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 2010

HIGHLIGHTS

- The Group delivered another impressive result with total revenue of HK$2,208.5 million, representing an increase of 4.1 times of that in last period of HK$434.6 million.
- Profit attributable to shareholders of the Company for the six months ended 30 June 2010 recorded a strong growth of 2.5 times to HK$144.8 million.
- As at 30 June 2010, total contracted daily design capacity for water projects on hand was 4,579,500 tonnes representing an increase of 31% as compared with capacity of 3,504,500 tonnes as at 31 December 2009.
- EBITDA amounted to HK$306.2 million. The profit attributable to shareholders of the Company before imputed interest on convertible bonds was HK$163.8 million.
- Basic earnings per share for the period was HK4.06 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 2010 and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2010 with the comparative figures for the corresponding period in 2009. The result is stated as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**2,208,482**	434,638
Cost of sales		**(1,842,389)**	(260,722)
Gross profit		**366,093**	173,916
Other income and gains, net		**9,056**	7,264
Selling and distribution costs		**(719)**	(604)
Administrative expenses		**(80,170)**	(55,792)
Other operating expenses, net		**(7,572)**	(8,000)
PROFIT FROM OPERATING ACTIVITIES	*4*	**286,688**	116,784
Finance costs	*5*	**(96,714)**	(64,290)
Share of loss of a jointly-controlled entity		**(97)**	–
Share of profit of an associate		**–**	4,040
PROFIT BEFORE TAX		**189,877**	56,534
Income tax	*6*	**(21,855)**	(4,245)
PROFIT FOR THE PERIOD		**168,022**	52,289
ATTRIBUTABLE TO:			
Shareholders of the Company		**144,827**	41,923
Non-controlling interests		**23,195**	10,366
		168,022	52,289
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*7*		
– Basic		**HK4.06 cents**	HK1.48 cents
– Diluted		**HK3.59 cents**	HK1.45 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**168,022**	52,289
Other comprehensive income/(loss) for the period, net of income tax of nil – Exchange differences on translation of foreign operations	**46,290**	(1,906)
Total comprehensive income for the period	**214,312**	50,383
ATTRIBUTABLE TO:		
Shareholders of the Company	**182,186**	40,288
Non-controlling interests	**32,126**	10,095
	214,312	50,383

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

	Notes	**30 June 2010 (Unaudited)** *HK$'000*	31 December 2009 (Audited) *HK$'000*
ASSETS			
Non-current assets:			
Property, plant and equipment		**249,447**	232,027
Prepaid land premiums		**27,320**	27,060
Goodwill		**1,576,674**	1,575,451
Operating concessions		**393,891**	399,132
Other intangible assets		**3,362**	3,293
Interest in a jointly-controlled entity		**49,760**	–
Available-for-sale investment		**459**	454
Amounts due from contract customers		**2,194,860**	1,085,700
Receivables under service concession arrangements	*8*	**2,060,990**	1,916,822
Trade receivables	*9*	**51,828**	51,710
Prepayments, deposits and other receivables		**196,418**	205,190
Deferred tax assets		**30,735**	31,071
Total non-current assets		**6,835,744**	5,527,910
Current assets:			
Prepaid land premiums		**651**	644
Inventories		**9,261**	7,139
Amounts due from contract customers		**1,708,721**	49,930
Receivables under service concession arrangements	*8*	**166,144**	137,443
Trade receivables	*9*	**103,344**	99,192
Prepayments, deposits and other receivables		**1,237,286**	710,579
Restricted cash and pledged deposits		**644,800**	14,019
Cash and cash equivalents		**2,063,579**	876,861
Total current assets		**5,933,786**	1,895,807
TOTAL ASSETS		**12,769,530**	7,423,717

	Notes	30 June 2010 (Unaudited) *HK$'000*	31 December 2009 (Audited) *HK$'000*
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital		**358,096**	348,219
Reserves		**2,498,635**	2,274,686
		2,856,731	2,622,905
Non-controlling interests		**800,359**	388,911
TOTAL EQUITY		**3,657,090**	3,011,816
Non-current liabilities:			
Other payables and accruals		**35,837**	37,554
Bank and other borrowings		**2,533,079**	1,320,222
Convertible bonds		**549,293**	582,737
Finance lease payable		**2,121**	4,743
Provision for major overhauls		**106,525**	91,792
Deferred income		**23,408**	23,378
Deferred tax liabilities		**111,604**	100,305
Total non-current liabilities		**3,361,867**	2,160,731
Current liabilities:			
Trade payables	*10*	**715,772**	445,227
Other payables and accruals		**807,672**	482,551
Income tax payable		**27,217**	26,770
Bank and other borrowings		**4,194,835**	1,290,946
Finance lease payable		**5,077**	5,676
Total current liabilities		**5,750,573**	2,251,170
TOTAL LIABILITIES		**9,112,440**	4,411,901
TOTAL EQUITY AND LIABILITIES		**12,769,530**	7,423,717

NOTES:

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2010, 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, an intercepting canal and its ancillary facilities, a sludge and sewage treatment plant, a main road and a landscape road, and sewage interception and water environmental renovation projects

- provision of sewage treatment services

- provision of water treatment services and distribution and sale of piped water

- provision of technical services and licensing of technical know-how that are related to sewage treatment

As at 30 June 2010 and the date of this announcement, the immediate holding company of the Company is Beijing Enterprises Environmental Construction Limited which is incorporated in the British Virgin Islands and is a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("BEHL") (stock code: 392), whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The ultimate holding company is 北京控股集團有限公司, which is a state-owned enterprise established in the PRC and is wholly-owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

1.2. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2010 are 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 interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009, 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
Improvements to HKFRSs (May 2009)	*Amendments to a number of HKFRSs*

HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring since 1 January 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. These revised standards were applied by the Group prospectively.

Except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new HKFRSs has had no significant financial effect on these interim financial statements and there have been no significant changes to the accounting policies applied in these 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 the profit for the period of each reportable segment, which is measured consistently with the Group's profit for the period.

For the six months ended 30 June 2010

	Sewage treatment and construction services *HK$'000*	Water supply services *HK$'000*	Technical and consultancy services *HK$'000*	Sale of sewage treatment facilities *HK$'000*	Corporate and others *HK$'000*	Total *HK$'000*
Segment revenue	2,059,331	28,222	120,929	–	–	2,208,482
Cost of sales	(1,816,915)	(16,821)	(8,653)	–	–	(1,842,389)
Gross profit	242,416	11,401	112,276	–	–	366,093
Profit/(loss) from operating activities	208,757	9,802	106,922	–	(38,793)	286,688
Finance costs						(96,714)
Share of loss of a jointly-controlled entity						(97)
Share of profit of an associate						–
Profit before tax						189,877
Income tax						(21,855)
Profit for the period						168,022
Profit/(loss) for the period attributable to shareholders of the Company	169,746	7,715	97,813	–	(130,447)	144,827

For the six months ended 30 June 2009

	Sewage treatment and construction services *HK$'000*	Water supply services *HK$'000*	Technical and consultancy services *HK$'000*	Sale of sewage treatment facilities *HK$'000*	Corporate and others *HK$'000*	Total *HK$'000*
Segment revenue	336,687	24,543	28,867	44,541	–	434,638
Cost of sales	(209,134)	(15,538)	(3,298)	(32,752)	–	(260,722)
Gross profit	127,553	9,005	25,569	11,789	–	173,916
Profit/(loss) from operating activities	100,869	3,865	23,361	11,789	(23,100)	116,784
Finance costs						(64,290)
Share of loss of a jointly-controlled entity						–
Share of profit of an associate						4,040
Profit before tax						56,534
Income tax						(4,245)
Segment profit for the period						52,289
Profit/(loss) for the period attributable to shareholders of the Company	84,459	3,242	18,835	11,789	(76,402)	41,923

Since over 90% of the Group's revenue from external customers is generated in the PRC and over 90% of the assets of the Group are located in the PRC, in the opinion of the directors, the presentation of geographic information is not meaningful to the users of financial statements, and accordingly, no geographic information is presented.

Revenue of approximately HK$1,441,976,000 (six months ended 30 June 2009: Nil) 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 construction contracts relating to an intercepting canal and its ancillary facilities, a sludge and sewage treatment plant, a main road and a landscape road, and sewage interception and water environmental renovation projects, 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 fee and licence fees, net of business tax and government surcharges; (5) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; and (6) 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	
	2010	2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Sewage treatment services*	**245,358**	182,035
Construction contracts*	**1,813,973**	154,652
Consultancy services	**111,339**	21,833
Licence fees	**9,590**	7,034
Sale of water	**28,222**	24,543
Sale of goods	**–**	44,541
	2,208,482	434,638

* *Imputed interest income under service concession arrangements 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	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of sewage treatment services rendered	**86,202**	65,916
Cost of construction contracts	**1,720,872**	134,846
Cost of consultancy services rendered	**8,029**	2,177
Cost of licensing	**624**	1,121
Cost of water sold	**15,885**	13,310
Cost of goods sold	**–**	32,752
Depreciation	**8,585**	4,054
Amortisation of operating concessions*	**10,777**	10,600
Amortisation of other intangible assets*	**229**	891

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years	**81,850**	40,685
Interest on other loans repayable after five years	**879**	–
Imputed interest on convertible bonds	**18,952**	23,148
Interest on a finance lease	**331**	539
Total interest expenses	**102,012**	64,372
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**1,357**	1,010
Total finance costs	**103,369**	65,382
Less: Interest included in cost of construction contracts	**(6,655)**	(1,092)
	96,714	64,290

6. INCOME TAX

No provision of Hong Kong profits tax has been made for the current period as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2009: Nil).

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current:		
Mainland China	**16,141**	8,315
Overprovision in prior periods	**(4,790)**	(6,102)
Deferred	**10,504**	2,032
Total tax charge for the period	**21,855**	4,245

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.

The calculation of diluted earnings per share amounts 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, 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. All convertible bonds of the Company outstanding during the period ended 30 June 2010 had a dilutive effect on the basic earnings per share amount for the period. Except for the ZKC Convertible Bonds 1 and 2 (as defined in the circular of the Company dated 30 June 2008) issued by the Company on 24 July 2008 and 6 April 2009, respectively, all other convertible bonds of the Company outstanding in the prior period had a dilutive effect on the basic earnings per share for the six months ended 30 June 2009.

The calculation of the basic and diluted earnings per share amounts for the six months ended 30 June 2010 is based on the following data:

	For the six months ended 30 June	
	2010	2009
	(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	**144,827**	41,923
Interest on dilutive convertible bonds	**18,952**	5,858
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	**163,779**	47,781

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	**3,566,777,896**	2,840,213,507
Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares	**999,978,568**	455,276,243
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**4,566,756,464**	3,295,489,750

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 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 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Unbilled	**2,060,990**	1,916,822
Within 3 months	**112,035**	90,285
4 to 6 months	**33,084**	34,923
7 to 12 months	**4,801**	11,151
1 to 2 years	**16,224**	1,084
	2,227,134	2,054,265
Portion classified as current assets	**(166,144)**	(137,443)
Non-current portion	**2,060,990**	1,916,822

9. TRADE RECEIVABLES

The Group's trade receivables arise from the construction services for a Build-Transfer ("BT") contract, technical and consultancy services, sale of water and related water supply services and sale of sewage treatment facilities. 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 a customer with instalment period extended up 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. Trade receivables are non-interest-bearing.

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

	30 June 2010 (Unaudited) HK$'000	31 December 2009 (Audited) HK$'000
Within 3 months	**77,941**	62,763
4 to 6 months	**–**	324
7 to 12 months	**25,018**	35,667
1 to 2 years	**385**	438
Balance with extended credit period	**51,828**	51,710
	155,172	150,902
Portion classified as current assets	**(103,344)**	(99,192)
Non-current portion	**51,828**	51,710

Included in the Group's trade receivables as at 30 June 2010 is an aggregate amount of HK$19,696,000 (31 December 2009: HK$85,693,000) due from fellow subsidiaries of the Company, arising from the sale of sewage treatment facilities carried out in the ordinary course of business of the Group. The balances with the fellow subsidiaries are unsecured, interest-free and are repayable within credit period to those offered to the major customers of the Group.

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 2010 (Unaudited) ***HK$'000***	31 December 2009 (Audited) *HK$'000*
Within 3 months	**449,807**	387,843
4 to 6 months	**31,771**	14,559
7 months to 1 year	**227,366**	15,978
1 to 2 years	**2,941**	12,670
2 to 3 years	**2,255**	6,169
Over 3 years	**1,632**	8,008
	715,772	445,227

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.

11. EVENTS AFTER THE REPORTING PERIOD

On 26 July 2010 and 18 August 2010, the entire ZKC Convertible Bonds 1 and certain of the ZKC Convertible Bonds 2 in principal amounts of HK$486,909,044 and HK$178,195,601 were converted into 705,665,281 and 258,254,494 new ordinary shares of the Company, respectively, at conversion prices of HK$0.69, resulting in additional issued share capital and share premium of the Company of HK$96,392,000 and HK$618,512,000, respectively.

12. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2010 amounted to HK$183,213,000 (31 December 2009: net current liabilities of HK$355,363,000) and HK$7,018,957,000 (31 December 2009: HK$5,172,547,000), 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 2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

During the period, the Group delivered another impressive result with total revenue of HK$2,208.5 million, representing an increase of 4.1 times of that in last period of HK$434.6 million. Profit attributable to shareholders of the Company recorded a strong growth of 2.5 times from HK$41.9 million in the last period to HK$144.8 million. Following a series of acquisition and bidding activities in recent years, the Group has successfully broadened its revenue base, and thus contributing encouraging result during the period.

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	245.4	11%	61%	101.7	37%
Water supply services	28.2	1%	40%	7.7	3%
Construction services					
– BT projects	1,561.1	71%	5%	51.4	19%
– BOT projects	252.9	11%	10%	16.6	6%
	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	2,208.5	100%		275.2	100%
Others#				(130.4)	
Total				144.8	

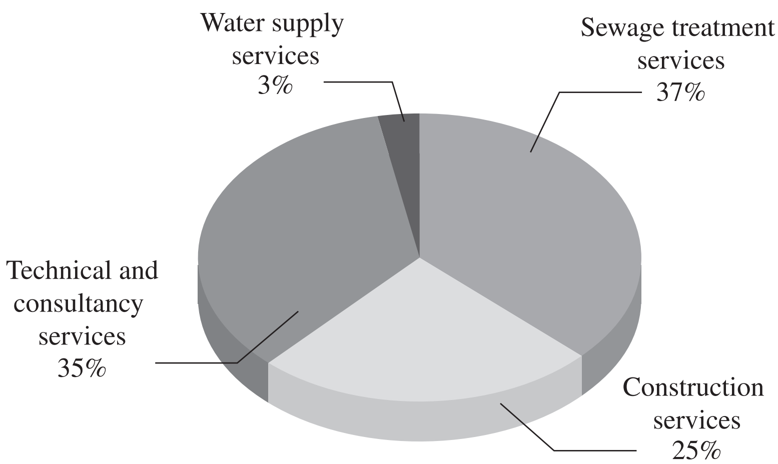
Others included a share of loss of a jointly-controlled entity of HK$0.1 million, head office overheads of HK$33.6 million, convertible bonds interest of HK$19 million and other finance costs of HK$77.7 million.

The analysis of the Group's financial results during the last 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	182.0	42%	58%	72.3	61%
Water supply services	24.5	6%	37%	3.2	3%
Construction services					
– BT projects	–	0%	–	–	0%
– BOT projects	154.7	35%	13%	12.2	10%
	154.7	35%	13%	12.2	10%
Technical and consultancy services					
– BT projects	–	0%	–	–	0%
– others	28.9	7%	89%	18.8	16%
	28.9	7%	89%	18.8	16%
Sale of sewage treatment facilities	44.5	10%	26%	11.8	10%
Business results	434.6	100%		118.3	100%
Others#				(76.4)	
Total				41.9	

\# *Others included a share of profit of an associate (after deduction of non-controlling interests) of HK$3.6 million, head office overheads of HK$15.7 million, convertible bonds interest of HK$23.1 million and other finance costs of HK$41.2 million.*

Net profit attributable to shareholders of the Company (six months ended 30 June 2010)



2. Business review

The principal business of the Group includes operations in sewage treatment services and water supply services, construction services and technical and consultancy services. The coverage of the Group's water plants has extended to 14 provinces all across Mainland China. As at 30 June 2010, the Group's total number of water plant is 65 which includes 56 sewage treatment plants, 5 water supply plants, 3 reclaimed plants and 1 seawater desalination plant. The design capacity was increased by 1,075,000 tonnes per day to 4,579,500 tonnes per day, representing an increase of 31% as compared with the capacity of 3,504,500 tonnes per day as at 31 December 2009. The increment of 1,075,000 tonnes per day includes Build-Operate-Transfer ("BOT") projects of 445,000 tonnes, Transfer-Operate-Transfer ("TOT") projects of 100,000 tonnes and entrustment projects of 530,000 tonnes per day.

Analysis of projects on hand as follows:

('000 tonnes)	**Sewage treatment**	**Water supply**	**Reclaimed water**	**Seawater desalination**	**Total**
In operation	1,804.5	150.0	–	–	1,954.5
Not yet start operation	2,313.0	50.0	212.0	50.0	2,625.0
Total	4,117.5	200.0	212.0	50.0	4,579.5
(Number of water plants)					
In operation	28	3	–	–	31
Not yet start operation	28	2	3	1	34
Total	56	5	3	1	65

2.1 Water operation services

	Number of plants	Design capacity *(Tonnes/Day)*	Actual processing capacity during the period *(Tonnes (M))*	Revenue *HK$'(M)*	Profit attributable to shareholders of the Company *HK$'(M)*
Sewage treatment services:					
– Western	11	587,500	66.8	62.5	28.7
– Southern	7	652,000	87.4	84.5	28.8
– Shandong	7	295,000	39.7	49.8	18.2
– Eastern	2	170,000	22.0	27.9	18.9
– Northern	1	100,000	18.7	20.7	7.1
	28	1,804,500	234.6	245.4	101.7
Water supply services	3	150,000	16.2	28.2	7.7
Total	31	1,954,500	250.8	273.6	109.4

2.1.1 Sewage treatment services

As at 30 June 2010, sewage treatment capacity of 1,804,500 tonnes per day was in operation. The average contracted tariff charge of water treatment was approximately HK$1.07 per tonne. After the effect of accounting standard, the average water price for revenue recognition in the financial statement was approximately HK$1.05 per tonne. The actual aggregate processing volume for the period was 234.6 million tonnes (average daily processing volume of 1,282,000 tonnes and average daily treatment rate of 71%) contributing revenue of HK$245.4 million during the period (11% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK$101.7 million. The information of sewage treatment service in Mainland China is as follows:

Western China

As at 30 June 2010, there were eleven sewage treatment plants with total daily design capacity of 587,500 tonnes, representing an increase of 27,500 tonnes per day or 4.9% as compared with 560,000 tonnes per day as at 31 December 2009. They were mainly located in Guangxi, Sichuan and Guizhou. The actual processing volume for the period was 66.8 million tonnes and operating revenue of HK$62.5 million was recorded during the period. Net profit attributable to shareholders of the Company amounted to HK$28.7 million.

Southern China

Southern China is the region with the largest operating capacity in the Group. As at 30 June 2010, there were seven sewage treatment plants with total daily design capacity of 652,000 tonnes, representing an increase of 122,000 tonnes per day or 23% as compared with 530,000 tonnes per day as at 31 December 2009. Since the BOT projects secured during last year commenced operations during the period, there was a significant increase in operating volume for the period. The plants were mainly located in Guangdong Province and Hunan Province. The actual aggregate processing volume for the period amounted to 87.4 million tonnes and an operating revenue of HK$84.5 million and net profit attributable to shareholders of the Company of HK$28.8 million were recorded during the period.

Shandong

The total daily processing capacity of Shandong region had increased slightly by 40,000 tonnes to 295,000 tonnes as compared with 255,000 tonnes as at 31 December 2009. There were seven plants in Shandong region. The actual processing volume for the period was 39.7 million tonnes contributing operating revenue of HK$49.8 million during the period. Net profit attributable to shareholders of the Company was HK$18.2 million.

Eastern China

As at 30 June 2010, the operating volume of Eastern China is 170,000 tonnes which was the same as the operating volume as at 31 December 2009. There were 2 water plants in Eastern China which were mainly located in Zhejiang Province. The actual processing volume for the period amounted to 22.0 million tonnes and operating revenue was HK$27.9 million during the period. Net profit attributable to shareholders of the Company was HK$18.9 million.

Northern China

Currently, the Group has a project in Jinzhou, Liaoning Province. The daily processing volume is 100,000 tonnes. The project had achieved actual processing volume of 18.7 million tonnes for the period. The operating revenue was HK$20.7 million during the period. Net profit attributable to shareholders of the Company was HK$7.1 million.

2.1.2 Water supply services

As at 30 June 2010, the Group had three water supply plants in operation. Total water supply capacity of these projects was 150,000 tonnes per day. The plants were located in Shandong Province and Guangxi Province. The average contracted tariff charge of water supply is approximately HK$1.74 per tonne. The aggregate actual processing volume is 16.2 million tonnes. These projects recorded revenue of HK$28.2 million (1% of the Group's total revenue) and net profit attributable to shareholders of the Company of HK$7.7 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, 21 water plants were under construction. These water plants were mainly located in Guangdong, Sichuan, Shandong, Liaoning, Heilongjiang and Hunan provinces. As at 30 June 2010, the total daily design capacity of these water plants was 1,138,500 tonnes. During the period, total construction revenue for BOT projects was HK$252.9 million and net profit attributable to shareholders of the Company was HK$16.6 million. Most of these projects shall commence their operation in next year.

Apart from BOT projects, the Group has 7 BT ("Build-Transfer") projects under construction during the period. The projects are located in Tongling, Anhui Province and Kunming, Yunnan Province. Total construction revenue from BT projects HK$1,561.1 million and net profit attributable to shareholders of the Company was HK$51.4 million. Contribution from BT projects has been significantly increased since the Group secured five new BT projects – Kunming Huan Hu Nan Lu, Kunming Dian Chi projects and other water projects (the "Kunming BT projects") during the period. The revenue and profit contributed by the Kunming BT projects amounted to HK$1,475.4 million and HK$50.9 million respectively. The Kunming BT projects are for the construction of roads, bridges, intercepting canal and its ancillary facilities, a sludge and sewage treatment plant, a main road and a landscape road, and sewage interception and water environmental renovation projects.

2.3 Technical and consultancy services

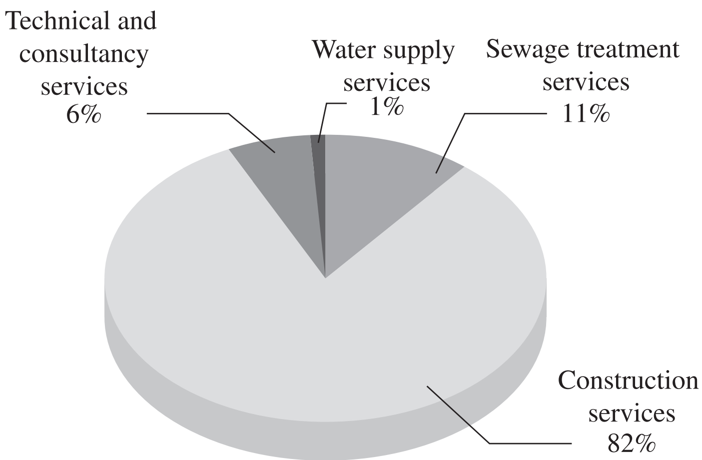
The Group has couples of qualification in engineering consulting and design of water treatment plants. As an integrated water system solution provider in water market, the Group has not only acquired extensive experience in bidding, building and operating sewage water treatment projects, but also successfully marketed its treatment technology and experience in construction services to other operators and constructors. Revenue from the provision of technical services was HK$120.9 million, representing 6% of the Group's total revenue. The net profit attributable to shareholders of the Company was HK$97.8 million. Contribution from technical and consultancy services increased since the Group has provided technical services and construction advisory and management services to the sub-contractors of the Kunming BT projects. The revenue and profit contributed by these projects amounted to HK$100.3 million and HK$81.1 million respectively.

3. Financial analysis

3.1 Revenue

Driven by the strong performance of water treatment business, the Group recorded a more than four times increase in revenue to HK$2,208.5 million (six months ended 30 June 2009: HK$434.6 million). Construction works of various BOT and BT projects have commenced during the period and contributed an increase in construction revenue by HK$1,659.3 million from HK$154.7 million in the last period to HK$1,814 million for the period.

Revenue



3.2 Cost of sales

Cost of sales for the period amounted to HK$1,842.4 million which mainly included construction cost of HK$1,720.8 million and operating cost of water plants of HK$112.9 million. The construction cost mainly consisted of subcontracting charges. For the operating cost of water plants, majority were electricity charges of HK$45.7 million, staff cost of HK$15.7 million and major overhaul charge of HK$12.1 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 declined from 40% to 17%. The decline was mainly due to the change in revenue source combination during the period. The revenue contribution from BT projects increased significantly from nil last period to 75% this period. The gross margin of BT projects is 10% for this period, which is comparatively lower than average of other business sectors of 37% and therefore the gross margin of the Group decreased. In particular, the project return of Kunming BT projects comprises construction service income, technical services and interest income. Since the Kunming BT projects were still under construction during the period, only contribution from construction services and technical services were recognised. Once the construction work of these projects are completed and certified, interest income will start to be recognised. As such, more contribution from these projects is expected in the second half of the year.

3.4 Other income and gains, net

The Group recorded other income of HK$9.1 million during the period (six months ended 30 June 2009: HK$7.3 million). The increase was mainly due to the sludge treatment fee income. The other income mainly included interest income of HK$3.4 million, sludge treatment fee income of HK$2.9 million and other gains on acquisition of subsidiaries, namely China International Construction Investment (Holding) Hong Kong Limited ("CICI") and its subsidiaries, of HK$1.6 million.

3.5 Administrative expenses

Administrative expenses for the period was HK$80.2 million (six months ended 30 June 2009: HK$55.8 million). The increase was mainly contributed by the increase in staff cost by HK$10.9 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$76.1 million (six months ended 30 June 2009: HK$39.6 million) and imputed interest on convertible bonds of HK$19.0 million (six months ended 30 June 2009: HK$23.1 million). The imputed interest on convertible bonds was resulted from accounting treatment and it did not affect the actual cash flow of the Group. Increase in interest on bank and other borrowings was due to the increase in bank borrowings for the finance of business development.

3.7 *Income tax*

Income tax expense for the period included current the PRC income tax of HK$11.4 million. The effective tax rate for the PRC operation was around 6% which was lower than the PRC income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the period was HK$10.5 million.

3.8 *Liquidity and financial resources*

As at 30 June 2010, the Group's cash and cash equivalents amounted to HK$2,063.6 million (31 December 2009: HK$876.9 million). The Group's total borrowings amounted to HK$7,284.4 million as at 30 June 2010 (31 December 2009: HK$3,204.3 million), comprising convertible bonds of HK$549.3 million (31 December 2009: HK$582.7 million), finance lease payable of HK$7.2 million (31 December 2009: HK$10.4 million), and bank and other borrowings of HK$6,727.9 million (31 December 2009: HK$2,611.2 million). The increase in bank and other borrowings was mainly due to the increase in capital expenditure on business development during this period. Included in the balance is the bank borrowings carried in HK head office of HK$3,568.2 million. The remaining balance of HK$3,159.7 million is carried in the subsidiaries in Mainland China for the financing of construction of water plants and thus was mainly repayable in long term. The gearing ratio (defined as sum of bank and other borrowings and finance lease payable, net of cash and cash equivalents, divided by the total equity) was 1.28 as at 30 June 2010 (31 December 2009: 0.58). The increase in gearing ratio was mainly attributable to increase in bank and borrowings. As at 30 June 2010, the Group had banking facilities amounting to HK$3.68 billion, of which HK$68 million were unutilised. The banking facilities are of 1-3 years term.

3.9 *Capital expenditures and investment in BT projects*

During the period, the Group's total capital expenditures and investment in BT projects were HK$1,746.5 million (six months ended 30 June 2009: HK$285.2 million), of which HK$24.8 million was paid for the acquisition of property, plant and equipment and intangible assets, HK$1,720.8 million was spent on construction of water plants and HK$0.9 million was the consideration for acquisition of equity interest in subsidiaries. The significant increase in capital expenditures was in line with the expansion plans of the Group.

4. Future prospect

In 2010, driven by the investment, industrial restructuring, energy-saving and pollution-reduction, and water price adjustment, the water industry in the PRC continues to develop. In May, the State Council issued a Notice on Concerning the Further Strengthening of Efforts to Ensure Achieving the Goal of Eleventh Five Plan regarding Energy-saving and Pollution-reduction, which stressed on the acceleration of the implementation of key projects on energy-saving and pollution-reduction and supporting the development of the recycling economy, sludge and waste disposal treatment in urban areas, water pollution treatment in major river basin areas and energy-saving and environmental protection development. Besides, the National Development and Reform Commission, the People's Bank of China, the China Banking Regulatory Commission and the China Securities Regulatory Commission have jointly issued a Notice for the Opinion of the Investment and Financing Policy in Supporting the Circular Economic Development, pursuant to which a Circular on Key Issues of China's 2010 Economic Structure Reform that Resource Tax Reform will be promulgated. The promulgation of these policies will create more market opportunities for the development of water industry.

In the second half of 2010, apart from the expansion of the principal businesses, the Group will devote more resources in the BT projects, consolidate internal and external resources, seek for opportunities in acquiring small and medium-sized water investment companies and merger and acquisition of large scale water companies, commit to seek for higher-level strategic cooperation opportunity in wider spectrum in order to achieve breakthroughs in sludge treatment, seawater desalination and international business globalisation, to create a new opportunity for the growth of Group's profit.

In the second half of 2010, we will upgrade and optimise the management and control system and further definite the business scope and interface process among the investment, design, construction and operation sections, so as to ensure the collaboration among each section, accommodate and support the strategic change in the business nature of the Group. We will also enhance the corporate governance structure and operating mechanism in order to achieve a win-win situation between the Group and its strategic partners. Furthermore, we will support the extension of industrial chain, establish the expansion strategies and implementation plans in new areas including seawater desalination and sludge treatment. By adopting the best resources allocation between the expansion and capacity management, we will effectively improve the operation efficiency of the Group. Finally, we will further develop our human resources system to facilitate the rapid globalisation of our operations.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group employed 1,830 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the period, the Group entered into a subscription agreement with CICI pursuant to which the Company agreed to subscribe and CICI agreed to issue and allot 116,667 shares, representing approximately 70% of the enlarged issued share capital of CICI at a consideration of US$116,667.

Apart from the above, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the period ended 30 June 2010.

CHARGES ON THE GROUP'S ASSETS

The secured bank loans and the finance lease payable of the Group as at 30 June 2010 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 2010, the Group did not have any significant contingent liabilities (31 December 2009: Nil).

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

During the six months ended 30 June 2010, 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 2010, 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 2010. 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 2010 interim report will be dispatched to shareholders in late September 2010 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 2010

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