



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

北控水務集團有限公司二零一一年度中期報告
BEIJING ENTERPRISES
WATER
GROUP
LIMITED
INTERIM REPORT 2011
STOCK CODE 股份代號: 371

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Honghai (*Chairman*)
Mr. E Meng
Mr. Jiang Xinhao
Mr. Hu Xiaoyong (*Chief Executive Officer*)
Mr. Zhou Min
Mr. Li Haifeng
Mr. Zhang Tiefu
Mr. Hou Feng
Ms. Qi Xiaohong
Mr. Ke Jian
Mr. Tung Woon Cheung Eric

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

66th Floor
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:

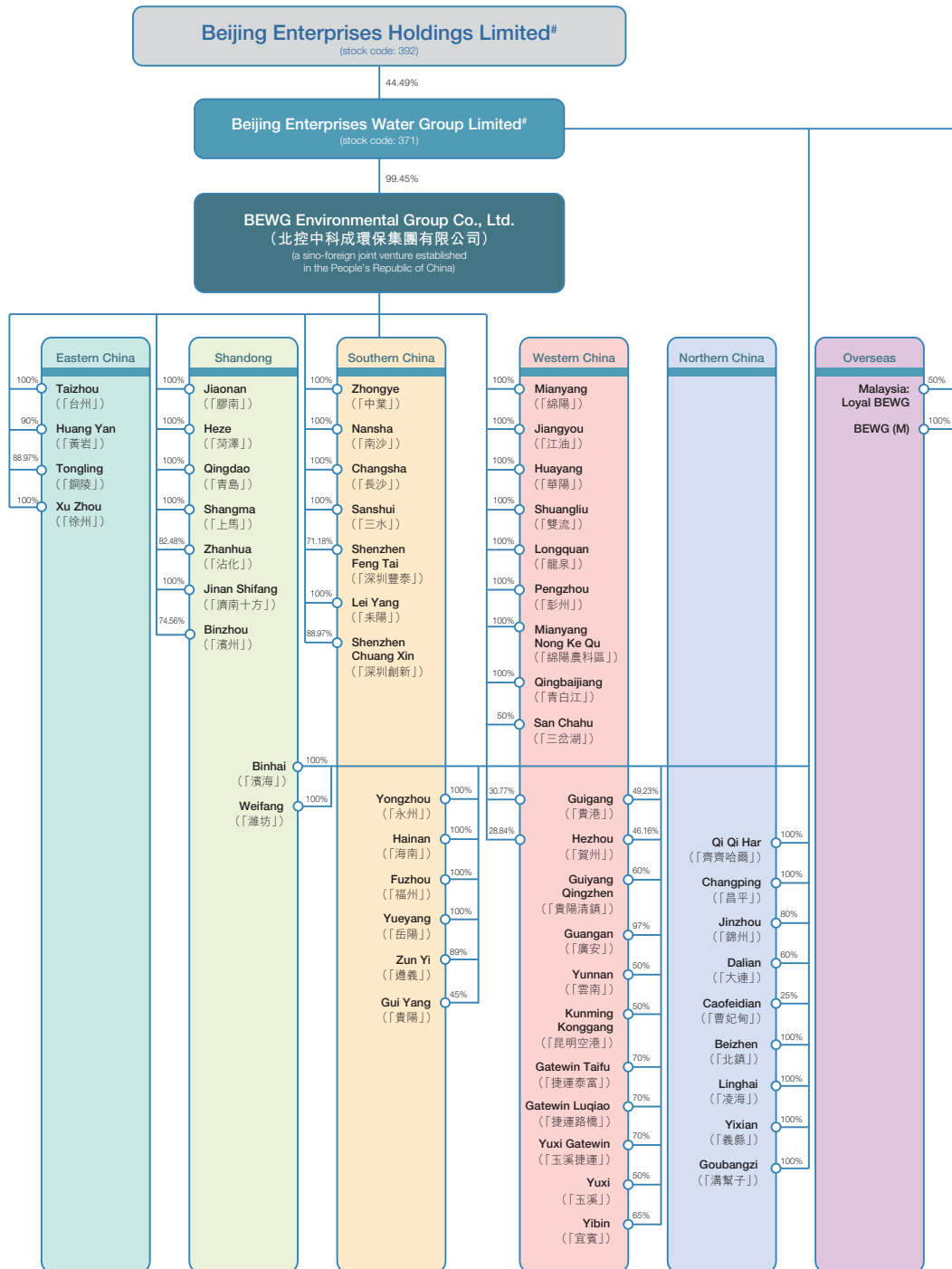
Agricultural Bank of China Ltd., Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch
Mizuho Corporate Bank Ltd., Hong Kong Branch

In Mainland China:

Bank of Beijing
Bank of China
The Industrial and Commercial Bank of China

GROUP STRUCTURE

As at 30 June 2011



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

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2011, the impact of the global financial crisis has gradually diminished and the global economy has showed obvious signs of recovery. However, with the gradual spreading of the European debt crisis, the global economy may again experience its second trough. The domestic economy in China was also not optimistic, with various macro policies such as raising banks' reserve fund rate and increasing interest rates were repeatedly implemented and such a shrinkage in liquidity would inevitably pose a threat to the sources of fund. In view of the above, Beijing Enterprises Water Group Limited (the "Company" and its subsidiaries, collectively referred to as the "Group" or "BEWG") focused on its strategic positioning as the "leading integrated water system solution provider" and on the "12th Five-Year" strategic plan, persisted in "enhancing its expansion development as well as sustaining its business operations", adhered to the "Dual Changes", and overcame the difficulties and progressed ahead in achieving better results in the domestic, international and emerging industry markets.

BUSINESS REVIEW

The overall business operation of the Group for the period from 1 January 2011 to 30 June 2011 showed a distinctive feature of "one high and one low", hence revenue from principal business dropped by 59% when compared to the corresponding period of previous year, while profit attributable to shareholders of the Company increased by 114% over the corresponding period of previous year. Basic earnings per share for the period was HK4.73 cents.

As at 30 June 2011, the Group achieved an additional designed water processing capacity of 1,423,700 tons per day, which includes an additional designed sewage treatment processing capacity of 339,500 tons per day, additional designed piped water processing capacity of 1,005,000 tons per day, additional designed industrial water supply capacity of 79,200 tons per day, as well as a designed solid waste treatment capacity of 225 tons per day, achieving a breakthrough in industrial water supply and solid waste treatment areas. At the same time, we opened up a convenient access to obtaining traditional water projects, enlarged our market share in major water environment management business and created new value sectors for the Company.

With respect to international businesses, according to the "12th Five-Year" strategic plan and annual working plan, the Group expanded its overseas market actively and steadily with focus in Malaysia. While consolidating excellent resources to ensure the smooth progress of the projects in Malaysia, the Group will perform in-depth international market research and prudently participate in international water projects investments. In early July 2011, the Group was officially awarded with the letter of acceptance, which has legally binding effect, for the PANTAI sewage treatment plant project by the Malaysian Government, earmarking the substantive breakthrough of the Group's expansion in international markets.

With respect to introducing seawater desalination projects in Beijing, the Group made considerable progress in its preparatory works and a project feasibility study was conducted and in progress.

Significant breakthroughs were also made in financing activities with the Company completed its open offer in mid-March 2011, raising proceeds amounted to HK\$3,391,000,000. In addition, the CNY1,450,000,000 bonds were successfully issued in overseas market in June 2011.

CHAIRMAN'S STATEMENT

MANAGEMENT CONTROL

At the beginning of year, in view of the needs for comprehensive risk management control, the Group set up a risk control department to structure a comprehensive risk management control system. The Group carried out specific research on related risk control issues according to the current changes of the Group both internally and externally and the findings will form as the theoretical basis for launching the projects and the establishment of a comprehensive risk management system.

We continue to implement human resources strategy, develop in-depth human resources plan, optimise human resources management system and establish human resources information database, devote efforts in improving the remuneration and performance-reward system and incentive binding system, recruit high-calibre talents aggressively and actively conduct training and human resources development and deployment.

DEVELOPMENT STRATEGY

In the second half of this year, to ensure achieving a steady growth of its business, the Group intends to acquire large water projects which are in the operational stage through merger and acquisition and, integrate small to medium projects through packaging to ensure the profitability of projects. At the same time, the Group will achieve industry chain extension and operation scope expansion by leveraging on an all-round services on business chain including design, consultation, construction, operation and management, and create profit growth through brand expansion. The Group will innovate its business model actively to nurture and develop a unique profit model for the Company, thereby maintaining the optimum balance between market share and investment gain.

FUTURE OUTLOOK

Through more than ten years of sustained rapid development, high quality project resources for traditional water markets have gradually reduced annually. The Group has already entered into a new era of mutual transformation of strengths and weaknesses whilst facing both threats and opportunities.

1. Intensifying market competition

Sewage treatment industry: after experiencing the large-scale and rapid construction period since 2004, the construction projects of sewage treatment plant in China domestic cities begin to transit into smaller scale, and the regional layout has also gradually re-focused on medium and small towns and rural areas. As this type of projects is generally with low water tariff and high operating costs, no investment gain can be assured.

Water supply industry: the market-oriented reform of water supply industry is currently at its trough. For water projects with better operating conditions, they are facing the issue of premium competition and non-transferability of controlling interests even if being launched into the market.

Based on the above, it is increasingly difficult to make further development in traditional business market, and its profitability is limited. The competition in the water industry is becoming more and more intense.

CHAIRMAN'S STATEMENT

FUTURE OUTLOOK *(Continued)*

2. **Continuous tightening of macro-financial policy**

Since the second half of last year, the China domestic monetary policies had entered into a contracting cycle. Given that the investment in exploring business requires higher capital funding, the shrinking of monetary policy will certainly crowd out entities with weaker financing capabilities.

Since the enactment and implementation of “National 36 Clauses” in June of last year, local financing platforms has tightened significantly with a tight supply of capital in various regions. To relieve the pressure of repayments of principal and interest and the subsequent project financing, local governments are actively exploring different financing alternatives. With the advantage of our capital, it has greatly strengthened the bargaining power with the respective governments in negotiating development project co-operation.

3. **“Grand Water Conservancy” construction creating favorable situation**

Under the “No. 1 Document” released by the Central Committee of the Chinese Communist Party in February this year, the importance of water conservancy construction has been given unprecedented attention and is being identified as the key important area to be supported by national policies and capital contribution during the “12th Five-Year” period and in the long run. The related business development markets, such as river basin management, water supply and water resources allocation, will certainly have more extensive development prospects, and thus will bring new development opportunities to the Group.

4. **Solid waste businesses create the next market focus**

With the rapid development of sewage water treatment sector in China during recent years, the consequential sludge problem is becoming more complicated. According to the “12th Five-Year” plan, which is still under consultation, the investment in sludge treatment in China will amount to RMB60 billion. It is certain that sludge treatment will become another market focus following sewage treatment. At the same time, with the accelerated pace of urbanisation, issues such as reduction of organic solid waste, including food waste, harmless treatment and resources recycling has gradually become the key in modern city management. Facing the enormous market opportunities, we have to grasp the market opportunities in advance to gain an advantage in future market competition. In future, the Group continue to strengthen and enriching the contents of our “1+5” strategy in order to expand our business from sludge treatment to solid waste businesses which focus on food waste and residue sludge treatment.

CHAIRMAN'S STATEMENT

FUTURE OUTLOOK *(Continued)*

5. Scientific research and sustainable business operation

With respect to the development of scientific research, we will work closely with Tsinghua University-BE Water Group Environmental Industry Joint Research Institute to achieve breakthrough in the resources-oriented treatment technology bottlenecks of urban organic solid waste and accomplish the transformation of technological achievement into productivity as soon as possible. At the same time, by leveraging on professional practitioners and strategic partners, the Group will be able to make up for the shortfalls of project performance and professional qualifications, adopt flexible commercial models like EPC, BOT, TOT and equity acquisition to further intensify its efforts in the development of solid waste business market, develop as quickly as possible the professional and scale advantages of the Company brand . At the same time, the Group will also actively and prudently participate in the market development of new businesses, such as comprehensive water environment regulation and construction of infrastructural facilities, thereby increase the market reputation and industry influence of BEWG.

In respect of its sustainable business operation, in terms of capital injection plans, the Group will follow up proactively with its major shareholder, Beijing Enterprises Holdings Limited (“BEHL”), to conduct different preparatory works for the proposed injected assets, promote in an orderly manner the subsequent resources integration, maintain and add values to state-owned assets, bring into full play the synergy effect with BEHL to ensure the scale expansion and profitability growth of our sustainable assets.

In view of the above, the Group will enhance our analysis on macroeconomic situation, grasp the changes of macro policies actively, pay close attention to the capital market trend, and put our main focus on the overall large water projects, sewage water projects acquisitions and the overall acquisition/packaging projects of other small to medium water investing companies. We will also cover single operation projects, expand our market share rapidly, perfect the industry layout, thereby facilitating a sustainable and stable growth of the Group's market capitalisation.

Lastly, I would like to extend my sincere gratitude to all shareholders, customers, staff and business partners for their relentless support to the Group.

Zhang Honghai
Chairman

31 August 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continues to enjoy robust growth in the first half of year 2011. Profit attributable to shareholders of the Company increased by 114% to HK\$309.7 million, with sewage treatment services emerging as a key profit driver. Revenue decreased by 59% to HK\$900.5 million as a result of decrease in revenue contribution from BT projects.

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	420.7	47%	63%	189.7	45%
Water supply services	35.7	4%	42%	9.6	2%
Construction services					
– BOT projects	166.4	18%	10%	11.0	3%
– BT projects	112.9	13%	11%	82.5	20%
	279.3	31%	10%	93.5	23%
Technical and consultancy services					
– BT projects	76.9	8%	94%	59.4	14%
– others	87.9	10%	94%	68.0	16%
	164.8	18%	94%	127.4	30%
Business results	900.5	100%		420.2	100%
Others [#]				(110.5)	
Total				309.7	

[#] Others included head office and other corporate income and expenses, net, of HK\$14.1 million and finance costs of HK\$124.6 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:

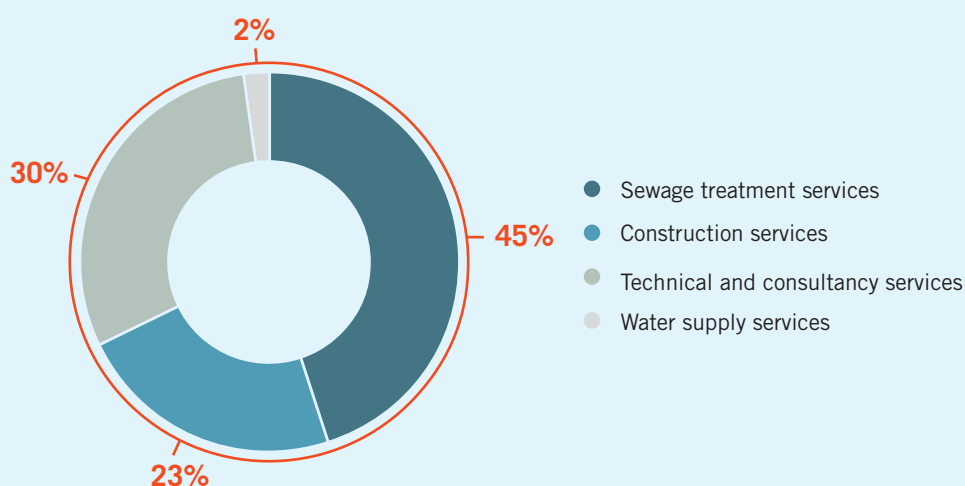
	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
Sewage treatment services	245.4	11%	61%	101.7	37%
Water supply services	28.2	1%	40%	7.7	3%
Construction services					
– BOT projects	252.9	11%	10%	16.6	6%
– BT projects	1,561.1	71%	5%	51.4	19%
	1,814.0	82%	5%	68.0	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 head office and other corporate overheads (net of income) of HK\$33.7 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)*

Profit attributable to shareholders of the Company
(Six months ended 30 June 2011)



2. BUSINESS REVIEW

The principal businesses of the Group includes operations in sewage treatment services and water supply services, and construction services and technical and consultancy services. The coverage of the Group's water plants has extended to 17 provinces all across Mainland China. As at 30 June 2011, the Group participates in 93 water plants in either operation or construction of which includes 76 sewage treatment plants, 13 water supply plants, 3 reclaimed plants and 1 seawater desalination plant. The total daily design capacity was increased by 1,423,700 tons to 7,333,200 tons, representing an increase of 24% as compared with last year. The increment of 1,423,700 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 259,200 tons, Transfer-Operate-Transfer ("TOT") projects of 220,000 tons, entrustment projects of 19,500 tons and acquired project of 925,000 tons.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

Analysis of projects on hand as follows:

<i>('000 tons)</i>	Sewage treatment	Water supply	Reclaimed water	Seawater desalination	Total
In operation	3,181	150	182	–	3,513
Not yet start operation	1,531	2,209	30	50	3,820
Total	4,712	2,359	212	50	7,333
<i>(Number of water plants)</i>					
In operation	50	5	2	–	57
Not yet start operation	26	8	1	1	36
Total	76	13	3	1	93

2.1 Water operation services

	Number of plants	Design capacity <i>(Tons/Day)</i>	Actual processing capacity during the period <i>(Tons (M))</i>	Revenue <i>HK\$'(M)</i>	Profit attributable to shareholders of the Company <i>HK\$'(M)</i>
Sewage treatment and reclaimed water services:					
– Southern	18	1,206,000	162.2	172.3	72.3
– Western	18	1,175,000	157.4	93.7	50.9
– Shandong	7	337,000	44.5	59.0	26.2
– Eastern	3	190,000	19.3	42.8	23.6
– Northern	6	455,000	41.5	52.9	16.7
	52	3,363,000	424.9	420.7	189.7
Water supply services	5	150,000	23.9	35.7	9.6
Total	57	3,513,000	448.8	456.4	199.3

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water operation services *(Continued)*

2.1.1 Sewage treatment and reclaimed water services

As at 30 June 2011, the daily operation capacity of sewage treatment and reclaimed water were recorded as 3,181,000 tons (31 December 2010: 2,532,000 tons) and 182,000 tons (31 December 2010: 182,000 tons) respectively. The average daily processing volume is 2,332,000 tons and average daily treatment rate is 69%. The actual average contracted tariff charge of water treatment was approximately HK\$1.09 per ton (31 December 2010: HK\$1.07 per ton). The actual aggregate processing volume for the period was 424.9 million tons contributing revenue of HK\$420.7 million during the period (47% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK\$189.7 million. The information of sewage treatment service in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. Most of the BOT projects secured last year commenced operations during this period, therefore, the operating volume increased significantly. As at 30 June 2011, there were 18 sewage treatment plants with total daily design capacity of 1,206,000 tons, representing an increase of 414,000 tons per day or 52% as compared with last year. The actual aggregate processing volume for the period amounted to 162.2 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$172.3 million and HK\$72.3 million respectively during the period.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2011, there were 18 sewage treatment plants with total daily design capacity of 1,175,000 tons, representing an increase of 175,000 tons per day or 17.5% as compared with last year. The actual processing volume for the period was 157.4 million tons. The operating revenue was HK\$93.7 million during the period. Profit attributable to shareholders of the Company was HK\$50.9 million.

Shandong

There were 7 plants in Shandong region. The total daily processing capacity of Shandong region had increased slightly by 40,000 tons to 337,000 tons as compared with last year. The actual processing volume for the period was 44.5 million tons contributing operating revenue of HK\$59.0 million during the period. Profit attributable to shareholders of the Company was HK\$26.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water operation services *(Continued)*

2.1.1 Sewage treatment and reclaimed water services *(Continued)*

Eastern China

There were 3 water plants in Eastern China which were mainly located in Zhejiang Province. As at 30 June 2011, the operating volume of Eastern China had increased slightly by 20,000 tons to 190,000 tons. The actual processing volume for the period amounted to 19.3 million tons and operating revenue was HK\$42.8 million during the period. Profit attributable to shareholders of the Company was HK\$23.6 million.

Northern China

Currently, the Group has 6 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily processing volume is 455,000 tons which is the same as last year. The projects had achieved actual processing volume of 41.5 million tons for the period. The operating revenue was HK\$52.9 million during the period. Profit attributable to shareholders of the Company was HK\$16.7 million.

2.1.2 Water supply services

As at 30 June 2011, the Group had 5 water supply plants in operation. Total water supply capacity of these projects was 150,000 tons per day (31 December 2010: 150,000 tons per day). The plants were located in Guizhou Province, Shandong Province and Guangxi Province. The actual average contracted tariff charge of water supply is approximately HK\$1.49 per ton. The aggregate actual processing volume is 23.9 million tons. These projects recorded revenue of HK\$35.7 million (4% of the Group's total revenue) and profit attributable to shareholders of the Company of HK\$9.6 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, 19 water plants were under construction. These water plants were mainly located in Guangdong, Sichuan, Shandong, Yunnan, Heilongjiang and Hunan provinces. Total construction revenue for BOT projects was HK\$166.4 million and profit attributable to shareholders of the Company was HK\$11.0 million. As at 30 June 2011, the total daily design capacity of these water plants in the construction stage was 1,140,700 tons, the operations of most of these projects are expected to be commenced by next year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.2 Construction services *(Continued)*

Apart from BOT projects, the Group has 7 BT projects under construction during the period. The projects are located in Huaxi, Guizhou Province, Kunming, Yunnan Province and Dalian, Liaoning Province. Total construction revenue from BT projects was HK\$112.9 million and profit attributable to shareholders of the Company was HK\$82.5 million. Revenue from BT projects has been significantly decreased since the projects in Kunming was substantially completed last year and large portion of respective construction revenue had already recognised last year. Accordingly, the revenue contributed by projects in Kunming was decreased by HK\$1,444.8 million as compared with the same period in last year.

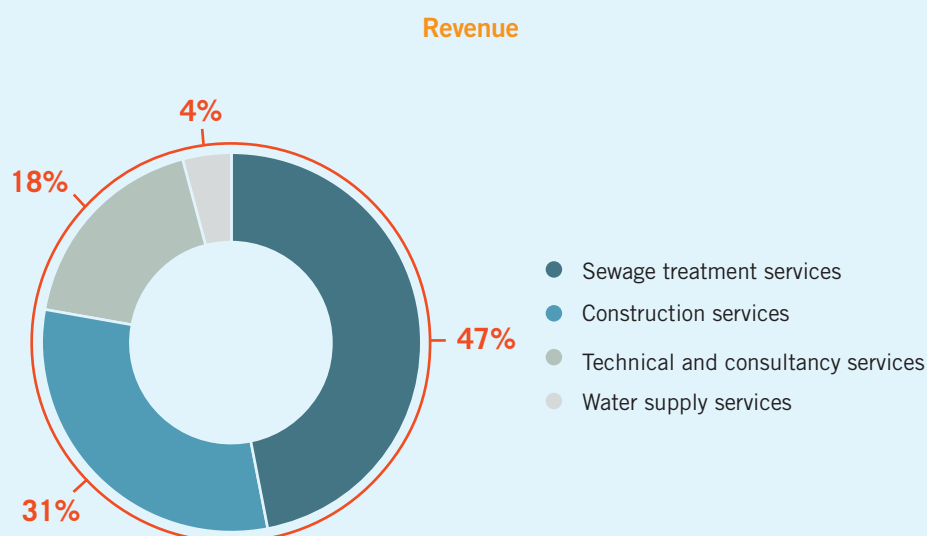
2.3 Technical and consultancy services

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\$164.8 million, representing 18% of the Group's total revenue. The profit attributable to shareholders of the Company was HK\$127.4 million.

3. FINANCIAL ANALYSIS

3.1 Revenue

During the period, the Group recorded revenue of HK\$900.5 million (compared to last period for HK\$2,208.5 million). The decrease was mainly due to decrease in construction revenue from BT projects. The related revenue decreased by HK\$1,448.2 million from HK\$1,561.1 million in the last period to HK\$112.9 million for the period.



MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.2 Cost of sales

Cost of sales for the period amounted to HK\$435.5 million which mainly included construction cost of HK\$250.5 million and operating cost of water plants of HK\$175.7 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK\$75.3 million, staff cost of HK\$26.7 million and major overhaul charge of HK\$14.3 million. Major overhaul charge was the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangement. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to income statement based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the period, gross profit margin increased from 17% to 52%. The increase was mainly due to the change in mix of revenue during the period. The revenue contribution from construction services decreased significantly from last period of 82% to 31% this period. The gross margin of construction services is 10% for the period, which is comparatively lower than average of other business sectors of 70% and therefore the gross margin of the Group increased.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$203.8 million during the period, compared to last period of HK\$9.1 million. Other income mainly included bank and other interest income of HK\$21.9 million, imputed interest income from BT projects of HK\$128.5 million, government grant of HK\$1.9 million and other gains on acquisition of a jointly-controlled entity, namely 湖南永州市景盛置業有限公司 (Hunan Yongzhou Jing Sheng Property Development Company Limited*), of HK\$46.9 million. The increase was mainly due to increase in imputed interest income from BT projects and gains on acquisition of a jointly-controlled entity.

3.5 Administrative expenses

Administrative expenses for the period were HK\$149.6 million, compared to last period at HK\$80.2 million. The increase was mainly contributed by the increase in staff cost by HK\$17.6 million and the increase in business development cost of HK\$27.5 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\$122.6 million, compared to last period of HK\$76.1 million. Increase in finance cost was mainly due to increase in new borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.7 Income tax

Income tax expense for the period included the current PRC income tax of HK\$62.2 million. The effective tax rate for the PRC operation was about 15% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the period was HK\$4.1 million.

3.8 Liquidity and financial resources

As at 30 June 2011, the Group's cash and cash equivalents amounted to HK\$3,961.7 million (31 December 2010: HK\$1,961.8 million). The Group's total borrowings amounted to HK\$8,276.8 million (31 December 2010: HK\$8,532.5 million).

The Group's total borrowings comprising finance lease payable of HK\$1.7 million (31 December 2010: HK\$4.9 million), bank and other borrowings of HK\$6,547.1 million (31 December 2010: HK\$8,527.6 million) and bonds payable of HK\$1,728.0 million (31 December 2010: Nil). The gearing ratio as defined as sum of finance lease payable, bank and other borrowings and bonds payable, net of cash and cash equivalents, divided by the total equity was 0.46 as at 30 June 2011 (31 December 2010: 1.3). The decrease in the gearing ratio as at 30 June 2011 was mainly due to the increase in total equity and decrease in net debt as a result of an open offer held on 15 March 2011, in which the Company issued 2,283,378,231 shares at a price of HK\$1.485 per share on the basis of one offer share for every two existing shares held by the shareholders. The total net proceed of the open offer is HK\$3,385.4 million.

As at 30 June 2011, the Group had banking facilities amounting to HK\$3.94 billion, of which HK\$0.6 million were unutilised. The banking facilities are of 1-5 years term.

3.9 Capital expenditures

During the period, the Group's total capital expenditures were HK\$1,178.6 million (Six months ended 30 June 2010: HK\$254.2 million), of which HK\$15.4 million was paid for the acquisition of property, plant and equipment and intangible assets, HK\$471.1 million was spent on construction and acquisition of water plants and HK\$692.1 million was the consideration for acquisition of equity interest in subsidiaries and jointly-controlled entities. The increase in capital expenditures incurred during the period was in line with the expansion plans of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2011, the Group employed 2,126 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the period ended 30 June 2011.

CHARGES ON THE GROUP'S ASSETS

The secured bank loans and the finance lease payable of the Group as at 30 June 2011 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. Save as disclosed above, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

INTERIM DIVIDEND

The board of directors of the Company (the "Board") does not propose the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

		For the six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	900,458	2,208,482
Cost of sales		(435,483)	(1,842,389)
Gross profit		464,975	366,093
Other income and gains, net		203,777	9,056
Selling and distribution costs		–	(719)
Administrative expenses		(149,550)	(80,170)
Other operating expenses, net		(16,667)	(7,572)
PROFIT FROM OPERATING ACTIVITIES	4	502,535	286,688
Finance costs	5	(124,589)	(96,714)
Share of profits and losses of jointly-controlled entities		22,484	(97)
PROFIT BEFORE TAX		400,430	189,877
Income tax	6	(66,282)	(21,855)
PROFIT FOR THE PERIOD		334,148	168,022
ATTRIBUTABLE TO:			
Shareholders of the Company		309,670	144,827
Non-controlling interests		24,478	23,195
		334,148	168,022
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	7		(Restated)
– Basic		HK4.73 cents	HK3.36 cents
– Diluted		HK4.73 cents	(Restated) HK2.97 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 (Unaudited) <i>HK\$'000</i>	2010 (Unaudited) <i>HK\$'000</i>
PROFIT FOR THE PERIOD	334,148	168,022
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX OF NIL		
– Exchange differences on translation of foreign operations	211,007	46,290
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	545,155	214,312
ATTRIBUTABLE TO:		
Shareholders of the Company	458,019	182,186
Non-controlling interests	87,136	32,126
	545,155	214,312

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	<i>Notes</i>	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment		192,059	46,114
Goodwill		1,599,168	1,580,116
Operating concessions		750,914	749,718
Other intangible assets		5,593	5,305
Investments in jointly-controlled entities		1,420,784	118,619
Available-for-sale investments		2,919	1,647
Amounts due from contract customers		1,495,118	1,605,284
Receivables under service concession arrangements	<i>8</i>	3,328,997	2,736,583
Trade and bills receivables	<i>9</i>	343,024	120,905
Prepayments, deposits and other receivables		1,374,146	1,408,510
Deferred tax assets		35,003	31,806
Total non-current assets		10,547,725	8,404,607
Current assets:			
Inventories		12,588	12,786
Amounts due from contract customers		75,944	759,109
Receivables under service concession arrangements	<i>8</i>	190,975	123,889
Trade and bills receivables	<i>9</i>	4,339,816	4,002,108
Prepayments, deposits and other receivables		2,619,263	1,367,995
Restricted cash and pledged deposits		107,137	592,507
Cash and cash equivalents		3,961,653	1,961,828
Total current assets		11,307,376	8,820,222
TOTAL ASSETS		21,855,101	17,224,829

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	<i>Notes</i>	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	<i>10</i>	685,014	456,676
Reserves		7,013,161	3,436,184
		7,698,175	3,892,860
Non-controlling interests		1,649,066	1,175,094
TOTAL EQUITY		9,347,241	5,067,954
Non-current liabilities:			
Other payables and accruals		23,970	22,644
Bank and other borrowings		5,262,704	3,231,442
Bonds payable		1,728,032	–
Provision for major overhauls		142,665	123,374
Deferred income		24,556	23,978
Deferred tax liabilities		149,334	138,688
Total non-current liabilities		7,331,261	3,540,126
Current liabilities:			
Trade payables	<i>11</i>	1,968,052	2,637,650
Other payables and accruals		1,793,409	569,700
Income tax payables		129,007	108,286
Bank and other borrowings		1,284,414	5,296,200
Finance lease payable		1,717	4,913
Total current liabilities		5,176,599	8,616,749
TOTAL LIABILITIES		12,507,860	12,156,875
TOTAL EQUITY AND LIABILITIES		21,855,101	17,224,829

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to shareholders of the Company									
	Issued capital	Share premium account	Contributed surplus	Capital 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 2011	456,676	2,532,431	(400)	7,448	139,229	101,366	656,110	3,892,860	1,175,094	5,067,954
Profit for the period	-	-	-	-	-	-	309,670	309,670	24,478	334,148
Other comprehensive income for the period										
– Exchange differences on translation of foreign operations	-	-	-	-	148,349	-	-	148,349	62,658	211,007
Total comprehensive income for the period	-	-	-	-	148,349	-	309,670	458,019	87,136	545,155
Issue of new shares upon completion of an open offer	228,338	3,157,024	-	-	-	-	-	3,385,362	-	3,385,362
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	447,148	447,148
Acquisition of non-controlling interests	-	-	-	(38,066)	-	-	-	(38,066)	(56,502)	(94,568)
Dividend paid to non-controlling equity holders	-	-	-	-	-	-	-	-	(3,810)	(3,810)
Transfer to reserves	-	-	-	-	-	2,155	(2,155)	-	-	-
At 30 June 2011	685,014	5,689,455*	(400)*	(30,618)*	287,578*	103,521*	963,625*	7,698,175	1,649,066	9,347,241

* These reserve accounts comprise the consolidated reserves of HK\$7,013,161,000 (31 December 2010: HK\$3,436,184,000) in the condensed consolidated statement of financial position as at 30 June 2011.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to shareholders of the Company									
	Issued	Share	Contributed	Convertible	Exchange	PRC	Retained	Total	Non-controlling	Total
	capital	premium	surplus	bond equity	fluctuation	reserve	profits			
	(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
Profit for the period	-	-	-	-	-	-	144,827	144,827	23,195	168,022
Other comprehensive income for the period										
– Exchange differences on translation of foreign operations	-	-	-	-	37,359	-	-	37,359	8,931	46,290
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 contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	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 partial interests in subsidiaries	-	-	2,057	-	-	-	-	2,057	-	2,057
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	(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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash flows used in operating activities	(407,207)	(1,715,563)
Net cash flows used in investing activities	(1,022,962)	(660,362)
Net cash flows from financing activities	3,383,436	3,548,380
Net increase in cash and cash equivalents	1,953,267	1,172,455
Cash and cash equivalents at beginning of period	1,961,828	876,861
Effect of foreign exchange rate changes, net	46,558	9,669
Cash and cash equivalents at end of period	3,961,653	2,058,985
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,722,299	1,788,483
Time deposits	2,346,491	919,896
Less: Restricted cash and pledged deposits	(107,137)	(644,800)
	3,961,653	2,063,579
Less: Time deposits with maturity of more than three months when acquired	–	(4,594)
	3,961,653	2,058,985

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2011, 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 and other infrastructural facilities
- provision of sewage treatment services
- provision of water treatment services and distribution and sale of piped water
- provision of technical and consultancy services that are related to sewage treatment and construction
- licensing of technical know-how that are related to sewage treatment

1.2. BASIS OF PREPARATION

The unaudited condensed interim consolidated financial statements for the six months ended 30 June 2011 have been 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 2011

1.3. ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of these condensed interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2010, 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 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of the above new and revised HKFRSs has had no significant financial impact on these condensed interim financial statements and there have been no significant changes to the accounting policies applied in these condensed interim financial statements.

2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the period attributable to shareholders of the Company, which is a measure of adjusted profit for the period attributable to shareholders of the Company. The adjusted profit for the period attributable to shareholders of the Company is measured consistently with the Group’s profit attributable to shareholders of the Company except that interest income, finance costs, share of profits and losses of jointly-controlled entities, as well as head office and corporate income and expenses are excluded from such measurement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

2. OPERATING SEGMENT INFORMATION *(Continued)*

During the period, the Group changed its operating segment reporting structure as corporate and others segment is no longer considered as a reportable operating segment due to the cessation of the trading of computer and related products during the period ended 31 December 2008.

The corresponding comparative amounts of the segment information have been revised to reflect the above changes and to conform to the current period's presentation.

For the six months ended 30 June 2011

	Sewage treatment and construction services (Unaudited) HK\$'000	Water supply services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	700,030	35,669	164,759	900,458
Cost of sales	(404,793)	(20,804)	(9,886)	(435,483)
Gross profit	295,237	14,865	154,873	464,975
Segment results	353,620	6,851	149,254	509,725
Corporate and other unallocated income and expenses				(7,190)
Finance costs				(124,589)
Share of profits and losses of jointly-controlled entities				22,484
Profit before tax				400,430
Income tax				(66,282)
Profit for the period				334,148
Profit/(loss) for the period attributable to shareholders of the Company:				
– From operating segments	283,158	9,621	127,440	420,219
– Corporate and other unallocated items				(110,549)
				309,670

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2010

	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>	Total (Unaudited) <i>HK\$'000</i> (Restated)
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
Segment results	208,757	9,802	106,922	325,481
Corporate and other unallocated income and expenses				(38,793)
Finance costs				(96,714)
Share of profits and losses of jointly-controlled entities				(97)
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:				
– From operating segments	169,746	7,715	97,813	275,274
– Corporate and other unallocated items				(130,447)
				144,827

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

2. OPERATING SEGMENT INFORMATION *(Continued)*

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

30 June 2011

	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>	Total (Unaudited) <i>HK\$'000</i>
Segment assets	15,924,122	1,090,532	998,310	18,012,964
Corporate and other unallocated items				3,842,137
Total assets				21,855,101

31 December 2010

	Sewage treatment and construction services (Audited) <i>HK\$'000</i>	Water supply services (Audited) <i>HK\$'000</i>	Technical and consultancy services (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets	13,538,597	206,216	806,198	14,551,011
Corporate and other unallocated items				2,673,818
Total assets				17,224,829

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

2. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

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

During the six months ended 30 June 2011, there was no single external customer that contributed 10% or more of the Group's total revenue from external customers for that period. During the six months ended 30 June 2010, revenue of approximately HK\$1,441,976,000 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 other construction services, net of business tax and government surcharges; (3) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax, business tax and government surcharges; (4) the value of consultancy fees and licence fees, net of business tax and government surcharges; and (5) the imputed interest income on service concession arrangements.

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

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Sewage treatment services*	420,750	245,358
Construction contracts*	279,280	1,813,973
Consultancy services and licensing	164,759	120,929
Sale of water	35,669	28,222
	900,458	2,208,482

* *Imputed interest income under service concession arrangements amounting to HK\$120,210,000 (Six months ended 30 June 2010: HK\$98,365,000) 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 2011

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Cost of sewage treatment services rendered	140,840	86,202
Cost of construction contracts	250,477	1,720,872
Cost of consultancy services rendered and licensing	9,886	8,653
Cost of water sold	13,304	11,664
Depreciation	4,956	4,364
Amortisation of operating concessions*	20,976	14,998
Amortisation of other intangible assets*	602	229

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest on bank loans and other loans wholly repayable within five years	125,283	81,850
Interest on other loans	1,708	879
Imputed interest on convertible bonds	–	18,953
Interest on a finance lease	121	330
Total interest expenses	127,112	102,012
Increase in discounted amounts of provision for major overhauls arising from the passage of time	1,833	1,357
Total finance costs	128,945	103,369
Less: Interest included in cost of construction contracts	(4,356)	(6,655)
	124,589	96,714

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

6. INCOME TAX

No provision of Hong Kong profits tax has been made for the six months ended 30 June 2011 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2010: Nil).

The PRC corporate 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – PRC:		
Hong Kong	–	–
Mainland China	64,892	16,141
Overprovision in prior periods*	(2,716)	(4,790)
Deferred	4,106	10,504
Total tax charge for the period	66,282	21,855

* During the six months ended 30 June 2010, income tax exemptions were granted to certain subsidiaries of the Group by relevant provincial tax bureaus in Mainland China in respect of their assessable profits for the year ended 31 December 2009. Accordingly, their respective income taxes provided in the year ended 31 December 2009 were reversed during the six months ended 30 June 2010.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

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, as adjusted to reflect the issuance of 2,283,378,231 new ordinary shares of the Company at an offer price of HK\$1.485 per ordinary share under an open offer (the “Open Offer”) of the Company completed on 15 March 2011.

In respect of the diluted earnings per share amounts, no adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2011 as the Group had no dilutive potential ordinary shares during the six months ended 30 June 2011. The calculation of the diluted earnings per share amount for the six months ended 30 June 2010 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 at the beginning of the period, 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 and as adjusted to reflect the effect of the Open Offer.

The calculation of the basic and diluted earnings per share amounts is based on the following data:

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	309,670	144,827
Interest on dilutive convertible bonds	–	18,953
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	309,670	163,780

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

7. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

	For the six months ended 30 June	
	2011 (Unaudited)	2010 (Unaudited) (Restated)
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	6,548,727,678	4,310,925,802
Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares	–	1,208,607,190
Weighted average number of ordinary shares, used in the diluted earnings per share calculation*	6,548,727,678	5,519,532,992

* *The weighted average number of ordinary shares during the period ended 30 June 2010 has been retrospectively adjusted to take into account the effect of the Open Offer.*

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Unbilled	3,328,997	2,736,583
Within 3 months	134,157	84,741
4 to 6 months	33,947	19,370
7 to 12 months	17,808	11,122
1 to 2 years	5,063	8,656
Portion classified as current assets	3,519,972 (190,975)	2,860,472 (123,889)
Non-current portion	3,328,997	2,736,583

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

9. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from certain construction services for Build-Transfer ("BT") contracts, technical and consultancy services, sale of water and related water supply services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for the customers of BT contracts, the trade receivables of which would be settled in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Except for the trade and bills receivables of BT contracts, trade and bills receivables are non-interest-bearing.

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Billed:		
Within 3 months	177,953	282,257
4 to 6 months	16,423	82,702
7 to 12 months	201,581	7,474
1 to 2 years	24,809	21,574
Balance with extended credit period	446,288	169,000
	867,054	563,007
Unbilled*	3,815,786	3,560,006
	4,682,840	4,123,013
Portion classified as current assets	(4,339,816)	(4,002,108)
	343,024	120,905

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

Included in the trade and bills receivables of the Group as at 30 June 2011 was an aggregate amount of HK\$20,915,000 (31 December 2010: HK\$19,696,000) due from 北京北控環保工程技術有限公司 and 北控水務集團(海南)有限公司, both being related companies of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group. The balances with the two companies were unsecured, interest-free and repayable within credit periods similar to those offered by the Group to its major customers.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

10. SHARE CAPITAL

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (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>		
6,850,134,694 (31 December 2010: 4,566,756,463) ordinary shares of HK\$0.10 each (<i>note</i>)	685,014	456,676

Note: A summary of the movements in the Company's issued share capital during the period ended 30 June 2011 is as follows:

<i>Note</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 2011	4,566,756,463	456,676	2,532,431	2,989,107
Shares issued upon completion of the Open Offer (<i>i</i>)	2,283,378,231	228,338	3,157,024	3,385,362
At 30 June 2011	6,850,134,694	685,014	5,689,455	6,374,469

(i) On 15 March 2011, the Company issued 2,283,378,231 shares as a result of the completion of the Open Offer.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

11. 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 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within 3 months	133,060	966,598
4 to 6 months	14,674	811,344
7 months to 1 year	1,464,628	586,585
1 to 2 years	295,983	268,447
2 to 3 years	58,563	4,500
Over 3 years	1,144	176
	1,968,052	2,637,650

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

12. CONTINGENT LIABILITIES

At 30 June 2011, the Group did not have any significant contingent liabilities (31 December 2010: Nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

13. CAPITAL COMMITMENTS

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

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold improvements of an office building	18,417	–
Acquisition of prepaid land premiums	235,829	–
Acquisition of plant and equipment under service concession arrangements on a TOT basis	383,138	439,529
Acquisition of plant and equipment, and a land use right under service concession arrangements on a BOT basis	195,415	185,457
Acquisition of subsidiaries	600,000	–
Capital contribution to jointly-controlled entities	432,734	427,576
Capital contribution to an associate	36,145	–
	1,901,678	1,052,562
Authorised, but not contracted for:		
Acquisition of plant and equipment under service concession arrangements on a TOT basis	168,819	415,294
Acquisition of plant and equipment under service concession arrangements on a BOT basis	270,089	227,219
	438,908	642,513
Total capital commitments	2,340,586	1,695,075

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are not included in the above, is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Authorised, but not contracted for	457,831	–

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

14. EVENT AFTER THE REPORTING PERIOD

On 5 July 2011, the Company, BEWG Environmental Group., Co., Ltd (the “Purchaser”), a non-wholly owned subsidiary of the Company, Shenzhen City Taihe Huanbao Co., Ltd. (the “Vendor”) and Violet Passion Holdings Limited (“Violet Passion”) entered into an agreement in which the Purchaser agreed to acquire and Violet Passion agreed to transfer its rights and benefits in relation to a 11.03% equity interest in 深圳北控創新投資有限公司 (Shenzhen Bei Kong Chuang Xin Investment Co. Ltd.*), a non-wholly owned subsidiary of the Company, at a consideration of RMB195.4 million (equivalent to HK\$235.1 million). The consideration shall be settled by cash of RMB90.7 million (equivalent to HK\$109.1 million) and issuance of 59,035,792 Company’s shares at HK\$2.134 per share.

15. RELATED PARTY DISCLOSURES

(a) The Group entered into the following material transactions with related parties during the period:

Name of the related party	Nature of transaction	Notes	For the six months ended 30 June	
			2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Jointly-controlled entity				
Aqualyng-BEWG China Desalination Company Limited	Technical service income	(i)	30,793	–
Non-controlling equity holders of the Group				
Meishi International Investment Group Limited	Interest income	(ii)	11,920	–
Yunnan Water Industry Investment Co., Limited* (雲南省水務產業投資有限公司)	Interest income	(iii)	3,253	–

(i) The price for the technical service income was determined at a rate mutually agreed between the Group and the jointly-controlled entity.

(ii) The interest income was charged at the rate of the PRC 3-year bank loan rate per annum.

(iii) The interest income was charged at the rate of 4.77% per annum.

* for identification purpose only

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

15. RELATED PARTY DISCLOSURES *(Continued)*

(b) Transactions with other state-owned entities in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “Other SOEs”). During the period, the Group has transactions with Other SOEs including, but not limited to, the sale of piped water, provision of sewage treatment and construction services, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group’s business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and such pricing policies do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2011 (Unaudited) <i>HK\$'000</i>	2010 (Unaudited) <i>HK\$'000</i>
Short term employee benefits	1,856	3,983
Pension scheme contributions	18	18
Total compensation paid to key management personnel	1,874	4,001

16. COMPARATIVE AMOUNTS

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

17. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2011 amounted to HK\$6,130,777,000 (31 December 2010: HK\$203,473,000) and HK\$16,678,502,000 (31 December 2010: HK\$8,608,080,000), 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 2011, the interests and short positions of the directors in the shares and underlying shares of the Company or 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 under the Listing Rules (the "Model Code"), were as follows:

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>	684,789,919	10.00%
Mr. Zhou Min	Interest of controlled corporation <i>(Note 1)</i>	684,789,919	10.00%

Notes:

- Messrs. Hu Xiaoyong, Zhou Min and Hou Feng, all being executive directors of the Company, are interested in Tenson Investment Limited as to 52.62%, 44.93% and 2.45%, respectively. Tenson Investment Limited holds 684,789,919 shares.
- The percentage represented the number of shares over the total issued share capital of the Company as at 30 June 2011 of 6,850,134,694 shares.

Save as disclosed above, as at 30 June 2011, there were no interest of the directors or chief executives of the Company in the shares, the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are 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 or the SFO.

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS *(Continued)*

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.

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 2011, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in the shares and/or underlying shares of the Company

Name of Shareholders	Nature of interest	Long position in the shares	Approximate percentage of the Company's issued share capital
Beijing Enterprises Group Company Limited <i>(Note 1)</i>	Interests of controlled corporations	3,047,556,993 <i>(Note 1)</i>	44.49%
Beijing Enterprises Holdings Limited ("BEHL") <i>(Note 1)</i>	Interests of controlled corporations	3,047,556,993 <i>(Note 1)</i>	44.49%
Tenson Investment Limited <i>(Note 2)</i>	Directly owned beneficially	684,789,919	10.00%

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS *(Continued)*

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

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

Notes:

1. Beijing Enterprises Group Company Limited is deemed to be interested in 3,047,556,993 shares as a result of its indirect holding of such shares through the following entities including its wholly-owned subsidiaries:–

Name	Long position in shares
Beijing Enterprises Environmental Construction Limited (“BE Environmental”)	3,047,556,993
BEHL	3,047,556,993
Beijing Enterprises Group (BVI) Company Limited	3,047,556,993
Beijing Enterprises Group Company Limited	3,047,556,993

BE Environmental beneficially holds 3,047,556,993 shares of the Company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

2. The share capital of Tenson Investment Limited is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive directors of the Company.
3. The percentage represented the number of shares over the total issued share capital of the Company as at 30 June 2011 of 6,850,134,694 shares.

Save as disclosed above, as at 30 June 2011, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

On 28 June 2011, a new share option scheme (the “Scheme”) is adopted by the shareholders at the special general meeting of the Company and terminated the old share option scheme adopted by the Company on 20 March 2002. The purpose of the Scheme is to provide incentives to the eligible participants to use their best endeavours in assisting the growth and the development of the Group and continue to attract human resources that are valuable to the growth and the development of the Group as a whole. The Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME *(Continued)*

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

Share options granted to a director or chief executive of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's ordinary shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. However, the directors of the Company may, at their discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and/or any other conditions (including the subscription price) that must be fulfilled before any option can be exercised.

The subscription price payable on exercise of share options is determinable by the directors of the Company, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company's ordinary share on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's ordinary shares. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting. The share options are non-transferrable and lapsed when expired or the grantee ceased to be an employee of the Group.

During the six months ended 30 June 2011, no share options under the Scheme was granted to the directors or employees of the Group.

DISCLOSEABLE INFORMATION

BOARD CHANGE

Since the date of the Annual Report 2010 of the Company, there have been changes to the Board as follows:

Mr. Liu Kai resigned as an executive director of the Company and Mr. Ke Jian was appointed as an executive director of the Company with effect from 2 June 2011.

Mr. Ju Yadong resigned as an executive director of the Company and Mr. Tung Woon Cheung Eric was appointed as an executive director of the Company with effect from 24 August 2011.

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

Changes in information on directors of the Company since the date of the Annual Report 2010 of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Mr. Li Haifeng, an executive director of the Company, became an executive director and the chairman of Carry Wealth Holdings Limited (stock code: 643) on 7 June 2011 and 28 June 2011, respectively.

Mr. Wang Kaijun, an independent non-executive director of the Company, ceased to be the professor of Department of Environmental Science and Engineering, Tsinghua University (清華大學環境科學與工程學). He is now the Professor of School of Environment, Tsinghua University (清華大學環境學院).

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 the aforesaid 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 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 and been granted 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. The Company and the bank agreed that it shall be an event of default if BEHL ceases to hold at least 35% of the issued share capital of the Company. As at the date of this interim report, the aforesaid loan was fully drawn down under the aforesaid facility agreement and is fully repayable within 3 years.

DISCLOSEABLE INFORMATION

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

On 28 March 2011, the Company, as borrower, entered into a 5-year HK\$1,300 million term loan facility agreement with a syndicate of banks. Pursuant to the terms of the aforesaid facility agreement, it shall be an event of default (unless remedied by the Company or waived by the syndicate of banks) if BEHL does not or ceases to own, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company. If an event of default under the aforesaid facility agreement occurs, the syndicate of banks may declare any commitment under the aforesaid facility agreement to be cancelled and/or declare all outstanding amounts together with interest accrued thereon and all other sums payable by the Company under the aforesaid facility agreement to be immediately due or payable or payable on demand. As at the date of this interim report, the aforesaid loan was fully drawn down under the aforesaid facility agreement and is fully repayable within 5 years.

On 26 April 2011, the Company, as borrower, entered into a 4-year and 11-month HK\$700 million term loan facility agreement with a syndicate of banks. Pursuant to the terms of the aforesaid facility agreement, it shall be an event of default (unless remedied by the Company or waived by the syndicate of banks) if BEHL does not or ceases to own, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of the voting rights in the Company. If an event of default under the aforesaid facility agreement occurs, the syndicate of banks may declare any commitment under the aforesaid facility agreement to be cancelled and/or declare all outstanding amounts together with interest accrued thereon and all other sums payable by the Company under the aforesaid facility agreement to be immediately due and payable or payable on demand. As at the date of this interim report, the aforesaid loan was fully drawn down on 26 April 2011 under the aforesaid facility agreement and is fully repayable within four years and eleven months ending on 28 March 2016.

On 30 June 2011, the Company issued the CNY1,000,000,000 3.75% Bonds due 2014 (the “2014 Bonds”) and CNY450,000,000 5.00% Bonds due 2016 (the “2016 Bonds”, together with the 2014 Bonds, the “Bonds”) which will mature on the interest payment date falling on or nearest to 30 June 2014 and 30 June 2016, respectively. The 2014 Bonds bear interest from and including 30 June 2011 at the rate of 3.75% per annum, payable semi-annually in arrear on 30 June and 30 December in each year, commencing 30 December 2011. The 2016 Bonds bear interest from and including 30 June 2011 at the rate of 5.00% per annum, payable semi-annually in arrear on 30 June and 30 December in each year, commencing 30 December 2011. The Bonds are not be rated by any rating agency and are unsecured. Application was made to the Singapore Exchange Securities Trading Limited and approval was received for listing of the Bonds.

DISCLOSEABLE INFORMATION

Pursuant to the terms and conditions of the Bonds, it is provided that at any time following the occurrence of a change of control, holder of the Bonds will have the right at his option to require the Company to redeem all but not some only of that holder's Bonds at 101% of their principal amount, together with accrued interest. Under the terms and conditions of the Bonds, a change of control occurs when, among others,

- (a) BEHL does not or ceases to own or control more than 35% of the voting rights of the issued share capital of the Company, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;
- (b) BEHL does not or ceases to supervise the Company;
- (c) BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company; and/or
- (d) the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors.

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

During the six months ended 30 June 2011, 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 2011, 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 and its code of conduct regarding directors’ securities transactions throughout the period under review.

AUDIT COMMITTEE

The Audit Committee of the Company was established in accordance with the requirements of the CG Code as set out in Appendix 14 of the Listing Rules. It comprises three independent non-executive directors of the Company to review on matter regarding internal controls and financial reporting of the Group, including review of the unaudited interim results for the six months ended 30 June 2011. 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.