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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 2011

HIGHLIGHTS

- The Group continues to enjoy robust growth in the first half of year 2011. Profit attributable to shareholders of the Company increased by 114% to HK\$309.7 million, with sewage treatment services as a key profit driver.
- EBITDA amounted to HK\$551.6 million, representing an increase of 80% as compared with last period of HK\$306.2 million.
- As at 30 June 2011, total daily design capacity for water projects on hand was 7,333,200 tons representing an increase of 24% as compared with capacity of 5,909,500 tons as at 31 December 2010.
- Basic earnings per share for the period was HK4.73 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 2011 and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2011 with the comparative figures for the corresponding period in 2010. The result is stated as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

		For the six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	900,458	2,208,482
Cost of sales		<u>(435,483)</u>	<u>(1,842,389)</u>
Gross profit		464,975	366,093
Other income and gains, net		203,777	9,056
Selling and distribution costs		–	(719)
Administrative expenses		(149,550)	(80,170)
Other operating expenses, net		<u>(16,667)</u>	<u>(7,572)</u>
PROFIT FROM OPERATING ACTIVITIES	4	502,535	286,688
Finance costs	5	(124,589)	(96,714)
Share of profits and losses of jointly-controlled entities		<u>22,484</u>	<u>(97)</u>
PROFIT BEFORE TAX		400,430	189,877
Income tax	6	<u>(66,282)</u>	<u>(21,855)</u>
PROFIT FOR THE PERIOD		<u>334,148</u>	<u>168,022</u>
ATTRIBUTABLE TO:			
Shareholders of the Company		309,670	144,827
Non-controlling interests		<u>24,478</u>	<u>23,195</u>
		<u>334,148</u>	<u>168,022</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	7		(Restated)
– Basic		<u>HK4.73 cents</u>	<u>HK3.36 cents</u>
– Diluted		<u>HK4.73 cents</u>	(Restated) <u>HK2.97 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	334,148	168,022
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX OF NIL		
– Exchange differences on translation of foreign operations	<u>211,007</u>	<u>46,290</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>545,155</u></u>	<u><u>214,312</u></u>
ATTRIBUTABLE TO:		
Shareholders of the Company	458,019	182,186
Non-controlling interests	<u>87,136</u>	<u>32,126</u>
	<u><u>545,155</u></u>	<u><u>214,312</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

		30 June 2011 (Unaudited) <i>HK\$'000</i>	31 December 2010 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets:			
Property, plant and equipment		192,059	46,114
Goodwill		1,599,168	1,580,116
Operating concessions		750,914	749,718
Other intangible assets		5,593	5,305
Investments in jointly-controlled entities		1,420,784	118,619
Available-for-sale investments		2,919	1,647
Amounts due from contract customers		1,495,118	1,605,284
Receivables under service concession arrangements	8	3,328,997	2,736,583
Trade and bills receivables	9	343,024	120,905
Prepayments, deposits and other receivables		1,374,146	1,408,510
Deferred tax assets		35,003	31,806
		<u>10,547,725</u>	<u>8,404,607</u>
Total non-current assets			
Current assets:			
Inventories		12,588	12,786
Amounts due from contract customers		75,944	759,109
Receivables under service concession arrangements	8	190,975	123,889
Trade and bills receivables	9	4,339,816	4,002,108
Prepayments, deposits and other receivables		2,619,263	1,367,995
Restricted cash and pledged deposits		107,137	592,507
Cash and cash equivalents		3,961,653	1,961,828
		<u>11,307,376</u>	<u>8,820,222</u>
Total current assets			
TOTAL ASSETS		<u><u>21,855,101</u></u>	<u><u>17,224,829</u></u>

		30 June 2011 (Unaudited) <i>HK\$'000</i>	31 December 2010 (Audited) <i>HK\$'000</i>
	<i>Note</i>		
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital		685,014	456,676
Reserves		7,013,161	3,436,184
		7,698,175	3,892,860
Non-controlling interests		1,649,066	1,175,094
TOTAL EQUITY		9,347,241	5,067,954
Non-current liabilities:			
Other payables and accruals		23,970	22,644
Bank and other borrowings		5,262,704	3,231,442
Bonds payable		1,728,032	–
Provision for major overhauls		142,665	123,374
Deferred income		24,556	23,978
Deferred tax liabilities		149,334	138,688
Total non-current liabilities		7,331,261	3,540,126
Current liabilities:			
Trade payables	<i>10</i>	1,968,052	2,637,650
Other payables and accruals		1,793,409	569,700
Income tax payables		129,007	108,286
Bank and other borrowings		1,284,414	5,296,200
Finance lease payable		1,717	4,913
Total current liabilities		5,176,599	8,616,749
TOTAL LIABILITIES		12,507,860	12,156,875
TOTAL EQUITY AND LIABILITIES		21,855,101	17,224,829

NOTES:

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2011, the Group was involved in the following principal activities in Mainland China, the People's Republic of China (the "PRC"):

- construction of sewage and water treatment plants and other infrastructural facilities
- provision of sewage treatment services
- provision of water treatment services and distribution and sale of piped water
- provision of technical and consultancy services that are related to sewage treatment and construction
- licensing of technical know-how that are related to sewage treatment

1.2. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

1.3. ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of these condensed interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2010, except for the adoption of the following new, revised or amendments to the Hong Kong Financial Reporting Standards (the “new HKFRSs”) issued by the HKICPA, which are generally effective for the first time for the current period’s financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of the above new and revised HKFRSs has had no significant financial impact on these condensed interim financial statements and there have been no significant changes to the accounting polices applied in these condensed interim financial statements.

2. OPERATING SEGMENT INFORMATION

For management purpose, the Group’s operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group’s operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other operating segments.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the period attributable to shareholders of the Company, which is a measure of adjusted profit for the period attributable to shareholders of the Company. The adjusted profit for the period attributable to shareholders of the Company is measured consistently with the Group’s profit attributable to shareholders of the Company except that interest income, finance costs, share of profits and losses of jointly-controlled entities, as well as head office and corporate income and expenses are excluded from such measurement.

During the period, the Group changed its operating segment reporting structure as corporate and others segment is no longer considered as a reportable operating segment due to the cessation of the trading of computer and related products during the period ended 31 December 2008.

The corresponding comparative amounts of the segment information have been revised to reflect the above changes and to conform to the current period’s presentation.

For the six months ended 30 June 2011

	Sewage treatment and construction services (Unaudited) <i>HK\$'000</i>	Water supply services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	700,030	35,669	164,759	900,458
Cost of sales	<u>(404,793)</u>	<u>(20,804)</u>	<u>(9,886)</u>	<u>(435,483)</u>
Gross profit	<u>295,237</u>	<u>14,865</u>	<u>154,873</u>	<u>464,975</u>
Segment results	<u>353,620</u>	<u>6,851</u>	<u>149,254</u>	509,725
Corporate and other unallocated income and expenses				(7,190)
Finance costs				(124,589)
Share of profits and losses of jointly-controlled entities				<u>22,484</u>
Profit before tax				400,430
Income tax				<u>(66,282)</u>
Profit for the period				<u>334,148</u>
Profit/(loss) for the period attributable to shareholders of the Company:				
– From operating segments	<u>283,158</u>	<u>9,621</u>	<u>127,440</u>	420,219
– Corporate and other unallocated items				<u>(110,549)</u>
				<u>309,670</u>

For the six months ended 30 June 2010

	Sewage treatment and construction services (Unaudited) <i>HK\$'000</i>	Water supply services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i> (Restated)
Segment revenue	2,059,331	28,222	120,929	2,208,482
Cost of sales	<u>(1,816,915)</u>	<u>(16,821)</u>	<u>(8,653)</u>	<u>(1,842,389)</u>
Gross profit	<u>242,416</u>	<u>11,401</u>	<u>112,276</u>	<u>366,093</u>
Segment results	<u>208,757</u>	<u>9,802</u>	<u>106,922</u>	325,481
Corporate and other unallocated income and expenses				(38,793)
Finance costs				(96,714)
Share of profits and losses of jointly-controlled entities				<u>(97)</u>
Profit before tax				189,877
Income tax				<u>(21,855)</u>
Profit for the period				<u>168,022</u>
Profit/(loss) for the period attributable to shareholders of the Company:				
– From operating segments	<u>169,746</u>	<u>7,715</u>	<u>97,813</u>	275,274
– Corporate and other unallocated items				<u>(130,447)</u>
				<u>144,827</u>

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

During the six months ended 30 June 2011, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers for that period. During the six months ended 30 June 2010, revenue of approximately HK\$1,441,976,000 was derived from the construction services provided by the sewage treatment and construction services segment to 2 single customers.

3. REVENUE

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) an appropriate proportion of contract revenue of other construction services, net of business tax and government surcharges; (3) 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; (4) the value of consultancy fees and licence fees, net of business tax and government surcharges; and (5) the imputed interest income on service concession arrangements.

An analysis of the Group's revenue is as follows:

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sewage treatment services*	420,750	245,358
Construction contracts*	279,280	1,813,973
Consultancy services and licensing	164,759	120,929
Sale of water	35,669	28,222
	900,458	2,208,482

* *Imputed interest income under service concession arrangements amounting to HK\$120,210,000 (Six months ended 30 June 2010: HK\$98,365,000) are included in the revenue derived from "Sewage treatment services" and "Construction contracts" above.*

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sewage treatment services rendered	140,840	86,202
Cost of construction contracts	250,477	1,720,872
Cost of consultancy services rendered and licensing	9,886	8,653
Cost of water sold	13,304	11,664
Depreciation	4,956	4,364
Amortisation of operating concessions*	20,976	14,998
Amortisation of other intangible assets*	602	229

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	125,283	81,850
Interest on other loans	1,708	879
Imputed interest on convertible bonds	–	18,953
Interest on a finance lease	121	330
Total interest expenses	127,112	102,012
Increase in discounted amounts of provision for major overhauls arising from the passage of time	1,833	1,357
Total finance costs	128,945	103,369
Less: Interest included in cost of construction contracts	(4,356)	(6,655)
	124,589	96,714

6. INCOME TAX

No provision of Hong Kong profits tax has been made for the six months ended 30 June 2011 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2010: Nil).

The PRC corporate 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – PRC:		
Hong Kong	–	–
Mainland China	64,892	16,141
Overprovision in prior periods*	(2,716)	(4,790)
Deferred	<u>4,106</u>	<u>10,504</u>
Total tax charge for the period	<u><u>66,282</u></u>	<u><u>21,855</u></u>

* During the six months ended 30 June 2010, income tax exemptions were granted to certain subsidiaries of the Group by relevant provincial tax bureaus in Mainland China in respect of their assessable profits for the year ended 31 December 2009. Accordingly, their respective income taxes provided in the year ended 31 December 2009 were reversed during the six months ended 30 June 2010.

7. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of ordinary shares in issue during the period, as adjusted to reflect the issuance of 2,283,378,231 new ordinary shares of the Company at an offer price of HK\$1.485 per ordinary share under an open offer (the "Open Offer") of the Company completed on 15 March 2011.

In respect of the diluted earnings per share amounts, no adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2011 as the Group had no dilutive potential ordinary shares during the six months ended 30 June 2011. The calculation of the diluted earnings per share amount for the six months ended 30 June 2010 is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds at the beginning of the period, 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 and as adjusted to reflect the effect of the Open Offer.

The calculation of the basic and diluted earnings per share amounts is based on the following data:

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	309,670	144,827
Interest on dilutive convertible bonds	—	18,953
	<hr/>	<hr/>
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	<u>309,670</u>	<u>163,780</u>
	<hr/>	<hr/>
	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
		(Restated)
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	6,548,727,678	4,310,925,802
Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares	—	1,208,607,190
	<hr/>	<hr/>
Weighted average number of ordinary shares, used in the diluted earnings per share calculation*	<u>6,548,727,678</u>	<u>5,519,532,992</u>
	<hr/>	<hr/>

* *The weighted average number of ordinary shares during the period ended 30 June 2010 has been retrospectively adjusted to take into account the effect of the Open Offer.*

8. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The various group companies have different credit policies, depending on the requirements of the locations in which they operate. Aged analysis of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

An aged analysis of the Group's receivables under service concession arrangements as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Unbilled	3,328,997	2,736,583
Within 3 months	134,157	84,741
4 to 6 months	33,947	19,370
7 to 12 months	17,808	11,122
1 to 2 years	5,063	8,656
	3,519,972	2,860,472
Portion classified as current assets	(190,975)	(123,889)
Non-current portion	3,328,997	2,736,583

9. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from certain construction services for Build-Transfer ("BT") contracts, technical and consultancy services, sale of water and related water supply services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for the customers of BT contracts, the trade receivables of which would be settled in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Except for the trade and bills receivables of BT contracts, trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Billed:		
Within 3 months	177,953	282,257
4 to 6 months	16,423	82,702
7 to 12 months	201,581	7,474
1 to 2 years	24,809	21,574
Balance with extended credit period	<u>446,288</u>	<u>169,000</u>
	867,054	563,007
Unbilled*	<u>3,815,786</u>	<u>3,560,006</u>
	4,682,840	4,123,013
Portion classified as current assets	<u>(4,339,816)</u>	<u>(4,002,108)</u>
Non-current portion	<u><u>343,024</u></u>	<u><u>120,905</u></u>

* *The unbilled balance was attributable to certain construction services rendered under BT contracts which will be billed upon the completion of final inspection jointly by the Group, the contract customers and the independent surveyors.*

Included in the trade and bills receivables of the Group as at 30 June 2011 was an aggregate amount of HK\$20,915,000 (31 December 2010: HK\$19,696,000) due from 北京北控環保工程技術有限公司 and 北控水務集團(海南)有限公司, both being related companies of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group. The balances with the two companies were unsecured, interest-free and repayable within credit periods similar to those offered by the Group to its major customers.

10. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 3 months	133,060	966,598
4 to 6 months	14,674	811,344
7 months to 1 year	1,464,628	586,585
1 to 2 years	295,983	268,447
2 to 3 years	58,563	4,500
Over 3 years	1,144	176
	<u>1,968,052</u>	<u>2,637,650</u>

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

11. EVENT AFTER THE REPORTING PERIOD

On 5 July 2011, the Company, BEWG Environmental Group., Co., Ltd (the “Purchaser”), a non-wholly owned subsidiary of the Company, Shenzhen City Taihe Huanbao Co., Ltd (the “Vendor”) and Violet Passion Holdings Limited (“Violet Passion”) entered into an agreement in which the Purchaser agreed to acquire and Violet Passion agreed to transfer its rights and benefits in relation to a 11.03% equity interest in 深圳北控創新投資有限公司 (Shenzhen Bei Kong Chuang Xin Investment Co. Ltd.*), a non-wholly owned subsidiary of the Company, at a consideration of RMB195.4 million (equivalent to HK\$235.1 million). The consideration shall be settled by cash of RMB90.7 million (equivalent to HK\$109.1 million) and issuance of 59,035,792 Company’s shares at HK\$2.134 per share.

12. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2011 amounted to HK\$6,130,777,000 (31 December 2010: HK\$203,473,000) and HK\$16,678,502,000 (31 December 2010: HK\$8,608,080,000), respectively.

INTERIM DIVIDEND

The directors do not propose the payment of any interim dividend in respect of the period under review (Six months ended 30 June 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continues to enjoy robust growth in the first half of year 2011. Profit attributable to shareholders of the Company increased by 114% to HK\$309.7 million, with sewage treatment services emerging as a key profit driver. Revenue decreased by 59% to HK\$900.5 million as a result of decrease in revenue contribution from BT projects.

1. Financial highlights

The analysis of the Group's financial results during the period is set out in details below:

	Revenue		GP ratio	Net profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
Sewage treatment services	420.7	47%	63%	189.7	45%
Water supply services	35.7	4%	42%	9.6	2%
Construction services					
– BOT projects	166.4	18%	10%	11.0	3%
– BT projects	112.9	13%	11%	82.5	20%
	279.3	31%	10%	93.5	23%
Technical and consultancy services					
– BT projects	76.9	8%	94%	59.4	14%
– others	87.9	10%	94%	68.0	16%
	164.8	18%	94%	127.4	30%
Business results	<u>900.5</u>	<u>100%</u>		<u>420.2</u>	<u>100%</u>
Others [#]				(110.5)	
Total				<u>309.7</u>	

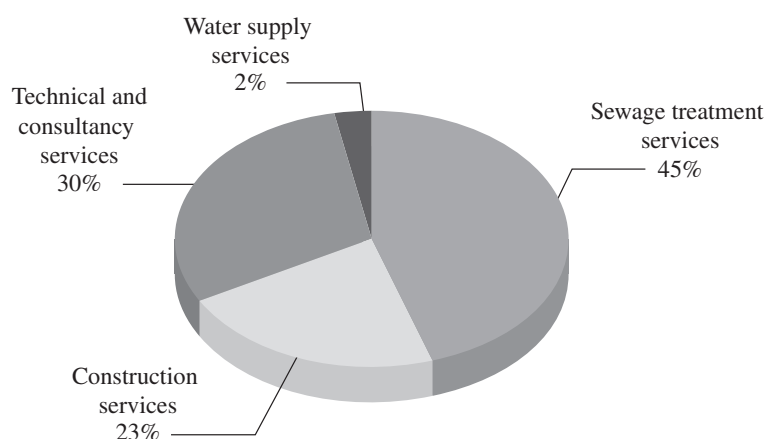
[#] Others included head office and other corporate income and expenses, net, of HK\$14.1 million and finance costs of HK\$124.6 million.

The analysis of the Group's financial results during the last period is set out in details below:

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
Sewage treatment services	245.4	11%	61%	101.7	37%
Water supply services	28.2	1%	40%	7.7	3%
Construction services					
– BOT projects	252.9	11%	10%	16.6	6%
– BT projects	1,561.1	71%	5%	51.4	19%
	1,814.0	82%	5%	68.0	25%
Technical and consultancy services					
– BT projects	100.3	5%	93%	81.1	29%
– others	20.6	1%	93%	16.7	6%
	120.9	6%	93%	97.8	35%
Business results	<u>2,208.5</u>	<u>100%</u>		275.2	<u>100%</u>
Others [#]				(130.4)	
Total				<u>144.8</u>	

[#] Others included head office and other corporate overheads (net of income) of HK\$33.7 million, convertible bonds interest of HK\$19 million and other finance costs of HK\$77.7 million.

**Profit attributable to shareholders of the Company
(Six months ended 30 June 2011)**



2. Business review

The principal businesses of the Group includes operations in sewage treatment services and water supply services, and construction services and technical and consultancy services. The coverage of the Group's water plants has extended to 17 provinces all across Mainland China. As at 30 June 2011, the Group participates in 93 water plants in either operation or construction of which includes 76 sewage treatment plants, 13 water supply plants, 3 reclaimed plants and 1 seawater desalination plant. The total daily design capacity was increased by 1,423,700 tons to 7,333,200 tons, representing an increase of 24% as compared with last year. The increment of 1,423,700 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 259,200 tons, Transfer-Operate-Transfer ("TOT") projects of 220,000 tons, entrustment projects of 19,500 tons and acquired project of 925,000 tons.

Analysis of projects on hand as follows:

<i>('000 tons)</i>	Sewage treatment	Water supply	Reclaimed water	Seawater desalination	Total
In operation	3,181	150	182	–	3,513
Not yet start operation	<u>1,531</u>	<u>2,209</u>	<u>30</u>	<u>50</u>	<u>3,820</u>
Total	<u><u>4,712</u></u>	<u><u>2,359</u></u>	<u><u>212</u></u>	<u><u>50</u></u>	<u><u>7,333</u></u>
 <i>(Number of water plants)</i>					
In operation	50	5	2	–	57
Not yet start operation	<u>26</u>	<u>8</u>	<u>1</u>	<u>1</u>	<u>36</u>
Total	<u><u>76</u></u>	<u><u>13</u></u>	<u><u>3</u></u>	<u><u>1</u></u>	<u><u>93</u></u>

2.1 Water operation services

	Number of plants	Design capacity (Tons/Day)	Actual processing capacity during the period (Tons (M))	Revenue HK\$'(M)	Profit attributable to shareholders of the Company HK\$'(M)
Sewage treatment and reclaimed water services:					
– Southern	18	1,206,000	162.2	172.3	72.3
– Western	18	1,175,000	157.4	93.7	50.9
– Shandong	7	337,000	44.5	59.0	26.2
– Eastern	3	190,000	19.3	42.8	23.6
– Northern	6	455,000	41.5	52.9	16.7
	52	3,363,000	424.9	420.7	189.7
Water supply services	5	150,000	23.9	35.7	9.6
Total	57	3,513,000	448.8	456.4	199.3

2.1.1 Sewage treatment and reclaimed water services

As at 30 June 2011, the daily operation capacity of sewage treatment and reclaimed water were recorded as 3,181,000 tons (31 December 2010: 2,532,000 tons) and 182,000 tons (31 December 2010: 182,000 tons) respectively. The average daily processing volume is 2,332,000 tons and average daily treatment rate is 69%. The actual average contracted tariff charge of water treatment was approximately HK\$1.09 per ton (31 December 2010: HK\$1.07 per ton). The actual aggregate processing volume for the period was 424.9 million tons contributing revenue of HK\$420.7 million during the period (47% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK\$189.7 million. The information of sewage treatment service in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. Most of the BOT projects secured last year commenced operations during this period, therefore, the operating volume increased significantly. As at 30 June 2011, there were 18 sewage treatment plants with total daily design capacity of 1,206,000 tons, representing an increase of 414,000 tons per day or 52% as compared with last year. The actual aggregate processing volume for the period amounted to 162.2 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$172.3 million and HK\$72.3 million respectively during the period.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2011, there were 18 sewage treatment plants with total daily design capacity of 1,175,000 tons, representing an increase of 175,000 tons per day or 17.5% as compared with last year. The actual processing volume for the period was 157.4 million tons. The operating revenue was HK\$93.7 million during the period. Profit attributable to shareholders of the Company was HK\$50.9 million.

Shandong

There were 7 plants in Shandong region. The total daily processing capacity of Shandong region had increased slightly by 40,000 tons to 337,000 tons as compared with last year. The actual processing volume for the period was 44.5 million tons contributing operating revenue of HK\$59.0 million during the period. Profit attributable to shareholders of the Company was HK\$26.2 million.

Eastern China

There were 3 water plants in Eastern China which were mainly located in Zhejiang Province. As at 30 June 2011, the operating volume of Eastern China had increased slightly by 20,000 tons to 190,000 tons. The actual processing volume for the period amounted to 19.3 million tons and operating revenue was HK\$42.8 million during the period. Profit attributable to shareholders of the Company was HK\$23.6 million.

Northern China

Currently, the Group has 6 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily processing volume is 455,000 tons which is the same as last year. The projects had achieved actual processing volume of 41.5 million tons for the period. The operating revenue was HK\$52.9 million during the period. Profit attributable to shareholders of the Company was HK\$16.7 million.

2.1.2 Water supply services

As at 30 June 2011, the Group had 5 water supply plants in operation. Total water supply capacity of these projects was 150,000 tons per day (31 December 2010: 150,000 tons per day). The plants were located in Guizhou Province, Shandong Province and Guangxi Province. The actual average contracted tariff charge of water supply is approximately HK\$1.49 per ton. The aggregate actual processing volume is 23.9 million tons. These projects recorded revenue of HK\$35.7 million (4% of the Group's total revenue) and profit attributable to shareholders of the Company of HK\$9.6 million.

2.2 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 recognises 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, 19 water plants were under construction. These water plants were mainly located in Guangdong, Sichuan, Shandong, Yunnan, Heilongjiang and Hunan provinces. Total construction revenue for BOT projects was HK\$166.4 million and profit attributable to shareholders of the Company was HK\$11.0 million. As at 30 June 2011, the total daily design capacity of these water plants in the construction stage was 1,140,700 tons, the operations of most of these projects are expected to be commenced by next year.

Apart from BOT projects, the Group has 7 BT projects under construction during the period. The projects are located in Huaxi, Guizhou Province, Kunming, Yunnan Province and Dalian, Liaoning Province. Total construction revenue from BT projects was HK\$112.9 million and profit attributable to shareholders of the Company was HK\$82.5 million. Revenue from BT projects has been significantly decreased since the projects in Kunming was substantially completed last year and large portion of respective construction revenue had already recognised last year. Accordingly, the revenue contributed by projects in Kunming was decreased by HK\$1,444.8 million as compared with the same period in last year.

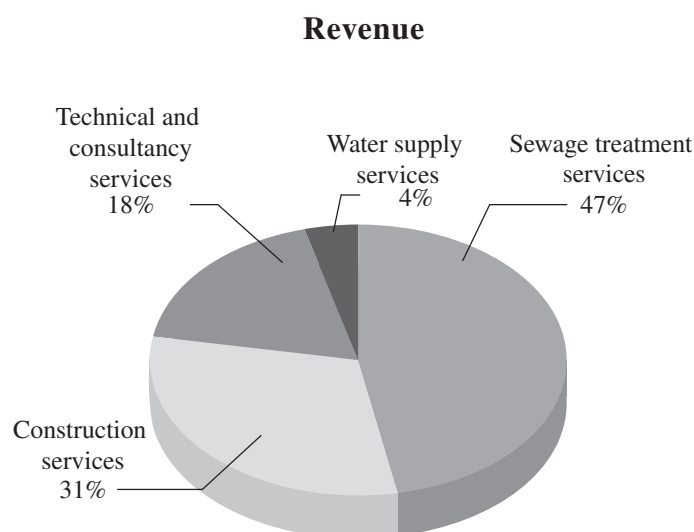
2.3 Technical and consultancy services

The Group has couples of qualification in engineering consulting and design of water treatment plants. As an integrated water system solution provider in water market, the Group has not only acquired extensive experience in bidding, building and operating sewage water treatment projects, but also successfully marketed its treatment technology and experience in construction services to other operators and constructors. Revenue from the provision of technical services was HK\$164.8 million, representing 18% of the Group's total revenue. The profit attributable to shareholders of the Company was HK\$127.4 million.

3. Financial analysis

3.1 Revenue

During the period, the Group recorded revenue of HK\$900.5 million (compared to last period for HK\$2,208.5 million). The decrease was mainly due to decrease in construction revenue from BT projects. The related revenue decreased by HK\$1,448.2 million from HK\$1,561.1 million in the last period to HK\$112.9 million for the period.



3.2 Cost of sales

Cost of sales for the period amounted to HK\$435.5 million which mainly included construction cost of HK\$250.5 million and operating cost of water plants of HK\$175.7 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK\$75.3 million, staff cost of HK\$26.7 million and major overhaul charge of HK\$14.3 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.

3.3 Gross profit margin

During the period, gross profit margin increased from 17% to 52%. The increase was mainly due to the change in mix of revenue during the period. The revenue contribution from construction services decreased significantly from last period of 82% to 31% this period. The gross margin of construction services is 10% for the period, which is comparatively lower than average of other business sectors of 70% and therefore the gross margin of the Group increased.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$203.8 million during the period, compared to last period of HK\$9.1 million. Other income mainly included bank and other interest income of HK\$21.9 million, imputed interest income from BT projects of HK\$128.5 million, government grant of HK\$1.9 million and other gains on acquisition of a jointly-controlled entity, namely 湖南永州市景盛置業有限公司 (Hunan Yongzhou Jing Sheng Property Development Company Limited*), of HK\$46.9 million. The increase was mainly due to increase in imputed interest income from BT projects and gains on acquisition of a jointly-controlled entity.

3.5 Administrative expenses

Administrative expenses for the period was HK\$149.6 million, compared to last period at HK\$80.2 million. The increase was mainly contributed by the increase in staff cost by HK\$17.6 million and the increase in business development cost of HK\$27.5 million as a result of the Group's business expansion.

3.6 Finance costs

Finance costs mainly represented by interest on bank and other borrowings of HK\$122.6 million, compared to last period of HK\$76.1 million. Increase in finance cost was mainly due to increase in new borrowings.

3.7 Income tax

Income tax expense for the period included the current PRC income tax of HK\$62.2 million. The effective tax rate for the PRC operation was about 15% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the period was HK\$4.1 million.

3.8 *Liquidity and financial resources*

As at 30 June 2011, the Group's cash and cash equivalents amounted to HK\$3,961.7 million (31 December 2010: HK\$1,961.8 million). The Group's total borrowings amounted to HK\$8,276.8 million (31 December 2010: HK\$8,532.5 million).

The Group's total borrowings comprising finance lease payable of HK\$1.7 million (31 December 2010: HK\$4.9 million), bank and other borrowings of HK\$6,547.1 million (31 December 2010: HK\$8,527.6 million) and bonds payable of HK\$1,728.0 million (31 December 2010: Nil) The gearing ratio as defined as sum of finance lease payable, bank and other borrowings and bonds payable, net of cash and cash equivalents, divided by the total equity was 0.46 as at 30 June 2011 (31 December 2010: 1.3). The decrease in the gearing ratio as at 30 June 2011 was mainly due to the increase in total equity and decrease in net debt as a result of an open offer held on 15 March 2011, in which the Company issued 2,283,378,231 shares at a price of HK\$1.485 per share on the basis of one offer share for every two existing shares held by the shareholders. The total net proceed of the open offer is HK\$3,385.4 million.

As at 30 June 2011, the Group had banking facilities amounting to HK\$3.94 billion, of which HK\$0.6 million were unutilised. The banking facilities are of 1-5 years term.

3.9 *Capital expenditures*

During the period, the Group's total capital expenditures were HK\$1,178.6 million (Six months ended 30 June 2010: HK\$254.2 million), of which HK\$15.4 million was paid for the acquisition of property, plant and equipment and intangible assets, HK\$471.1 million was spent on construction and acquisition of water plants and HK\$692.1 million was the consideration for acquisition of equity interest in subsidiaries and jointly-controlled entities. The increase in capital expenditures incurred during the period was in line with the expansion plans of the Group.

4. Future outlook

In 2011, the “Instructions Opinions” on “No. 1 Document” issued by the Central Committee of the Chinese Communist Party have provided solid measures to boost the whole water industry. However, the issue of water price was again highlighted and the problem with water price has become an urgent matter to be solved in respect of the development of water industry in the PRC. At the same time, as the monetary policy tightened, the era of “Capital is the king” has resurfaced. In the second half of 2011, the Group will persevere on the principles of “Strategic co-ordination, consolidation of resources, upper and lower linkage and keeping abreast of market development” to attain business potentials. By fully utilizing the ability of management in coordinating government resources, the professional strength of the headquarter investment department and our advantages of local resources through business regions and platform companies, we are able to construct and develop a multi-dimensional market. Our main strategy is to acquire large-scale water and sewage projects and other small and middle scaled water investment companies and other packing projects, and to continue to develop single operation projects, in order to enlarge our market share. By leveraging on our capital advantages, the Group will participate in the development of new business market in an active and prudent manner. The Group will promote the seawater desalination business and strive to achieve substantial breakthroughs in its business in Beijing. Whilst strengthening the management of overseas platform companies, the Group will rapidly accumulate extensive experience in operation of overseas projects and steadily promote the development of overseas markets. The Group continues to seek breakthroughs in the high-end of industry chain through capital injection.

Simultaneously, the Group will fully integrate its resources in all respects and enhance its financing arrangements and capital management. The Group will strengthen the management on project construction, accelerate its development and secure the construction of major projects. The Group will consolidate the foundation of its intrinsic growth by further strengthening the operation management of inventory assets and improving the operational efficiency and benefits of assets. Furthermore, the Group will strategically reinforce the development of corporate public relation and maintenance of management by exploring, developing in a comprehensive manner and utilizing all kinds of social resources efficiently. By delegation to the new executive committee, we continue to reinforce and optimize the construction of its management control system, intensify the system of construction of ancillary process and complete the mechanism in respect of decision-making and communication of information. The Group will establish a comprehensive security system for the integration of human resources and focus on strengthening team building and construction of corporate culture, thereby laying a solid foundation for the sustainable, steady and rapid development of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the Group employed 2,126 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

The Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the period ended 30 June 2011.

CHARGES ON THE GROUP'S ASSETS

The secured bank loans and the finance lease payable of the Group as at 30 June 2011 are secured by the Group's equity interest in a subsidiary, certain of the Group's bank balances and mortgages over certain of the 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.

CONTINGENT LIABILITIES

At 30 June 2011, the Group did not have any significant contingent liabilities (31 December 2010: Nil).

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

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries has purchased, sold nor redeemed any of the listed securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2011, in the opinion of the Board, the Company 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 for one code provision under the CG Code. The non-executive directors (all are independent non-executive directors) of the Company were not appointed for a specific term that was deviated from the requirement under code provision A.4.1. The deviation is appropriate as the non-executive directors of the Company are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. Sufficient measures will be taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors confirmed, having made specific enquiry by the Company, that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions 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 2011. The Audit Committee 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 and on the website of the Company at www.bewg.com.hk. The 2011 interim report will be dispatched to shareholders in late September 2011 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, 31 August 2011

As at the date of this announcement, 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. Tung Woon Cheung Eric 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.

* *For identification purposes only*