北控水務集團有限公司
BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 371)

FINAL RESULTS
FOR THE PERIOD FROM 1 JULY 2007 TO 31 DECEMBER 2008

HIGHLIGHTS

- The Group has successfully transformed itself into a large-scale water treatment operator, engaging in the provision of sewage treatment service, the construction service, the sewage technical service and the water supply service.

- Following the successful acquisition of ZKC Environmental Group Limited in August 2008, it became the main source of revenue and profit of the Group. During this period, ZKC Environmental Group Limited contributed net profit of HK$83.1 million to the Group.

- Revenue reached HK$337.7 million, representing a substantial increase of 17 times as compared to the year ended 30 June 2007.

- Profit before interest and tax amounted to HK$115.4 million. The profit attributable to the shareholders of the Company before imputed interest on convertible bonds was HK$66.4 million.

- A substantial turnaround of profit attributable to the shareholders of the Company from a loss of HK$2.6 million for the year ended 30 June 2007 to a profit of HK$31.0 million for the period from 1 July 2007 to 31 December 2008.

- Basic earnings per share for the period was HK3.82 cents.

RESULTS

The board of directors (the "Board") of Beijing Enterprises Water Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the period from 1 July 2007 to 31 December 2008, together with the comparative figures for the year ended 30 June 2007 as follows:

CONSOLIDATED INCOME STATEMENT

PERIOD FROM 1 JULY 2007 TO 31 DECEMBER 2008

	Notes	**Period from 1 July 2007 to 31 December 2008** *HK$'000*	Year ended 30 June 2007 *HK$'000*
REVENUE	*2*	**337,681**	19,899
Cost of sales		**(182,878)**	(19,695)
Gross profit		**154,803**	204
Other income and gains, net		**11,388**	1,362
Administrative expenses		**(42,294)**	(4,186)
Other operating expenses, net		**(7,677)**	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*3*	**116,220**	(2,620)
Finance costs	*4*	**(60,273)**	–
Share of loss of an associate		**(811)**	–
PROFIT/(LOSS) BEFORE TAX		**55,136**	(2,620)
TAX	*5*	**(12,234)**	53
PROFIT/(LOSS) FOR THE PERIOD/YEAR		**42,902**	(2,567)
Attributable to:			
Shareholders of the Company		**30,984**	(2,567)
Minority interests		**11,918**	–
		42,902	(2,567)
EARNING/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*6*		
Basic		**HK3.82 cents**	(HK3.08 cents)
Diluted		**HK3.72 cents**	N/A

CONSOLIDATED BALANCE SHEET
31 DECEMBER 2008

	Notes	31 December 2008 HK$'000	30 June 2007 HK$'000
ASSETS			
Non-current assets:			
Equipment		**13,414**	71
Goodwill		**1,466,915**	–
Operating concessions		**429,589**	–
Other intangible assets		**1,656**	–
Interest in an associate		**25,313**	–
Available-for-sale investment		**454**	–
Trade receivables	7	**1,238,309**	–
Prepayments, deposits and other receivables		**119,324**	–
Deferred tax assets		**27,112**	–
Total non-current assets		**3,322,086**	71
Current assets:			
Inventories		**4,133**	–
Amounts due from contract customers		**200,462**	–
Trade receivables	7	**144,376**	2,104
Prepayments, deposits and other receivables		**302,099**	147
Financial assets at fair value through profit or loss		**–**	431
Restricted cash and pledged deposits		**8,066**	75
Cash and cash equivalents		**834,936**	29,287
Total current assets		**1,494,072**	32,044
TOTAL ASSETS		**4,816,158**	32,115

CONSOLIDATED BALANCE SHEET *(continued)*
31 DECEMBER 2008

	Notes	31 December 2008 HK$'000	30 June 2007 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital		**240,507**	8,328
Reserves		**1,517,794**	23,108
		1,758,301	31,436
Minority interests		**239,656**	–
TOTAL EQUITY		**1,997,957**	31,436
Non-current liabilities:			
Other payables and accruals		**69,328**	–
Bank and other borrowings		**986,868**	–
Liability component of convertible bonds		**669,275**	–
Finance lease payable		**10,559**	–
Provision for major overhauls		**69,006**	–
Deferred income		**1,178**	–
Deferred tax liabilities		**59,707**	–
Total non-current liabilities		**1,865,921**	–
Current liabilities:			
Trade payables	*8*	**85,195**	313
Other payables and accruals		**632,205**	366
Income tax payable		**17,328**	–
Bank and other borrowings		**212,241**	–
Finance lease payable		**5,311**	–
Total current liabilities		**952,280**	679
TOTAL LIABILITIES		**2,818,201**	679
TOTAL EQUITY AND LIABILITIES		**4,816,158**	32,115

NOTES:

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Change of year end date

On 4 March 2008, the Board passed an ordinary resolution to change the financial year end date of the Company from 30 June to 31 December commencing from the financial year 2008. The reason for the change is to align the financial year end date of the Company with that of its holding company, Beijing Enterprises Holdings Limited ("BEHL"). Adoption by the Company of the same financial year end date as that of BEHL will facilitate the preparation of consolidated accounts of BEHL. As a result, the current financial period covers an eighteen-month period from 1 July 2007 to 31 December 2008. Accordingly, the comparative amounts presented for the consolidated income statement and the related notes, which were prepared for the year ended 30 June 2007, are not comparable.

Pursuant to the special resolution of the Company passed on 4 March 2008, the English name of the Company has been changed from "Shang Hua Holdings Limited" to "Beijing Enterprises Water Group Limited" and the Chinese name "北控水務集團有限公司" has replaced "上華控股有限公司" for identification purposes.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the period from 1 July 2007 to 31 December 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting form intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the period has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill or in the income statement as an excess over cost of acquisition where appropriate.

1.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current period's financial statements. Except for in certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 1 Amendment	*Capital Disclosures*
HKFRS 7	*Financial Instruments: Disclosures*
HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*
HK(IFRIC)-Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*

1.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [2]
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* [3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [5]

Apart from the above, in October 2008, the HKICPA has also issued its first *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[5] Effective for transfers of assets from customers received on or after 1 July 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

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 supplied based on the consumption recorded by water meter readings, net of value-added tax, business tax and government surcharges; (3) the value of consultancy fees and licence 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.

Business segments

The following table presents revenue and profit for the Group's business segments for the period from 1 July 2007 to 31 December 2008:

	Sewage treatment	Sewage technical services	Construction contracts	Others	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	**138,224**	**51,071**	**131,343**	**17,043**	**–**	**337,681**
Intersegment sales	**–**	**5,538**	**–**	**–**	**(5,538)**	**–**
Other income and gains	**225**	**–**	**–**	**209**	**–**	**434**
Total	**138,449**	**56,609**	**131,343**	**17,252**	**(5,538)**	**338,115**
Segment results	**65,225**	**46,857**	**17,214**	**(23,820)**		**105,476**
Unallocated income and gains						**10,954**
Unallocated expenses						**(210)**
Profit from operating activities						**116,220**
Finance costs						**(60,273)**
Share of loss of an associate						**(811)**
Profit before tax						**55,136**
Tax						**(12,234)**
Profit for the period						**42,902**

Business segments for the year ended 30 June 2007 have not been presented as the Group's revenue was solely derived from trading of computers and related products.

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	Period from 1 July 2007 to 31 December 2008 *HK$'000*	Year ended 30 June 2007 *HK$'000*
Cost of construction contracts	**113,402**	–
Cost of sewage treatment services rendered	**53,302**	–
Cost of water sold	**2,704**	–
Cost of consultancy services rendered	**2,651**	–
Cost of licencing	**26**	–
Cost of goods sold	**10,793**	19,695
Depreciation	**1,211**	41
Amortisation of operating concessions*	**5,799**	–
Amortisation of other intangible assets*	**78**	–

* The amortisation of operating concessions and other intangible assets is included in "Cost of sales" on the face of the consolidated income statement.

4. FINANCE COSTS

	Period from 1 July 2007 to 31 December 2008 *HK$'000*	Year ended 30 June 2007 *HK$'000*
Interest on bank loans and other loans wholly repayable within five years	**28,061**	–
Interest on other loans	**799**	–
Interest on a finance lease	**643**	–
Imputed interest on convertible bonds	**35,426**	–
Total interest expenses	**64,929**	–
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**595**	–
Total finance costs	**65,524**	–
Less: Interest included in cost of construction contracts	**(5,251)**	–
	60,273	–

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 (year ended 30 June 2007: 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.

	Period from 1 July 2007 to 31 December 2008	Year ended 30 June 2007
	HK$'000	*HK$'000*
Current – PRC:		
Mainland China	**3,905**	–
Underprovision/(overprovision) in prior periods – Mainland China	**78**	(53)
Deferred	**8,251**	–
Total tax charge/(credit) for the period/year	**12,234**	(53)

6. EARNINGS/(LOSS) 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 of HK$30,984,000 (year ended 30 June 2007: loss of HK$2,567,000) and the weighted average of 811,259,728 (year ended 30 June 2007: 83,285,449) ordinary shares in issue during the period.

The calculation of diluted earnings per share amount for the period from 1 July 2007 to 31 December 2008 is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the dilutive convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the conversion of all dilutive convertible bonds into ordinary shares. Except for the Tranche 1 Bond issued by the Company on 27 July 2007, as defined in the circular of the Company dated 3 May 2007, all other convertible bonds had either an anti-dilutive effect or no diluting effect on the basic earnings per share for the period ended 31 December 2008.

A diluted loss per share amount for the year ended 30 June 2007 is not presented as no diluting event existed during that year.

The calculation of the basic and diluted earnings per share amounts for the period from 1 July 2007 to 31 December 2008 is based on the following data:

	Period from 1 July 2007 to 31 December 2008
	HK$'000
Earnings	
Profit attributable to shareholders of the Company used in the basic earnings per share calculation	**30,984**
Interest on dilutive convertible bonds	**6,210**
Profit attributable to shareholders of the Company used in the diluted earnings per share calculation	**37,194**

	Period from 1 July 2007 to 31 December 2008
Number of ordinary shares	
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	**811,259,728**
Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares	**188,818,182**
Weighted average number of ordinary shares used in diluted earnings per share calculation	**1,000,077,910**

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. Each customer has a maximum credit limit. 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. Trade receivables are non-interest-bearing.

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

	31 December 2008 *HK$'000*	30 June 2007 *HK$'000*
Unbilled	**1,238,309**	–
Within 3 months	**64,540**	2,104
4 to 6 months	**42,121**	–
7 to 12 months	**35,661**	–
1 to 2 years	**2,054**	–
	1,382,685	2,104
Portion classified as current assets	**(144,376)**	(2,104)
Non-current portion	**1,238,309**	–

8. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	31 December 2008 *HK$'000*	30 June 2007 *HK$'000*
Within 3 months	**45,965**	313
4 to 6 months	**12,911**	–
7 months to 1 year	**2,561**	–
1 to 2 years	**12,508**	–
2 to 3 years	**4,390**	–
Over 3 years	**6,860**	–
	85,195	313

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. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2008, the following significant events occurred:

(a) Issuance of new shares from conversion of convertible bonds

As at the date of this announcement, convertible bonds with aggregate principal amount of HK$94,244,700 have been converted by certain bondholders in exchange for 199,630,000 new shares. As a result of the conversions, the issued capital of the Company has been increased from HK$240,507,336 divided into 2,405,073,357 shares to HK$260,470,336 divided into 2,604,703,357 shares.

(b) Acquisition of 貴港市供水有限責任公司 ("Guigang Water")

Pursuant to a share transfer agreement dated 17 November 2008 (the "Acquisition Agreement"), the Beijing Enterprises Water (Hong Kong) Limited, a wholly-owned subsidiary of the Company agreed to purchase, and 貴港市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of People's Government of Guigang Municipality*) (the "Vendor") agreed to sell, 80% of the enlarged equity interests in Guigang Water for the consideration of RMB100,001,600 (equivalent to approximately HK$113,687,000), comprising (i) RMB50,001,600 (equivalent to approximately HK$56,844,000) being the consideration for acquisition of the 66.67% equity interests in Guigang Water; and (ii) RMB50,000,000 (equivalent to approximately HK$56,843,000) being the consideration for the capital contribution of further 13.33% equity interests (as enlarged) of Guigang Water (the "Capital Contribution"). The consideration is to be settled by cash and is subject to adjustment based on the operating results of Guigang Water between the period from 31 December 2007 to 30 October 2008.

Guigang Water holds the entire share capital of 貴港市供水工程安裝公司 and 貴港市水錶檢定中心. Guigang Water and its subsidiaries (collectively, the "Guigang Group") is principally engaged in the operations of water supply and treatment, and the provision of related water supply services in Guigang City, Guangxi province, the PRC. The Guigang Group aims to expand its business into sewage treatment. A sewage treatment plant, known as 貴港城西污水處理廠, is currently under construction by Guigang Water.

The abovementioned transactions were approved by the shareholders of the Company in a special general meeting held on 19 January 2009. The first consideration of RMB50,001,600 was settled during the period ended 31 December 2008. As at the date of this announcement, the Capital Contribution has not yet been made and the Group is not yet in a position to disclose any financial impact of this transaction.

10. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2008 amounted to HK$541,792,000 (30 June 2007: HK$31,365,000) and HK$3,863,878,000 (30 June 2007: HK$31,436,000), respectively.

* *for identification purpose only*

DIVIDEND

The Board does not recommend the payment of a dividend for the period from 1 July 2007 to 31 December 2008 (Year ended 30 June 2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

In order to align the financial year end date of the Company with that of its holding company, Beijing Enterprises Holdings Limited ("BEHL") (stock code: 392), the Board resolved to change the financial year end date of the Company from 30 June to 31 December commencing from the financial year 2008. As a result, the current financial period covers an 18 months period from 1 July 2007 to 31 December 2008 ("the period"). Accordingly, the comparative amounts presented for the consolidated income statement and the related notes, which were prepared for the year ended 30 June 2007, are not comparable.

During the period, the revenue of the Group was HK$337.7 million, representing a surge of 17 times as compared with the financial year ended 30 June 2007 ("last year"). The profit attributable to shareholders of the Company for the period was HK$31.0 million which was substantially turned around from a loss of HK$2.6 million last year. Basic earnings per share for the period was HK3.82 cents (loss per share last year: HK3.08 cents). The substantial growth of profit for the period signified our success of strategic move from computer trading business to the provision of water service during this period. The board does not recommend the payment of a final dividend for the period.

In August 2008, the Group has acquired ZKC Environmental Group Limited ("ZKC Group"), a leading operator in China's water market. The net profit of ZKC Group for the 12 months ended 31 December 2008 was HK$148.6 million*, representing an increase of 63% as compared with its corresponding period in 2007. Based on the Group's 88.43% equity interest in ZKC Group, the net profit attributable to the Group would be HK$132.9 million*. However, since the completion of acquisition in August 2008, the Group can only share 5 months profits of ZKC Group which amounted of HK$83.1 million*. In view of this, we believe the acquisition of ZKC Group has already laid a strong foundation for our business growth and prosperity in future years.

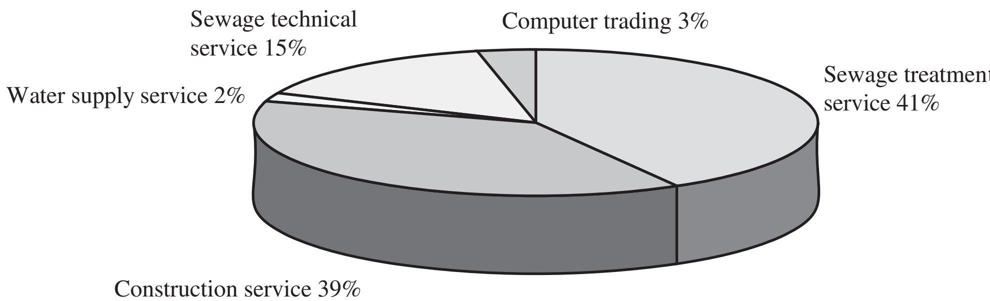
Business Review

Upon the acquisition of ZKC Group, the principal business of the Group includes sewage treatment service, construction service, sewage technical service, water supply service and others. The financial results of these businesses during the period are set out in details below:

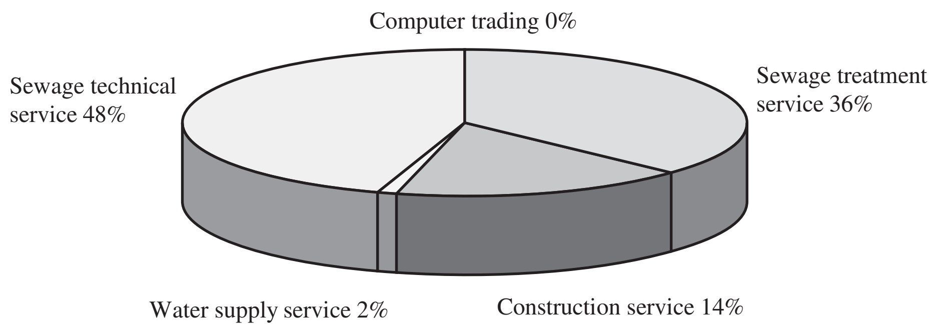
	Revenue		**GP ratio**	**Net profit attributable to the Group***	
	HK$'M	*%*	*%*	*HK$'M*	*%*
Sewage treatment service	138.2	41%	61%	30.5	36%
Construction service	131.3	39%	14%	11.8	14%
Sewage technical service	51.2	15%	95%	40.3	48%
Water supply service	6.1	2%	56%	1.3	2%
Computer trading	10.9	3%	1%	0.0	0%
	337.7	100%		83.9	100%

* *After the elimination of intragroup transaction between ZKC Group and the Group*

Revenue



Net profit attributable to the Group*



Profit for the period attributable to shareholders of the Company of HK$31.0 million was arrived after deducting head office overheads of HK$16.7 million and convertible bond interest of HK$35.4 million from the ZKC Group's net profit attributable to the Group of HK$83.1 million*. ZKC Group's net profit attributable to the Group of HK$83.1 million was arrived after deducting share of loss of an associate of HK$0.8 million from the net profit attributable to the Group contributed by the principal business of HK$83.9 million as stated above.

Sewage treatment service

General situation

The Group commenced its sewage treatment service since the acquisition of ZKC Group in August 2008. ZKC Group is one of the leading operators in China's water market with a key focus on waste water treatment. As at 31 December 2008, the Group has 20 sewage treatment plants across China which are capable of processing 1,480,000 tonnes of waste water per day. Sewage treatment capacity of 1,120,000 tonnes are in operation and the remaining 360,000 tonnes are under construction. The average price of water treatment is approximately HK$1.02 per tonne. The actual processing volume from 1 August 2008 (as at the acquisition date of ZKC Group) to 31 December 2008 was 114.3 million tonnes contributing a revenue of HK$138.2 million during the period, which represents 41% of the Group's total revenue. Net profit attributable to the Group was HK$30.5 million. The information of sewage treatment service in China is as follow:

* *After the elimination of intragroup transaction between ZKC Group and the Group*

1. **Western China**

ZKC Group has established its footprint in Western China since 2002. Riding on its extensive experience in this region, the Group has established 7 water plants with total daily processing capacity of 415,000 tonnes, of which 295,000 tonnes are in operation and 120,000 tonnes are under construction. The name of 7 water plants are Mianyang, Jiangyou, Huayang, Shuangliu, Longguan, Guizhou and Pengzhou respectively. They are mainly located in Sichuan, Guangxi and Yunan. The actual processing volume from 1 August 2008 to 31 December 2008 was 31.6 million tonnes contributing an operating revenue of HK$35.6 million during the period. Net profit attributable to the Group amounted to HK$9.7 million.

2. **Southern China**

The Group's expansion in Southern China was rapid during the period. Through the acquisition of ZKC Group, the Group had taken over three new projects with daily processing capacity of 330,000 tonnes in Southern China. Following a series of successful bidding in water projects and acquisition in the 4th quarter of 2008, the Group's water treatment capacity in this region has been doubled to 680,000 tonnes at the end of 2008. As at 31 December 2008, the Group has 6 water plants in this region and are mainly located in Guangdong and Hunan provinces. The name of water plants are Zhongye, Guangzhou, Changsha, Sanshui, Yongzhou and Shenzhen Hua Qiang respectively. Those water processing capacities of 530,000 tonnes are in operation and the remaining 150,000 tonnes are still under construction. The newly acquired Shenzhen Hua Qiang project has daily processing capacity of 200,000 tonnes. It was consolidated into the Group's results since the completion of acquisition in October 2008. The actual processing volume from 1 August 2008 to 31 December 2008 amounted to 43.7 million tonnes contributing an operating revenue of HK$54.9 million and net profit attributable to the Group of HK$10.2 million during the period.

3. **Eastern China**

The Group's investments in Eastern China are mainly focused in Shandong province. With the fast-growing industrial activities, the demand for waste water treatment service is relatively high in Shandong. Favorable policies were introduced by the municipal government to attract foreign and private investments in water industry. Taking this advantage, the Group has established 6 treatment plants with total daily processing capacity of 295,000 tonnes in Shandong. The name of 6 water plants are Jiaonan, Heze, Jiaozhou, Shangma, Zhanghua Hua Qiang and Jinan respectively. Together with Taizhou Project in Zhejiang province, the Group has achieved processing capacity of 385,000 tonnes per day, of which 90,000 tonnes was under construction. The actual processing volume from 1 August 2008 to 31 December 2008 was 39.0 million tonnes contributing an operating revenue of HK$47.7 million during the period. Net profit attributable to the Group was HK$10.6 million.

Construction service

ZKC Group has entered into a number of service concession contracts on a Build-Operate-Transfer ("BOT") basis in respect of its sewage treatment business. Under HK(IFRIC)-Int 12 Service Concession Arrangements, ZKC Group should recognize 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 recognized by using the percentage of completion method.

During the period, three water plants namely Longquan, Taizhou Phase II and Mianyang Phase III were under construction. These water plants are located in Sichuan and Zhejiang province. The total design capacity of these water plants is 140,000 tonnes. Total construction revenue generated by these water plants for the period was HK$131.3 million and net profit attributable to the Group was HK$11.8 million. At present, the construction of these water plants is running smoothly and it is expected that the operation of these water plants shall commence in 2009. Apart from this, four water plants namely Pengzhou, Sanshui, Yongzhou and Jinan Phase II with aggregate design capacity of 220,000 tonnes have just conducted the preliminary construction planning work at the end of 2008 and thus no construction revenue was contributed during the period. The construction work of these work plants shall commence in 2009.

Sewage technical service

ZKC Group, being an all-rounded market player in water market, has not only acquired extensive experience in bidding, building and operating waste water projects, but also successfully marketed its patented treatment technology, "LIER-POOLK" to other operators. The patented treatment technology is characterized as cost-saving and has complied with government standards. Revenue from the provision of technical services was HK$51.2 million which represents 15% of the Group's total revenue. The net profit attributable to the Group was HK$40.3 million.

Water supply service

While the Group has gained strong presence in China's waste water treatment sector, it has also started to explore water supply market. In October 2008, the Group has acquired Binzhou Huaqiang project in Shandong with a design water supply capacity of 50,000 tonnes per day. Though the revenue contribution from water supply service was minimal during the period, it generated revenue of HK$6.1 million (2% of the Group's total revenue) and net profit of HK$1.3 million. The Group expects great growth potential from this sector in future. From the track record, the annual water supply increment for Binzhou Huaqiang project is over 10%. When its water supply volume reaches 50,000 tonnes, the Group is entitled to start phase II construction of above project.

FINANCIAL PERFORMANCE ANALYSIS

Income and expenditure

Revenue

During the period, the Group recorded revenue of HK$337.7 million, representing a surge of 17 times as compared with the year ended 30 June 2007. This was mainly attributable to the newly acquired water treatment business in August 2008 which bolsters the substantial growth of the Group's revenue.

Cost of sales

As a result of the business expansion, the cost of sales also increased by 828.6% to HK$182.9 million. The costs of sales mainly included construction cost of HK$113.4 million and operating cost of water plants of HK$56.0 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$19.9 million, staff cost of HK$9.7 million and major overhaul charge of HK$7.3 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.

Gross profit margin

During the period, gross profit margin increased sharply from 1.0% to 45.8% as a result of successful business transformation from computer trading to the provision of water services. Due to keen competition in the computer consumer products market, only low profit margin was generated last year. Whereas, the provision of water service can generate higher profit margin due to relatively low cost input.

Other income and gains, net

The Group recorded other income of HK$11.4 million (2007: HK$1.4 million). The increase was mainly due to interest income growth of HK$8.1 million driven by bank deposits from fund raising activities held during this period.

Administrative expenses

Administrative expenses increased 907.1% from HK$4.2 million in 2007 to HK$42.3 million in the period which was mainly resulted from the increase in scale of operation. As a result of the business expansion, the number of staff employed by the Group increased to 1,025 employees from 18 employees in last year. Accordingly, staff cost included in administrative expenses for this period increased significantly to HK$18.5 million, representing increase of 11 times as compared with last year.

Finance costs

Finance costs mainly comprised interest on bank and other borrowings of HK$23.6 million and convertible bond interest of HK$35.4 million. During the period, zero coupon convertible bonds of HK$1,489.3 million were issued by the Company to finance the funding for new business development and acquisition, which resulted in imputed interest expenses of HK$35.4 million. The imputed interest 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$3.9 million. The effective tax rate for PRC operation was around 8% which was lower than the PRC income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit during the period. Deferred tax for the period HK$8.3 million.

Liquidity and financial resources

During the period, the Group has revamped its business strategy and actively seeked various opportunities to step into water treatment market. With a view to capitalizing sufficient financial resources for new business development, the Company raised total proceed of HK$998.8 million during the period by debt and capital financing. These capital resources provided a substantial support for the Group's expansion and development in the water treatment and environmental businesses.

1. **Debt financing**

   The Company issued convertible bonds with an aggregated principal amount of HK$200 million to Pioneer Wealth Limited, a shareholder of the Company, and convertible bonds with principal value of HK$700 million to Beijing Enterprises Environmental Construction Limited (formerly known as Lucky Crown Management Limited and a wholly-owned subsidiary of BEHL).

2. **Capital financing**

   To further strengthen its financial base, the Company issued 247,000,000 new shares at a subscription price of HK$0.40 and generated total funding of HK$98.8 million.

   Apart from fund raising purpose during the period, 559,787,908 new shares at HK$0.69 per share and convertible bonds with principal value of HK$589.3 million were also issued as consideration for acquisition of ZKC Group.

   As at 31 December 2008, the issued shares of the Company has increased to 2,405,073,357 shares. Since the convertible bonds contain both financial liability and equity components, the proceeds from issuance are classified separately as liability and reserves under equity. Thus, the issuance of convertible bonds also gives rise to the increase in equity. Accordingly, together with the effect of issuance of new shares, total equity of the Group increased significantly to HK$1,998.0 million.

As at 31 December 2008, the Group has achieved a strong liquidity position with cash and cash equivalents surged to HK$834.9 million. The funds were mainly raised through the issuance of new shares and convertible bonds during the period.

The Group's total borrowings amounted to HK$1,868.4 million as at 31 December 2008, comprising convertible bonds of HK$669.3 million and bank and other borrowings of 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 17.7% of the bank and other borrowings are repayable within one year. The gearing ratio (defined as total borrowings, net of cash and cash equivalents, divided by the total equity) was 0.52 as at 31 December 2008.

Capital expenditures

During the period, the Group's total capital expenditures were HK$271.9 million (2007: HK$27,000), of which HK$4.6 million was spent on the acquisition of property, plants and equipments while HK$267.3 million was paid as consideration of the acquisition of Shenzhen Hua Qiang Chuang Xin Investment Company. The significant increase in capital expenditures was in line with the expansion plans of the Group.

PROSPECT

Looking ahead, the Group will progressively reduce its reliance on trading of computers and related products. Yet, the Company does not intend to dispose of the existing computer business. It is expected that with the proposed business diversification, the contribution from the computer business to the Group would become less material.

On the other hand, the Group will focus on water treatment and environmental businesses. Given that most of bidding and acquisition of water plants took place since August 2008, there are rooms for the growth of the Group's operating results. In addition, the Group shall continuously achieve the growth through both greenfield development and acquisition. Recently, the Group has acquired Guigang Water in Guangxi province which has a water supply plant and a sewage treatment plant with daily capacity of 100,000 tonnes respectively. Guigang city is one of the fast-growing cities in Guangxi. With the rapid industrial and urban development in Guigang city, the demand of water supply and sewage treatment will continue to accelerate. The Group has also signed some memorandum of understanding for waste water treatment projects and water supply projects with an aggregated water treatment capacity of approximately 1.2 million tonnes and daily water supply capacity of 1.0 million tonnes. These potential projects are mainly located in Heilonjiang and Yunan. The Group is also evaluating certain waste water treatment and water supply projects in provinces and cities such as Beijing, Fujian, Guizhou, Hebei and Hunan with a total capacity of approximately 5.6 million tonnes per day for waste water treatment and 1.6 million tonnes per day for water supply. We shall continue to identify and actively seek water treatment and environmental projects with sound potential growth so as to generating considerable return for shareholders and investors.

Employees and remuneration policies

As at 31 December 2008, the Group employed 1,025 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.

CORPORATE GOVERNANCE

The Company is committed to maintaining the quality of corporate governance so to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value.

Save as disclosed in the following paragraph, the Company, during the period ended 31 December 2008, has complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules during the period under review.

Code A.4.1 of CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company have not been appointed for a specific term because they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. The Board considers that the requirements of the Bye-Law of the Company are no less exacting than those in the CG Code.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the directors (the "Model Code"). Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions during the year.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors of the Company, namely Mr. Shea Chun Lok Quadrant (the Chairman of the Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The final results have been reviewed and approved by the Audit Committee of the Company.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 27 May 2009, Wednesday to 2 June 2009, Tuesday (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement the Shareholders to vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 2 June 2009, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 26 May 2009.

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

During the eighteen months ended 31 December 2008, neither the Company nor any of its subsidiaries has purchased, sold nor redeemed any of the Company's listed securities.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website (www.bewg.com.hk) and the website of the Stock Exchange (www.hkexnews.hk). The annual report and the notice of annual general meeting will be sent to all shareholders and will be published on the websites of the Company and the Stock Exchange in due course.

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

30 March 2009, Hong Kong

As at the date of this announcement, the board of directors of the Company 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. Wu Xiaoming, Mr. Zhou Min, Mr. Li Haifeng, Ms. Qi Xiaohong and Mr. Ju Yadong and five independent non-executive directors, namely, Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun.