processing volume for the period was 35.8 million tonnes and an operating revenue of HK\$44.4 million was recorded during the period. Net profit attributable to the Group amounted to HK\$13.1 million.

#### Southern China

Through a series of bidding and acquisition in Southern China during this period, the daily design capacity has reached 895,000 tonnes, representing an increase of 215,000 tonnes or 31.6% as compared with 680,000 tonnes last year. Since then, Southern China has grown to be a region with the largest capacity. As of 30 June 2009, the Group has ten projects in this region and are mainly located in Guangdong and Hunan provinces. The projects are Zhongye, Nansha, Changsha, Sanshui, Yongzhou, Shenzhen Heng Ling, Daoxian, Jiang Yong, Xin Tian and Lei Yang. Projects with processing capacities of 530,000 tonnes are in operation and the remaining 365,000 tonnes have not yet started operation. The actual aggregate processing volume for the period amounted to 72 million tonnes and an operating revenue of HK\$77.6 million and net profit attributable to the Group of HK\$15.4 million were recorded during the period.

#### Eastern China

The Group's investments in Eastern China are mainly focused in Shandong province. Favourable municipal government policy, accompanied with the rapid urbanisation, has created strong demand for sewage treatment service in Shandong. Taking this advantage, the Group has secured six sewage treatment projects with total daily processing capacity of 295,000 tonnes in Shandong. The projects are Jiaonan, Heze, Jiaozhou, Shangma, Zhanhua and Jinan. Together with Taizhou Project and Huang Yan Project in Zhejiang province, the Group has achieved processing capacity of 465,000 tonnes per day from 385,000 tonnes per day last year, representing an increase of 20.8%, of which 295,000 tonnes are in operation and 170,000 tonnes have not yet started operation. The actual processing volume for the period was 49.7 million tonnes contributing an operating revenue of HK\$60.0 million during the period. Net profit attributable to the Group was HK\$15.0 million.



### *Construction services*

The Group has entered into a number of service concession contracts on a BOT basis in respect of its sewage treatment business. Under HK(IFRIC)-Int 12 Service Concession Arrangements, the Group should recognise the construction revenue with reference to the fair value of the construction service delivered in the building phase. The fair value of such service is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the inception date of service concession agreement. Construction revenue is recognised by using the percentage of completion method.

During the period, six water plants namely Longquan, Mianyang Phase III, Taizhou Phase II, Jinan Phase II, Sanshui and Yongzhou were under construction. These water plants are mainly located in Guangdong, Sichuan, Shandong, Zhejiang and Hunan provinces. The total daily design capacity of these water plants is 310,000 tonnes. Total construction revenue for the period was HK\$154.7 million and net profit attributable to the Group was HK\$12.4 million. Most of these projects shall commence its operation in the second half of this year.

Leveraging on our competitive bidding strategy, we have successfully won the bid of nine BOT projects during the period. The projects are Pengzhou, Changping, Guiyang Qingzhen, Daoxian, Jiang Yong, Xin Tian, Qi Qi Har, Mianyang Nong Ke Qu and Lei Yang. The aggregate design capacity of these projects is 257,500 tonnes. Changping and Qi Qi Har, with initial daily design capacity of 30,000 and 100,000 tonnes respectively, are our first step into Northern China water market. Meanwhile, Changping is our first attempt to build reclaimed water plant which requires higher treatment technologies input. In addition to the rapid expansion from bidding projects, the Group's greenfield development is also encouraging during the period. The Phase I of water plants in Zhongye, Shuangliu and Nansha have already met the processing capacity specified under the operation concession agreements and were entitled to kick off the construction work of Phase II. The total design capacity of these Phase II projects is 180,000 tonnes. The abovementioned projects have just conducted the preliminary construction planning work recently and thus no construction revenue was contributed during the period. The construction work of these water plants shall commence soon. As such, it is expected that contribution from construction service shall accelerate in the second half of this year.

### *Sewage technical services*

The Group, being an integrated water system solution provider in water market, has not only acquired extensive experience in bidding, building and operating waste water treatment projects, but also successfully marketed its patented treatment technology, "LIER-POOLK" to other operators. The patented treatment technology is characterised as cost-saving and has achieved the highest national emission standard – Grade 1A. Revenue from the provision of technical services was HK\$28.9 million which represents 7% of the Group's total revenue. The net profit attributable to the Group was HK\$17.6 million.

### *Water supply services*

During the period, the Group has secured two water supply projects, namely Binzhou and Guigang Project. Total water supply capacity of these projects is 150,000 tonnes per day. The acquisition of Binzhou project in last year has marked the beginning of the Group's investment in water supply market. The project is located in Shandong province with water supply capacity of 50,000 tonnes per day. During this period, the Group also acquired Guigang project in Guangxi with water supply capacity of 100,000 tonnes per day. These projects recorded revenue of HK\$24.5 million (6% of the Group's total revenue) and net profit attributable to the Group of HK\$1.1 million. The Group expects great growth potential from this sector in future.

## **4. Financial Analysis**

### *Revenue*

During the period, the Group recorded revenue of HK\$434.6 million which was driven by the strong performance of the water treatment business. No revenue was recorded in the same period of last year since the Group was undergoing business transformation from computer trading to the provision of water services.

### *Cost of sales*

The cost of sales for the period was HK\$260.7 million which mainly comprised construction cost of HK\$134.8 million and operating cost of water plants of HK\$89.8 million. The construction cost was mainly represented by the subcontracting charges. For the operation of water plants, the major costs were electricity charges of HK\$26.1 million, staff cost of HK\$10.5 million and major overhaul charge of HK\$9.7 million. Major overhaul charge was the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangement. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to income statement based on amortisation method during the service concession periods.

### *Gross profit margin*

Benefiting from the strategic move to water service sector, the Group achieved high gross profit margin of 40% which was greatly improved as compared with the computer trading business operated in past years.

### *Other income and gains, net*

During this period, the Group recorded other income of HK\$7.3 million (six months ended 30 June 2008: HK\$6.7 million). The increase was mainly due to the growth of interest income driven by increase in bank deposits as compared with last period.

### *Administrative expenses*

As a result of business expansion, administrative expenses increased by 18 times from HK\$3.1 million in last period to HK\$55.8 million in current period. To cope with the expanded operations, the Group increase its number of employees and thus staff cost included in administrative expenses for this period increased significantly to HK\$22.4 million, representing increase of 15 times as compared with the last period.

### *Finance costs*

Finance costs was mainly represented by interest on bank and other borrowings of HK\$39.6 million (six months ended 30 June 2008: nil) and imputed interest on convertible bonds of HK\$23.1 million (six months ended 30 June 2008: HK\$8.3 million). The increase of HK\$14.8 million in imputed interest on convertible bonds as compared to that of last period was due to the increase in average convertible bonds outstanding during this period. The imputed interest expense was resulted from accounting treatment and it did not affect the actual cashflow of the Group.

### *Tax*

Income tax expense for the period included current PRC income tax of HK\$2.2 million. The effective tax rate for PRC operation was around 2.9% which was lower than the PRC income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the period was HK\$2.0 million.

### *Liquidity and financial resources*

During the period under review, the Group maintained a healthy liquidity position. As at 30 June 2009, the Group's cash and cash equivalents amounted to HK\$614.3 million (Year ended 31 December 2008: HK\$834.9 million). The decrease in cash and cash equivalents was mainly due to the increase in capital expenditure on business development during this period.

The Group's total borrowings amounted to HK\$1,789.3 million as at 30 June 2009 (Year ended 31 December 2008: HK\$1,884.3 million), comprising convertible bonds of HK\$632.2 million (Year ended 31 December 2008: HK\$669.3 million), finance lease payable of HK\$13.2 million (Year ended 31 December 2008: HK\$15.9 million), and bank and other borrowings of HK\$1,143.9 million (Year ended 31 December 2008: HK\$1,199.1 million). The bank and other borrowings are carried in PRC subsidiaries for the financing of construction of water plants and thus were mainly repayable in long term. Only 15.6% of the bank and other borrowings are repayable within one year. The gearing ratio (defined as sum of bank and other borrowings and finance lease payable, net of cash and cash equivalents, divided by the total equity) was 0.20 as at 30 June 2009 (Year ended 31 December 2008: 0.19). The slight increase in gearing ratio was mainly attributable to decrease in cash and cash equivalents.

## *Capital expenditures*

During the period, the Group's total capital expenditures were HK\$285.2 million (six months ended 30 June 2008: nil), of which HK\$6.7 million was paid for the acquisition of property, plants and equipments and intangible assets while HK\$218.9 million was spent on construction and acquisition of water plants and HK\$59.6 million was the consideration for acquisition of subsidiaries. The significant increase in capital expenditures was in line with the expansion plans of the Group.

## **5. Prospects**

The global financial crisis has created a certain impact on the water industry. However, the Chinese Government has introduced an array of economic stimulus policies such as the commitment of RMB4 trillion spending package. Against the backdrop of China's efforts to reinforce macro control and step up investment in infrastructures, the Group will continue to focus its work in the second half of the year on the integration of its existing resources, reinforcement of its competitive edge, all-round development in domestic water business and aggressive establishment of a presence in the global market.

With respect to the development of the principal business, the Group aims to explore the entire industrial chain for water investment, which involves both upward and downward development in the chain. Together with its targets on the control of upstream resources, elimination of bottleneck in sludge treatment technology, integration of water and sewers pipelines as well as the provision of integrated solutions to customers, the Group has proposed in the beginning of this year that it will achieve a target for an additional water processing capacity of 1,500,000 tonnes per day in the year 2009, and will strive to make a breakthrough in five areas, namely merger and acquisition of counterparts, sludge treatment, merger and acquisition of water supply business, seawater desalination and global business development, in order to enhance its competitiveness and the capability to cope with risk.

We had achieved an additional water processing capacity of 872,500 tonnes per day in the first half of the year, and successfully signed up a sewage (reclaimed water) project with a water processing capacity of 380,000 tonnes per day in Jinzhou on 15 July 2009. In addition, we have also secured the first place among the candidates in the tender selection for operating concession of Shenzhen Heng Ling sewage treatment (Phase II) TOT project as announced on 14 September 2009. The said project has a capacity of 400,000 tonnes per day. With respect to the development of BT projects, we have recently signed up a BT project for sewage treatment plant in Tongling, Anhui Province with a capacity of 125,000 tonnes per day. In conclusion, we have successfully exceeded the target of reaching an additional water processing capacity of 1,500,000 tonnes per day in the year. We are striving our best to make or have made substantial progress in more than 15 projects with a total water processing capacity of 1,000,000 tonnes per day. We will soon begin to sign up and commence the construction of phase II for some of the water projects on hand.

From the beginning of the first half of year 2009, we have been seeking to study the possibility of cooperation with the Yunnan Government in a broad range of issues regarding the water business within Yunnan. On 23 July 2009, we formally signed an agreement with Yunnan Water Industry Investment Co., Ltd.<sup>^</sup> (雲南省水務產業投資有限公司) for the formation of a joint venture Yunnan Beijing Enterprises City Investment Water Co., Ltd.<sup>^</sup> (雲南北控城投水務有限公司) with a registered capital of RMB400 million. The joint venture will be responsible for investment, construction, management and operation of water projects in Kunming City, such as water supply, sewage, reclaimed water and sludge treatment as well as market-based water projects with operating concessions in other regions in Yunnan Province. The utilisation of resources from the provincial government enable us to develop a full coverage to the major cities in Yunnan Province progressively.

With respect to merger and acquisition of counterparts and water supply business, we are making a bid for a number of projects and expect substantial progress in these projects in the second half of the year. With respect to global cooperation and overseas project development, we have been endeavouring to proceed with the cooperation with the national governments in Southeast Asia and the Middle East as well as counterparts in Japan in areas such as the undertaking of BT, BOT and EPC projects and commencement of technical cooperation. The Group shall strive to make a greater breakthrough as soon as possible.

From the beginning of the year, it has been anticipated there would be a rise in water prices in China. In view of this, we are preparing or have prepared to submit formal proposals to respective departments of the local governments to increase water prices of our water projects in various locations. We believe the rise in water prices will improve our profitability.

In view of the speedy development of principal business, rapid expansion of scale of operation and the increasing number of subsidiaries, the Company will further strengthen its management and risk management capabilities so as to fully capitalise on our strategy “to become a leading integrated water system solution provider”.

With respect to management improvement, on top of the existing advanced management system, we will continue to strengthen the build-up of corporate information network and the cultivation of corporate culture; improve our overall management efficiency; and reinforce the Group’s management strength in technology, construction and operation persistently.

With respect to capital operation, we will continue to improve our financing and management capabilities. Backed by the domestic and overseas capital markets and financial institutions, we will strengthen the roles of the Company, Beijing Enterprises Water Investment (China) Co., Ltd.^ (北控水務投資(中國)有限公司) and each regional investment platform to offer a strong support to our business development in China and our presence in the global market.

## **Employees and remuneration policies**

As at 30 June 2009, the Group employed 1,403 employees. The Group’s remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

## **Significant investments and acquisitions**

During the period, the Group acquired 66.67% equity interests in Guigang Water Supply Limited Liability Company^ (貴港市供水有限責任公司) for HK\$59.6 million. Apart from this, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the period ended 30 June 2009.

## **Charges on the Group's assets**

The secured bank loans and the finance lease payable of the Group as at 30 June 2009 are secured by the Group's equity interest in a subsidiary and mortgages over sewage treatment concession rights, land use rights and certain operating facilities of the sewage treatment plants which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors. The aforesaid land use rights and operating facilities are normally registered under the names of the relevant entities in the Group and are required to be returned to the grantors at the end of the respective service concession periods. Saved as disclosed above, the Group did not have any charges on the Group's assets.

## **Foreign exchange exposure**

The Group's exposure to currency exchange rate is minimal as majority of the subsidiaries of the Company operates in the PRC with most of the transaction denominated and settled in RMB. Accordingly, the Group has not used derivative financial instruments to hedge its foreign currency risk.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries has purchased, sold nor redeemed any of the Company's listed securities.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

During the six months ended 30 June 2009, in the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules, except that, with respect to Code A.4.1, the non-executive directors of the Company have not been appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company.

## **MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS**

The Company has adopted the Model Code for securities transaction as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the directors. Following specific enquiry, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.



## **AUDIT COMMITTEE**

The Audit Committee of the Company was established in accordance with the requirements of the CG Code as set out in Appendix 14 of the Listing Rules. It comprises three independent non-executive directors of the Company to review on matters regarding internal controls and financial reporting of the Group, including review of the unaudited interim results for the six months ended 30 June 2009 and considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

## **REMUNERATION COMMITTEE**

The Remuneration Committee of the Company was established, with specific terms of reference in compliance with the CG Code as set out in Appendix 14 of the Listing Rules. It comprises one executive director and two independent non-executive directors of the Company. The Committee is responsible for making recommendations to the Board on the Company's policy and packages of remuneration for directors and senior executives of the Company.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This results announcement is published on the website of Hong Kong Exchanges and Clearing Limited ("HKEx") at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.bewg.com.hk](http://www.bewg.com.hk). The 2009 interim report will be dispatched to shareholders in late September 2009 and will be available at the HKEx's website and the Company's website accordingly.

## **APPRECIATION**

On behalf of the Board, I would like to express my sincere thanks to all the Group's employees for their continuous support and dedicated services.

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

Hong Kong, 16 September 2009

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

<sup>^</sup> *For identification purpose only*