



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

Interim Report

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BEIJING ENTERPRISES WATER GROUP LIMITED

Interim Report

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Honghai (*Chairman*)
Mr. Liu Kai
Mr. E Meng
Mr. Jiang Xinhao
Mr. Hu Xiaoyong (*Chief Executive Officer*)
Mr. Wang Taoguang
Mr. Zhou Min
Mr. Li Haifeng
Ms. Qi Xiaohong
Mr. Ju Yadong
Mr. Zhang Tiefu

Independent Non-executive Directors

Mr. Shea Chun Lok, Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Ms. Hang Shijun
Mr. Wang Kaijun

AUDIT COMMITTEE

Mr. Shea Chun Lok, Quadrant (*Chairman*)
Mr. Guo Rui
Mr. Zhang Gaobo

REMUNERATION COMMITTEE

Mr. Zhang Gaobo (*Chairman*)
Mr. Guo Rui
Ms. Qi Xiaohong

COMPANY SECRETARY

Mr. Tung Woon Cheung, Eric

STOCK CODE

371

WEBSITE

www.bewg.com.hk

REGISTERED OFFICE

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22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2796 9963
Fax: (852) 2796 9972

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Ernst & Young

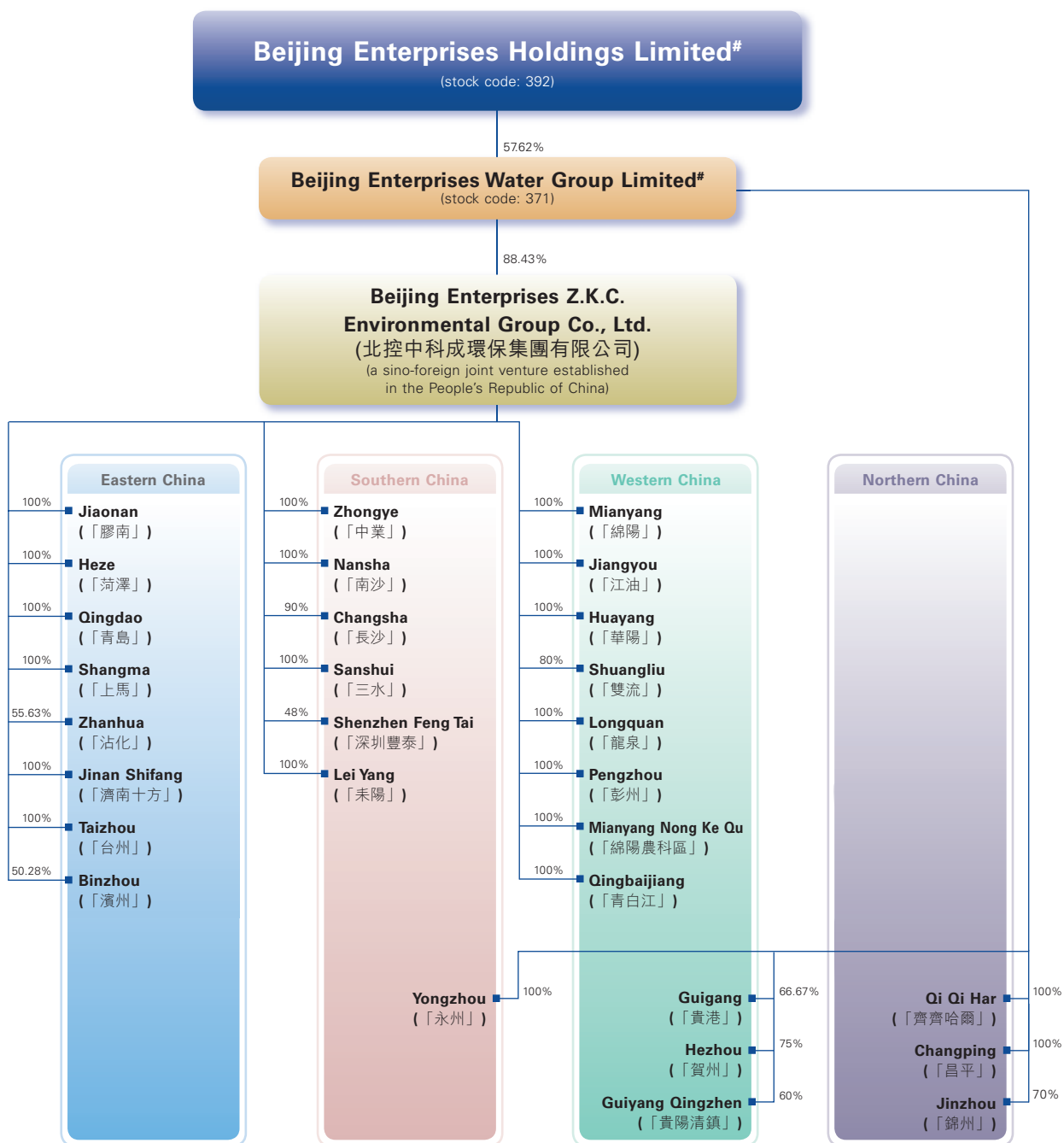
PRINCIPAL BANKERS

In Hong Kong:
China Construction Bank, Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch

In Mainland China:
Bank of Beijing
Bank of China
The Industrial and Commercial Bank of China

GROUP STRUCTURE

AS AT 16TH SEPTEMBER, 2009



Listed on The Main Board of The Stock Exchange of Hong Kong Limited

CHAIRMAN'S STATEMENT

Dear Shareholders,

Year 2009 marked a year of vigorous development for Beijing Enterprises Water Group Limited (the "Company"; together with its subsidiaries, the "Group") since its successful entry into China's water market. As a flagship enterprise engaged in the water treatment industry of Beijing Enterprises Holdings Limited ("BEHL") (stock code: 392), the Company's holding company, the Group has strategically positioned itself as a "leading integrated water system solution provider" based on "market-oriented approach, solid capital foundation, sound management and advanced technology" to expand into China's water business and tap into overseas markets through acquisition of equity interests, Transfer-Operate-Transfer ("TOT"), Build-Operate-Transfer ("BOT") and Build-Transfer ("BT") model.

Fully supported by its controlling shareholder, BEHL and together with the unremitting aggressive efforts of its staff, the Group has carried out a series of innovative capital operations. As a result, the Group has already outperformed its rivals and possessed all the resources needed for the development of its principal business to secure the opportunities and challenges arose from the water investment sector. Our mighty shareholders, solid capital strength, operation platform of a listed company, smooth financing channels, advance technology, rich operation experience and a premier management team formed our strengths. Such strengths enable us to enjoy a competitive edge and lead us to another peak.

Riding on its strengths, the Group achieved remarkable development in its principal business in the first half of the year. As at 30 June 2009, we had signed up (or won the tenders for) 15 projects and brought in an additional total water processing capacity of 872,500 tonnes/day. Among these projects, 10 are BOT projects, 2 are TOT projects and 3 are projects with operating concessions in various locations covering Beijing, Guangdong, Guangxi, Guizhou, Sichuan and Hunan. Besides, we are also aggressively exploring the pre-stage project development in Harbin, Xiangfan, Fuzhou, Changsha, Dongying, Kunming, Dalian and Xinjiang so as to lay a solid foundation for greater achievements in the second half of the year.

Business Review for the First Half of the Year

The Group achieved an operating revenue of HK\$434,600,000 for the period from 1 January 2009 to 30 June 2009 ("the period"). During the period, the Group achieved a profit attributable to shareholders of HK\$41,900,000. Basic earnings per share for the period was HK1.48 cents.

As a leading integrated water system solution provider, the Group carried out a number of investments and acquisitions during the period. Projects signed up (or won the tenders for) are as follows:

In January 2009, the Group acquired 廣西貴港北控水務有限公司 (Guangxi Guigang Beijing Enterprises Water Supply Company Limited ^, "Guigang Water") formerly known as 貴港市供水有限責任公司 (Guigang Water Supply Limited Liability Company), which has a water processing capacity of 200,000 tonnes per day. Guigang Water is principally engaged in the water supply and sewage treatment services and the provision of related water supply services in Guigang City, Guangxi Province in the People's Republic of China (the "PRC"). An agreement with a service concession period of 30 years has been signed up.

CHAIRMAN'S STATEMENT

In January 2009, the Group successfully signed up a BOT project in the Mianyang Nong Ke Qu, with a water processing capacity of 10,000 tonnes per day and a service concession period of 30 years. The project is expected to be completed and officially turned into commercial operation by October 2010.

In March 2009, the Group successfully signed up a BOT project in Leiyang, Hunan, with a short-term water processing capacity of 20,000 tonnes per day and a long-term water processing capacity of 60,000 tonnes per day. It has a service concession period of 25 years. The project is expected to be completed and officially turned into commercial operation by May 2010.

In March 2009, the Group successfully signed up a sewage project with an operating concession in Qingzhen, Guiyang. The project has a water processing capacity of 52,500 tonnes per day and an existing operational capacity of 25,000 tonnes per day. An agreement with service concession period of 30 years has been signed up. The project is expected to reach a daily operational capacity of 52,500 tonnes from June 2010 onward.

In March 2009, the Group successfully signed up an integrated water supply and sewage project in Hezhou, Guangxi, with a water processing capacity of 60,000 tonnes per day. An agreement with service concession period of 30 years has been signed up. The water supply plant is in operation while the sewage plant is expected to be completed and officially turned into commercial operation by April 2010.

In March 2009, the Group successfully signed up a sewage TOT project in Qingbaijiang, Chengdu, with a water processing capacity of 100,000 tonnes per day. It has a service concession period of 25 years.

In April 2009, the Group signed up several sewage BOT projects in Daoxian, Jiangyong and Xintian in Yongzhou City, Hunan respectively. These projects have a short-term water processing capacity of 40,000 tonnes per day and a long-term water processing capacity of 80,000 tonnes per day. It has a service concession period of 30 years. All the projects are expected to be completed and officially turned into commercial operation by April 2010.

In April 2009, the Group successfully signed up a sewage TOT project in Huangyan, Zhejiang, with a water processing capacity of 80,000 tonnes per day. It has a service concession period of 30 years.

In May 2009, the Group won the tender for a sewage treatment plant BOT project in Zhongye phase 2 and Timian. Such projects have a short-term water processing capacity of 105,000 tonnes per day and a long-term water processing capacity of 110,000 tonnes per day. These projects are expected to be completed and officially turned into commercial operation by June 2010. An agreement with service concession period of 25 years was signed in July 2009.

In May 2009, the Group successfully signed up a sewage BOT project in Qiqihar, with a short-term water processing capacity of 100,000 tonnes per day and a long-term water processing capacity of 150,000 tonnes per day. It has a service concession period of 30 years (excluding the construction period). The project is expected to be completed and officially turned into commercial operation by June 2010.

CHAIRMAN'S STATEMENT

In May 2009, the Group successfully signed up a reclaimed water BOT project in Changping, Beijing, with a short-term water processing capacity of 30,000 tonnes per day and a long-term water processing capacity of 90,000 tonnes per day. It has a service concession period of 29 years. The project is expected to be completed and officially turned into commercial operation by June 2010.

In June 2009, the Group commenced construction of phase 2 of a sewage BOT project in Shuangliu, Chengdu, with a water processing capacity of 25,000 tonnes per day. It has a service concession period of 20 years. The project is expected to be completed and officially turned into commercial operation by May 2010.

In June 2009, the Group commenced the construction of phase 1 stage 2 of a sewage BOT project in Nansha, Guangzhou, with a water processing capacity of 50,000 tonnes per day. It has a service concession period of 22 years. The project is expected to be completed and officially turned into commercial operation by June 2010.

Management Improvement

In the first half of 2009, the Group carried out a management reform program and established a full management and control system. The Group also integrated its existing resources by improving the group-based management standards to enhance its strengths during the rapid expansion of its principal business.

Since first half of the year, the Group manages its existing business on a regional basis by dividing four business regions namely southern China, western China, eastern China and northern China. Two departments namely construction management centre and operation management centre were established under head office of the Group. Backed by the new management structure, the Group's overall operation, management and control systems were enhanced.

By amending, improving and strictly enforcement of the Group's internal management and control policies such as the "Policy for the Management of Project Investment", the Group's internal control and management standards were further enhanced. Besides, its investment, construction and operational management were also regulated. At the same time, production safety and risk management at each of the operating water plants were strengthened by means of various methods such as training, casual inspection and division of responsibility.

With respect to financial management, the Group carried out an integrated approach. It set up and improved various policies such as the "Measures for the Appraisal of the Group's Financial Staff" and "Policy for the Delegation of the Group's Financial Staff". As such, the Group can strictly enforce the policy of delegating financial staff at the secondary level; strengthening its financial control; improving efficiency of its capital utilisation; and minimising its financial risks effectively.

With respect to human resources management, using balanced scorecard principle, the Group has established indicators in four areas, namely finance, customers, internal process and organisational development. Starting with our strategic positioning as a "leading integrated water system solution provider", a system indicator was established within the internal process and organisational development. Besides, follow-up management was carried out.

CHAIRMAN'S STATEMENT

Capital Operation

In the first half of year 2009, by centering on its strategic positioning and giving prominence to sewage treatment, the Group expanded both the domestic and overseas water markets in all aspects and devoted efforts to carry out mergers and acquisitions among counterparts and capital operation.

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

Since the first half of year 2009, the Group has been carrying out EPC, BT and technical services businesses aggressively. It has secured regional projects in Xinjiang and Anhui Province so as to expand its water industrial chain to a new profit centre.

On 20 June 2009, Beijing Enterprises Water Group (China) Investment Limited[^] (北控水務(中國)投資有限公司), an investment company formed by the Group, received a reply and obtained an approval certificate from the Beijing Municipal Bureau of Commerce. The investment company has a registered capital of US\$100 million. We have formally obtained a business licence and will use this investment platform to carry out project investment in China since then.

With respect to financing, we will continue to expand financing channels and strive to minimise finance costs. In the first half of year 2009, the borrowing rates of the Group's new projects were 10% below the RMB benchmark loan rates, and those existing project borrowings without such rates were replaced. At the same time, we endeavoured to establish full cooperation with a number of domestic and overseas financial institutions in areas such as granting of credit, issuing of bills, project financing, letter of guarantee and security. Besides, we are also approaching domestic and overseas trust institutions, insurance institutions and retirement funds so as to continue expanding our combined financing channels and further minimising finance costs to improve our financial capability on an ongoing basis.

Prospects

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

CHAIRMAN'S STATEMENT

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

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

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

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

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

CHAIRMAN'S STATEMENT

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

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

At last, we would like to express our sincere gratitude to our shareholders, customers, employees and partners for their support.

Zhang Honghai

Chairman

Hong Kong, 16 September 2009

[^] *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

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

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

BUSINESS REVIEW

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

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

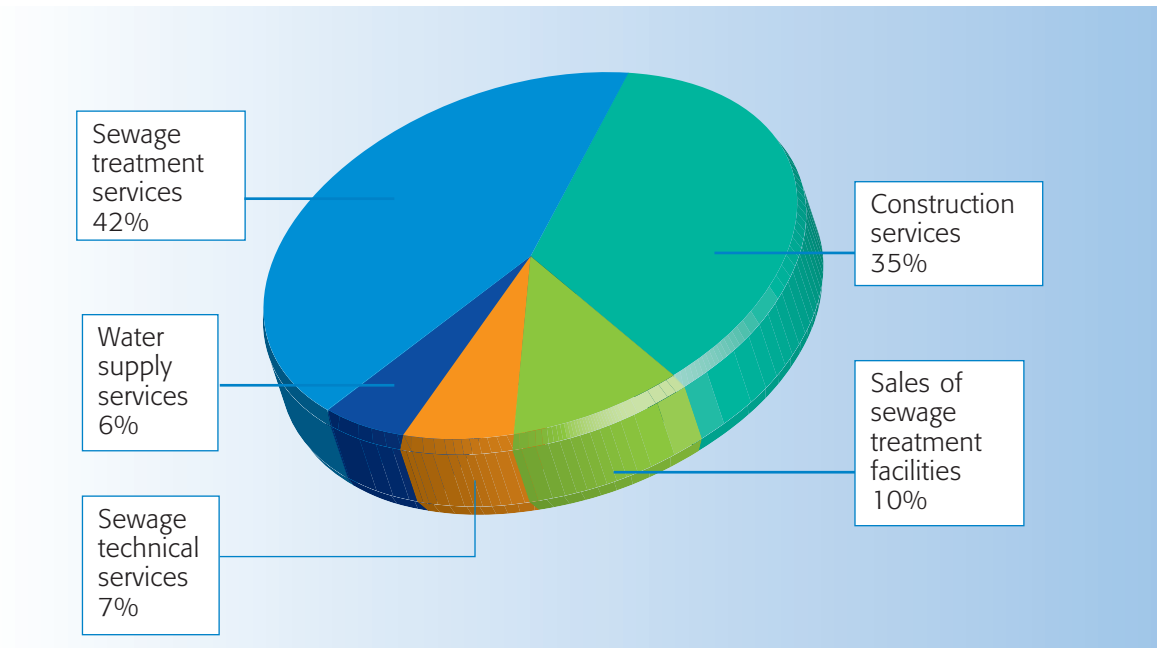
* After the elimination of intragroup transaction between BE-ZKC and the Group

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

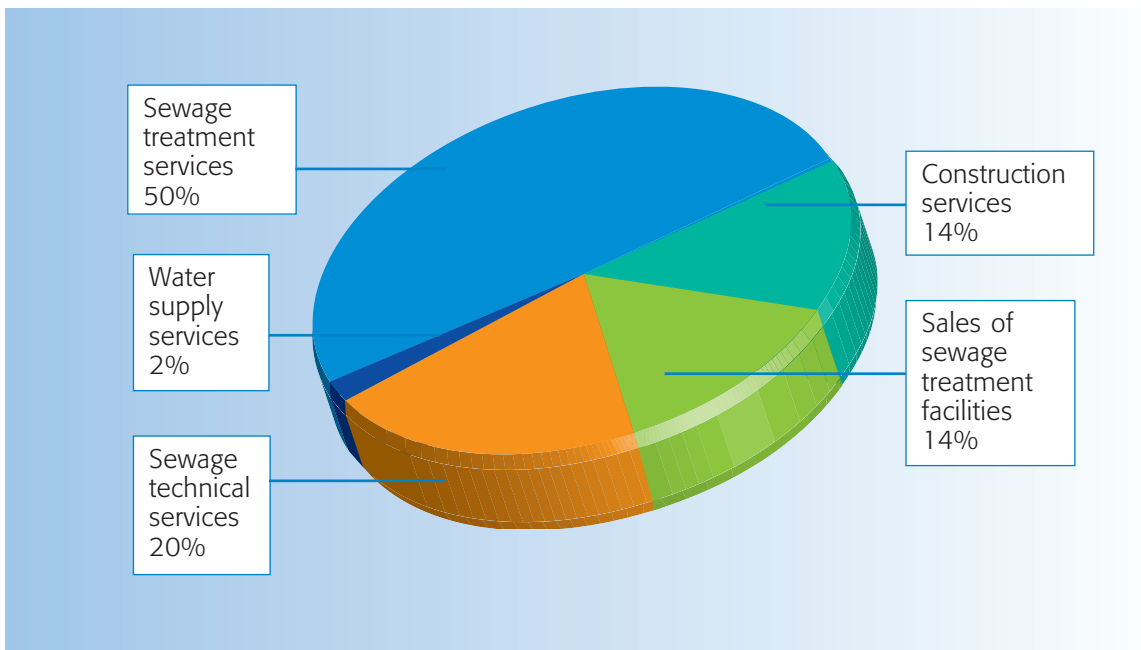
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Revenue



Net profit attributable to the Group*



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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING SEGMENTS ANALYSIS

Sewage treatment services

General situation

Being one of the leading integrated water system solution providers in China's sewage treatment market, our projects have already extended to 25 cities and 9 provinces across China. As at 31 December 2008, the Group has 20 sewage treatment projects. Leveraging on our dedicated efforts, the number of sewage treatment project on hand was increased to 32 as at 30 June 2009. The design capacity was increased by 772,500 tonnes per day to 2,252,500 tonnes per day, representing an increase of 52% as compared with the capacity of 1,480,000 tonnes per day as at 31 December 2008. The increment of 772,500 tonnes per day includes Build-Operate-Transfer ("BOT") projects of 407,500 tonnes, Transfer-Operate-Transfer ("TOT") projects of 265,000 tonnes and a concession project of 100,000 tonnes per day. As at 30 June 2009, sewage treatment capacity of 1,140,000 tonnes per day are in operation and the remaining 1,112,500 tonnes per day are either under construction or in legal transfer process. The average price of water treatment is approximately HK\$1.05 per tonne. The actual aggregate processing volume for the period was 157.5 million tonnes (average daily processing volume of 861,000 tonnes and average daily treatment rate of 76%) contributing revenue of HK\$182 million during the period, which represents 42% of the Group's total revenue. Net profit attributable to the Group was HK\$43.5 million. The information of sewage treatment service in China is as follows:

Western China

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

Southern China

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING SEGMENTS ANALYSIS *(Continued)*

Sewage treatment services *(Continued)*

Eastern China

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

Construction services

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING SEGMENTS ANALYSIS *(Continued)*

Sales of sewage treatment facilities

During the period, the Group entered into a services and facilities agreement with Beijing Enterprises Holdings Environment Technology Co. Ltd[^] (北京北控環保工程技術有限公司, “BE-Environment”) for the sales of sewage treatment related machineries and facilities to BE-Environment. BE-Environment is an indirect wholly-owned subsidiary of BEHL. The total contract sum of the agreement is RMB83.6 million. Such machineries and facilities are purchased by BE-Environment for its sewage treatment project in Hai Kou City, the PRC. During the period, sewage treatment facilities of HK\$44.5 million were sold to BE-Environment. The net profit attributable to the Group was HK\$11.8 million.

Sewage technical services

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

Water supply services

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

FINANCIAL ANALYSIS

Revenue

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS *(Continued)*

Cost of sales

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

Gross profit margin

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

Other income and gains, net

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

Administrative expenses

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

Finance costs

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS *(Continued)*

Tax

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

Liquidity and financial resources

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

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

Capital expenditures

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

EMPLOYEES AND REMUNERATION POLICIES

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

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the period, the Group acquired 66.67% equity interests in Guigang Water for HK\$59.6 million. Apart from this, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the period ended 30 June 2009.

CHARGES ON THE GROUP'S ASSETS

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

FOREIGN EXCHANGE EXPOSURE

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

[^] For identification purpose only

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

	Notes	For the six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
REVENUE	5	434,638	–
Cost of sales		(260,722)	–
Gross profit		173,916	–
Other income and gains, net	5	7,264	6,712
Selling and distribution costs		(604)	–
Administrative expenses		(55,792)	(3,116)
Other operating expenses, net		(8,000)	–
PROFIT FROM OPERATING ACTIVITIES	6	116,784	3,596
Finance costs	7	(64,290)	(8,348)
Share of profit of an associate		4,040	–
PROFIT/(LOSS) BEFORE TAX		56,534	(4,752)
Tax	8	(4,245)	(2)
PROFIT/(LOSS) FOR THE PERIOD		52,289	(4,754)
Attributable to:			
Shareholders of the Company		41,923	(4,754)
Minority interests		10,366	–
		52,289	(4,754)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	9		
Basic		HK1.48 cents	(HK1.96 cents)
Diluted		HK1.45 cents	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2009

	Notes	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment		201,946	13,414
Prepaid land premiums		16,050	–
Goodwill		1,469,663	1,466,915
Operating concessions		630,667	429,589
Other intangible assets		1,973	1,656
Interest in an associate		29,325	25,313
Available-for-sale investment		454	454
Trade receivables	10	1,286,951	1,238,309
Prepayments, deposits and other receivables		16,878	119,324
Deferred tax assets		28,160	27,112
Total non-current assets		3,682,067	3,322,086
Current assets:			
Inventories		8,326	4,133
Amounts due from contract customers		220,042	200,462
Trade receivables	10	171,685	144,376
Prepayments, deposits and other receivables		226,371	302,099
Restricted cash and pledged deposits		9,085	8,066
Cash and cash equivalents		614,288	834,936
Total current assets		1,249,797	1,494,072
TOTAL ASSETS		4,931,864	4,816,158

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2009

		30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
	<i>Notes</i>		
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company:			
Issued capital	11	331,637	240,507
Reserves		2,069,581	1,517,794
		2,401,218	1,758,301
Minority interests		284,360	239,656
TOTAL EQUITY		2,685,578	1,997,957
Non-current liabilities:			
Other payables and accruals		57,927	69,328
Bank and other borrowings		965,248	986,868
Convertible bonds	12	632,244	669,275
Finance lease payable		7,712	10,559
Provision for major overhauls		79,637	69,006
Deferred income		38,215	1,178
Deferred tax liabilities		62,721	59,707
Total non-current liabilities		1,843,704	1,865,921
Current liabilities:			
Trade payables	13	105,206	85,195
Other payables and accruals		92,726	632,205
Income tax payable		20,522	17,328
Bank and other borrowings		178,679	212,241
Finance lease payable		5,449	5,311
Total current liabilities		402,582	952,280
TOTAL LIABILITIES		2,246,286	2,818,201
TOTAL EQUITY AND LIABILITIES		4,931,864	4,816,158

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to shareholders of the Company									
	Share	Convertible	Exchange	PRC						
	Issued	premium	Contributed	Convertible	fluctuation	reserve	Retained		Minority	Total
	capital	account	surplus	bond equity	reserve	funds	profits	Total	interests	equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	240,507	1,225,480	(400)	243,744	(4,548)	17,902	35,616	1,758,301	239,656	1,997,957
Total comprehensive income/(loss) for the period	-	-	-	-	(1,635)	-	41,923	40,288	10,095	50,383
Issue of new shares	22,668	281,086	-	-	-	-	-	303,754	-	303,754
Issue of convertible bonds	-	-	-	52,440	-	-	-	52,440	-	52,440
Conversion of convertible bonds	68,462	238,912	-	(60,939)	-	-	-	246,435	-	246,435
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	28,369	28,369
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	6,240	6,240
Transfer to PRC reserve funds	-	-	-	-	-	8,989	(8,989)	-	-	-
At 30 June 2009	331,637	1,745,478*	(400)*	235,245*	(6,183)*	26,891*	68,550*	2,401,218	284,360	2,685,578

* These reserve accounts comprise the consolidated reserves of HK\$2,069,581,000 (31 December 2008: HK\$1,517,794,000) in the condensed consolidated statement of financial position as at 30 June 2009.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2009

	Attributable to shareholders of the Company						
	Issued capital	Share premium account	Contributed surplus	Convertible bond equity reserve	Exchange fluctuation reserve	Retained profits	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	8,328	–	(400)	17,276	1,432	18,215	44,851
Total comprehensive income/(loss) for the period	–	(2,469)	–	–	455	(4,754)	(6,768)
Issue of new shares	24,700	74,100	–	–	–	–	98,800
Issue of convertible bonds	–	–	–	61,065	–	–	61,065
Conversion of convertible bonds	1,500	4,805	–	(1,037)	–	–	5,268
Disposal of subsidiaries	–	–	–	–	(1,887)	–	(1,887)
At 30 June 2008	34,528	76,436	(400)	77,304	–	13,461	201,329

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	39,595	(13,907)
Net cash inflow/(outflow) from investing activities	(96,656)	33,148
Net cash inflow/(outflow) from financing activities	(162,683)	396,331
Increase/(decrease) in cash and cash equivalents	(219,744)	415,572
Cash and cash equivalents at beginning of period	834,936	92,210
Effect of foreign exchange rate changes, net	(904)	536
Cash and cash equivalents at end of period	614,288	508,318
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	480,419	57,913
Time deposits	142,954	450,405
Less: Pledged deposits	623,373 (9,085)	508,318 –
	614,288	508,318

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

- construction of sewage and water treatment plants, sewage treatment, water treatment and distribution, sales of sewage treatment facilities, the provision of technical services and licensing of technical know-how that are related to sewage treatment in Mainland China, the People's Republic of China (the "PRC").
- trading of computer and related products in Hong Kong and the PRC.

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

2. BASIS OF PREPARATION

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION

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 business 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 business segments. Particulars of the business segments are summarised as follows:

- (a) the sewage treatment segment engages in the operation of sewage treatment;
- (b) the construction services segment engages in the construction of sewage and water treatment plants;
- (c) the water supply segment engages in the operation of water supply and the provision of related services;
- (d) the sales of sewage treatment facilities segment engages in the sales of sewage treatment facilities and machineries and the provision of related services;
- (e) the sewage technical services segment engages in the provision of consultancy services and the licensing of technical know-how that are related to sewage treatment; and
- (f) the corporate and others segment comprises the corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Management monitors the operating results of its business units and regions separately for the purpose of making decisions about resource allocation and performance assessment.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION *(Continued)*

Segment Information

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION *(Continued)*

Segment Information *(Continued)*

	Eastern China (Unaudited) <i>HK\$'000</i>	Southern China (Unaudited) <i>HK\$'000</i>	Western China (Unaudited) <i>HK\$'000</i>	Unallocated (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Profit attributable to shareholders of the Company					
Sewage treatment	14,931	15,418	13,117	–	43,466
Construction services	2,374	7,633	2,384	–	12,391
Water supply	(165)	–	1,316	–	1,151
Sales of sewage treatment facilities	–	11,799	–	–	11,799
Sewage technical services	–	–	–	17,579	17,579
Corporate and others	–	–	–	(44,463)	(44,463)
Total	17,140	34,850	16,817	(26,884)	41,923
Segment assets					
Sewage treatment	670,434	806,094	672,135	–	2,148,663
Construction services	26,422	122,036	111,334	–	259,792
Water supply	101,086	–	72,466	–	173,552
Sales of sewage treatment facilities	–	35,454	–	–	35,454
Sewage technical services	–	–	–	69,939	69,939
Corporate and others	–	–	–	2,244,464	2,244,464
Total	797,942	963,584	855,935	2,314,403	4,931,864

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE, OTHER INCOME AND GAINS, NET

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

An analysis of the Group's revenue, other income and gains, net, is as follows:

	For the six months ended 30 June	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
Sewage treatment services	182,035	–
Construction services	154,652	–
Sales of sewage treatment facilities	44,541	–
Sewage technical services	28,867	–
Water supply services	24,543	–
	434,638	–

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE, OTHER INCOME AND GAINS, NET *(Continued)*

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Other income		
Bank interest income	3,529	2,383
Pipeline installation income	542	–
Dividend income from financial assets at fair value through profit or loss	–	137
Write back of other payables	490	–
Others	1,079	–
	5,640	2,520
Gains, net		
Gain on disposal of financial assets at fair value through profit or loss, net	–	1,642
Gain on disposal of subsidiaries	–	760
Foreign exchange differences, net	1,624	1,790
	1,624	4,192
Other income and gains, net	7,264	6,712

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6. PROFIT FROM OPERATING ACTIVITIES

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

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

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

7. FINANCE COSTS

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. TAX

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

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

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

10. TRADE RECEIVABLES

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. SHARE CAPITAL

<i>Note</i>	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
Issued and fully paid:		
3,316,386,463 (2008: 2,405,073,357) ordinary shares of HK\$0.10 each	331,637	240,507
<i>(a)</i>		

Note:

- (a) A summary of the movements in the Company's issued share capital during the period ended 30 June 2009:

<i>Notes</i>	Number of ordinary shares in issue (Unaudited)	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2009	2,405,073,357	240,507	1,225,480	1,465,987
Issue of new shares	<i>(i)</i> 226,683,106	22,668	281,086	303,754
Shares issued upon conversion of convertible bonds	<i>(ii)</i> 684,630,000	68,462	238,912	307,374
As at 30 June 2009	3,316,386,463	331,637	1,745,478	2,077,115

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. SHARE CAPITAL *(Continued)*

Note: *(Continued)*

(a) *(Continued)*

- (i) Pursuant to an acquisition agreement (the "BE-ZKC Acquisition Agreement") entered into between, among others, the Company, Besto Holdings Limited, Tenson Investment Limited and Newton Finance Holdings Limited (collectively the "BE-ZKC Vendors") on 3 June 2008, 226,683,106 new ordinary shares of the Company were issued as part of the remaining consideration for the acquisition of a 100% equity interest in Gainstar Limited, which holds indirectly a 88.43% equity interest in Beijing Enterprises ZKC Environmental Group Co., Ltd (北控中 科成環保集團有限公司, "BE-ZKC"), formerly known as ZKC Environmental Group Co., Ltd (中 科成環保集團有 限公司). Such acquisition was completed on 1 August 2008 and part of the consideration was settled during the year ended 31 December 2008. The fair value of these ordinary shares, determined by reference to the closing quoted market price of the Company's ordinary shares on the Stock Exchange at the date of acquisition of 1 August 2008, amounted to HK\$303,754,000. Further details of the transaction are set out in the Company's circular dated 30 June 2008 (the "BE-ZKC Acquisition Circular").
- (ii) During the period ended 30 June 2009, convertible bonds of the Company with an aggregate principal amount of HK\$288,245,000 were converted by certain bondholders into 684,630,000 new ordinary shares of the Company in total. The difference of HK\$238,912,000 between nominal value of the ordinary shares issued and the then aggregate carrying amounts of the liability and equity components of the relevant convertible bonds at the dates of conversions was transferred to the Company's share premium account.

12. CONVERTIBLE BONDS

Summary information of the Company's convertible bonds during the period ended 30 June 2009, is set out as follows:

	Tranche 1 Bond*	Tranche 2 Bond*	Firm Bonds*	ZKC Convertible Bonds 1	ZKC Convertible Bonds 2
	<i>(note (a))</i>	<i>(note (a))</i>	<i>(note (b))</i>	<i>(note (c))</i>	<i>(note (c))</i>
Issuance date	27/7/2007	31/3/2008	4/3/2008	24/7/2008	6/4/2009
Maturity date	26/7/2010	30/3/2011	3/3/2011	23/7/2013	23/7/2013
Original principal amount (HK\$'000)	100,000	100,000	200,000	589,304	238,696
Coupon rate	Zero	Zero	Zero	Zero	Zero
Conversion price per ordinary share (HK\$)	0.40	0.40	0.40	0.69	0.69

* As defined in the respective circulars of the Company in connection with the issuance of the convertible bonds (see notes below).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. CONVERTIBLE BONDS *(Continued)*

Each batch of these convertible bonds is bifurcated into a liability component and an equity component for accounting purposes. The following tables summarise the movements in the principal amounts, liability and equity components of the Company's convertible bonds during the period:

	Tranche 1 Bond HK\$'000 (note (a)) (Unaudited)	Tranche 2 Bond HK\$'000 (note (a)) (Unaudited)	Firm Bonds HK\$'000 (note (b)) (Unaudited)	ZKC Convertible Bonds 1 HK\$'000 (note (c)) (Unaudited)	ZKC Convertible Bonds 2 HK\$'000 (note (c)) (Unaudited)	Total HK\$'000 (Unaudited)
Principal amount outstanding						
At 1 January 2009	34,000	80,000	180,000	589,304	–	883,304
Issue of convertible bonds	–	–	–	–	238,696	238,696
Conversion to ordinary shares	(34,000)	(40,000)	(180,000)	(34,245)	–	(288,245)
At 30 June 2009	–	40,000	–	555,059	238,696	833,755
Liability component						
At 1 January 2009	30,779	66,907	153,364	418,225	–	669,275
Issue of convertible bonds	–	–	–	–	186,256	186,256
Imputed interest expense (note 7)	710	2,064	3,084	14,741	2,549	23,148
Transfer to share capital and share premium accounts upon conversion to ordinary shares (note 11(a)(ii))	(31,489)	(34,172)	(156,448)	(24,326)	–	(246,435)
At 30 June 2009	–	34,799	–	408,640	188,805	632,244
Equity component (included in convertible bond equity reserve)						
At 1 January 2009	5,874	17,034	35,795	185,041	–	243,744
Issue of convertible bonds	–	–	–	–	52,440	52,440
Transfer to share capital and share premium accounts upon conversion to ordinary shares (note 11(a)(ii))	(5,874)	(8,518)	(35,795)	(10,752)	–	(60,939)
At 30 June 2009	–	8,516	–	174,289	52,440	235,245

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. CONVERTIBLE BONDS *(Continued)*

Notes:

- (a) Tranche 1 Bond and Tranche 2 Bond were issued to Pioneer Wealth Limited, a shareholder of the Company, pursuant to a convertible bond subscription agreement dated 12 April 2007 for the purpose of financing future investments in water treatment businesses in the PRC (as amended) and providing additional working capital (as amended) to the Group. Further details of these convertible bonds are set out in the Company's circular dated 3 May 2007 and announcements dated 27 July 2007, 31 March 2008 and 12 June 2008. During the period ended 30 June 2009, Tranche 1 Bond was fully converted.
- (b) The Firm Bonds were issued to BE Environmental, the immediate holding company, pursuant to a subscription agreement dated 21 January 2008 entered into between BEHL, BE Environmental and the Company for the purpose of financing investment and development of water treatment and environmental business and providing additional working capital to the Group. Further details of Firm Bonds are set out in the Company's circular dated 18 February 2008. During the period ended 30 June 2009, the Firm Bonds were fully converted.
- (c) ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 were issued to the BE-ZKC Vendors as part of the consideration for the acquisition of the 100% equity interest in Gainstar Limited, which holds indirectly a 88.43% equity interest in BE-ZKC, pursuant to the BE-ZKC Acquisition Agreement. Further details of the ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 are set out in the BE-ZKC Acquisition Circular.

13. TRADE PAYABLES

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

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

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. BUSINESS COMBINATION

Except for the property, plant and equipment and prepaid land premiums with respective carrying amounts of HK\$168,463,000 and HK\$16,599,000 immediately before the acquisition, the fair values of the identifiable assets and liabilities of 廣西貴港北控水務有限公司 (Guangxi Guigang Beijing Enterprises Water Supply Company Limited, "Guigang Water"), formerly known as 貴港市供水有限責任公司 (Guigang Water Supply Limited Liability Company) acquired during the period as at the date of acquisition have no significant differences from their respective carrying amounts, and are set out as follows:

	(Unaudited)
	<i>HK\$'000</i>
Net assets acquired:	
Property, plant and equipment	172,016
Prepaid land premiums	16,199
Prepayments, deposits and other receivables	3,419
Inventories	2,517
Trade receivables	3,776
Cash and bank balances	6,161
Trade payables	(1,781)
Other payables and accruals	(17,413)
Income tax payable	(105)
Bank and other borrowings	(71,133)
Deferred income	(28,541)
Minority interests	(28,369)
	<hr/>
	56,746
Goodwill on acquisition	2,868
	<hr/>
	59,614
Satisfied by:	
Cash	56,837
Costs associated with the acquisition	2,777
	<hr/>
	59,614
	<hr/>
Profit for the period since acquisition	1,973

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. BUSINESS COMBINATION *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Guigang Water is as follows:

	(Unaudited)
	HK\$'000
Cash consideration	(56,837)
Cash and bank balances acquired	6,161
Cash paid for costs associated with the acquisition	(2,777)
	(53,453)
Cash consideration prepaid in prior year	56,837
Net inflow of cash and cash equivalents in respect of the acquisition during the period ended 30 June 2009	3,384

Had the acquisition of Guigang Water taken place on 1 January 2009, the Group's profit for the period before minority interests for the period ended 30 June 2009 would have been HK\$51,913,000, and the Group's revenue (comprising turnover and other income and gains, net) would have been HK\$444,428,000.

Note:

Pursuant to the share transfer agreement entered into between, among others, the Company and 貴港市人民政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of People's Government of Guigang Municipality, the "Vendor") on 17 November 2008 and as approved by the Company's shareholders at a special general meeting held on 19 January 2009, the Group acquired a 66.67% equity interests in Guigang Water for a cash consideration of RMB50,001,600 (equivalent to HK\$56,837,000). The consideration was paid in advance by the Group during the year ended 31 December 2008.

Since the Group and the Vendors are still under negotiation for the valuation of assets and liabilities of Guigang Water as at the date of acquisition of 19 January 2009, the consideration and the fair value of the identifiable assets and liabilities of Guigang Water as disclosed above may subject to change.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. CONTINGENT LIABILITIES

At 30 June 2009, the Group did not have any significant contingent liabilities (31 December 2008: Nil).

16. COMMITMENTS

The Group had the following commitments at the statement of financial position date:

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Purchase of plant and machinery, and a land use right under service concession arrangements:		
Authorised, but not contracted for	148,368	77,839
Contracted, but not provided for	445,184	110,368
	593,552	188,207

17. EVENT AFTER THE STATEMENT OF FINANCIAL POSITION DATE

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. RELATED PARTY TRANSACTIONS

- (a) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Short term employee benefits	1,864	363
Pension scheme contributions	18	5
Total compensation paid to key management personnel	1,882	368

- (b) The Group entered into the following material transaction with related party during the period:

Name of related party	Nature of transaction	Note	For the six months ended 30 June	
			2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Fellow subsidiary				
Beijing Enterprises Holdings Environment Technology Co. Ltd (“北京北控環保工程 技術有限公司”)	Sale of sewage treatment related machineries and facilities	(i)	44,541	–

In the opinion of the directors, the above transaction was entered into by the Group in the normal course of its business.

Note:

- (i) The selling price was determined by reference to the then prevailing market rates.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current period's presentation.

20. OTHER FINANCIAL INFORMATION

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

DISCLOSEABLE INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2009, the interests and short positions of the directors and their associates in the share capital and underlying shares of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions in the shares and underlying shares of the Company

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of shares and underlying shares of the Company</u>	<u>Approximate percentage of the issued share capital</u>
Mr. Hu Xiaoyong	Interest of controlled corporation (<i>Note 1</i>)	585,547,693	17.66%
Mr. Wang Taoguang	Interest of controlled corporation (<i>Note 2</i>)	324,152,081	9.77%
Mr. Zhou Min	Interest of controlled corporation (<i>Note 1</i>)	585,547,693	17.66%

Notes:

1. Messrs. Hu Xiaoyong and Zhou Min are interested in Tenson Investment Limited as to 52.62% and 44.93% respectively. Tenson Investment Limited holds 129,021,081 shares and 456,526,612 underlying shares and therefore is interested in 585,547,693 shares in total.
2. The share capital of Newton Finance Holdings Limited is beneficially owned as to 50% by Mr. Wang Taoguang and his spouse, Ms. Zhang Lan, respectively. Newton Finance Holdings Limited holds 125,383,413 shares and 198,768,668 underlying shares, both of whom are regarded as interested in the 324,152,081 shares in which Newton Finance Holdings Limited is interested.

(ii) Long positions in the shares of associated corporation

<u>Name of Director</u>	<u>Number of shares of Beijing Enterprises Holdings Limited ("BEHL")</u>	<u>Approximate percentage of the issued share capital</u>
Mr. E Meng	40,000	0.004%
Mr. Jiang Xinhao	50,000	0.004%

Note: Based on the total number of issued shares of BEHL of 1,137,281,000 shares as at 30 June 2009.

DISCLOSEABLE INFORMATION

(iii) Long position in underlying shares of associated corporation

Name of Director	Name of the associated corporation	Number of share options
Mr. Jiang Xinhao	BEHL	30,000

Save as disclosed above, as at 30 June 2009, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of Part XV of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Interests in the shares and underlying shares

Name	Number of shares and underlying shares held, capacity and nature of interest			Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Total	
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	1,997,000,000 ^(a)	–	1,997,000,000	60.22%
BEHL	–	1,997,000,000 ^(b)	1,997,000,000	60.22%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	–	1,997,000,000 ^(c)	1,997,000,000	60.22%
Beijing Enterprises Group Company Limited ("Beijing Enterprises Group") 北京控股集團有限公司	–	1,997,000,000 ^(d)	1,997,000,000	60.22%
Tenson Investment Limited ^(e)	585,547,693	–	585,547,693	17.66%
Pioneer Wealth Limited ^(f)	292,297,875	–	292,297,875	8.81%
Besto Holdings Limited ^(g)	220,646,590	–	220,646,590	6.65%
Newton Finance Holdings Limited ^(h)	324,152,081	–	324,152,081	9.77%
Faith Access Holdings Limited ⁽ⁱ⁾	218,338,540	–	218,338,540	6.58%
Allyking Holdings Limited ^(j)	231,670,084	–	231,670,084	6.99%

DISCLOSEABLE INFORMATION

Notes:

- (a) BE Environmental holds 1,997,000,000 shares.
- (b) BEHL is deemed to be interested in the 1,997,000,000 shares by virtue of its controlling interests in its wholly owned subsidiary, BE Environmental.
- (c) The interest disclosed includes the shares owned by BEHL as detailed in note (b). BEHL is held directly as to 36.17% by BE Group BVI. Accordingly, BE Group BVI is deemed to be interested in the shares owned by BEHL.
- (d) The interest disclosed includes the shares owned by BE Group BVI as detailed in note (c). BE Group BVI is held directly as to 100% by Beijing Enterprises Group. Accordingly, Beijing Enterprises Group is deemed to be interested in the shares held by BE Group BVI.
- (e) The share capital of Tenson Investment Limited is beneficially owned as to 52.62% by Mr. Hu Xiaoyong and as to 44.93% by Mr. Zhou Min. Tenson Investment Limited holds 129,021,081 shares and 456,526,612 underlying shares, both of whom are regarded as interested in the 585,547,693 shares in which Tenson Investment Limited is interested.
- (f) The entire share capital of Pioneer Wealth Limited is beneficially owned by Ms. Lucy Du and Ms. Helen Zhang, independent third parties of the Company.
- (g) The entire share capital of Besto Holdings Limited is beneficially owned by Ms. Liang Terisa Yutinnie. Besto Holdings Limited holds 71,507,922 shares and 149,138,668 underlying shares.
- (h) The share capital of Newton Finance Holdings Limited is beneficially owned as to 50% by Mr. Wang Taoguang and his spouse, Ms. Zhang Lan, respectively. Newton Finance Holdings Limited holds 125,383,413 shares and 198,768,668 underlying shares, both of whom are regarded as interested in the 324,152,081 shares in which Newton Finance Holdings Limited is interested.
- (i) The entire share capital of Faith Access Holdings Limited is beneficially owned by Mr. Luo Dengfeng. Faith Access Holdings Limited holds 86,433,815 shares and 131,904,725 underlying shares.
- (j) The entire share capital of Allyking Holdings Limited is beneficially owned by Ms. Li Laam. Allyking Holdings Limited holds 63,203,725 shares and 168,466,359 underlying shares.

Save as disclosed above, as at 30 June 2009, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CHANGES IN INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, Mr. Zhang Honghai, Chairman and Executive Director of the Company, changed his role from an executive director to a non-executive director of China Information Technology Development Limited (Stock Code: 8178) on 25 August 2009.

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

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

CORPORATE GOVERNANCE

CODE ON CORPORATE GOVERNANCE PRACTICES

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

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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