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 2012

HIGHLIGHTS

- The Group reported revenue of HK$1,401.5 million, representing an increase of 56% as compared with last period of HK$900.5 million.
- Profit attributable to shareholders of the Company increased by 25% to HK$386.6 million, with water treatment services emerging as key profit driver.
- EBITDA amounted to HK$725.4 million, representing an increase of 32% as compared with last period of HK$551.6 million.
- Basic earnings per share for the period was HK5.60 cents.
- Interim cash distributions of HK2.0 cents per share are declared for the six months ended 30 June 2012. Dividend payout ratio is 36%.
- As at 30 June 2012, total daily design capacity for water projects on hand was 9,708,950 tons, representing an increase of 11% as compared with the capacity of 8,728,950 tons as at 31 December 2011.
- Trade and bills receivables of HK$974.1 million (equivalent to RMB789.0 million) for construction of comprehensive renovation projects in Kunming and Dalian Changxingdao were received during the period. As at 30 June 2012, the accumulated receipts from these projects was HK$3,854.8 million (equivalent to RMB3,160.9 million). As at 30 June 2012, the trade and bills receivables for these projects were HK$2,318.8 million (equivalent to RMB1,901.4 million).

RESULTS

The board of directors (the "Board") of Beijing Enterprises Water Group Limited (the "Company") is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2012 with comparative figures for the corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**1,401,506**	900,458
Cost of sales		**(755,490)**	(435,483)
Gross profit		**646,016**	464,975
Interest income		**179,055**	150,433
Other income and gains, net		**15,659**	53,344
Administrative expenses		**(148,762)**	(149,550)
Other operating expenses, net		**(28,321)**	(16,667)
PROFIT FROM OPERATING ACTIVITIES	*4*	**663,647**	502,535
Finance costs	*5*	**(227,065)**	(124,589)
Share of profits and losses of jointly-controlled entities		**29,695**	22,484
PROFIT BEFORE TAX		**466,277**	400,430
Income tax	*6*	**(69,274)**	(66,282)
PROFIT FOR THE PERIOD		**397,003**	334,148
ATTRIBUTABLE TO:			
Shareholders of the Company		**386,593**	309,670
Non-controlling interests		**10,410**	24,478
		397,003	334,148
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*8*		
– Basic and diluted		**HK5.60 cents**	HK4.73 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**397,003**	334,148
OTHER COMPREHENSIVE INCOME/(LOSS)		
– Exchange differences on translation of foreign operations	**(148,452)**	211,007
– Share of other comprehensive loss of a jointly-controlled entity	**(3,776)**	–
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX OF NIL	**(152,228)**	211,007
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**244,775**	545,155
ATTRIBUTABLE TO:		
Shareholders of the Company	**262,517**	458,019
Non-controlling interests	**(17,742)**	87,136
	244,775	545,155

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	**30 June 2012 (Unaudited) *HK$'000***	31 December 2011 (Audited) *HK$'000*
ASSETS			
Non-current assets:			
Property, plant and equipment		**237,457**	233,276
Goodwill		**1,675,672**	1,643,719
Operating concessions		**734,426**	763,381
Other intangible assets		**6,312**	6,455
Investments in jointly-controlled entities		**2,536,883**	1,973,493
Investment in an associate		**36,587**	37,038
Available-for-sale investments		**2,928**	2,964
Amounts due from contract customers		**2,029,474**	1,599,285
Receivables under service concession arrangements	*9*	**5,131,842**	5,003,117
Trade and bills receivables	*10*	**258,772**	261,850
Prepayments, deposits and other receivables	*11*	**1,338,300**	1,542,014
Deferred tax assets		**29,373**	28,874
Total non-current assets		**14,018,026**	13,095,466
Current assets:			
Land held for sale		**987,435**	999,626
Inventories		**22,193**	13,422
Amounts due from contract customers		**108,074**	87,865
Receivables under service concession arrangements	*9*	**365,950**	253,105
Trade and bills receivables	*10*	**2,889,759**	3,676,549
Prepayments, deposits and other receivables	*11*	**6,311,374**	4,583,574
Restricted cash and pledged deposits		**45,606**	92,367
Cash and cash equivalents		**1,853,655**	1,947,768
Total current assets		**12,584,046**	11,654,276
TOTAL ASSETS		**26,602,072**	24,749,742

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

30 June 2012

	Notes	**30 June 2012 (Unaudited)** ***HK$'000***	31 December 2011 (Audited) *HK$'000*
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital		**690,917**	690,917
Reserves		**7,446,314**	7,391,072
		8,137,231	8,081,989
Non-controlling interests		**1,623,864**	1,628,892
TOTAL EQUITY		**9,761,095**	9,710,881
Non-current liabilities:			
Other payables and accruals	*12*	**240,715**	279,909
Bank and other borrowings		**6,022,815**	5,364,905
Corporate bonds		**2,364,061**	2,325,633
Provision for major overhauls		**190,964**	167,296
Deferred income		**24,856**	25,163
Deferred tax liabilities		**214,939**	205,179
Total non-current liabilities		**9,058,350**	8,368,085
Current liabilities:			
Trade payables	*13*	**1,990,903**	2,049,236
Other payables and accruals	*12*	**3,985,387**	3,406,346
Income tax payables		**150,379**	145,585
Bank and other borrowings		**1,655,958**	1,069,609
Total current liabilities		**7,782,627**	6,670,776
TOTAL LIABILITIES		**16,840,977**	15,038,861
TOTAL EQUITY AND LIABILITIES		**26,602,072**	24,749,742

NOTES:

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2012, the Group was involved in the following principal activities:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the People's Republic of China (the "PRC") and Malaysia

- provision of sewage treatment services in Mainland China

- provision of reclaimed water treatment services, and distribution and sale of piped water in Mainland China

- provision of technical and consultancy services that are related to sewage treatment and construction of comprehensive renovation projects in Mainland China

- licensing of technical know-how that is related to sewage treatment in Mainland China

1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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"). The accounting policies and basis of preparation adopted in the preparation of these unaudited interim financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2011 except for the changes in accounting policies made thereafter in adopting the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which became effective for the first time for the current period's financial statements, as further detailed in note 1.3 below.

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

1.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current interim period:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the period attributable to shareholders of the Company, which is a measure of adjusted profit for the period attributable to shareholders of the Company. The adjusted profit for the period attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on loans to jointly-controlled entities and related companies, interest income from non-controlling equity holders of a non-wholly owned subsidiary, gain on bargain purchase of a jointly-controlled entity, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

During the six months ended 30 June 2012, business operations of the jointly-controlled entities are organised into reportable operating segments according to the nature of their operations and the products and services they provide. Accordingly, share of profits and losses of jointly-controlled entities is allocated to the relevant reportable operating segments. The corresponding comparative amounts of the segment information have been revised to reflect the above change and to conform to the current period's presentation.

For the six months ended 30 June 2012

	Sewage and reclaimed water treatment and construction services (Unaudited) *HK$'000*	Water supply services (Unaudited) *HK$'000*	Technical and consultancy services (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Segment revenue	**1,160,933**	**53,539**	**187,034**	**1,401,506**
Cost of sales	**(698,781)**	**(30,257)**	**(26,452)**	**(755,490)**
Gross profit	**462,152**	**23,282**	**160,582**	**646,016**
Segment results				
– The Group	**495,627**	**11,823**	**153,539**	**660,989**
– Share of profits and losses of jointly-controlled entities	**31,810**	**(2,115)**	**–**	**29,695**
	527,437	**9,708**	**153,539**	**690,684**
Corporate and other unallocated income and expenses, net				**2,658**
Finance costs				**(227,065)**
Profit before tax				**466,277**
Income tax				**(69,274)**
Profit for the period				**397,003**
Profit/(loss) for the period attributable to shareholders of the Company:				
– Operating segments	**477,278**	**8,777**	**128,552**	**614,607**
– Corporate and other unallocated items				**(228,014)**
				386,593

For the six months ended 30 June 2011

	Sewage and reclaimed water treatment and construction services (Unaudited) *HK$'000* (Restated)	Water supply services (Unaudited) *HK$'000*	Technical and consultancy services (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000* (Restated)
Segment revenue	700,030	35,669	164,759	900,458
Cost of sales	(404,793)	(20,804)	(9,886)	(435,483)
Gross profit	295,237	14,865	154,873	464,975
Segment results				
– The Group	353,620	6,851	149,254	509,725
– Share of profits and losses of jointly-controlled entities	22,484	–	–	22,484
	376,104	6,851	149,254	532,209
Corporate and other unallocated income and expenses, net				(7,190)
Finance costs				(124,589)
Profit before tax				400,430
Income tax				(66,282)
Profit for the period				334,148
Profit/(loss) for the period attributable to shareholders of the Company:				
– Operating segments	293,494	9,621	127,440	430,555
– Corporate and other unallocated items				(120,885)
				309,670

Geographical information

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

Information about major customers

During the six months ended 30 June 2012 and 2011, none of the Group's individual customers contributed 10% or more of the Group's revenue.

3. REVENUE

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

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sewage and reclaimed water treatment services*	**624,245**	420,750
Construction services*	**536,688**	279,280
Sale of water	**53,539**	35,669
Consultancy services	**143,848**	138,854
Licence fees	**43,186**	25,905
	1,401,506	900,458

* *Imputed interest income under service concession arrangements amounting to HK$205,195,000 (Six months ended 30 June 2011: HK$120,210,000) are included in the revenue derived from "Sewage and reclaimed water treatment services" and "Construction services" 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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of sewage and reclaimed water treatment services rendered	**215,587**	140,840
Cost of construction services	**471,023**	250,477
Cost of water sold	**21,272**	13,304
Cost of consultancy services rendered	**25,703**	9,276
Cost of licensing	**749**	610
Depreciation	**10,420**	4,956
Amortisation of operating concessions*	**21,156**	20,976
Amortisation of other intangible assets*	**524**	602

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years	**177,274**	125,283
Interest on other loans	**1,744**	1,708
Interest on corporate bonds	**51,943**	–
Interest on a finance lease	**–**	121
Total interest expenses	**230,961**	127,112
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**2,502**	1,833
Total finance costs	**233,463**	128,945
Less: Interest included in cost of construction contracts	**(6,398)**	(4,356)
	227,065	124,589

6. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2012 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2011: Nil).

The income tax provision in respect of operations in Mainland China and Malaysia are 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 and reclaimed water treatment.

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**–**	–
Current – Mainland China		
Charge for the period	**66,028**	64,892
Overprovision in prior periods	**(8,332)**	(2,716)
Current – Malaysia		
Charge for the period	**843**	–
Overprovision in prior periods	**(1,056)**	–
Deferred	**11,791**	4,106
Total tax expense for the period	**69,274**	66,282

7. INTERIM DISTRIBUTIONS

On 30 August 2012, the Board declared interim cash distributions of HK2.0 cents per share (six months ended 30 June 2011: Nil) totalling HK$138,183,000 (six months ended 30 June 2011: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the six months ended 30 June 2012 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 6,909,170,486 ordinary shares in issue during the period. The calculation of basic earnings per share amount presented for the six months ended 30 June 2011 was based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 6,548,727,678 ordinary shares in issue during the period, as adjusted to reflect the issuance of 2,283,378,231 new ordinary shares of the Company at an offer price of HK$1.485 per ordinary share under an open offer of the Company completed on 15 March 2011.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2012 and 2011.

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Billed:		
Within 3 months	**232,951**	159,900
4 to 6 months	**35,722**	23,509
7 to 12 months	**55,609**	22,330
Over 1 year	**41,668**	47,366
	365,950	253,105
Unbilled	**5,131,842**	5,003,117
	5,497,792	5,256,222
Portion classified as current assets	**(365,950)**	(253,105)
Non-current portion	**5,131,842**	5,003,117

10. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which would settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade and bills receivables of the construction services for comprehensive renovation projects which bear interest at rates ranging from 5.85% to 6.65%, trade and bills receivables are non-interest-bearing.

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

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Billed:		
Within 3 months	**303,975**	234,442
4 to 6 months	**18,759**	42,522
7 to 12 months	**146,351**	11,220
Over 1 year	**157,073**	146,671
Balance with extended credit period	**177,824**	181,111
	803,982	615,966
Unbilled*	**2,344,549**	3,322,433
	3,148,531	3,938,399
Portion classified as current assets	**(2,889,759)**	(3,676,549)
Non-current portion	**258,772**	261,850

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

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Prepayments	**27,900**	24,415
Deposits and other debtors	**2,569,286**	2,035,215
Advances to suppliers	**2,742,695**	2,213,520
Due from jointly-controlled entities	**664,850**	470,480
Due from related parties	**1,648,641**	1,387,489
	7,653,372	6,131,119
Impairment	**(3,698)**	(5,531)
	7,649,674	6,125,588
Portion classified as current assets	**(6,311,374)**	(4,583,574)
Non-current portion	**1,338,300**	1,542,014

12. OTHER PAYABLES AND ACCRUALS

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Accruals	**70,737**	118,952
Other liabilities	**3,518,954**	3,257,359
Other taxes payables	**15,501**	33,817
Distributions payable to shareholders	**207,275**	–
Due to jointly-controlled entities	**293,749**	160,721
Due to related parties	**119,886**	115,406
	4,226,102	3,686,255
Portion classified as current liabilities	**(3,985,387)**	(3,406,346)
Non-current portion	**240,715**	279,909

13. 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 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Within 3 months	**366,852**	196,621
4 to 6 months	**30,733**	8,744
7 months to 1 year	**109,551**	31,203
1 to 2 years	**1,365,441**	1,666,311
2 to 3 years	**114,185**	142,164
Over 3 years	**4,141**	4,193
	1,990,903	2,049,236

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

14. EVENTS AFTER THE REPORTING PERIOD

(a) On 18 July 2012, the Company and Beijing Enterprises Holdings Limited ("BEHL"), a substantial shareholder of the Company entered into a framework agreement (the "Framework Agreement"), pursuant to which, among other things, the following revisions were made on certain terms of the exclusivity agreement entered into between the Company and BEHL on 21 December 2010 in relation to the proposed injection of assets and operation currently owned by BEHL and/or its subsidiaries to the Company (the "Proposed Injection"):

(i) the scope of the Proposed Injection was revised and comprised certain sewage treatment and water supply operations (the "Revised Subject Assets"); and

(ii) pursuant to the exclusivity agreement, the consideration in respect of the acquisition of the Revised Subject Assets shall be satisfied by way of the issuance of the ordinary shares of the Company at approximately HK$1.9788 per share (the "Consideration Shares Price") . Upon signing of the framework agreement, the Consideration Shares Price was fixed at HK$1.62 per share.

Further details of the Framework Agreement are set out in the Company's announcement dated 18 July 2012.

(b) On 1 August 2012, the Company entered into a note purchase agreement with, amongst others, an institutional investor in Hong Kong, an independent third party of the Group, pursuant to which, the Company issued a note (the "Note") in the principal amount of RMB1,200,000,000 (equivalent to HK$1,463,415,000) to be due on 7 August 2021 and it shall be an event of default if:

(i) BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;

(ii) BEHL does not or ceases to supervise the Company;

(iii) BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company; and/or

(iv) the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors.

Further details of the Note are set out in the Company's announcement dated 1 August 2012.

15. COMPARATIVE AMOUNTS

As explained in note 2 to this unaudited interim results announcement, due to the reorganisation of the business operation of the jointly-controlled entities into reportable operating segments, the respective comparative amounts in note 2 to this unaudited interim results announcement have been reclassified and restated to conform to the current period's presentation.

16. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2012 amounted to HK$4,801,419,000 (unaudited) (31 December 2011: HK$4,983,500,000) and HK$18,819,445,000 (unaudited) (31 December 2011: HK$18,078,966,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group maintained a steady growth in the first half of year 2012. Profit for the period attributable to shareholders of the Company increased by 25% to HK$386.6 million. Revenue increased by 56% to HK$1,401.5 million as a result of increase in revenue contribution from sewage and reclaimed water treatment services and construction services for the water environmental renovation.

1. Financial highlights

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
Water treatment services					
Sewage treatment and reclaimed water services					
– Subsidiaries	624.2	44%	64%	312.3	50%
– Jointly-controlled entities	–	–	–	23.2	4%
	624.2	44%	64%	335.5	54%
Water supply services					
– Subsidiaries	53.5	4%	43%	10.9	2%
– Jointly-controlled entities	–	–	–	(2.1)	(1%)
	53.5	4%	43%	8.8	1%
Subtotal	677.7	48%		344.3	55%
Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Project with completion rate under 10%	14.3	1%	–	–	–
– Project with completion rate more than 10% [§]	282.3	20%	14%	72.2	12%
– Interest income	–	–	–	55.4	9%
	296.6	21%	14%	127.6	21%
Construction of water plants[△]	240.1	17%	10%	14.1	3%
Subtotal	536.7	38%		141.7	24%
Technical services for the water environmental renovation	187.1	14%	86%	128.6	21%
Business results	1,401.5	100%		614.6	100%
Others[#]				(228.0)	
Total				386.6	

[#] *Others included head office and other corporate expenses, net, of HK$0.9 million and finance costs of HK$227.1 million.*

[§] *Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK$12.6 million.*

[△] *Profit attributable to shareholders of the Company included share of losses of jointly-controlled entities of HK$4.0 million.*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M* (Restated)	*%*
Water treatment services					
Sewage treatment and reclaimed water services					
– Subsidiaries	420.7	47%	63%	179.0	41%
– Jointly-controlled entities	–	–	–	10.7	2%
	420.7	47%	63%	189.7	43%
Water supply services					
– Subsidiaries	35.7	4%	42%	9.6	2%
Subtotal	456.4	51%		199.3	45%
Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Project with completion rate more than 10%[§]	112.9	13%	11%	12.9	3%
– Interest income	–	–	–	80.0	19%
	112.9	13%	11%	92.9	22%
Construction of water plants[△]	166.4	18%	10%	11.0	3%
Subtotal	279.3	31%		103.9	25%
Technical services for the water environmental renovation	164.8	18%	94%	127.4	30%
Business results	900.5	100%		430.6	100%
Others[#]				(120.9)	
Total				309.7	

[#] *Others included head office and other corporate income, net, of HK$3.7 million and finance costs of HK$124.6 million.*

[△] *Profit attributable to shareholders of the Company included share of profits of a jointly-controlled entity of HK$1.4 million.*

[§] *Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK$10.4 million.*

The comparison of the Group's financial results for the six months ended 30 June 2012 and 2011 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June				For the six months ended 30 June			
	2012	2011	Increase/(Decrease)		**2012**	2011	Increase/(Decrease)	
	HK$'M	*HK$'M*	*HK$'M*	*%*	***HK$'M***	*HK$'M* (Restated)	*HK$'M*	*%*
Water treatment services								
Sewage treatment and reclaimed water services								
– Subsidiaries	**624.2**	420.7	203.5	48%	**312.3**	179.0	133.3	74%
– Jointly-controlled entities	**–**	–	–	–	**23.2**	10.7	12.5	117%
	624.2	420.7	203.5	48%	**335.5**	189.7	145.8	77%
Water supply services								
– Subsidiaries	**53.5**	35.7	17.8	50%	**10.9**	9.6	1.3	14%
– Jointly-controlled entities	**–**	–	–	–	**(2.1)**	–	(2.1)	(100%)
	53.5	35.7	17.8	50%	**8.8**	9.6	(0.8)	(8%)
Subtotal	**677.7**	456.4	221.3	48%	**344.3**	199.3	145.0	73%
Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Project with completion rate under 10%	**14.3**	–	14.3	100%	**–**	–	–	–
– Project with completion rate more than 10%	**282.3**	112.9	169.4	150%	**72.2**	12.9	59.3	460%
– Interest income	**–**	–	–	–	**55.4**	80.0	(24.6)	(31%)
	296.6	112.9	183.7	163%	**127.6**	92.9	34.7	37%
Construction of water plants	**240.1**	166.4	73.7	44%	**14.1**	11.0	3.1	28%
Subtotal	**536.7**	279.3	257.4	92%	**141.7**	103.9	37.8	36%
Technical services for the water environmental renovation	**187.1**	164.8	22.3	14%	**128.6**	127.4	1.2	1%
Business results	**1,401.5**	900.5	501	56%	**614.6**	430.6	184.0	43%
Others					**(228.0)**	(120.9)	(107.1)	89%
Total					**386.6**	309.7	76.9	25%

2. Business review

The principal businesses of the Group includes operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 19 provinces all across Mainland China.

2.1 Water treatment services

As at 30 June 2012, the Group participates in 144 water plants either in operation or going to operate in the future including 111 sewage treatment plants, 28 water supply plants, 4 reclaimed water treatment plants and 1 seawater desalination plant. The total daily design capacity was increased by 980,000 tons to 9,708,950 tons, representing an increase of 11% as compared with last year. The increment of 980,000 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 240,000 tons, Transfer-Operate-Transfer ("TOT") projects of 135,000 tons, entrustment operation projects of 25,000 tons and acquired project of 580,000 tons.

Analysis of projects on hand is as follows:

(Tons)	**Sewage treatment**	**Water supply**	**Reclaimed water**	**Seawater desalination**	**Total**
In operation	4,277,250	1,975,000	387,000	–	6,639,250
Not yet start operation	2,005,500	994,200	20,000	50,000	3,069,700
Total	6,282,750	2,969,200	407,000	50,000	9,708,950
(Number of water plants)					
In operation	72	14	4	–	90
Not yet start operation	39	14	–	1	54
Total	111	28	4	1	144

	Number of plants	Design capacity *(Tons/Day)*	Actual processing capacity during the period *(Tons (M))*	Revenue *HK$'(M)*	Profit attributable to shareholders of the Company *HK$'(M)*
Sewage and reclaimed water treatment services:					
– Southern	24	1,790,000	223.8	251.6	134.6
– Western	23	1,391,500	212.3	124.2	79.5
– Shandong	8	417,000	63.3	63.9	21.0
– Eastern	14	580,750	51.5	104.5	57.6
– Northern	7	485,000	51.7	80.0	42.8
	76	4,664,250	602.6	624.2	335.5
Water supply services	14	1,975,000	148.0	53.5	8.8
Total	90	6,639,250	750.6	677.7	344.3

2.1.1 Sewage and reclaimed water treatment services

As at 30 June 2012, the daily design capacity of sewage and reclaimed water treatment reached to 4,277,250 tons (31 December 2011: 3,773,750 tons) and 387,000 tons (31 December 2011: 182,000 tons) respectively. The average daily processing volume is 3,337,573 tons and average daily treatment rate is 72%. The actual average contracted tariff charge of water treatment was approximately HK$1.15 per ton. The actual aggregate processing volume for the period was 602.6 million tons, of which 501.6 million tons was contributed by subsidiaries and 101.0 million tons was contributed by jointly-controlled entities. Revenue was HK$624.2 million for the period (44% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK$335.5 million, of which HK$312.3 million was contributed by subsidiaries and HK$23.2 million was contributed by jointly-controlled entities. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. As at 30 June 2012, there were 24 sewage treatment plants with total daily design capacity of 1,790,000 tons, representing an increase of 334,000 tons per day or 23% as compared with last year. The actual aggregate processing volume for the period amounted to 223.8 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$251.6 million and HK$134.6 million respectively during the period.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2012, there were 23 sewage treatment plants with total daily design capacity of 1,391,500 tons, representing an increase of 110,000 tons per day or 8.6% as compared with last year. The actual processing volume for the period was 212.3 million tons. The operating revenue of HK$124.2 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK$79.5 million.

Shandong

There were 8 plants in Shandong region. The total daily design capacity of Shandong region is 417,000 tons, which is same as last year. The actual processing volume for the period was 63.3 million tons contributing operating revenue of HK$63.9 million during the period. Profit attributable to shareholders of the Company was HK$21.0 million.

Eastern China

There were 14 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 30 June 2012, the total daily design capacity of Eastern China had increased by 234,500 tons to 580,750 tons or 67.7% as compared with last year. The actual processing volume for the period amounted to 51.5 million tons and operating revenue was HK$104.5 million during the period. Profit attributable to shareholders of the Company was HK$57.6 million.

Northern China

Currently, the Group has 7 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily design capacity of Northern China had increased by 30,000 tons to 485,000 tons as compared with last year. The projects had achieved actual processing volume of 51.7 million tons for the period. The operating revenue was HK$80.0 million during the period. Profit attributable to shareholders of the Company was HK$42.8 million.

2.1.2 Water supply services

As at 30 June 2012, the Group had 14 water supply plants in operation. Total daily design capacity of these projects was 1,975,000 tons per day, representing an increase of 850,000 tons per day or 75.6% as compare with last year. The plants were located in Guizhou Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water supply is approximately HK$2.3 per ton. The aggregate actual processing volume is 148.0 million tons, of which 27.6 million tons was contributed by subsidiaries and 120.4 million tons was contributed by jointly controlled entities. Water supply services recorded revenue of HK$53.5 million (4% of the Group's total revenue) and profit attributable to shareholders of the Company of HK$8.8 million, of which HK$10.9 million was contributed by subsidiaries and a loss of HK$2.1 million in aggregate was incurred by jointly-controlled entities.

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had three comprehensive renovation projects under construction during the period. The projects located in Dalian Dengshahe, Dalian Yingkou and Malaysia Pantai. Last period, the Group had three comprehensive renovation projects under construction which located in Guizhou Huaxi, Dalian Changxingdao and Kunming. Revenue from comprehensive renovation projects increased by HK$183.7 million from last period of HK$112.9 million to HK$296.6 million this period. Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK$34.7 million from last period of HK$92.9 million to HK$127.6 million this period. The increase was mainly due to the commencement of construction work for new projects during this period. During the last period, construction work for projects were almost completed and only contributed profit attributable to shareholders of HK$12.9 million. This period, construction work for the new projects were commenced and generated profit attributable to shareholders of HK$72.2 million. The effect was partly offset by the decrease in interest income of HK$24.6 million. According to the contracts, the Group can charge an interest on the trade receivables from the customer with reference to certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to time of the receipt of the trade receivables. Large portion of trade receivables was received since the completion of construction work for Kunming projects and Dalian Changxingdao project in last year. Trade receivables for these projects were substantially decreased as compared with last period. As such, there was a decrease in interest income for this period.

Trade and bills receivables of HK$974.1 million (equivalent to RMB789.0 million) for construction of comprehensive renovation projects in Kunming were received during the period. As at 30 June 2012, the accumulated receipts from Kunming projects was HK$2,772.6 million (equivalent to RMB2,273.5 million). As at 30 June 2012, the trade and bills receivables for these projects were HK$2,098.6 million (equivalent to RMB1,720.8 million).

As at 30 June 2012, the accumulated receipts from Dalian Changxingdao projects was HK$1,082.2 million (equivalent to RMB887.4 million). As at 30 June 2012, the trade and bills receivables for these projects were HK$220.2 million (equivalent to RMB180.6 million).

2.2.2 Construction of water plants

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 Jiangsu, Sichuan, Shandong, Yunnan, Heilongjiang and Hunan provinces. Total revenue contribution for construction of water plants was HK$240.1 million and profit attributable to shareholders of the Company was HK$14.1 million. As at 30 June 2012, the total daily design capacity of these water plants in the construction stage was 2,029,700 tons, most of these projects are expected to commence operation in next year.

2.3 Technical services for the water environmental renovation

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$187.1 million, representing 14% of the Group's total revenue. The profit attributable to shareholders of the Company was HK$128.6 million. Increase in contribution from provision of technical services was mainly due to the increase in contribution from the provision of technical services for the comprehensive renovation projects. There are 20 projects (six months ended 30 June 2011: 15 projects) for this period, four (six months ended 30 June 2011: two projects) of which relates to the comprehensive renovation projects. The revenue and profit attributable to shareholders of the Company for the provision of technical services for the comprehensive renovation projects were HK$85.5 million (six months ended 30 June 2011: HK$76.9 million) and HK$65.7 million (six months ended 30 June 2011: HK$59.4 million), respectively.

3. Financial analysis

3.1 Revenue

During the period, the Group recorded revenue of HK$1,401.5 million (compared to last period of HK$900.5 million). The increase was mainly due to the increase in revenue from sewage and reclaimed water treatment services and construction of comprehensive renovation projects. The related construction revenue increased by HK$183.7 million and the revenue from sewage and reclaimed water treatment services increased by HK$203.5 million for the period.

3.2 Cost of sales

Cost of sales for the period amounted to HK$755.4 million which mainly included construction cost of HK$471.0 million and operating cost of water plants of HK$258.0 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK$114.0 million, staff cost of HK$36.6 million and major overhaul charge of HK$23.5 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 decreased from 52% to 46%. The decrease was mainly due to the change in mix of revenue during the period. The revenue contribution from construction services for comprehensive renovation projects and construction of water plants increased from last period of 31% to 38% this period. The gross margin of construction services for the water environmental renovation is 12% for the period, which is comparatively lower than the average of other business sectors of 67% and therefore the gross margin of the Group decreased.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK$15.7 million during the period, compared to last period of HK$53.3 million. The decrease was mainly due to there was no gain on bargain purchase during this period. Last period, there was a gain on bargain purchase of HK$42.2 million from acquisition of a jointly-controlled entity, namely 湖南永州市景盛置業有限公司 (Hunan Yongzhou Jing Sheng Property Development Company Limited*).

3.5 Administrative expenses

Administrative expenses for the period was HK$148.8 million, compared to last period at HK$149.6 million. The decrease was mainly due to the decrease in research and development fee of HK$5.9 million and consultancy fee of HK$11.1 million. The effect was partly offset by the increase in staff cost of HK$10.4 million and depreciation of HK$4.9 million.

* *For identification purpose only*

3.6 *Finance costs*

Finance costs were mainly represented by interest on bank and other borrowings of HK$172.6 million (six months ended 30 June 2011: HK$122.6 million) and corporate bonds of HK$51.9 million (six months ended 30 June 2011: HK$Nil). Increase in finance cost was mainly due to the issuance of RMB corporate bonds on 30 June 2011 and 11 October 2011. Also, there was an increase in interest rate as compared with last period.

3.7 *Income tax*

Income tax expense for the period included the current PRC income tax of HK$57.7 million and Malaysia income tax credit of HK$0.2 million. The effective tax rate for the PRC operation was about 15% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the period was HK$11.8 million.

3.8 *Receivables*

The Group's total receivables of HK$10,783.9 million (31 December 2011: HK$10,881.8 million) include amounts due from contract customers of HK$2,137.5 million (31 December 2011: HK$1,687.2 million) (non-current: HK$2,029.5 million, current: HK$108.0 million), receivables under service concession arrangements of HK$5,497.8 million (31 December 2011: HK$5,256.2 million) (non-current: HK$5,131.8 million, current: HK$366.0 million) and trade and bills receivables of HK$3,148.6 million (31 December 2011: HK$3,938.4 million) (non-current: HK$258.8 million, current: HK$2,889.8 million). Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 *Service Concession Arrangements* was HK$6,990.5 million (31 December 2011: HK$6,464.7 million). Total receivables for the construction service of comprehensive renovation projects were HK$3,324.7 million (31 December 2011: HK$4,167.9 million). Total receivables for consultancy services and other businesses were HK$468.7 million (31 December 2011: 249.2 million).

3.9 *Liquidity and financial resources*

As at 30 June 2012, the Group's cash and cash equivalents amounted to HK$1,853.7 million (31 December 2011: HK$1,947.8 million). The Group's total borrowings amounted to HK$10,042.8 million (31 December 2011: HK$8,760.1 million).

The Group's total borrowings comprise bank and other borrowings of HK$7,678.8 million (31 December 2011: HK$6,434.5 million) and corporate bonds of HK$2,364.0 million (31 December 2011: 2,325.6). The gearing ratio as defined as sum of bank and other borrowings and corporate bonds, net of cash and cash equivalents, divided by the total equity was 0.84 as at 30 June 2012 (31 December 2011: 0.7). The increase in the gearing ratio as at 30 June 2012 was mainly due to the increase in bank and other borrowings.

As at 30 June 2012, the Group had banking facilities amounting to HK$4.96 billion, of which HK$0.48 billion were unused. The banking facilities are of 1-5 years term.

3.10 Capital expenditures

During the period, the Group's total capital expenditures were HK$356.0 million (six months ended 30 June 2011: HK$1,178.6 million), of which HK$15.0 million was paid for the acquisition of property, plant and equipment and intangible assets, HK$290.4 million was spent on construction and acquisition of water plants and HK$50.6 million was the consideration for acquisition of equity interest in subsidiaries and a jointly-controlled entity. The decrease was mainly due to the decrease in capital expenditure on the acquisition of equity interest in subsidiaries and jointly-controlled entities.

4. Future outlook

From the perspective of macro financial environment, firstly, the combination of the uncertainties in the outlook of global economic recovery and international financial market turmoil as well as spreading out of European debt crisis, major developed countries are in the weak economic growth, together with the accelerated slowing down in growth and inflationary pressure of emerging economies. These have affected the overseas development and cost competitiveness of PRC enterprises. These also have fuelled up the uncertainties of our international business development, therefore, we have to enhance risk control especially. Secondly, the PRC government continues to implement a proactive fiscal policy and loosening monetary policy in which it focuses on supporting the infrastructural construction particularly in water conservancy in the underdeveloped regions, those weak sectors such as science and technology innovation, energy savings and environmental protection. It maintains the support on approved projects under construction and those projects that are in progress. It also maintains the social financing scale at a reasonable growth with deposit reserve rates entering into a declining trend and deposit and loan interest rates starting to decline, and the overall financing environment has tended to be loosened. However, the continued downturn of capital market has resulted increasing difficulties in direct financing. The pressure remains high in capital management enhancement, safeguard of capital provision, prevention and control of capital chain risk.

From the perspective of industry environment, on one hand, driven by the intensive national industry policies, the water environmental protection industry will enter into a new round of strategic development opportunity phase. Due to the increase of water tariff, it is expected that the overall income in the industry tends to be moving upward, and investment opportunities will be fully triggered in the entire water industry chain. On the other hand, we are facing severe challenges of increasing industry competition. Firstly, large-scale water enterprises have accelerated their regional layout business expansion along with in-depth industrialisation, the quantity for quality projects in the market are rapidly declining as a result of more intense competition. Secondly, with the continuous influx of new market participants, the competition for market share is becoming more fiercer as a result of a profit margin squeeze. Thirdly, competition tends to incline to rely more and more on model innovation under the entire industry chain competition concept with merger and acquisition activities intensifying. It is increasingly popular that a combined model of traditional water business and comprehensive water environmental treatment business will replace a single business model in the market. As such, we need to adjust our market competition strategy in time to further increase the integration capability in business, resources and talents. At the same time, the escalation of water quality standard, industry supervision enhancement and rising trend of operational costs have also exerted pressure on our operation and management of projects.

Based on the above, the Group still envisages more opportunities than challenges in the second half year.

In the second half year, the Group will adhere firmly the implementation of its established strategy, entwine round our core business strategy of "maintaining targets and keeping on growth", pay close attention to the macro-control policy trend, carefully look into the characteristics of market changes, bring into full play the shareholder advantages, integrate actively all the resources with reasonable deployment, enhance the advantages and avoid the disadvantages and co-ordinate and stabilise the broad and in-depth development of the Group's business.

The Group will continue to implement firmly the objectives of "based on core business, facilitating the industry chain, ensuring sustainable business volume and its expansion development, co-ordinating the development of the two sectors, namely traditional water business and water environmental renovation, and the two local and international markets" we adjust the investment strategies actively and optimise our competitive strategy, not only shall we continue to the expand our core business but also widen the service scale and service sectors of the Group's water treatment business rapidly and steadily by consolidation of the vested advantages.

Under the Group's strategic business framework, we will continue to develop the comprehensive water environment renovation business actively and prudently, continue to move towards international markets actively and steadily and continue to promote the seawater desalination business proactively and orderly and moderately increase the marketing momentum in new businesses, explore more actively the opportunities for high value-added market segments of industries such as sludge treatment and endeavour to facilitate the optimisation and upgrading of the Group's industry chain structure.

The Group will increase the investments in technological research and development, strengthen technical innovations, promote the strategic co-operation in industry–university–research, and accelerate the fostering of technical core competitiveness, thereby underpinning technical upgrades and industry chain extension. At the same time, the Group will enhance its energy into the operational management and engineering construction management by means of strengthening the synergy of value chain, improving the comprehensive budget management, strengthening the fulfilment of target responsibilities, and marketing the refined management, thereby further improve the profitability of investment projects.

While strengthening the management on financing and capital, the Group will progressively broaden the financing channels, lower capital cost, and strengthen the cash flow management to maximise the value of capital utilisation. The Group will strengthen the study on market values and increase the capability of the Group's value creation. In addition, the Group will strengthen the establishment of the ancillary management control system, enhance comprehensive risk prevention and control, and reinforce and monitor on finance, audit and effective supervision so as to create an internal environment for sustainable development.

In light of the continuous implementation of talent thriving enterprises strategy, the Group will establish a professional team, further perfect the corporate culture of "the Government assured upon the public's satisfaction as well as corporation gains profit, employee receives benefits together with our parties in win-win situation" and earnestly perform the social responsibilities as a corporate citizen, by capitalising on the continuous growth in results and provide excellent service in order to maximise the returns for all the stakeholders of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2012, the Group employed 2,635 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the period ended 30 June 2012.

CHARGES ON THE GROUP'S ASSETS

The secured bank loans of the Group as at 30 June 2012 are secured by:

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising operating concessions and receivables under service concession arrangements) which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors;

(ii) guarantees given by the Company and/or its subsidiaries;

(iii) pledges over certain of the Group's equity interests in subsidiaries; and/or

(iv) pledges over certain of the Group's bank balances.

Save 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 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

DISTRIBUTIONS

The Directors of the Company have resolved to pay distributions of HK2 cents per ordinary share out of the contributed surplus of the Company, payable on or before 26 October 2012 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 5 October 2012 for their continuous supports to the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 3 October 2012 to Friday, 5 October 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the distributions, 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, Hong Kong for registration not later than 4:30 p.m. on Friday, 28 September 2012.

CORPORATE GOVERNANCE

During the six months ended 30 June 2012, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Listing Rules, except as disclosed hereinbelow.

Prior to 1 April 2012, 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 under the Former CG Code. However, all 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 had been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Former CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code") as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors of the Company, the Company confirms that during the six months ended 30 June 2012, all its directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The audit committee of the Company ("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 unaudited interim results for the six months ended 30 June 2012 have been reviewed and approved by the Audit Committee of the Company. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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 2012 interim report will be dispatched to shareholders in late September 2012 and will be published on the websites of the Company and the Stock Exchange in due course.

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, 30 August 2012

As at the date of this announcement, the board of directors of the Company comprises eleven executive directors, namely Mr. Zhang Honghai (Chairman), Mr. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong (Chief Executive Officer), Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Hou Feng, Ms. Qi Xiaohong, Mr. Ke Jian and Mr. Tung Woon Cheung Eric and five independent non-executive directors, namely Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun.