



BEWG
北控水務

2010 INTERIM REPORT



BEIJING ENTERPRISES
WATER GROUP LIMITED

Stock Code:371

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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. 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

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 4301, 43/F.
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

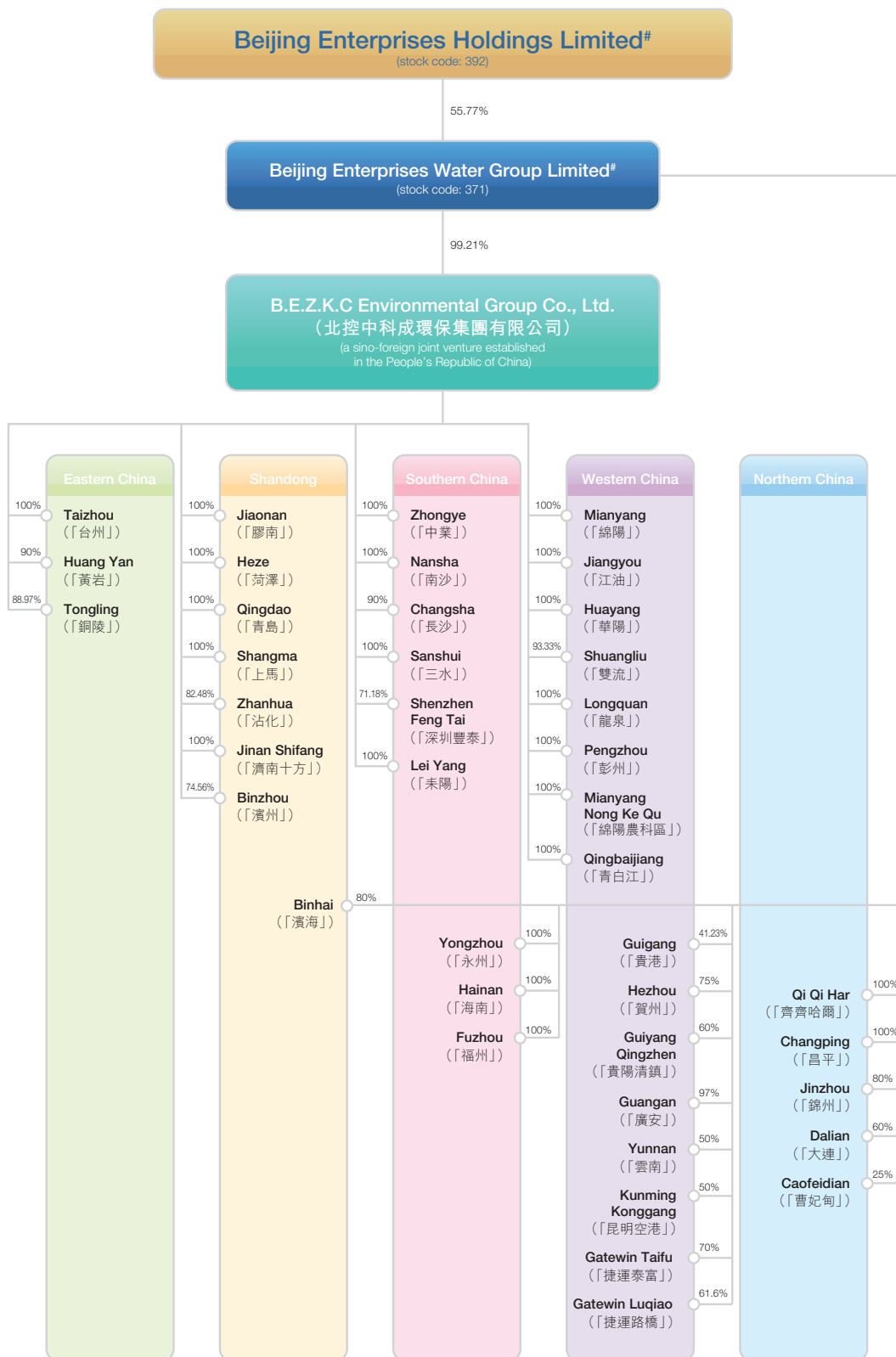
PRINCIPAL BANKERS

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 30 June 2010



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

Chairman's Statement

Dear Shareholders,

In the first half year of 2010, Beijing Enterprises Water Group Limited (the "Company"; together with its subsidiaries, the "Group") has strategically persisted in positioning itself as a "leading integrated water system solution provider", and been directed in the enhancement of its expansion development as well as sustainable its business operations. The Group has already completed more than half of its projects as scheduled at the beginning of the year. As a result, the Group not only promotes its reputation within the water industry but also builds up a steady and healthy momentum.

BUSINESS REVIEW

The Group achieved a strong growth in operating revenue for the period from 1 January 2010 to 30 June 2010 as compared with the corresponding period of last year. A significant increase in net profit was also recorded as compared with the corresponding period of last year. Basic earnings per share for the period was HK4.06 cents.

In the first half of 2010, the Group endeavoured to grasp up every and each opportunity, including exploring the potential market proactively, sustaining development in its projects in the domestic market and enhancing its coverage into the peripheral market, thereby erupting new aspect in the project market development. As at 30 June 2010, the Group brought in an additional water treatment capacity of 1,075,000 tonnes per day, among others, the Group obtained the operation and management control of Shenzhen Buji Sewage Treatment Plant (深圳布吉污水處理廠) (with a treatment capacity of 200,000 tonnes per day), the largest domestic underground sewage treatment plant in China. In addition, the Group had successfully subscribed for 50% equity interest in Aqualyng China Limited (阿科凌中國有限公司) in April and therefore indirectly invested in a seawater desalination project in Caofeidian with a treatment capacity of 50,000 tonnes per day. The Group also entered into the strategic co-operative agreement in respect of the joint development and construction of seawater desalination industrialisation base and other infrastructure in Caofeidian Industrial Zone at Tangshan city with Tangshan Caofeidian Industrial Zone Management Committee, thereby earmarking the Group's significant breakthrough in the seawater desalination market. Furthermore, with respect to the oversea market, the Group continued to follow the progress of the PANTAI sewage treatment plant project in Malaysia.

MANAGEMENT CONTROL

In the first half of 2010, the Group adhered closely to its infrastructure construction, strengthened its internal control system, further promoted its corporate governance standards and monitored the system against management control risks. The Group put forward and consolidated its resources, and optimised and reconstructed its management control system. As such, the Group has reinforced its trinitarian strategic control system, which includes operation centre, business regions and project companies, for the purpose of assets management. The Group continued to intensify the operation of group companies towards institutionalisation, standardisation and normalisation as well as fully supported the implementation of the target-oriented management. As such, the Group will put forward the safety-oriented system and strengthen the safety and crisis management control. It fully demonstrates the centripetal force and cohesiveness of corporate culture so that it creates a sound corporate culture.

In the first half of 2010, the Group implemented its sub-deployment plans of human resources under "The Twelfth Five-Year Strategic Plan". We aggressively recruited in suitable talents for group companies and reserved the workforce especially for the key personnel positions within the group companies. We will provide training for key personnel of project companies in order to maintain their stability and initiative. The hierarchical human resources structure can be established.

Chairman's Statement

DEVELOPMENT STRATEGY

In the second half of 2010, we will upgrade and optimise the management and control system and further make clear the business scope and interface process among the investment, design, construction and operation sections, so as to ensure the collaboration among each section as well as cope with our ever changing business strategy. We will also enhance the corporate governance structure and operating mechanism in order to achieve mutual benefits with our strategic partners. Furthermore, we will endeavour to enhance our industrial chain and expand our strategic plans by stepping into new business areas such as seawater desalination and sludge treatment. By utilising the resources at its maximum rate, we will strike the balance between our expansion strategy and our management capacity so that we can effectively and efficiency improve our business operation. Finally, we will further optimise our human resources system to facilitate the rapid globalisation of our operations.

FUTURE OUTLOOK

In 2010, driven by the investment, industrial restructuring, energy-savings and pollution-reduction as well as water price adjustment, the water industry in China continues to grow steadily. In May, the State Council issued a Notice in relation to the Further Strengthening of Efforts to Ensure Achieving the Goal of Eleventh Five Plans regarding energy-savings and pollution-reduction which stressed on the acceleration of the implementation of key projects on energy-savings and pollution-reduction. The focus points are those measures in supporting the recycling economy development, sludge and waste disposal treatment in urban areas, water pollution treatment in major river basin areas and energy-savings and environmental protection construction. Besides, the National Development and Reform Commission, the People's Bank of China, the China Banking Regulatory Commission and the China Securities Regulatory Commission have jointly issued a Notice for the Opinion of the Investment and Financing Policy in Supporting the Circulate Economic Development. The State Council stated in a Circular on Key Issues of China's 2010 Economic Structure Reform that Resource Tax Reform will be promulgated. The promulgation of these policies will bring along more market opportunities for the growth of water industry.

In the second half of 2010, apart from the expansion of its principal businesses, the Group will simultaneously devote more resources in the BT projects. Having consolidated its internal and external resources, the Group provides rooms to capture more potential investment opportunities including but not limited to acquiring small and medium-sized water investment companies and considering mergers with large scale water companies within the water industry. In order to create breakthroughs and new profit growth point for the Group, we are endeavouring to seek for advanced strategic co-operations in respect of sludge treatment, seawater desalination and international business developments.

Finally, I would like to express my sincere gratitude to all the shareholders, customers, staff and partners for their continuous and energetic support to the Group.

Zhang Honghai

Chairman

31 August 2010

Management Discussion And Analysis

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

The directors do not propose the payment of any interim dividend in respect of the period under review (six months ended 30 June 2009: Nil).

1. FINANCIAL HIGHLIGHTS

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

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

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

Management Discussion And Analysis

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

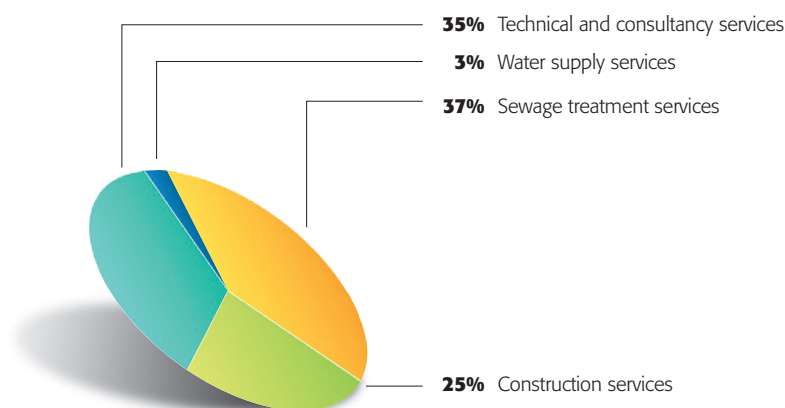
	Revenue		GP ratio	Net profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
Sewage treatment services	182.0	42%	58%	72.3	61%
Water supply services	24.5	6%	37%	3.2	3%
Construction services					
– BT projects	–	0%	–	–	0%
– BOT projects	154.7	35%	13%	12.2	10%
	154.7	35%	13%	12.2	10%
Technical and consultancy services					
– BT projects	–	0%	–	–	0%
– others	28.9	7%	89%	18.8	16%
	28.9	7%	89%	18.8	16%
Sale of sewage treatment facilities	44.5	10%	26%	11.8	10%
Business results	434.6	100%		118.3	100%
Others*				(76.4)	
Total				41.9	

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

Management Discussion And Analysis

1. FINANCIAL HIGHLIGHTS *(Continued)*

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



2. BUSINESS REVIEW

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

Management Discussion And Analysis

2. BUSINESS REVIEW *(Continued)*

Analysis of projects on hand is as follows:

<i>('000 tonnes)</i>	Sewage treatment	Water supply	Reclaimed water	Seawater desalination	Total
In operation	1,804.5	150.0	–	–	1,954.5
Not yet start operation	2,313.0	50.0	212.0	50.0	2,625.0
Total	4,117.5	200.0	212.0	50.0	4,579.5

(Number of water plants)

In operation	28	3	–	–	31
Not yet start operation	28	2	3	1	34
Total	56	5	3	1	65

2.1 Water operation services

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

Management Discussion And Analysis

2. BUSINESS REVIEW *(Continued)*

2.1 Water operation services *(Continued)*

2.1.1 Sewage treatment services

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

Western China

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

Southern China

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

Shandong

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

Management Discussion And Analysis

2. BUSINESS REVIEW *(Continued)*

2.1 Water operation services *(Continued)*

2.1.1 *Sewage treatment services (Continued)*

Eastern China

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

Northern China

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

2.1.2 *Water supply services*

As at 30 June 2010, the Group had three water supply plants in operation. Total water supply capacity of these projects was 150,000 tonnes per day. The plants were located in Shandong Province and Guangxi Province. The average contracted tariff charge of water supply is approximately HK\$1.74 per tonne. The aggregate actual processing volume is 16.2 million tonnes. These projects recorded revenue of HK\$28.2 million (1% of the Group's total revenue) and net profit attributable to shareholders of the Company of HK\$7.7 million.

2.2 Construction services

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

During the period, 21 water plants were under construction. These water plants were mainly located in Guangdong, Sichuan, Shandong, Liaoning, Heilongjiang and Hunan provinces. As at 30 June 2010, the total daily design capacity of these water plants was 1,138,500 tonnes. During the period, total construction revenue for BOT projects was HK\$252.9 million and net profit attributable to shareholders of the Company was HK\$16.6 million. Most of these projects shall commence their operation in next year.

Management Discussion And Analysis

2. BUSINESS REVIEW *(Continued)*

2.2 Construction services *(Continued)*

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

2.3 Technical and consultancy services

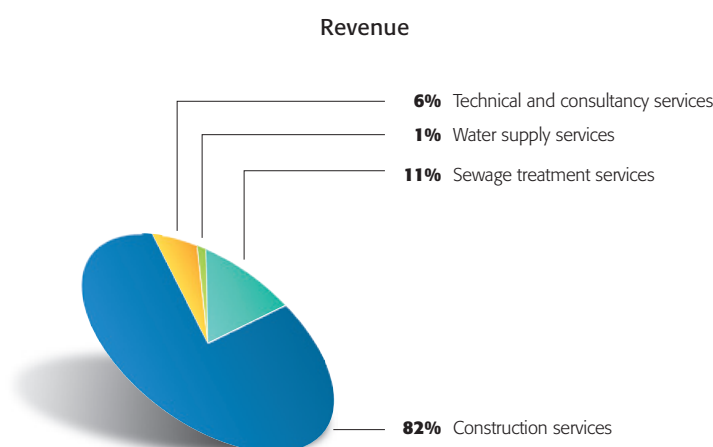
The Group has couples of qualification in engineering consulting and design of water treatment plants. As an integrated water system solution provider in water market, the Group has not only acquired extensive experience in bidding, building and operating sewage water treatment projects, but also successfully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

Management Discussion And Analysis

3. FINANCIAL ANALYSIS

3.1 Revenue

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



3.2 Cost of sales

Cost of sales for the period amounted to HK\$1,842.4 million which mainly included construction cost of HK\$1,720.8 million and operating cost of water plants of HK\$112.9 million. The construction cost mainly consisted of subcontracting charges. For the operating cost of water plants, majority were electricity charges of HK\$45.7 million, staff cost of HK\$15.7 million and major overhaul charge of HK\$12.1 million. Major overhaul charge was the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangement. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to income statement based on amortisation method during the service concession periods.

Management Discussion And Analysis

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin

During the period, gross profit margin declined from 40% to 17%. The decline was mainly due to the change in revenue source combination during the period. The revenue contribution from BT projects increased significantly from nil last period to 75% this period. The gross margin of BT projects is 10% for this period, which is comparatively lower than average of other business sectors of 37% and therefore the gross margin of the Group decreased. In particular, the project return of Kunming BT projects comprises construction service income, technical services and interest income. Since the Kunming BT projects were still under construction during the period, only contribution from construction services and technical services were recognised. Once the construction work of these projects are completed and certified, interest income will start to be recognised. As such, more contribution from these projects is expected in the second half of the year.

3.4 Other income and gains, net

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

3.5 Administrative expenses

Administrative expenses for the period was HK\$80.2 million (six months ended 30 June 2009: HK\$55.8 million). The increase was mainly contributed by the increase in staff cost by HK\$10.9 million as a result of the Group's business expansion.

3.6 Finance costs

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

Management Discussion And Analysis

3. FINANCIAL ANALYSIS *(Continued)*

3.7 Income tax

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

3.8 Liquidity and financial resources

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

3.9 Capital expenditures and investment in BT projects

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

Management Discussion And Analysis

EMPLOYEES AND REMUNERATION POLICIES

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

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

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

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

CHARGES ON THE GROUP'S ASSETS

The secured bank loans and the finance lease payable of the Group as at 30 June 2010 are secured by the Group's equity interest in a subsidiary, certain of the Group's bank balances and mortgages over certain of the sewage treatment concession rights, land use rights and certain operating facilities of the sewage treatment plants which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors. The aforesaid land use rights and operating facilities are normally registered under the names of the relevant entities in the Group and are required to be returned to the grantors at the end of the respective service concession periods. Saved as disclosed above, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

Condensed Consolidated Income Statement

For the six months ended 30 June 2010

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

Condensed Consolidated Statement Of Comprehensive Income

For the six months ended 30 June 2010

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

Condensed Consolidated Statement Of Financial Position

30 June 2010

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

Condensed Consolidated Statement Of Financial Position *(Continued)*

30 June 2010

	<i>Notes</i>	30 June 2010 (Unaudited) <i>HK\$'000</i>	31 December 2009 (Audited) <i>HK\$'000</i>
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	10	358,096	348,219
Reserves		2,498,635	2,274,686
		2,856,731	2,622,905
Non-controlling interests		800,359	388,911
TOTAL EQUITY		3,657,090	3,011,816
Non-current liabilities:			
Other payables and accruals		35,837	37,554
Bank and other borrowings		2,533,079	1,320,222
Convertible bonds	11	549,293	582,737
Finance lease payable		2,121	4,743
Provision for major overhauls		106,525	91,792
Deferred income		23,408	23,378
Deferred tax liabilities		111,604	100,305
Total non-current liabilities		3,361,867	2,160,731
Current liabilities:			
Trade payables	12	715,772	445,227
Other payables and accruals		807,672	482,551
Income tax payable		27,217	26,770
Bank and other borrowings		4,194,835	1,290,946
Finance lease payable		5,077	5,676
Total current liabilities		5,750,573	2,251,170
TOTAL LIABILITIES		9,112,440	4,411,901
TOTAL EQUITY AND LIABILITIES		12,769,530	7,423,717

Condensed Consolidated Statement Of Changes In Equity

For the six months ended 30 June 2010

	Attributable to shareholders of the Company									
	Issued capital	Share premium account	Contributed surplus	Convertible bond equity reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Total	Non-controlling interests	Total 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
At 1 January 2010	348,219	1,817,378	(400)	216,986	(5,507)	47,350	198,879	2,622,905	388,911	3,011,816
Total comprehensive income for the period	-	-	-	-	37,359	-	144,827	182,186	32,126	214,312
Conversion of convertible bonds	9,877	63,919	-	(21,399)	-	-	-	52,397	-	52,397
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	355,032	355,032
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	24,003	24,003
Acquisition of non-controlling interests	-	-	(2,814)	-	-	-	-	(2,814)	2,814	-
Deemed disposal of interest in subsidiaries	-	-	2,057	-	-	-	-	2,057	-	2,057
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(2,527)	(2,527)
Transfer to reserves	-	-	1,247	-	-	(510)	(737)	-	-	-
At 30 June 2010	358,096	1,881,297*	90*	195,587*	31,852*	46,840*	342,969*	2,856,731	800,359	3,657,090

* These reserve accounts comprise the consolidated reserves of HK\$2,498,635,000 (31 December 2009: HK\$2,274,686,000) in the condensed consolidated statement of financial position as at 30 June 2010.

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	PRC reserve funds	Retained profits	Total	Non-controlling interests	Total 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
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
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	6,240	6,240
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	28,369	28,369
Transfer to reserves	-	-	-	-	-	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

Condensed Consolidated Statement Of Cash Flows

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net cash flows from/(used in) operating activities	(1,715,563)	39,595
Net cash flows used in investing activities	(660,362)	(96,656)
Net cash flows from/(used in) financing activities	3,548,380	(162,683)
Net increase/(decrease) in cash and cash equivalents	1,172,455	(219,744)
Cash and cash equivalents at beginning of period	876,861	834,936
Effect of foreign exchange rate changes, net	9,669	(904)
Cash and cash equivalents at end of period	2,058,985	614,288
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,788,483	480,419
Time deposits	919,896	142,954
Less: Restricted cash and pledged deposits	(644,800)	(9,085)
	2,063,579	614,288
Less: Time deposits with maturity of more than three months when acquired	(4,594)	–
	2,058,985	614,288

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2010, the Group was involved in the following principal activities in Mainland China, the People's Republic of China (the "PRC"):

- construction of sewage and water treatment plants, an intercepting canal and its ancillary facilities, a sludge and sewage treatment plant, a main road and a landscape road, and sewage interception and water environmental renovation projects
- provision of sewage treatment services
- provision of water treatment services and distribution and sale of piped water
- provision of technical services and licensing of technical know-how that are related to sewage treatment

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

1.2. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2010 are prepared in accordance with the applicable disclosure provisions of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

1.3. ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009, except for the adoption of the following new, revised or amendments to the Hong Kong Financial Reporting Standards (the “new HKFRSs”) issued by the HKICPA, which are generally effective for the first time for the current period’s financial statements:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
Improvements to HKFRSs (May 2009)	<i>Amendments to a number of HKFRSs</i>

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

Except for the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new HKFRSs has had no significant financial effect on these interim financial statements and there have been no significant changes to the accounting policies applied in these interim financial statements.

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on the profit for the period of each reportable segment, which is measured consistently with the Group's profit for the period.

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2010 and 2009, respectively.

For the six months ended 30 June 2010

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

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2009

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

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. OPERATING SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's assets by operating segments:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Segment assets:		
Sewage treatment and construction services	10,306,760	5,429,428
Water supply services	217,920	226,496
Technical and consultancy services	788,007	699,974
Corporate and others	1,456,843	1,067,819
	12,769,530	7,423,717

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

Revenue of approximately HK\$1,441,976,000 (six months ended 30 June 2009: Nil) was derived from the construction services provided by the sewage treatment and construction services segment to 2 single customers.

3. REVENUE

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts and service contracts relating to sewage treatment, net of business tax and government surcharges; (2) an appropriate proportion of contract revenue of construction contracts relating to an intercepting canal and its ancillary facilities, a sludge and sewage treatment plant, a main road and a landscape road, and sewage interception and water environmental renovation projects, net of business tax and government surcharges; (3) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax, business tax and government surcharges; (4) the value of consultancy fee and licence fees, net of business tax and government surcharges; (5) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; and (6) the imputed interest income on service concession arrangements.

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

3. REVENUE *(Continued)*

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Sewage treatment services*	245,358	182,035
Construction contracts*	1,813,973	154,652
Consultancy services	111,339	21,833
Licence fees	9,590	7,034
Sale of water	28,222	24,543
Sale of goods	–	44,541
	2,208,482	434,638

* *Imputed interest income under service concession arrangements are included in the revenue derived from "Sewage treatment services" and "Construction contracts" above.*

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Cost of sewage treatment services rendered	86,202	65,916
Cost of construction contracts	1,720,872	134,846
Cost of consultancy services rendered	8,029	2,177
Cost of licensing	624	1,121
Cost of water sold	15,885	13,310
Cost of goods sold	–	32,752
Depreciation	8,585	4,054
Amortisation of operating concessions*	10,777	10,600
Amortisation of other intangible assets*	229	891

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest on bank loans and other loans wholly repayable within five years	81,850	40,685
Interest on other loans repayable after five years	879	–
Imputed interest on convertible bonds	18,953	23,148
Interest on a finance lease	330	539
Total interest expenses	102,012	64,372
Increase in discounted amounts of provision for major overhauls arising from the passage of time	1,357	1,010
Total finance costs	103,369	65,382
Less: Interest included in cost of construction contracts	(6,655)	(1,092)
	96,714	64,290

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

6. INCOME TAX

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

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

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

7. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds, and the weighted average number of ordinary shares assumed to have been issued on the deemed conversion of all dilutive convertible bonds into ordinary shares. All convertible bonds of the Company outstanding during the period ended 30 June 2010 had a dilutive effect on the basic earnings per share amount for the period. Except for the ZKC Convertible Bonds 1 and 2 (as defined in the circular of the Company dated 30 June 2008) issued by the Company on 24 July 2008 and 6 April 2009, respectively, all other convertible bonds of the Company outstanding in the prior period had a dilutive effect on the basic earnings per share for the six months ended 30 June 2009.

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

7. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY *(Continued)*

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Earnings		
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	144,827	41,923
Interest on dilutive convertible bonds	18,952	5,858
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	163,779	47,781

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

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

8. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

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

9. TRADE RECEIVABLES

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

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

9. TRADE RECEIVABLES *(Continued)*

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

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

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

10. SHARE CAPITAL

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
<i>Authorised:</i>		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
<i>Issued and fully paid:</i>		
3,580,965,660 (2009: 3,482,196,992) ordinary shares of HK\$0.10 each <i>(note)</i>	358,096	348,219

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

10. SHARE CAPITAL *(Continued)*

Note: A summary of the movements in the Company's issued share capital during the period ended 30 June 2010 is as follows:

	<i>Note</i>	Number of ordinary shares in issue (Unaudited)	Issued capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2010		3,482,196,992	348,219	1,817,378	2,165,597
Shares issued upon conversion of convertible bonds	<i>(i)</i>	98,768,668	9,877	63,919	73,796
At 30 June 2010		3,580,965,660	358,096	1,881,297	2,239,393

- (i)* During the period ended 30 June 2010, convertible bonds of the Company with an aggregate principal amount of HK\$68,150,000 were converted by certain bondholders into 98,768,668 new ordinary shares of the Company in total. The difference of approximately HK\$63,919,000 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.

11. CONVERTIBLE BONDS

Summary information of the Company's convertible bonds during the period ended 30 June 2010, is set out as follows:

	ZKC Convertible Bonds 1* <i>(note)</i>	ZKC Convertible Bonds 2* <i>(note)</i>
Issuance date	24/7/2008	6/4/2009
Maturity date	23/7/2013	23/7/2013
Original principal amount (<i>HK\$'000</i>)	589,304	238,696
Coupon rate	Zero	Zero
Conversion price per ordinary share (<i>HK\$</i>)	0.69	0.69

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

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

11. 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:

	ZKC Convertible Bonds1 (Unaudited) HK\$'000 (note)	ZKC Convertible Bonds 2 (Unaudited) HK\$'000 (note)	Total (Unaudited) HK\$'000
Principal amount outstanding			
At 1 January 2010	555,059	193,287	748,346
Conversion to ordinary shares	(68,150)	–	(68,150)
At 30 June 2010	486,909	193,287	680,196
Liability component			
At 1 January 2010	424,468	158,269	582,737
Imputed interest expense <i>(note 5)</i>	14,385	4,568	18,953
Transfer to share capital and share premium accounts upon conversion to ordinary shares <i>(note 10(i))</i>	(52,397)	–	(52,397)
At 30 June 2010	386,456	162,837	549,293
Equity component (included in convertible bond equity reserve)			
At 1 January 2010	174,288	42,698	216,986
Transfer to share capital and share premium accounts upon conversion to ordinary shares <i>(note 10(i))</i>	(21,399)	–	(21,399)
At 30 June 2010	152,889	42,698	195,587

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

11. CONVERTIBLE BONDS *(Continued)*

Note:

ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 were issued to Besto Holdings Limited, Tenson Investment Limited and Newton Finance Holdings Limited (collectively the "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 B.E.Z.K.C Environmental Group Co., Ltd pursuant to an acquisition agreement dated 3 June 2008 entered into between the Company and the Vendors. Further details of the ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 are set out in the Company's circular dated 30 June 2008.

12. TRADE PAYABLES

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

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

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

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

13. BUSINESS COMBINATION

The fair values of the identifiable assets and liabilities of CICI 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:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000 (note (a))	2009 (Unaudited) HK\$'000 (note (b))
Net assets acquired:		
Property, plant and equipment	6,453	172,016
Prepaid land premiums	–	16,199
Amounts due from contract customers	1,056,837	–
Prepayments, deposits and other receivables	918,804	3,419
Inventories	–	2,517
Trade receivables	–	3,776
Pledged deposits	4	–
Cash and bank balances	476	6,161
Cash injected by the Group as capital contribution	908	–
Trade payables	(116,603)	(1,781)
Other payables and accruals	(1,008,252)	(17,413)
Income tax payable	(5,213)	(105)
Bank and other borrowings	(826,921)	(71,133)
Deferred income	–	(28,541)
Non-controlling interests	(24,003)	(28,369)
	2,490	56,746
Goodwill on acquisition/(excess over cost of a business combination recognised as income)	(1,582)	2,868
	908	59,614
Satisfied by:		
Cash	–	56,837
Capital contribution to the acquiree in the form of cash	908	–
Costs associated with the acquisition	–	2,777
	908	59,614
Profit for the period since acquisition	29,239	1,973

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

13. BUSINESS COMBINATION *(Continued)*

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000 (note(a))	2009 (Unaudited) HK\$'000 (note(b))
Cash consideration	–	(56,837)
Cash and bank balances acquired	476	6,161
Cash paid for costs associated with the acquisition	–	(2,777)
	476	(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	476	3,384

Had the above business combinations taken place at the beginning of the period, the Group's profit for the period would have been HK\$148,723,000 (six months ended 30 June 2009: HK\$41,533,000), and the Group's revenue (comprising turnover and other income and gains, net) would have been HK\$3,328,933,000 (six months ended 30 June 2009: HK\$444,428,000).

Notes:

- (a) Pursuant to a share subscription agreement entered into between the Company and CICI on 23 April 2010, the Company acquired a 70% equity interest in CICI by subscription of 116,667 ordinary shares of CICI at US\$1 each at a cash consideration of US\$116,667 (equivalent to HK\$907,669). The transaction was completed on 29 April 2010 and the transaction was accounted for as a business combination in accordance with HKFRS 3.

As at the date of acquisition, CICI held 昆明捷運路橋發展有限公司 and 昆明捷運泰富環保工程有限公司, which are principally engaged in the construction of sewage and water treatment plants, an intercepting canal and its ancillary facilities, a sludge and sewage treatment plant, a main road and a landscape road, and sewage interception and water environmental renovation projects in Kunming City, the PRC.

- (b) Pursuant to the share transfer agreement entered into between the Group 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) on 17 November 2008 and as approved by the Group's shareholders at a special general meeting held on 19 January 2009, the Group acquired a 66.67% equity interest in 廣西貴港北控水務有限公司 ("Guigang Water") at a cash consideration of RMB50,001,600 (equivalent to HK\$56,837,000). The consideration was paid in advance by the Group during the period ended 31 December 2008 and was included in deposits and other debtors as at 31 December 2008. Guigang Water and its subsidiaries are principally engaged in the operations of sewage treatment, water treatment and distribution and the provision of related services in Guigang Municipality, Guangxi Province, the PRC. Further details of the acquisition are set out in the Company's circular dated 31 December 2008.

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

14. CONTINGENT LIABILITIES

At 30 June 2010, the Group did not have any significant contingent liabilities (31 December 2009: Nil).

15. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Purchase of operating concession of a sewage treatment plant: Contracted, but not provided for	409,556	405,026
Purchase of plant and equipment under service concession arrangements: Authorised, but not contracted for	162,856	11,884
Contracted, but not provided for	284,707	363,359
	447,563	375,243
Total capital commitments	857,119	780,269

16. EVENTS AFTER THE REPORTING PERIOD

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

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

17. RELATED PARTY DISCLOSURES

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

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Short term employee benefits	3,983	1,864
Pension scheme contributions	18	18
Total compensation paid to key management personnel	4,001	1,882

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

Name of related party	Nature of transaction	For the six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (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	–	44,541

The selling price of the above transaction was determined by reference to the then prevailing market rates. In the opinion of the directors, the above transaction was entered into by the Group in the normal course of its business.

Notes To Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

18. COMPARATIVE AMOUNTS

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

19. OTHER FINANCIAL INFORMATION

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

Discloseable Information

DISCLOSURE OF INTERESTS

Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations

As at 30 June 2010, the interests and short positions of the directors or chief executive of the Company and their associates in any shares, underlying shares or debentures of the Company or any of 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Listing Rules, were as follows:

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

Name of Directors	Nature of Interest	Number of shares and/or underlying shares of the Company	Approximate percentage of the Company's issued share capital <i>(note 2)</i>
Mr. Hu Xiaoyong	Interest of controlled corporation <i>(note 1)</i>	456,526,613	12.75%
Mr. Zhou Min	Interest of controlled corporation <i>(note 1)</i>	456,526,613	12.75%

Notes:

- Messrs. Hu Xiaoyong and Zhou Min are interested in Tenson Investment Limited as to 52.62% and 44.93%, respectively. Tenson Investment Limited holds 456,526,613 underlying shares.
- The percentage represented the number of shares over the total issued share capital of the Company as at 30 June 2010 of 3,580,965,660 shares.

Discloseable Information

DISCLOSURE OF INTERESTS *(Continued)*

Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations *(Continued)*

(ii) Long positions in the shares of associated corporation

Name of Directors	Number of shares of Beijing Enterprises Holdings Limited ("BEHL")	Approximate percentage of issued share capital of BEHL <i>(note)</i>
Mr. E Meng	40,000	0.0035%
Mr. Jiang Xinhao	20,000	0.0018%

Note: The percentage represented the number of shares over the total issued share capital of BEHL as at 30 June 2010 of 1,137,371,000 shares.

Save as disclosed above, as at 30 June 2010, none of the directors or the chief executive had registered an interest or a short position in the shares, underlying shares or debenture 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.

Directors' Rights to Acquire Shares

Save as disclosed under the heading "Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations", at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debenture of the Company granted to any director or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

Discloseable Information

DISCLOSURE OF INTERESTS *(Continued)*

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted during the period under review.

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2010, 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:

Long position in the shares and underlying shares of the Company

Name of shareholders	Number of ordinary shares and underlying shares held, capacity and nature of interest			Approximate percentage of the Company's total issued share capital <i>(note (g))</i>
	Directly beneficially owned	Through controlled corporation	Total	
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	1,997,000,000 <i>(note (a))</i>	–	1,997,000,000	55.77%
BEHL	–	1,997,000,000 <i>(note (b))</i>	1,997,000,000	55.77%
Beijing Enterprises Group (BVI) Company Limited ("BE Group BVI")	–	1,997,000,000 <i>(note (c))</i>	1,997,000,000	55.77%
Beijing Enterprises Group Company Limited 北京控股集團有限公司 ("Beijing Enterprises Group")	–	1,997,000,000 <i>(note (d))</i>	1,997,000,000	55.77%
Tenson Investment Limited <i>(note (e))</i>	456,526,613	–	456,526,613	12.75%
Newton Finance Holdings Limited <i>(note (f))</i>	225,383,413	–	225,383,413	6.29%

Discloseable Information

DISCLOSURE OF INTERESTS *(Continued)*

Substantial Shareholders' Interests in Shares and Underlying Shares *(Continued)*

Long position in the shares and underlying shares of the Company (Continued)

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 36.16% 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 456,526,613 underlying shares, both of whom are regarded as interested in the 456,526,613 underlying shares in which Tenson Investment Limited is interested.
- (f) The share capital of Newton Finance Holdings Limited is beneficially owned as to 50% by Mr. Wang Taoguang and Ms. Zhang Lan, respectively. Newton Finance Holdings Limited holds 125,383,413 shares and 100,000,000 underlying shares, both of whom are regarded as interested in the 225,383,413 shares in which Newton Finance Holdings Limited is interested.
- (g) The percentage represented the number of shares over the total issued share capital of the Company as at 30 June 2010 of 3,580,965,660 shares.

Save as disclosed above, as at 30 June 2010, no person, other than the directors of the Company, whose interests are set out in the section "Directors' 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.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 20 March 2002 for the primary purpose of providing incentive to directors and eligible employees. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

During the six months ended 30 June 2010, no share options under the Scheme was granted to the directors or employees of the Group and all of the share options under the Scheme were lapsed at 30 June 2003.

Discloseable Information

BOARD CHANGE

During the six months ended 30 June 2010, there has been a change to the Board as follow:

Mr. Wang Taoguang resigned as an executive director of the Company with effect from 29 January 2010.

CHANGE IN INFORMATION OF DIRECTOR UNDER RULE 13.51B(1) OF THE LISTING RULES

There is no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of Annual Report 2009 of the Company.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

On 27 July 2010, the Company, as borrower, entered into a 3-year HK\$250 million term loan facility agreement with a bank. Pursuant to the terms of facility agreement, it shall be an event of default (except with the written consent or waiver from the bank) if BEHL ceases to hold at least 51% of the issued share capital of the Company. On 18 August 2010, the Company allotted and issued of 827,981,107 shares of the Company (the "Allotment"). Upon the Allotment and confirmation of BEHL, BEHL holds approximately 43.9% of the issued share capital of the Company representing a 9.8% decrease in the issued share capital of the Company. The Company had applied to the bank for a waiver of strict compliance of warranty in the aforesaid facility agreement that BEHL holds at least 51% of the issued share capital of the Company. As at the date of the interim report, the aforesaid loan was fully drawn down under the aforesaid facility agreement and is fully repayable within 3 years.

On 17 August 2010, the Company, as borrower, signed a facility letter (the "Facility Letter") with a bank for a revolving term loan facility ("Loan Facility") in the amount of HK\$300 million. Pursuant to the Facility Letter, the Company undertakes to the bank that BEHL owns not less than 35 per cent. of the issued share capital of the Company. If the Company is in breach of the above undertaking, the bank may declare any commitment under the Facility Letter to be cancelled and/or declare all outstanding amounts together with interest accrued thereon and all other sums payable by the Company under the Facility Letter to be immediately due and payable. As at the date of the interim report, the Loan Facility has not been drawn down under the Facility Letter.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Corporate Governance

CORPORATE GOVERNANCE PRACTICE

During the six months ended 30 June 2010, in the opinion of the Board, the Company complied with the code provisions set out in the Code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Listing Rules, except for one code provision under the CG Code. The non-executive directors (all are independent non-executive directors) of the Company were not appointed for a specific term that was deviated from the requirement under code provision A.4.1. The deviation is appropriate as the non-executive directors of the Company are subject to retirement by rotation and re-election at an annual general meeting in accordance with the Bye-laws of the Company. Sufficient measures will be taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors. All directors of the Company confirmed, having made specific enquiry by the Company, 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 matter regarding internal controls and financial reporting of the Group, including review of the unaudited interim results for the six months ended 30 June 2010. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

REMUNERATION COMMITTEE

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

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. In view of strengthening the internal control system to meet with the continuous corporate and business development of the Company, the Board will conduct an internal company-wide study to review and enhance the internal control system.

