2010 ANNUAL REPORT

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

BEIJING ENTERPRISES WATER GROUP LIMITED

Stock Code: 371

CONTENTS

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
Mr. Zhang Tiefu
Mr. Hou Feng
Ms. Qi Xiaohong
Mr. Ju Yadong

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Tung Woon Cheung, Eric

STOCK CODE

371

WEBSITE

www.bewg.com.hk

REGISTERED OFFICE

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22 Victoria Street
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Bermuda

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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

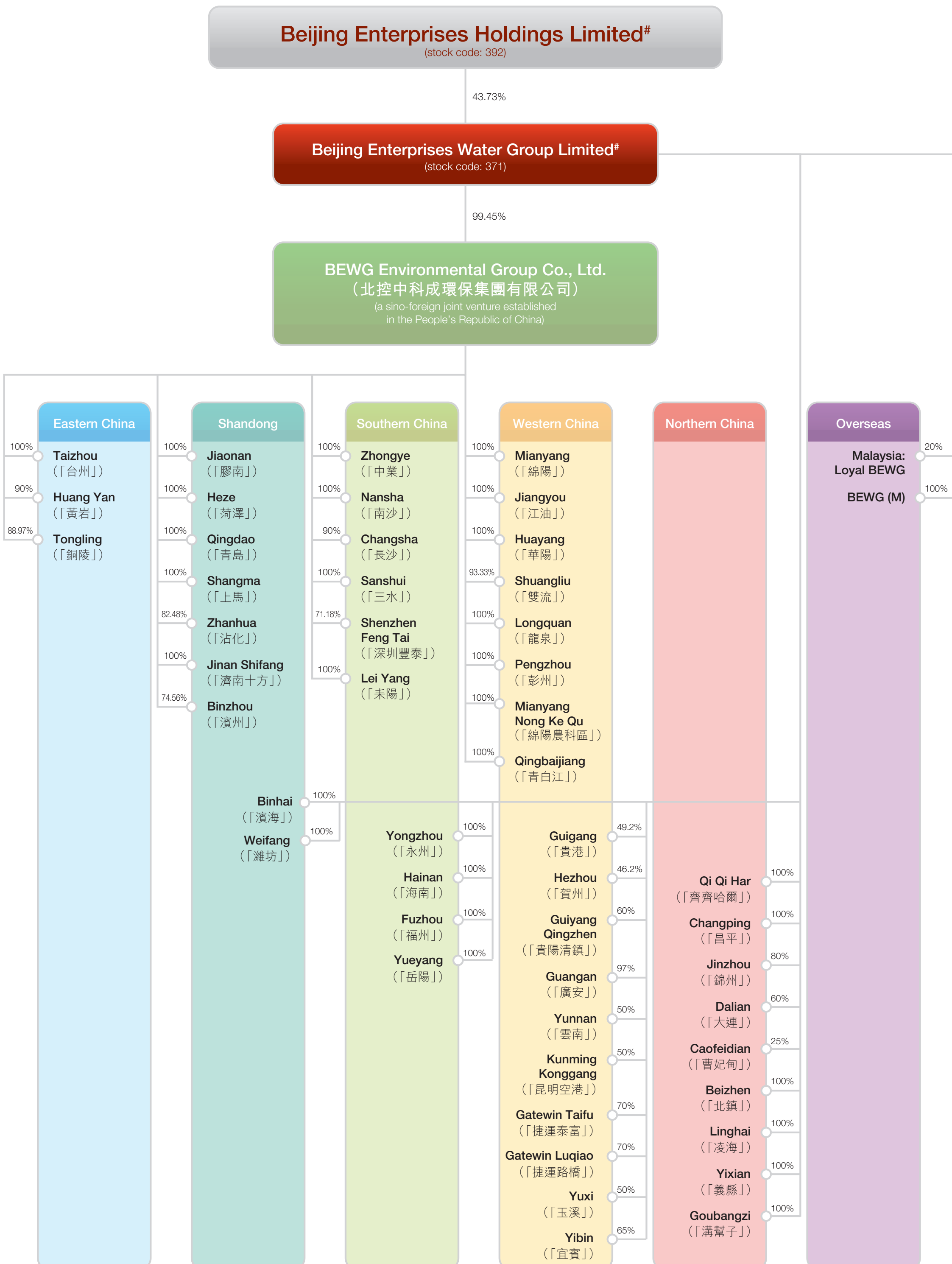
PRINCIPAL BANKERS

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 31 December 2010



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

Chairman's Statement

Dear Shareholders,

2010 was a year of continuous rapid development for Beijing Enterprises Water Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). The Group persisted its strategic positioning as a "leading integrated water system solution provider" and had smoothly completed the targets of each of its work as scheduled at the beginning of the year, and obtained satisfactory results for the year.

The shares of the Company was selected as a constituent stock of Hang Seng Composite Index in Hong Kong, and was included in the Hang Seng Composite Industry Index-Utilities and a constituent stock of Hang Seng Composite SmallCap Index in Hong Kong. At the same time, the Company gained recognition from the industry for being ranked the first in the "2010 Top Ten Influential Enterprises in the Water Industry in China", an activity organized by Chinawater.net, an national renowned water net.

BUSINESS REVIEW

The revenue of the Group for the year ended 31 December 2010 was HK$6,348.1 million. During the year, profit attributable to shareholders of the Company increased to HK$512.5 million with basic earnings per share for the year of HK12.99 cents.

With respect to traditional business, as of 31 December 2010, the Group secured 21 water projects in both contracts and tenders, with an additional increase in daily water processing capacity of 2,405,000 tons. The Group's business covered 14 provinces across the country, with a total of 79 water plants of different categories, and the project total designed daily water processing capacity was 5,909,500 tons. The additional new projects that were of symbolic and strategic significance in the industry included an entrusted operation project the Shenzhen Buji Sewage Treatment Plant（深圳布吉污水處理廠）(with a daily treatment capacity of 200,000 tons), which is the largest domestic underground sewage treatment plant in China. The operation of that project will provide the Group the matured management experience, techniques and management talents in operating the whole underground sewage treatment plant in the exploration of the Malaysian market. Furthermore, the Group acquired the equity interests in Guiyang Water Co., Ltd.（貴陽水務有限責任公司）, from the state-owned company, Guiyang Water Supply Corporation（貴陽供水總公司）as well as the granting of the exclusive right of operating concession. This acquisition drew wide attention in water industry and was our successful example of investing into the provincial cities of China.

With respect to international business, the project in Malaysia was progressing well, and the Group had strived proactively for becoming the main contractor of the Pantai sewage treatment plant project that has a priority in its launching.

In respect of seawater desalination and sludge treatment, to be in line with the "1+5" strategy, the Group explored proactively the market opportunities and leveraged on the capital as a high starting point to enter into the seawater desalination industry, thereby successfully seizing the market advantageous opportunities. In April 2010, the Group acquired the 50% equity interests in Aqualyng-BEWG China Desalination Company Limited (formerly known as Aqualyng (China) Limited) and its investing seawater desalination project in Caofeidian (with daily treatment capacity of 50,000 tons) successfully, laying a critical foundation for its further development in the seawater desalination market. At the same time, through various means of strategic co-operation and alliance, the Group leveraged on the professional companies to strive achieving breakthrough in technology bottlenecks and achieved success in phases in sludge market development.

Chairman's Statement

In the beginning of 2011, the No. 1 Document of the Central Committee of the Chinese Communist Party had clearly put forward the strategic measures of taking stringent water resources management as the ways of accelerating the transformation of economic development. Various local governments has shifted its pursuit from sole economic growth to sustainable development focusing on health, education and environmental protection, and the comprehensive development and utilisation of water environment is gradually becoming the core of urban comprehensive needs and the main stream of the future water industry competition. To address the needs of the new situation of the industry development and leverage on its capital advantages more effectively, while continued to expand its traditional water investment, construction and operation scale, the Group progressively explored the development path of providing water comprehensive construction service by focusing on the development of water resources, thereby forging the market models with the integration of long and short term interests and maintaining its leading position in the water industry in China.

MANAGEMENT TEAM

The Group persists in balancing the focus of organic growth as well as external expansion. While strengthening the expansion of its principal business during the year, the Group will further promote its corporate governance standards and enhance its internal control standards. The Group will push forward the integration of its internal and external resources, improve the functions of each business region, whereby the core management control will shift downwards and standardise the risks control. The Group will simultaneously enhance the management on jointly-controlled companies. At the same time, the Group will continue to enhance the human resources management strategically and take the development of core professional talents and construction of back-up talents as its top priority. The Group will demonstrate the converging force and cohesiveness of corporate culture, thereby laying a solid foundation for achieving to be an internationalised operation under the Group.

DEVELOPMENT STRATEGY

The Group will pay great attention to market changes and customer needs and entwine its principal business to enhance its industry chain business. In 2011, the Group will continue to consolidate its advantageous resources, explore the market energetically, expand its principal business scale, and also promote high quality and rapid principal businesses development.

The Group will promote industry merger and acquisition energetically, accelerate the pace of external expansion, and further improve the industry set up, enhance project selection and monitor project assessment stringently. At the same time, the Group will establish a post-project completion evaluation mechanism to ensure improvement in both investments quantity and quality and promote a steady and healthy development for external investments. The Group will continue to expand its market share and will exert its coverage momentum to those locations where our existing projects are operating, adopting such a project-oriented approach to expand our coverage in establishing a scalable layout. The Group will also endeavour to seek greater breakthrough in sludge treatment, seawater desalination and international business developments for creating a new profit growth point for the Group.

Chairman's Statement

The Group will enhance the strategic focus in strengthening technology research, develop and create its core competitiveness, keep on advancing its normal internal and external new technology exchange, and continue to develop its research and development activities through technology exchange platform like "Production-Study-Research". By actively participating in the application and research of various major project subjects of the State, the Group will introduce and apply new type of processing techniques such as sludge treatment and seawater desalination and conduct other comprehensive research and development upgrading activities.

FUTURE OUTLOOK

Under the persisting implementation of the resource conservation and environmental-friendly fundamental state policies, the Chinese Government will continue to focus on the planning direction, policy encouragement, and organization and coordination of water industry in China, so as to establish the State's strategic position in water environmental protection industry, advance the market-oriented process of water industry, extend its industry chain vertically and expand its service coverage horizontally, thereby enable to maintain favourable conditions for the external environmental policy of the water industry in China.

Facing with the "Twelfth Five-year Plan", regardless of the upgrading and transformation of sewage treatment plants or the opening up of the whole operation service market, they have all been put on the agenda. The creation of water value chain and investment development has received positive feedback in terms of policy support and market response. The Group will seize these water enterprises development opportunities to strive to move forward, create greater value for our shareholders and deliver more contributions to the society.

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

Zhang Honghai
Chairman

31 March 2011

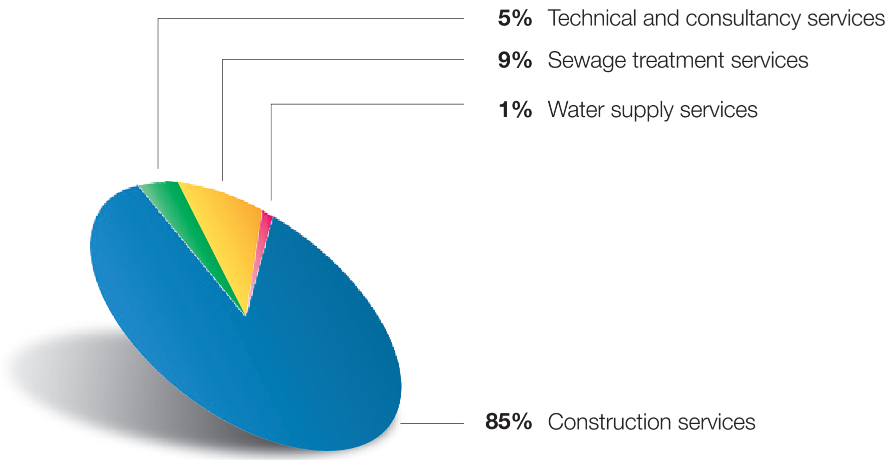
Management Discussion and Analysis

The Group continued its strong growth momentum during the year. Revenue for the year reached HK$6,348.1 million, which represents an increase of 2.7 times comparing with last year of HK$1,730.0 million. Profit attributable to shareholders for the year was HK$512.5 million, representing a remarkable increase of 1.7 times from HK$192.7 million as achieved in last year. Through a series of acquisition and winning the bidding in the open tender during last year, the Group has successfully broadened its revenue base, and thus contributing encouraging result during the year.

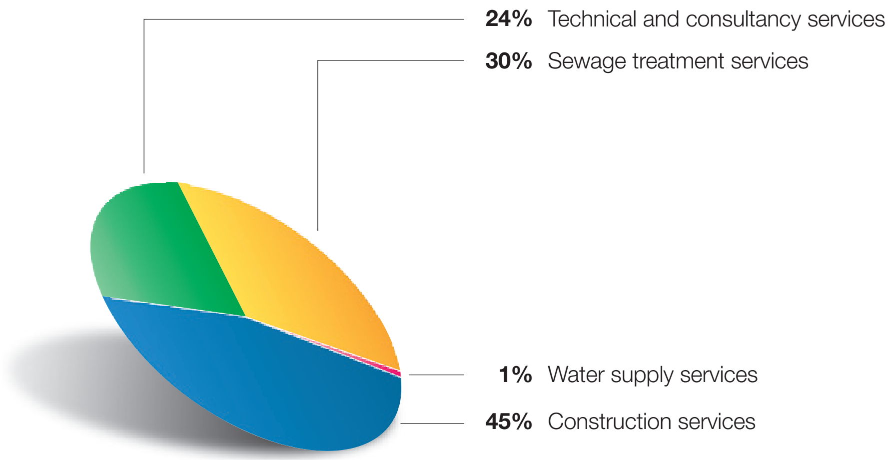
1. FINANCIAL HIGHLIGHTS

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

Revenue



Net profit attributable to shareholders of the Company



Management Discussion and Analysis

	Revenue		GP ratio	Net profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
Sewage treatment services	591.6	9%	62%	248.3	30%
Water supply services	75.5	1%	39%	10.3	1%
Construction services					
– BT projects	4,600.0	72%	9%	311.4	37%
– BOT projects	831.6	13%	11%	63.0	8%
	5,431.6	85%		374.4	45%
Technical and consultancy services					
– BT projects	226.0	4%	99%	184.0	22%
– others	23.4	1%	99%	19.1	2%
	249.4	5%		203.1	24%
Business results	6,348.1	100%		836.1	100%
Others#				(323.6)	
Total				512.5	

Others included share of profits of jointly-controlled entities of HK$0.8 million, head office overheads of HK$89.5 million, convertible bonds interest of HK$23.8 million and other finance costs of HK$211.1 million.

Management Discussion and Analysis

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

	Revenue		GP ratio	Net profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
Sewage treatment services	439.7	25%	63%	196.3	54%
Water supply services	60.5	3%	38%	9.4	3%
Construction services					
– BT projects	82.3	5%	1%	0.4	–
– BOT projects	983.5	57%	12%	81.1	22%
	1,065.8	62%		81.5	22%
Technical and consultancy services					
– BT projects	–	–	–	–	–
– others	69.2	4%	92%	51.7	14%
	69.2	4%		51.7	14%
Sale of sewage treatment facilities	94.8	6%	25%	24.1	7%
Business results	1,730.0	100%		363.0	100%
Others#				(170.3)	
Total				192.7	

\# *Others included a share of profit of an associate (after deduction of non-controlling interests) of HK$4.0 million, other expenses of HK$49.2 million, convertible bonds interest of HK$43.8 million and other finance costs of HK$81.3 million.*

Management Discussion and Analysis

2. BUSINESS REVIEW

The principal businesses 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 31 December 2010, the Group participate in 79 water plants in either operation or construction of which includes 62 sewage treatment plants, 13 water supply plants, 3 reclaimed plants and 1 seawater desalination plant. The total daily design capacity was increased by 2,405,000 tons to 5,909,500 tons, representing an increase of 69% as compared with last year. The increment of 2,405,000 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 495,000 tons, Transfer-Operate-Transfer ("TOT") projects of 140,000 tons, Design-Build-Operate ("DBO") projects of 50,000 tons, entrustment projects of 695,000 tons per day and company owned project of 1,025,000 tons.

Analysis of projects on hand as follows:

	Sewage treatment	Water supply	Reclaimed water	Seawater desalination	Total
('000 tons)					
In operation	2,532.0	150.0	182.0	–	2,864.0
Not yet start operation	1,840.5	1,125.0	30.0	50.0	3,045.5
Total	4,372.5	1,275.0	212.0	50.0	5,909.5
(Number of water plants)					
In operation	40	5	2	–	47
Not yet start operation	22	8	1	1	32
Total	62	13	3	1	79

Management Discussion and Analysis

2.1 Water operation services

	Number of plants	Design capacity *(Tons/Day)*	Actual processing capacity during the year *(Tons (M))*	Revenue *HK$'(M)*	Profit attributable to shareholders of the Company *HK$'(M)*
Sewage treatment and reclaimed water services:					
– Western	14	1,000,000	190.2	144.4	62.4
– Southern	13	792,000	199.1	211.8	88.7
– Shandong	7	297,000	79.3	100.2	36.6
– Eastern	2	170,000	45.0	63.2	36.8
– Northern	6	455,000	50.2	72.0	23.8
	42	2,714,000	563.8	591.6	248.3
Water supply services	5	150,000	47.6	75.5	10.3
Total	47	2,864,000	611.4	667.1	258.6

2.1.1 Sewage treatment and reclaimed water services

As at 31 December 2010, the daily operation capacity of sewage treatment and reclaimed water were recorded as 2,532,000 tons and 182,000 tons respectively. The average daily processing volume is 1,929,000 tons and average daily treatment rate is 71%. The actual average contracted tariff charge of water treatment was approximately HK$1.07 per ton. After the effect of accounting treatment, the average water tariff recognized in revenue was approximately HK$1.05 per ton. The actual aggregate processing volume for the year was 563.8 million tons contributing revenue of HK$591.6 million during the year (9% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK$248.3 million. The information of sewage treatment service in Mainland China is as follows:

Western China

Western China, the largest region in operating capacity of the Group, with operation located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. Most of the BOT projects secured last year were commenced operations during this year, therefore, the operating volume increased significantly. As at 31 December 2010, there were 14 sewage

Management Discussion and Analysis

treatment plants with total daily design capacity of 1,000,000 tons, representing an increase of 440,000 tons per day or 78.6% as compared with last year. The actual processing volume for the year was 190.2 million tons. The operating revenue of HK$144.4 million was recorded during the year. Net profit attributable to shareholders of the Company amounted to HK$62.4 million.

Southern China

Plants in Southern China were mainly located in Guangdong Province and Hunan Province. As at 31 December 2010, there were 13 sewage treatment plants with total daily design capacity of 792,000 tons, representing an increase of 262,000 tons per day or 49% as compared with last year. The actual aggregate processing volume for the year amounted to 199.1 million tons. The operating revenue and net profit attributable to shareholders of the Company were recorded of HK$211.8 million and HK$88.7 million respectively during the year.

Shandong

There were 7 plants in Shandong region. The total daily processing capacity of Shandong region had increased slightly by 42,000 tons to 297,000 tons as compared with last year. The actual processing volume for the year was 79.3 million tons contributing operating revenue of HK$100.2 million during the year. Net profit attributable to shareholders of the Company was HK$36.6 million.

Eastern China

There were 2 water plants in Eastern China which were mainly located in Zhejiang Province. As at 31 December 2010, the operating volume of Eastern China is 170,000 tons which was the same as the operating volume as last year. The actual processing volume for the year amounted to 45.0 million tons and operating revenue was HK$63.2 million during the year. Net profit attributable to shareholders of the Company was HK$36.8 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, representing an increase of 355,000 tons per day as compared with last year. The projects had achieved actual processing volume of 50.2 million tons for the year. The operating revenue was HK$72.0 million during the year. Net profit attributable to shareholders of the Company was HK$23.8 million.

Management Discussion and Analysis

2.1.2 Water supply services

As at 31 December 2010, the Group had 5 water supply plants in operation. Total water supply capacity of these projects was 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$1.57 per ton. The aggregate actual processing volume is 47.6 million tons. These projects recorded revenue of HK$75.5 million (1% of the Group's total revenue) and net profit attributable to shareholders of the Company of HK$10.3 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 year, 16 water plants were under construction. These water plants were mainly located in Guangdong, Sichuan, Shandong, Liaoning, Heilongjiang and Hunan provinces. Total construction revenue for BOT projects was HK$831.6 million and net profit attributable to shareholders of the Company was HK$63.0 million. As at 31 December 2010, the total daily design capacity of these water plants in the construction stage was 1,101,500 tons, most of these projects are expected to commence operation in next year.

Apart from BOT projects, the Group has 8 Build-Transfer ("BT") projects under construction during the year. The projects are located in Tongling, Anhui Province, Kunming, Yunnan Province and Dalian, Liaoning Province. Total construction revenue from BT projects was HK$4,600.0 million and net profit attributable to shareholders of the Company was HK$311.4 million. Contribution from BT projects has been significantly increased since six new BT projects were commenced, including Kunming Huan Hu Nan Lu, Kunming Dian Chi and other water projects (the "Kunming BT projects") and Dalian Chang Xing Dao project (the "Dalian BT project") during the year. The revenue and profit contributed by the Kunming BT projects and Dalian BT project amounted to HK$4,433.4 million and HK$310.0 million respectively. Those BT projects are the construction for intercepting canal and its ancillary facilities, sludge and sewage treatment plants, water environmental renovation, pipeline network and the relevant infrastructures.

Management Discussion and Analysis

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$249.4 million, representing 5% of the Group's total revenue. The net profit attributable to shareholders of the Company was HK$203.1 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$226.0 million and HK$184.0 million respectively.

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded a more than double increase in revenue to HK$6,348.1 million (compared to last year for HK$1,730.0 million). The significant increase was mainly driven by the construction revenue from BT projects. The related revenue was increased by HK$4,517.7 million from HK$82.3 million in the last year to HK$4,600.0 million for the year.

3.2 Cost of sales

Cost of sales for the year amounted to HK$5,226.3 million which mainly included construction cost of HK$4,950.0 million and operating cost of water plants of HK$272.8 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK$100.2 million, staff cost of HK$55.2 million and major overhaul charge of HK$24.9 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

3.3 Gross profit margin

During the year, gross profit margin declined from 30% to 18%. The decline was mainly due to the change in mix of revenue during the year. The revenue contribution from BT projects increased significantly from last year at 5% to 72% this year. The gross margin of BT projects is 9% for this year, which is comparatively lower than average of other business sectors of 42% and therefore the gross margin of the Group decreased. In particular, the return from both Kunming BT projects and Dalian BT project comprise construction service income, technical services and interest income. Since these projects were still under construction during the year, 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 most of the construction work was completed during this year, it is expected that interest income shall be recognised in the coming year.

3.4 Other income and gains, net

The Group recorded other income of HK$83.5 million during the year, compared to last year of HK$26.2 million. The increase was mainly due to increase in interest income and government grants. Other income mainly included interest income of HK$22.9 million, sludge treatment fee income of HK$5.8 million, government grant of HK$47.1 million and other gains on acquisition of subsidiaries, namely China International Construction Investment Holding (Hong Kong) Limited ("CICI") and its subsidiaries, of HK$2.8 million.

3.5 Administrative expenses

Administrative expenses for the year was HK$219.5 million, compared to last year at HK$127.0 million. The increase was mainly contributed by the increase in staff cost by HK$49.5 million as a result of the Group's business expansion.

3.6 Finance costs

Finance costs were mainly represented by interest on bank and other borrowings of HK$215.8 million, compared to last year at HK$85.5 million and imputed interest on convertible bonds of HK$23.8 million, where those in last year was HK$43.8 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

3.7 Income tax

Income tax expense for the year included the current PRC income tax of HK$97.7 million. The effective tax rate for the PRC operation was about 16% 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 year was HK$33.2 million.

3.8 Liquidity and financial resources

As at 31 December 2010, the Group's cash and cash equivalents amounted to HK$1,961.8 million (2009: HK$876.9 million). The Group's total borrowings amounted to HK$8,532.5 million (2009: HK$3,204.3 million).

The Group's total borrowings comprising finance lease payable of HK$4.9 million (2009: HK$10.4 million), convertible bonds of nil (2009: HK$582.7 million) and bank and other borrowings of HK$8,527.6 million (2009: HK$2,611.2 million). The gearing ratio as defined as sum of bank and other borrowings, convertible bonds and finance lease payable, net of cash and cash equivalents, divided by the total equity was 1.30 as at 31 December 2010 (2009: 0.58). The increase in bank and other borrowings as well as the gearing ratio in the year 2010 was mainly due to the increase in investment by financing from the banks both in Hong Kong and China for our core business development.

On 15 March 2011, the Company completed an open offer of new ordinary shares of the Company by issuing 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 gross proceed of the open offer is HK$3,390,817,000. Immediately after the open offer, the gearing ratio is decreased to 0.38.

As at 31 December 2010, the Group had banking facilities amounting to HK$6.39 billion, of which HK$0.4 billion were unused. The banking facilities are of 1-3 years term.

3.9 Capital expenditures

During the year, the Group's total capital expenditures were HK$1,338.3 million (year ended 31 December 2009: HK$1,680.1 million), of which HK$25.2 million was paid for the acquisition of property, plant and equipment and intangible assets, HK$1,312.2 million was spent on construction and acquisition 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 31 December 2010, the Group employed 1,950 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

On 23 April 2010, 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. CICI is the shareholder of various enterprises in the PRC. Those enterprises engaged in a number of BT projects in Kunming city.

On 20 June 2010, the Company entered into a joint venture agreement with Meishi International Investment Group Limited ("Meishi") in relation to the establishment of a joint venture in Dalian, the PRC for the building and construction of the works under the Dalian BT project. Pursuant to the joint venture agreement, the total registered capital of the joint venture was US$98 million (equivalent to approximately HK$762.3 million). The Company needs to inject US$58.8 million (equivalent to approximately HK$457.4 million) and Meishi needs to inject US$39.2 million (equivalent to approximately HK$304.9 million) to the joint venture representing 60% and 40% of the registered capital of the joint venture respectively.

On 25 October 2010, the Company entered into an equity transfer agreement with Guiyang Water Supply Corporation（貴陽市供水總公司）. Pursuant to the equity transfer agreement, the Company shall acquire a 45% equity interest in Guiyang Water Co., Ltd（貴陽水務有限責任公司）("Guiyang Water") for the consideration of RMB721.0 million (equivalent to approximately HK$838.5 million) to be paid in cash by the Company. The principal activities of Guiyang Water are to provide water supply services within the specified areas in Guiyang City under the operating concession agreement. Upon the completion of the equity transfer agreement, Guiyang Water will become a 45% jointly-controlled entity of the Company.

Apart from the above, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the year ended 31 December 2010.

Management Discussion and Analysis

CHARGES ON THE GROUP'S ASSETS

The secured bank loans and the finance lease payable of the Group as at 31 December 2010 are secured by:

(i) mortgages over sewage treatment concession rights (comprising operating concessions and receivables under service concession arrangements), 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;

(ii) the Group's equity interest in a subsidiary;

(iii) corporate guarantees given by the Company and certain subsidiaries of the Group; and

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

Save as disclosed above, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

Corporate Governance Report

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value.

In the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year and up to the date of publication of this report, except for the one deviation disclosed hereinbelow.

BOARD OF DIRECTORS

Composition and role

The Board currently consists of sixteen directors: comprising eleven executive directors, namely, Mr. Zhang Honghai, Mr. Liu Kai, Mr. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong, Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Hou Feng, Ms. Qi Xiaohong, Mr. Ju Yadong; and five independent non-executive directors ("INED(s)"), namely, Mr. Shea Chun Lok, Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun. One of the INEDs namely, Mr. Shea Chun Lok, Quadrant, has the professional and accounting qualifications required by the Listing Rules. The function of the Board is to formulate corporate strategy and business development. The Board has met regularly during the year to approve acquisition and disposal, connected transactions, open offer and monitoring the financial performance of the Group in pursuit of its strategic goals. Control and day to day operation of the Company is delegated to the chief executive officer and the management of the Company. There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship.

Corporate Governance Report

Board Meeting

Attendance records of the Board meetings for the year ended 31 December 2010 set out below:

Name of Director		Number of meetings attended/held
Mr. Zhang Honghai		7/7
Mr. Liu Kai		1/7
Mr. E Meng		3/7
Mr. Jiang Xinhao		7/7
Mr. Hu Xiaoyong		7/7
Mr. Wang Taoguang	(resigned on 29 January 2010)	1/1
Mr. Zhou Min		6/7
Mr. Li Haifeng		7/7
Mr. Zhang Tiefu		6/7
Mr. Hou Feng	(appointed on 27 September 2010)	1/1
Ms. Qi Xiaohong		7/7
Mr. Ju Yadong		6/7
Mr. Shea Chun Lok, Quadrant		4/7
Mr. Zhang Gaobo		4/7
Mr. Guo Rui		6/7
Ms. Hang Shijun		2/7
Mr. Wang Kaijun		2/7

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Company is Mr. Zhang Honghai and the chief executive officer of the Company is Mr. Hu Xiaoyong. The Company has complied with code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Code provision A.4.1 of CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company have not been appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company.

The Company has received, a written an annual confirmation from each of the INEDs confirming his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the directors (the "Model Code"). Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions during the year.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, in the opinion of the Board, the Company had complied with all code provisions set out in the CG Code, except for one code provision under the CG Code. The 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 board of directors of the Company considers that non-executive directors are subject to retirement by rotation and re-election at an annual general meeting in accordance with the Bye-laws of the Company and the requirements of the Bye-laws of the Company are no less exacting than those set out in the CG Code.

BOARD COMMITTEES

The Board has established two board committees to strengthen its functions and corporate governance practices, namely, Audit Committee and Remuneration Committee. The Audit Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference.

The Board does not establish a nomination committee but will consider setting up one at an appropriate time. Currently all new appointments and re-appointments to the Board are subject to the approval of board members.

Audit Committee

The Company's Audit Committee is composed of three independent non-executive directors, currently, Mr. Shea Chun Lok, Quadrant (Chairman of the Audit Committee), Mr. Zhang Gaobo, and Mr. Guo Rui. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Audit Committee is responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements, any issues arising from the audit and any other auditors may wish to raise and review of the Company's internal control and risk management.

Corporate Governance Report

Summary of work done during the year: Reviewed the financial statements for the period from 1 January 2010 to 30 June 2010 and for the year ended 31 December 2010, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company and the internal control system and risk management.

The Audit Committee held two meetings during the year with an attendance rate of 100%.

Remuneration Committee

The Company's Remuneration Committee was established in 2008. The Remuneration Committee comprises one executive director namely, Ms. Qi Xiaohong and two INEDs namely, Mr. Zhang Gaobo (Chairman of the Remuneration Committee) and Mr. Guo Rui. The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules.

The Remuneration Committee is responsible of developing remuneration policies and in overseeing remuneration packages of the directors whether the emoluments offered are appropriate to the duties and performance of the respective individuals concerned. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration. The Remuneration Committee held two meetings during the year with an attendance rate of 100%.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, auditors' remuneration for audit services was approximately HK$5.1 million and for non-audit service assignments was approximately HK$1.1 million, which represented an agreed-upon procedures engagement in connection with the Group's interim financial report and tax compliance service.

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions within an established framework.

Corporate Governance Report

The Board has conducted a review of the effectiveness of the system of internal control of the Company. 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.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible of the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2010, the directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

Directors and Senior Management

Our Board currently consists of sixteen Directors, comprising eleven executive Directors and five independent non-executive Directors.

DIRECTORS

Executive Directors

Mr. Zhang Honghai ("Mr. Zhang"), aged 58, Senior Economist, was appointed as the Chairman and an Executive Director of the Company in May 2008. He serves as a director of Beijing Enterprises Group Company Limited, a vice chairman and the chief executive officer of Beijing Enterprises Holdings Limited (stock code: 392) and an executive director of Beijing Development (Hong Kong) Limited (stock code: 154). Mr. Zhang graduated from Peking University in 1982 and subsequently obtained a master's degree in business studies at the International Business School of Hunan University. Mr. Zhang graduated from the EMBA program of Guanghua School of Management, Peking University. Mr. Zhang has worked for the Beijing Municipal Government for many years. Prior to joining the Company, Mr. Zhang was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. Mr. Zhang is currently the vice president of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as deputy general manager and was then promoted to vice chairman and general manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management.

Mr. Liu Kai ("Mr. Liu"), aged 57, was appointed as an Executive Director of the Company in February 2008. He is a director of Beijing Enterprises Group Company Limited. Mr. Liu is also a vice chairman of Beijing Holdings Limited and an executive director and a vice president of Beijing Enterprises Holdings Limited (stock code: 392). He graduated from Tsinghua University with a bachelor's degree in mechanical engineering in 1979, and later obtained a postgraduate degree in domestic economics management and legal professional studies from the State Administration Institute. In 2007, Mr. Liu graduated from the EMBA program of Tsinghua University. Prior to joining the Company, Mr. Liu served as a senior executive of the Beijing Transportation Bureau and the Beijing Transportation Corporation. Mr. Liu has many years of experience in economics and management.

Mr. E Meng, aged 52, was appointed as an Executive Director of the Company in February 2008. He serves as the chief financial officer of Beijing Enterprises Group Company Limited. He is also an executive director and an executive vice president of Beijing Enterprises Holdings Limited (stock code: 392) and the chairman and an executive director of Beijing Development (Hong Kong) Limited (stock code: 154). Mr. E Meng also is an independent non-executive director of JLF Investment Company Limited (stock code: 472). Mr. E Meng graduated from China Science and Technology University with a master's degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E Meng has extensive experience in economics, finance and enterprise management.

Directors and Senior Management

Mr. Jiang Xinhao ("Mr. Jiang"), aged 46, was appointed as an Executive Director of the Company in June 2008. Mr. Jiang also serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice president of Beijing Enterprises Holdings Limited (stock code: 392) and an executive director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, and then in 1992 with a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. He served as a policy analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. Mr. Jiang has many years of experience in economics, finance and corporate management.

Mr. Hu Xiaoyong ("Mr. Hu"), aged 46, was appointed as the Chief Executive Officer and an Executive Director of the Company in August 2008. Mr. Hu graduated with an EMBA from the Tsinghua University. He was the vice chairman of the China Environmental Service Industry Association (全國工商聯環境服務業商會). Mr. Hu is now the chairman of BEWG Environmental Group Co., Ltd. (北控中科成環保集團有限公司).

Mr. Zhou Min ("Mr. Zhou"), aged 47, was appointed as an Executive Director and a Vice President of the Company in August 2008. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People's Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now a director and the chief financial officer of BEWG Environmental Group Co., Ltd. (北控中科成環保集團有限公司).

Mr. Li Haifeng ("Mr. Li"), aged 40, was appointed as an Executive Director and a Vice President of the Company in August 2008. Mr. Li holds a Bachelor degree in Law from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). Mr. Li is now the chairman of the Supervisory Committee of BEWG Environmental Group Co., Ltd. (北控中科成環保集團有限公司) and a director of China Field Development Limited, responsible for exploring business opportunities in water market in the PRC. He is currently an independent non-executive director of Simsen International Corporation Limited (天行國際(控股)有限公司) (stock code: 993), a company listed on the Stock Exchange of Hong Kong Limited.

Directors and Senior Management

Mr. Zhang Tiefu, aged 48, was appointed as an Executive Director and a Vice President of the Company in April 2009. He graduated from Jilin Industrial Institute with a bachelor's degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) since 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and is concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management. He joined the group in April 2009.

Mr. Hou Feng ("Mr. Hou"), aged 49, was appointed as an Executive Director of the Company in September 2010 and a Vice President of the Company in 2008. He is concurrently acting a director of certain subsidiaries of the Company. Mr. Hou was awarded Master of Science in Environmental Engineering from Sichuan University. Prior to joining the Group, Mr. Hou was appointed as a director and president of BEWG Environmental Group Co., Ltd. (北控中科成環保集團有限公司) from 2001 to 2008. Mr. Hou is the registered environmental protection engineer (全國註冊環保工程師), an advanced member of the Chinese Society For Environmental Sciences (中國環境科學學會), a director of the Fifth Council for the Water Industry Branch of China Civil Engineer Society (中國土木工程協會水工業分會第五屆理事會). He has extensive experiences in engineering, construction and operation work as well as investment in water industry.

Ms. Qi Xiaohong ("Ms. Qi"), aged 43, was appointed as an Executive Director of the Company in May 2008 and a member of Remuneration Committee. Ms. Qi graduated from Capital Normal University and subsequently obtained a master degree in economic management at Capital University of Economics and Business. She has worked for the Beijing Municipal Government for many years. She joined Beijing Enterprises Holdings Limited in 1997 and is now an assistant to CEO and a general manager of Administration Department of Beijing Enterprises Holdings Limited, responsible for corporation administration and human resources management.

Mr. Ju Yadong ("Mr. Ju"), aged 58, was appointed as an Executive Director of the Company in May 2008. Mr. Ju graduated from Nanjing University in 1983 and subsequently obtained a master degree when teaching, and was promoted to an associate professor. Mr. Ju has worked in fields of banking, trust funds and securities since 1992, mainly responsible for analysis of macro-economy, corporations and industries, acquisitions and mergers, market and securities as well as corporate management of owned and entrusted assets. Mr. Ju joined Beijing Enterprises Holdings Limited in 2005 as a manager of Investment Department and was responsible for research on investment projects, establishment of database, and project examination and reporting for approval. Mr. Ju is as a manager of Finance and Securities Department of Beijing Enterprises Group Company Limited. Mr. Ju has accumulated rich academic knowledge and years of practical experience in operation of capital market as well as development and management of investment projects.

Directors and Senior Management

Independent non-executive Directors

Mr. Shea Chun Lok, Quadrant ("Mr. Shea"), aged 44, was appointed as an Independent Non-executive Director and the Chairman of Audit Committee of the Company in May 2002. Mr. Shea graduated from Monash University of Australia with a bachelor's degree in business. He is also a fellow member of CPA Australia, a member of Chartered Institute of Management Accountants, Institute of Certified Public Accountants of Singapore and Hong Kong Institute of Certified Public Accountants. Also, Mr. Shea is a Certified Tax Adviser of Hong Kong. Mr. Shea currently serves as financial controller of a main board listed company in Hong Kong. Mr. Shea has been working as a company secretary and qualified accountant in various Hong Kong main board listed companies for many years. He has substantial experience as a financial controller of listed companies.

Mr. Zhang Gaobo, aged 46, was appointed as an Independent Non-Executive Director of the Company in May 2008. He is also a member of the Audit Committee and Chairman of the Remuneration Committee of the Company. He obtained a Bachelor's degree in science from Henan University in 1985 and later graduated from Peking University with a master's degree in Economics in 1988. From 1988 to 1991, he was a deputy chief of the policy division of the Hainan Provincial Government. From 1991 to 1993, he was the deputy chief of Financial Markets Administration Committee of PBOC Hainan Branch. From 1992 to 1994, he was the chairman of Hainan Stock Exchange Centre. Since 1993, he has been a founding partner and chief executive officer of Oriental Patron Financial Group and is responsible for overall general management and business development of the Group. He is also an executive director and the chief executive officer of OP Financial Investments Limited (stock code: 1140), a company listed on the Stock Exchange of Hong Kong Limited and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange.

Mr. Guo Rui ("Mr. Guo"), aged 43, was appointed as an Independent Non-Executive Director in May 2008. He is also a member of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Guo is president of Paragon Investment Co. Ltd., an investment management organization that invests in real estate, clean energy, healthcare and pharmaceutics, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo also serves as director of Shanghai Xingye Investment Limited and is a former Senior Consultant of Arthur Andersen LLC from 1999 to 2001. From August to November 2010, Mr. Guo was a non-executive director of Jinchuan Group International Resources Co. Ltd（金川集團國際資源有限公司）(formerly known as Macau Investment Holdings Limited（澳門投資控股有限公司）(stock code: 2362), a company listed on the Stock Exchange of Hong Kong Limited. Mr. Guo holds a bachelor degree of computer science (or engineering) from Peking University and a master degree of computer engineering from Northwestern University, U.S.A.

Directors and Senior Management

Ms. Hang Shijun ("Ms. Hang"), aged 69, was appointed as an Independent Non-Executive Director of the Company in August 2008. She graduated from the Beijing Industrial University majored in Water Supply and Drainage in 1963. Ms. Hang has been working in the Beijing Municipal Engineering Design Research Institute（北京市政工程設計研究總院）since 1966 and is now the chief technology officer of its project center. Ms. Hang is an expert in sewage treatment, solid wastes treatment and disposal as well as recycled water (reused water) technology and project.

Mr. Wang Kaijun ("Mr. Wang"), aged 50, was appointed as an Independent non-executive Director of the Company in August 2008. Mr. Wang holds a Doctor degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang previously worked as assistant technology manager of DHV Engineering Consultancy in the Netherlands and the chief engineer of Beijing Municipal Environmental Protection Technology Research Centre（北京市環境保護科學研究院）. He is now the professor of Department of Environmental Science and Engineering, Tsinghua University（清華大學環境科學與工程學）. Mr. Wang has been working in the research, exploration and promotion of sewage control technology and policy over the years. Academically, Mr. Wang has much unique opinion and contributions on the research of hydrolysis-aerobic process theory, aerobic and anaerobic reactor theory and design, expansion control of active sludge, etc. Mr. Wang also expanded the new research fields on municipal sewage hydrolysis-aerobic treatment process, anaerobic efficient reactor, sludge treatment and disposal, livestock dejection treatment and rural environmental protection, all of which exemplified his scientific research spirit of continuous advancement and innovation.

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is engaged in investment holding, and the principal subsidiaries are engaged in, where applicable, the construction of sewage and water treatment plants and other infrastructural facilities, sewage treatment, water treatment services and distribution and sale of piped water, the provision of technical services that are related to sewage treatment and construction in China, and licensing of technical know-how that are related to sewage treatment. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 151.

The directors do not recommend the payment of a dividend for the year ended 31 December 2010.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2009, is set out on page 152. This summary does not form part of the audited financial statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,000,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group together accounted for 72% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 73% of the Group's total purchases for the year. Sales to the largest customer accounted for 28% of the Group's revenue and purchases from the largest supplier accounted for 33% of the Group's purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the best knowledge of the directors owns more than 5% of the Company's share capital) have a beneficial interest in any of the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

Report of the Directors

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the share capital and convertible bonds of the Company during the year, together with the reasons therefor, are set out in notes 28 and 31 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2010, the Company's reserves available for distribution to shareholders amounted to HK$2,390,719,000.

Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus account is available for distribution to the shareholders of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of these reserves if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Zhang Honghai *(Chairman)*
Mr. Liu Kai
Mr. E Meng
Mr. Jiang Xinhao
Mr. Hu Xiaoyong *(Chief Executive Officer)*
Mr. Wang Taoguang (resigned on 29 January 2010)
Mr. Zhou Min
Mr. Li Haifeng
Mr. Zhang Tiefu
Mr. Hou Feng (appointed on 27 September 2010)
Ms. Qi Xiaohong
Mr. Ju Yadong

Independent Non-executive Directors

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

In accordance with Bye-law 99(B) of the Company, Mr. Zhang Tiefu, Ms. Qi Xiaohong, Mr. Ju Yadong, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun shall retire by rotation from office as directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

Report of the Directors

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and the senior management of the Company are set out on pages 24 to 28 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the interests and short positions of the directors 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 *(note 2)*
Mr. Hu Xiaoyong	Interest of controlled corporation *(note 1)*	456,526,613	10.00%
Mr. Zhou Min	Interest of controlled corporation *(note 1)*	456,526,613	10.00%

Notes:

1. Messrs. Hu Xiaoyong, Zhou Min and Hou Feng are interested in Tenson Investment Limited as to 52.62%, 44.93% and 2.45%, respectively. Tenson Investment Limited holds 456,526,613 underlying shares.

2. The percentage represented the number of shares over the total issued share capital of the Company as of 31 December 2010 of 4,566,756,463 shares.

Save as disclosed above, as at 31 December 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.

Report of the Directors

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 year ended 31 December 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, 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 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 at the end of the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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

	Number of ordinary shares and underlying shares held, capacity and nature of interest			
Name of Shareholders	Directly beneficially owned	Through controlled corporation	Total	Approximate percentage of the Company's total issued share capital
Beijing Enterprises Group Company Limited	–	4,280,382,231 (note 1)	4,280,382,231	93.73% (note 3)
Beijing Enterprises Holdings Limited ("BEHL")	–	4,280,382,231 (note 1)	4,280,382,231	93.73% (note 3)
Tenson Investment Limited (note 2)	456,526,613	–	456,526,613	10.00%

Report of the Directors

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

1. Beijing Enterprises Group Company Limited is deemed by the SFO to be interested in 4,280,382,231 shares of the Company ("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 Company Limited ("BE Environmental")	4,280,382,231 (i)
BEHL	4,280,382,231 (ii)
Beijing Enterprises Group (BVI) Company Limited	4,280,382,231 (ii)
Beijing Enterprises Group Company Limited	4,280,382,231 (ii)

(i) This includes the deemed interest in up to 2,283,378,231 new Shares ("Offer Shares"), issued pursuant to an offer by the Company of the Offer Shares on the basis of one Offer Share for every two existing Shares held by the qualifying Shareholders (the "Open Offer") on the terms and subject to the conditions set out in, among others, the announcement of the Company dated 22 December 2010, the circular of the Company dated 26 January 2011 and the prospectus of the Company dated 22 February 2011, being the aggregate of 1,284,876,231 Offer Shares underwritten by BE Environmental pursuant to an underwriting agreement dated 21 December 2010 (as amended) between the Company and BE Environmental in relation to the underwriting and other arrangements in respect of the Open Offer (the "Underwriting Agreement") and 998,502,000 Offer Shares which BE Environmental has irrevocably undertaken to take up, or to procure subscribers to take up, pursuant to the Underwriting Agreement.

(ii) BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn held as to 36.16% 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 52.62% by Mr. Hu Xiaoyong, as to 44.93% by Mr. Zhou Min, and as to 2.45% by Mr. Hou Feng, all being executive Directors.

3. The percentage represented the number of shares over the total issued share capital of the Company as at 31 December 2010 of 4,566,756,463 shares.

Save as disclosed above, as at 31 December 2010, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interest and short positions 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.

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

The emolument policy of the employee of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

Report of the Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued capital was held by the public as at the date of this report.

CONNECTED TRANSACTIONS

On 4 May 2010, Yunnan ZKC City Investment Water Co., Ltd.*(雲南中科城投水務有限公司) as lender, an indirect non-wholly owned subsidiary of the Company, entered into a loan agreement with Yunnan Water Industry Investment Co., Ltd.*(雲南省水務產業投資有限公司) as borrower, pursuant to which the lender agreed to lend RMB170,000,000 to the borrower for financing its business operation in China. In this circumstance, the borrower is a connected person of the Company and the entering into of the loan agreement constitutes a non-exempt connected transaction under Chapter 14A of the Listing Rules and is subject to the independent shareholders' approval. Given that no shareholder of the Company will be required to abstain from voting on the provision of the aforesaid loan and Beijing Enterprises Environmental Construction Limited, holding more than 50% in nominal value of the securities giving the right attend and vote at the general meeting of the Company at that time, had indicated to vote in favour of the provision of the aforesaid loan. In view of the aforesaid, the Company had applied to the Stock Exchange of Hong Kong Limited ("Stock Exchange") for a waiver from the requirement under the Listing Rules for the Company to hold a special general meeting to seek independent shareholders' approval in respect of the provision of the aforesaid loan and had obtained such waiver granted by the Stock Exchange. Details of this transaction can be found on the website of the Company and the Stock Exchange.

On 24 June 2010, the Company as lender entered into a loan agreement with Meishi International Investment Group Limited ("Meishi') as borrower, pursuant to which the Company agreed to lend US$35.2 million to Meishi for financing its investment in Beike (Dalian) Investment Co., Ltd.*(北科(大連)投資有限公司) ("Joint Venture"), the equity joint venture enterprises set up between the Company and Meishi pursuant to a joint venture agreement dated 20 June 2010. The repayment of the aforesaid loan is secured by the personal guarantee provided by Mr. Wu Lizhong ("Mr. Wu"), who is the sole director and shareholder of Meishi, and share charges both executed by Mr. Wu over the entire issued share capital of Meishi and by Meishi over 40% of the equity interest in the Joint Venture respectively. In this circumstance, Meishi is a connected person of the Company and the entering into of the loan agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios as defined under Listing Rules are less than 5%, the entering into of the aforesaid loan agreement is only subject to the reporting and announcement requirement and is exempt from independent shareholders' approval. Details of this transaction can be found on the website of the Company and the Stock Exchange.

Report of the Directors

On 14 December 2010, the Company, Meishi and Mr. Wu entered into a supplemental loan agreement, pursuant to which the amount of the aforesaid loan was varied and modified from the sum of US$35,200,000 to the sum of US$59,052,000, representing an increase of additional loan of US$23,852,000. In order to ensure sustainable development of the Joint Venture, the Company and Meishi agreed to increase the capital contribution into the Joint Venture. Thus, the provision of additional loan is solely used for its capital contribution into the Joint Venture. In this circumstance, Meishi is a connected person of the Company and the entering into of the supplemental loan agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. As the relevant applicable percentage ratios as defined under Listing Rules (with prior relevant connected transaction made with Meishi being aggregated under Listing Rules) are less than 5%, the entering into of the aforesaid supplemental loan agreement is only subject to the reporting and announcement requirement and is exempt from independent shareholders' approval. Details of this transaction can be found on the website of the Company and the Stock Exchange.

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 annual 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% 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 this annual report, the Loan Facility had been drawn and fully repaid during the year.

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 annual report, the aforesaid loan was fully drawn down under the aforesaid facility agreement and is fully repayable within 5 years.

Report of the Directors

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance and continued to uphold a good, solid and sensible framework of corporate governance and has compiled with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange during the year ended 31 December 2010, except for the one deviation. Further information on the Company's corporate governance practices is set out in the Corporate Governance Report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding Directors' securities transactions. Having made specific enquiry of the directors, all of the directors have complied with, for any part of the accounting period covered by this annual report, the required standard set out in the Model Code.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 48 to the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2010 were approved by the board of directors on 31 March 2011.

On behalf of the Board

Zhang Honghai
CHAIRMAN

Hong Kong
31 March 2011

Independent Auditors' Report

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安 永

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To the shareholders of Beijing Enterprises Water Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 151, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditors' Report *(Continued)*

AUDITORS' RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	6	6,348,060	1,730,013
Cost of sales		(5,226,252)	(1,214,083)
Gross profit		1,121,808	515,930
Other income and gains, net	6	83,464	26,178
Selling and distribution costs		–	(2,492)
Administrative expenses		(219,465)	(127,008)
Other operating expenses, net		(56,608)	(14,658)
PROFIT FROM OPERATING ACTIVITIES	7	929,199	397,950
Finance costs	8	(234,908)	(125,132)
Share of profits and losses of:			
Jointly-controlled entities	20(a)	824	–
An associate		–	4,565
PROFIT BEFORE TAX		695,115	277,383
Income tax	11	(130,950)	(48,637)
PROFIT FOR THE YEAR		564,165	228,746
ATTRIBUTABLE TO:			
Shareholders of the Company	12	512,512	192,711
Non-controlling interests		51,653	36,035
		564,165	228,746
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic		HK12.99 cents	HK6.11 cents
– Diluted		HK11.74 cents	HK5.35 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 ***HK$'000***	2009 *HK$'000*
PROFIT FOR THE YEAR	**564,165**	228,746
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX OF NIL		
– Exchange differences on translation of foreign operations	**182,958**	(1,025)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**747,123**	227,721
ATTRIBUTABLE TO:		
Shareholders of the Company	**657,248**	191,752
Non-controlling interests	**89,875**	35,969
	747,123	227,721

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	**46,114**	232,027
Prepaid land premiums	15	**–**	27,060
Goodwill	16	**1,580,116**	1,575,451
Operating concessions	17	**749,718**	399,132
Other intangible assets	18	**5,305**	3,293
Investments in jointly-controlled entities	20	**118,619**	–
Available-for-sale investments	21	**1,647**	454
Amounts due from contract customers	23	**1,605,284**	1,085,700
Receivables under service concession arrangements	17	**2,736,583**	1,916,822
Trade receivables	24	**120,905**	51,710
Prepayments, deposits and other receivables	25	**1,408,510**	205,190
Deferred tax assets	35	**31,806**	31,071
Total non-current assets		**8,404,607**	5,527,910
Current assets:			
Prepaid land premiums	15	**–**	644
Inventories	22	**12,786**	7,139
Amounts due from contract customers	23	**759,109**	49,930
Receivables under service concession arrangements	17	**123,889**	137,443
Trade receivables	24	**4,002,108**	99,192
Prepayments, deposits and other receivables	25	**1,367,995**	710,579
Restricted cash and pledged deposits	27	**592,507**	14,019
Cash and cash equivalents	27	**1,961,828**	876,861
Total current assets		**8,820,222**	1,895,807
TOTAL ASSETS		**17,224,829**	7,423,717

Consolidated Statement of Financial Position *(Continued)*

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	*28*	**456,676**	348,219
Reserves	*29(a)(i)*	**3,436,184**	2,274,686
		3,892,860	2,622,905
Non-controlling interests		**1,175,094**	388,911
TOTAL EQUITY		**5,067,954**	3,011,816
Non-current liabilities:			
Other payables and accruals	*37*	**22,644**	37,554
Bank and other borrowings	*30*	**3,231,442**	1,320,222
Convertible bonds	*31*	**–**	582,737
Finance lease payable	*32*	**–**	4,743
Provision for major overhauls	*33*	**123,374**	91,792
Deferred income	*34*	**23,978**	23,378
Deferred tax liabilities	*35*	**138,688**	100,305
Total non-current liabilities		**3,540,126**	2,160,731
Current liabilities:			
Trade payables	*36*	**2,637,650**	445,227
Other payables and accruals	*37*	**569,700**	482,551
Income tax payables		**108,286**	26,770
Bank and other borrowings	*30*	**5,296,200**	1,290,946
Finance lease payable	*32*	**4,913**	5,676
Total current liabilities		**8,616,749**	2,251,170
TOTAL LIABILITIES		**12,156,875**	4,411,901
TOTAL EQUITY AND LIABILITIES		**17,224,829**	7,423,717

Zhang Honghai	**Zhou Min**
Director	*Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (note 29(a)(ii))	Capital reserve HK$'000	Convertible bond equity reserve HK$'000 (note 31)	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 29(a)(iii))	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to shareholders of the Company										
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
Profit for the year		–	–	–	–	–	–	–	192,711	192,711	36,035	228,746
Other comprehensive loss for the year												
– Exchange differences on translation of foreign operations		–	–	–	–	–	(959)	–	–	(959)	(66)	(1,025)
Total comprehensive income/(loss) for the year		–	–	–	–	–	(959)	–	192,711	191,752	35,969	227,721
Issue of new shares	28(a)	22,668	281,087	–	–	–	–	–	–	303,755	–	303,755
Issue of convertible bonds	31	–	–	–	–	52,439	–	–	–	52,439	–	52,439
Conversion of convertible bonds	28(b), 31	85,044	310,811	–	–	(79,197)	–	–	–	316,658	–	316,658
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	245,062	245,062
Acquisition of subsidiaries	39	–	–	–	–	–	–	–	–	–	50,069	50,069
Acquisition of non-controlling interests		–	–	–	–	–	–	–	–	–	(177,999)	(177,999)
Disposal of a subsidiary	40	–	–	–	–	–	–	–	–	–	(3,846)	(3,846)
Transfer to reserves		–	–	–	–	–	–	29,448	(29,448)	–	–	–
At 31 December 2009 and 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 year		–	–	–	–	–	–	–	512,512	512,512	51,653	564,165
Other comprehensive income for the year												
– Exchange differences on translation of foreign operations		–	–	–	–	–	144,736	–	–	144,736	38,222	182,958
Total comprehensive income for the year		–	–	–	–	–	144,736	–	512,512	657,248	89,875	747,123
Conversion of convertible bonds	28(b), 31	108,457	715,053	–	–	(216,986)	–	–	–	606,524	–	606,524
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	706,208	706,208
Acquisition of subsidiaries	39	–	–	–	–	–	–	–	–	–	24,989	24,989
Acquisition of non-controlling interests		–	–	–	4,129	–	–	–	–	4,129	(28,564)	(24,435)
Deemed disposal of partial interests in subsidiaries		–	–	–	2,054	–	–	–	–	2,054	–	2,054
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	(6,325)	(6,325)
Transfer to reserves		–	–	–	1,265	–	–	54,016	(55,281)	–	–	–
At 31 December 2010		456,676	2,532,431*	(400)*	7,448*	–*	139,229*	101,366*	656,110*	3,892,860	1,175,094	5,067,954

* *These reserve accounts comprise the consolidated reserves of HK$3,436,184,000 (2009: HK$2,274,686,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**695,115**	277,383
Adjustments for:			
Bank interest income	6	**(6,481)**	(5,789)
Loss on disposal of items of property, plant and equipment, net	7	**225**	53
Loss on disposal of other intangible assets	7	**–**	75
Gain on bargain purchase	6	**(2,824)**	–
Loss on disposal of a subsidiary	7	**–**	2,922
Loss on disposal of an associate	7	**–**	326
Depreciation	7	**8,228**	14,370
Amortisation of operating concessions	7	**30,206**	19,426
Amortisation of other intangible assets	7	**502**	256
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	7	**32,495**	(408)
Impairment of trade receivables, net	7	**239**	612
Impairment of other receivables, net	7	**223**	592
Impairment of amounts due from contract customers	7	**–**	6,273
Provision for major overhauls	33	**24,895**	20,775
Finance costs	8	**242,985**	132,434
Share of profits and losses of jointly-controlled entities		**(824)**	–
Share of profit of an associate		**–**	(4,565)
Operating profit before working capital changes		**1,024,984**	464,735
Decrease in prepaid land premiums		**–**	301
Decrease/(increase) in inventories		**(5,392)**	1,207
Increase in amounts due from contract customers		**(308,574)**	(829,240)
Increase in receivables under service concession arrangements		**(765,232)**	(490,241)
Increase in trade receivables		**(3,916,879)**	(138,709)
Increase in prepayments, deposits and other receivables		**(987,908)**	(644,315)
Increase in trade payables		**2,081,263**	319,389
Increase/(decrease) in other payables and accruals		**(342,705)**	183,193
Increase in deferred income		**–**	5,946
Exchange adjustments		**–**	(1,274)
Cash used in operations		**(3,220,443)**	(1,129,008)
Mainland China income tax paid		**(17,626)**	(2,662)
Net cash flows used in operating activities		**(3,238,069)**	(1,131,670)

Consolidated Statement of Cash Flows *(Continued)*

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(25,163)**	(61,274)
Purchases of operating concessions	17	**(112,953)**	(44,043)
Purchases of other intangible assets	18	**(2,397)**	(1,887)
Acquisition of subsidiaries	39	**476**	4,140
Acquisition of jointly-controlled entities		**(75,174)**	–
Acquisition of non-controlling interests		**–**	(55,453)
Acquisition of an available-for-sale investment		**(1,177)**	–
Increase in loan to a jointly-controlled entity		**(42,625)**	–
Disposal of a subsidiary	40	**–**	20,708
Proceeds from disposal of a partial interest in an associate		**–**	2,271
Increase in restricted cash and pledged deposits		**(578,484)**	(5,953)
Interest received	6	**6,481**	5,789
Net cash flows used in investing activities		**(831,016)**	(135,702)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**706,208**	245,062
New loans		**7,759,985**	1,433,380
Repayment of loans		**(3,135,538)**	(277,176)
Capital element of finance lease rental payments		**(6,428)**	(5,451)
Interest paid		**(215,792)**	(85,545)
Interest element of finance lease rental payments		**(681)**	(1,015)
Dividend paid to non-controlling equity holders		**(6,325)**	–
Net cash flows from financing activities		**5,101,429**	1,309,255
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,032,344**	41,883
Cash and cash equivalents at beginning of year		**876,861**	834,936
Effect of foreign exchange rate changes, net		**52,623**	42
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**1,961,828**	876,861

Statement of Financial Position

31 December 2010

	Notes	**31 December 2010 HK$'000**	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
ASSETS				
Non-current assets:				
Property, plant and equipment	14	**167**	321	466
Investments in subsidiaries	19	**6,802,932**	2,374,007	1,943,342
Investments in jointly-controlled entities	20	**1,269**	–	–
Prepayments, deposits and other receivables	25	**1,048,071**	–	–
Total non-current assets		**7,852,439**	2,374,328	1,943,808
Current assets:				
Trade receivables	24	**19,696**	85,693	–
Prepayments, deposits and other receivables	25	**251,072**	586,713	200
Due from subsidiaries	19	**876,710**	866,240	942,352
Cash and cash equivalents	27	**166,814**	8,697	15,376
Total current assets		**1,314,292**	1,547,343	957,928
TOTAL ASSETS		**9,166,731**	3,921,671	2,901,736
EQUITY AND LIABILITIES				
Equity:				
Issued capital	28	**456,676**	348,219	240,507
Reserves	29(b)	**2,390,719**	1,947,861	1,445,226
TOTAL EQUITY		**2,847,395**	2,296,080	1,685,733
Non-current liabilities:				
Bank and other borrowings	30	**1,570,578**	–	–
Convertible bonds	31	**–**	582,737	669,275
Total non-current liabilities		**1,570,578**	582,737	669,275
Current liabilities:				
Trade payables	36	**12,022**	34,285	–
Other payables and accruals	37	**13,987**	5,107	546,728
Due to subsidiaries	19	**336,451**	502,016	–
Bank and other borrowings	30	**4,386,298**	501,446	–
Total current liabilities		**4,748,758**	1,042,854	546,728
TOTAL LIABILITIES		**6,319,336**	1,625,591	1,216,003
TOTAL EQUITY AND LIABILITIES		**9,166,731**	3,921,671	2,901,736

Zhang Honghai
Director

Zhou Min
Director

Notes to Financial Statements

31 December 2010

1. CORPORATE INFORMATION

Beijing Enterprises Water Group Limited (the "Company") is a limited liability company incorporated in Bermuda and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively the "Group") were 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

2. BASIS OF PRESENTATION

Despite that the Company's current liabilities exceeded its current assets by approximately HK$3,434 million as at 31 December 2010, the directors of the Company consider that the Group and the Company will have adequate funds available to enable them to operate as going concerns, based on the Group's and the Company's profit forecasts and cash flow projections which, inter alia, take into account the following:

(a) total proceeds of approximately HK$3,391 million were raised from 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;

(b) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group's bankers; and

(c) Beijing Enterprises Holdings Limited ("BEHL"), a substantial shareholder of the Company, has the intention to maintain directly or indirectly of not less than 40% equity interest in the Company in the foreseeable future.

Accordingly, these financial statements have been prepared on a going concern basis which assumes, among other things, the realisation of assets and satisfaction of liabilities in the normal course of business.

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3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate.

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3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

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3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(Continued)

HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), and HKAS 1, HKAS 7, HKAS 36 and HKAS 38 included in *Improvements to HKFRSs 2009*, and HK Interpretation 5, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

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3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(Continued)

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: States that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 36 *Impairment of Assets*: Clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in HKFRS 8 before aggregation for financial reporting purposes.

- HKAS 38 *Intangible Assets*: Clarifies that (i) if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of assets as a single asset provided that the individual assets have similar useful lives; and (ii) the valuation techniques presented in the standard for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

(c) HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The interpretation requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement. The interpretation has no impact on these financial statements as the Group's bank and other borrowings with the loan agreements containing a repayment on demand clause are repayable within one year from each of the end of the reporting period ended 31 December 2010 and 2009.

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3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

[1] *Effective for annual periods beginning on or after 1 February 2010*
[2] *Effective for annual periods beginning on or after 1 July 2010*
[3] *Effective for annual periods beginning on or after 1 January 2011*
[4] *Effective for annual periods beginning on or after 1 July 2011*
[5] *Effective for annual periods beginning on or after 1 January 2012*
[6] *Effective for annual periods beginning on or after 1 January 2013*

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those changes that are expected to significantly affect the Group is as follows:

(a) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in the income statement, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in the income statement. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

(b) HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011.

As the Group's current policy for related party disclosures aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

Notes to Financial Statements

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3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(c) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

- HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

Notes to Financial Statements

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any accumulated impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Notes to Financial Statements

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3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group or its holding companies;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the income statement.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Business combinations from 1 January 2010 (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in the income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 November. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its estimated residual value over its estimated useful life. The estimated useful lives of different categories of property, plant and equipment are as follows:

Buildings	30 years
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Machinery	5 to 10 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	3 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction or installation, and construction materials. Construction in progress is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue and costs relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the sewage and water treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sewage and water treatment plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions

Operating concessions represent the rights to operate sewage and water treatment plants and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Patents

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 10 years.

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful life of 5 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, deferred tax assets, financial assets, inventories and amounts due from contract customers), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of a non-financial asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior periods. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Revenue" or "Other income and gains, net", as appropriate, in the income statement. The loss arising from impairment is recognised in "Other operating expenses, net" in the income statement.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

(b) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity investments that are designated as available for sale. After initial recognition, the available-for-sale investments are stated at cost less any accumulated impairment losses as the fair value of the unlisted investments cannot be reliably measured, which is because (a) the variability in the range of reasonable fair value estimates is significant for these investments or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost (Continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to "Other operating expenses, net" in the income statement.

Available-for-sale investments carried at cost

If there is objective evidence that an impairment loss has been incurred on the unlisted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities (loans and borrowings)

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are all classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value, net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of best estimate of the expenditure required to settle the present obligation at the end of the reporting period and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Upon the exercise of the conversion options, the resulting ordinary shares issued are recorded by the Company as additional share capital at the nominal value of the ordinary shares issued, and the excess of the total carrying amount of the liability and equity components of the convertible bonds over the nominal value of the ordinary shares issued is recorded in the share premium account. When the convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in the income statement. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the income statement upon conversion or expiration of the conversion option.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises (i) the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of Build-Transfer ("BT") contracts and (ii) construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from BT contracts is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from the construction of a sewage treatment plant under the terms of BOT contracts (service concession agreements) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the income statement is recognised outside the income statement, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants *(Continued)*

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities (loans and borrowings)" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;

(b) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for "Contracts for services" above;

(c) from licensing of technical know-how, when the related technique has been delivered and accepted;

(d) from the sale of water and goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the water and goods sold;

(e) rental income, on a time proportion basis over the lease terms;

(f) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(g) dividend income, when the right to receive payment has been established.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits – Pension schemes

The Group has joined a number of defined contribution pension schemes organised by certain PRC provincial or municipal governments for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable, in accordance with the rules of the pension schemes. The employer contributions vest fully once made.

For those employees that have not yet joined a pension scheme, the Group has accrued for the estimated future pension costs based on a percentage of their salaries. The related assets for the purpose of discharging such liabilities are not separately held from those of the Group.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollar, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements

31 December 2010

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currency of certain Mainland China and overseas subsidiaries, jointly-controlled entities and the associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition date are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Mainland China and overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Classification between operating concessions and receivables under service concession arrangements

As explained in note 3.4 to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Notes to Financial Statements

31 December 2010

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Classification between operating concessions and receivables under service concession arrangements *(Continued)*

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, expected future sewage treatment volume of the relevant sewage treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2010 were HK$749,718,000 (2009: HK$399,132,000) and HK$2,860,472,000 (2009: HK$2,054,265,000), respectively. Further details of which are set out in note 17 to the financial statements.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of a sewage treatment plant under the terms of a BOT contract is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The construction margin is determined from the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection included:

(i) the peer firm must be doing business on construction of infrastructure, majoring in sewage treatment facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

Percentage of completion of construction work and service contracts

The Group recognises revenue for construction work and service contracts according to the percentage of completion of the individual contract of construction or service work. The Group's management estimates the percentage of completion of construction and service work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

Notes to Financial Statements

31 December 2010

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Estimate of water consumption

Determination of the revenue for the distribution and sale of water may include an estimation of the water supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

The actual consumption could deviate from those estimates.

Provision for major overhauls of sewage and water treatment plants to a specified level of serviceability

The Group have contractual obligations which it must fulfil as a condition of its licence and that is (a) to maintain the sewage and water treatment plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the sewage and water treatment plants over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the provision for major overhauls carried as a liability in the consolidated statement of financial position as at 31 December 2010 was HK$123,374,000 (2009: HK$91,792,000), further details of which are set out in note 33 to the financial statements.

Useful lives and residual values of property, plant and equipment, and intangible assets (other than goodwill)

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment, and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment, and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of property, plant and equipment, and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2010 were HK$46,114,000 (2009: HK$232,027,000) and HK$755,023,000 (2009: HK$402,425,000), respectively. Further details of which are set out in notes 14, 17 and 18 to the financial statements.

Notes to Financial Statements

31 December 2010

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as assets in the consolidated statement of financial position as at 31 December 2010 was HK$1,580,116,000 (2009: HK$1,575,451,000), details of which are set out in note 16 to the financial statements.

Impairment of property, plant and equipment, and intangible assets (other than goodwill)

The carrying amounts of items of property, plant and equipment, and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 3.4 to these financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Impairment of receivables under service concession arrangements, trade receivables and other receivables

The policy for provision for impairment of receivables under service concession arrangements, trade receivables and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of receivables under service concession arrangements, trade receivables and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2010 were HK$2,860,472,000 (2009: HK$2,054,265,000), HK$4,123,013,000 (2009: HK$150,902,000) and HK$2,776,505,000 (2009: HK$915,769,000), respectively. Further details of which are set out in notes 17, 24 and 25 to the financial statements.

Notes to Financial Statements

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong and Mainland China. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as liabilities in the consolidated statement of financial position as at 31 December 2010 was HK$108,286,000 (2009: HK$26,770,000).

Deferred tax assets relating to certain temporary differences and tax losses are not recognised as management considered these losses were arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimates have been changed. The carrying amount of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2010 were HK$31,806,000 (2009: HK$31,071,000) and HK$138,688,000 (2009: HK$100,305,000), respectively, details of which are set out in note 35 to the financial statements.

5. 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. Particulars of the Group's reportable operating segments are summarised as follows:

(a) the sewage treatment and construction services segment engages in the construction and operation of sewage and water treatment plants, and the construction of sewage treatment plants and other infrastructural facilities;

(b) the water supply services segment engages in the distribution and sale of piped water and the provision of related services;

Notes to Financial Statements

31 December 2010

5. OPERATING SEGMENT INFORMATION *(Continued)*

(c) the technical and consultancy services segment engages in the provision of consultancy services that are related to sewage treatment and construction, and the licensing of technical know-how that are related to sewage treatment; and

(d) the sewage treatment equipment trading segment engages in the trading of sewage treatment facilities and machinery and the provision of related services.

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 year attributable to shareholders of the Company, which is a measure of adjusted profit for the year attributable to shareholders of the Company. The adjusted profit for the year 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 and an associate, as well as head office and corporate income and expenses are excluded from such measurement.

Segment assets exclude corporate and head office assets as these assets are managed on a group basis.

During the year, the Group changed its operating segment reporting structure as follows:

(a) 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; and

(b) group financing (including finance costs) and share of profits and losses of jointly-controlled entities and an associate are managed on a group basis and are not allocated to operating segments.

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

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5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010

	Sewage treatment and construction services HK$'000	Water supply services HK$'000	Technical and consultancy services HK$'000	Sewage treatment equipment trading HK$'000	Total HK$'000
Segment revenue	6,023,210	75,460	249,390	–	6,348,060
Cost of sales	(5,176,892)	(45,979)	(3,381)	–	(5,226,252)
Gross profit	846,318	29,481	246,009	–	1,121,808
Segment results	774,047	13,117	239,173	–	1,026,337
Corporate and other unallocated income and expenses					(97,138)
Finance costs					(234,908)
Share of profits and losses of:					
Jointly-controlled entities					824
An associate					–
Profit before tax					695,115
Income tax					(130,950)
Profit for the year					564,165
Profit/(loss) for the year attributable to shareholders of the Company:					
– From operating segments	622,651	10,272	203,142	–	836,065
– Corporate and other unallocated items					(323,553)
					512,512

Notes to Financial Statements

31 December 2010

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010 *(Continued)*

	Sewage treatment and construction services *HK$'000*	Water supply services *HK$'000*	Technical and consultancy services *HK$'000*	Sewage treatment equipment trading *HK$'000*	Total *HK$'000*
Segment assets					
– Operating segments	13,538,597	206,216	806,198	–	14,551,011
– Corporate and other unallocated items					2,673,818
					17,224,829
Other segment information:					
Depreciation					
– Operating segments	5,021	1,351	631	–	7,003
– Amount unallocated					1,225
					8,228
Amortisation of operating concessions	25,643	4,563	–	–	30,206
Amortisation of other intangible assets					
– Operating segments	3	34	198	–	235
– Amount unallocated					267
					502
Impairment of segment assets, net					
– Operating segments	32,546	17	370	–	32,933
– Amount unallocated					24
					32,957
Provision for major overhauls	24,606	289	–	–	24,895
Capital expenditure*					
– Operating segments	119,225	2,821	14,465	–	136,511
– Amount unallocated					4,002
					140,513

Notes to Financial Statements

31 December 2010

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009

	Sewage treatment and construction services *HK$'000* (Restated)	Water supply services *HK$'000* (Restated)	Technical and consultancy services *HK$'000* (Restated)	Sewage treatment equipment trading *HK$'000* (Restated)	Total *HK$'000* (Restated)
Segment revenue	1,505,615	60,462	69,156	94,780	1,730,013
Cost of sales	(1,100,452)	(37,365)	(5,607)	(70,659)	(1,214,083)
Gross profit	405,163	23,097	63,549	24,121	515,930
Segment results	363,963	10,398	58,291	24,121	456,773
Corporate and other unallocated income and expenses					(58,823)
Finance costs					(125,132)
Share of profits and losses of:					
Jointly-controlled entities					–
An associate					4,565
Profit before tax					277,383
Income tax					(48,637)
Profit for the year					228,746
Profit/(loss) for the year attributable to shareholders of the Company:					
– From operating segments	277,750	9,415	51,699	24,121	362,985
– Corporate and other unallocated items					(170,274)
					192,711

Notes to Financial Statements

31 December 2010

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009 *(Continued)*

	Sewage treatment and construction services *HK$'000* (Restated)	Water supply services *HK$'000* (Restated)	Technical and consultancy services *HK$'000* (Restated)	Sewage treatment equipment trading *HK$'000* (Restated)	Total *HK$'000* (Restated)
Segment assets					
– Operating segments	5,429,428	226,496	699,974	–	6,355,898
– Corporate and other unallocated items					1,067,819
					7,423,717
Other segment information:					
Depreciation					
– Operating segments	7,266	5,727	562	–	13,555
– Amount unallocated					815
					14,370
Amortisation of operating concessions	17,878	1,548	–	–	19,426
Amortisation of other intangible assets					
– Operating segments	4	–	196	–	200
– Amount unallocated					56
					256
Impairment/(reversal of impairment) of segment assets, net					
– Operating segments	339	(426)	7,043	–	6,956
– Amount unallocated					113
					7,069
Provision for major overhauls	20,495	280	–	–	20,775
Capital expenditure*					
– Operating segments	96,882	5,612	282	–	102,776
– Amount unallocated					4,428
					107,204

* *Capital expenditure consists of additions to property, plant and equipment, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.*

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.

Notes to Financial Statements

31 December 2010

5. OPERATING SEGMENT INFORMATION *(Continued)*

Information about major customers

During the year ended 31 December 2010, the Group had transactions with three (2009: one) external customers of the sewage treatment and construction services segment who each contributed over 10% of the Group's total revenue for the year. A summary of revenue earned from each of these major external customers is set out below:

	2010 ***HK$'000***	2009 *HK$'000*
Customer 1	**1,554,300**	–
Customer 2	**1,755,791**	–
Customer 3	**1,108,363**	–
Customer 4	**–**	176,059
	4,418,454	176,059

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts and service contracts relating to sewage treatment, net of business tax and government surcharges; (2) 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; (5) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; and (6) the imputed interest income on service concession arrangements.

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

	2010 ***HK$'000***	2009 *HK$'000*
Revenue		
Sewage treatment services*	**591,648**	439,784
Construction contracts*	**5,431,562**	1,065,831
Sale of water	**75,460**	60,462
Consultancy services	**235,670**	34,342
Licence fees	**13,720**	34,814
Sale of goods	**–**	94,780
	6,348,060	1,730,013

Notes to Financial Statements

31 December 2010

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

	2010 *HK$'000*	2009 *HK$'000*
Other income		
Bank interest income	**6,481**	5,789
Interest income on a loan to a jointly-controlled entity *(note 20(c))*	**1,707**	–
Interest income on loans to related companies *(note 26)*	**14,745**	–
Gross rental income#	**223**	117
Pipeline installation income	**–**	545
Government grants §	**47,058**	2,369
Sludge treatment income	**5,754**	12,791
Others	**4,672**	2,602
	80,640	24,213
Gains, net		
Gain on bargain purchase *(note 39)*	**2,824**	–
Foreign exchange differences, net	**–**	1,965
	2,824	1,965
Other income and gains, net	**83,464**	26,178

* *Imputed interest income under service concession arrangements amounting to HK$214,280,000 (2009: HK$177,473,000) are included in the revenue derived from "Sewage treatment services" and "Construction contracts" above.*

The Group leased certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and water treatment operations, to third parties under operating lease arrangements and accordingly, earned rental income therefrom for the year. Further details of the operating lease arrangements are set out in note 43(a) to the financial statements.

§ *The government grants recognised during the year represented (i) an incentive of RMB38,987,000 (equivalent to HK$44,762,000) provided by a local government in Liaoning Province, the PRC, for investments by the Group in the region; and (ii) an incentive of RMB2,000,000 (equivalent to HK$2,296,000) provided by a local government in Beijing, the PRC, for meeting certain criteria related to the set-up of the Group's Mainland China head office in Beijing. The government grants recognised during the year ended 31 December 2009 represented government subsidies received for the construction of a sewage treatment plant and for the alleviation of the Group's suffering from the earthquake and related aftershocks in Sichuan Province, the PRC, in May 2008. There are no unfulfilled conditions or contingencies relating to these grants.*

Notes to Financial Statements

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7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2010 HK$'000	2009 HK$'000
Cost of sewage treatment services rendered		**201,179**	142,691
Cost of construction contracts		**4,950,070**	939,883
Cost of water sold		**41,416**	35,817
Cost of consultancy services rendered		**2,041**	3,219
Cost of licensing		**1,340**	2,388
Cost of goods sold		**–**	70,659
Depreciation	*14*	**8,228**	14,370
Amortisation of prepaid land premiums	*15*	**–**	331
Amortisation of operating concessions*	*17*	**30,206**	19,426
Amortisation of other intangible assets*	*18*	**502**	256
Minimum lease payments under operating leases of land and buildings		**1,638**	4,384
Auditors' remuneration		**5,100**	4,300
Employee benefit expense (including directors' remuneration *(note 9)*):			
Salaries, allowances and benefits in kind		**117,759**	64,988
Net pension scheme contributions		**11,180**	6,498
Welfare and other expenses		**26,126**	15,185
		155,065	86,671
Loss on disposal of items of property, plant and equipment, net		**225**	53
Loss on disposal of other intangible assets		**–**	75
Loss on disposal of a subsidiary	*40*	**–**	2,922
Loss on disposal of an associate		**–**	326
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	*17(b)*	**32,495**	(408)
Impairment of amounts due from contract customers	*23*	**–**	6,273
Impairment of trade receivables, net	*24(c)*	**239**	612
Impairment of other receivables, net	*25(b)*	**223**	592
Provision for major overhauls	*33*	**24,895**	20,775
Foreign exchange differences, net		**1,045**	(1,965)

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

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8. FINANCE COSTS

		Group	
	Notes	**2010** **HK$'000**	2009 HK$'000
Interest on bank loans and other loans wholly repayable within five years		**208,248**	84,670
Interest in other loans		**7,544**	875
Imputed interest on convertible bonds	31	**23,787**	43,863
Interest on a finance lease		**681**	1,015
Total interest expenses		**240,260**	130,423
Increase in discounted amounts of provision for major overhauls arising from the passage of time	33	**2,725**	2,011
Total finance costs		**242,985**	132,434
Less: Interest included in cost of construction contracts		**(8,077)**	(7,302)
		234,908	125,132

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2010 **HK$'000**	2009 HK$'000
Fees:		
Executive directors	**841**	1,022
Independent non-executive directors	**488**	488
	1,329	1,510
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	**12,065**	3,699
Pension scheme contributions	**36**	36
	12,101	3,735
	13,430	5,245

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9. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	2010 *HK$'000*	2009 *HK$'000*
Mr. Shea Chun Lok, Quadrant	68	68
Mr. Zhang Gaobo	120	120
Mr. Guo Rui	100	100
Ms. Hang Shijun	100	100
Mr. Wang Kaijun	100	100
	488	488

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

(b) Executive directors

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2010				
Mr. Zhang Honghai	–	–	–	–
Mr. Liu Kai	–	–	–	–
Mr. E Meng	100	–	–	100
Mr. Jiang Xinhao	100	–	–	100
Mr. Hu Xiaoyong	100	3,618	12	3,730
Mr. Wang Taoguang	8	–	–	8
Mr. Zhou Min	100	3,056	12	3,168
Mr. Li Haifeng	100	2,648	12	2,760
Mr. Zhang Tiefu	100	1,825	–	1,925
Mr. Hou Feng	33	918	–	951
Ms. Qi Xiaohong	100	–	–	100
Mr. Ju Yadong	100	–	–	100
	841	12,065	36	12,942

Notes to Financial Statements

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9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors *(Continued)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2009				
Mr. Zhang Honghai	–	–	–	–
Mr. Liu Kai	–	–	–	–
Mr. E Meng	100	–	–	100
Mr. Jiang Xinhao	100	–	–	100
Mr. Hu Xiaoyong	100	1,477	12	1,589
Mr. Wang Taoguang	100	–	–	100
Mr. Wu Xiaoming	147	–	–	147
Mr. Zhou Min	100	1,233	12	1,345
Mr. Li Haifeng	100	989	12	1,101
Mr. Zhang Tiefu	75	–	–	75
Ms. Qi Xiaohong	100	–	–	100
Mr. Ju Yadong	100	–	–	100
	1,022	3,699	36	4,757

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2009: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are all directors (2009: four), details of whose remuneration are set out in note 9 above. In respect of the non-director, highest paid employee for the year ended 31 December 2009, the total remuneration for that year amounted to HK$606,000, comprising salaries, allowances and benefits in kind of HK$594,000 and pension scheme contributions of HK$12,000.

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11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2010 as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: 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 year 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.

	Group	
	2010	2009
	HK$'000	*HK$'000*
Current – PRC:		
Hong Kong	**–**	–
Mainland China	**99,319**	20,004
Overprovision in prior years*	**(1,617)**	(8,003)
Deferred *(note 35)*	**33,248**	36,636
Total tax charge for the year	**130,950**	48,637

* *Income tax exemptions were granted to certain subsidiaries of the Group by relevant provincial tax bureaus in Mainland China during the years ended 31 December 2010 and 2009 in respect of their assessable profits for the years ended 31 December 2009 and 2008, respectively. Accordingly, their respective income taxes provided in the years ended 31 December 2009 and 2008 were reversed during the years ended 31 December 2010 and 2009, respectively.*

Notes to Financial Statements

31 December 2010

11. INCOME TAX *(Continued)*

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – Year ended 31 December 2010

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(133,330)		828,445		695,115	
Tax at the statutory tax rate	(21,999)	16.5	207,111	25.0	185,112	26.6
Lower tax rates of specific provinces or enacted by local authorities	–	–	(52,687)	(6.4)	(52,687)	(7.6)
Tax concession enjoyed	–	–	(60,457)	(7.3)	(60,457)	(8.7)
Adjustments in respect of current tax of previous periods	–	–	(1,617)	(0.2)	(1,617)	(0.2)
Profits and losses attributable to jointly-controlled entities	(140)	0.1	6	–	(134)	–
Income not subject to tax	(1,375)	1.0	(1,552)	(0.2)	(2,927)	(0.4)
Expenses not deductible for tax	24,498	(18.3)	15,237	1.9	39,735	5.7
Tax losses utilised from previous periods	(1,100)	0.8	(3)	–	(1,103)	(0.2)
Tax losses not recognised as deferred tax assets	116	(0.1)	24,912	3.0	25,028	3.6
Tax charge at the Group's effective rate	–	–	130,950	15.8	130,950	18.8

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11. INCOME TAX *(Continued)*

Group – Year ended 31 December 2009

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(62,859)		340,242		277,383	
Tax at the statutory tax rate	(10,371)	16.5	85,060	25.0	74,689	26.9
Lower tax rates of specific provinces or enacted by local authorities	–	–	(8,915)	(2.6)	(8,915)	(3.2)
Tax concession enjoyed	–	–	(27,513)	(8.1)	(27,513)	(9.9)
Adjustments in respect of current tax of previous periods	–	–	(8,003)	(2.4)	(8,003)	(2.9)
Profit attributable to an associate	–	–	(1,141)	(0.3)	(1,141)	(0.4)
Income not subject to tax	(403)	0.6	(2,396)	(0.7)	(2,799)	(1.0)
Expenses not deductible for tax	8,267	(13.1)	8,554	2.5	16,821	6.1
Tax losses utilised from previous periods	–	–	(279)	(0.1)	(279)	(0.1)
Tax losses not recognised as deferred tax assets	2,507	(4.0)	3,270	1.0	5,777	2.0
Tax charge at the Group's effective rate	–	–	48,637	14.3	48,637	17.5

12. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2010 includes a loss of HK$55,209,000 (2009: HK$62,505,000), which has been dealt with in the financial statements of the Company *(note 29(b))*.

Notes to Financial Statements

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13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

The calculation of diluted earnings per share amounts is based on the profit for the year 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 year, 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.

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

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**512,512**	192,711
Interest on dilutive convertible bonds	**23,787**	43,863
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**536,299**	236,574

	2010	2009
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**3,946,144,909**	3,152,955,623
Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares	**620,611,554**	1,264,943,280
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**4,566,756,463**	4,417,898,903

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Machinery, and sewage and water pipelines *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Year ended 31 December 2010							
At 31 December 2009 and 1 January 2010:							
Cost	153,982	1,041	95,579	13,741	22,111	3,059	289,513
Accumulated depreciation	(21,519)	(816)	(20,006)	(5,141)	(10,004)	–	(57,486)
Net carrying amount	132,463	225	75,573	8,600	12,107	3,059	232,027
Net carrying amount:							
At 1 January 2010	132,463	225	75,573	8,600	12,107	3,059	232,027
Acquisition of subsidiaries *(note 39)*	–	–	–	966	5,487	–	6,453
Additions	13,407	–	2,295	4,714	4,703	44	25,163
Depreciation provided during the year	(187)	–	(920)	(2,762)	(4,359)	–	(8,228)
Reclassification to operating concessions *(note 17)*	(132,463)	–	(75,069)	(1,315)	(1,012)	(683)	(210,542)
Disposals	–	–	(14)	(109)	(103)	–	(226)
Exchange realignment	331	8	64	329	603	132	1,467
At 31 December 2010	13,551	233	1,929	10,423	17,426	2,552	46,114
At 31 December 2010:							
Cost	13,742	1,078	3,829	17,912	31,253	2,552	70,366
Accumulated depreciation	(191)	(845)	(1,900)	(7,489)	(13,827)	–	(24,252)
Net carrying amount	13,551	233	1,929	10,423	17,426	2,552	46,114
Year ended 31 December 2009							
At 1 January 2009:							
Cost	–	979	–	7,624	13,786	–	22,389
Accumulated depreciation	–	(645)	–	(2,794)	(5,536)	–	(8,975)
Net carrying amount	–	334	–	4,830	8,250	–	13,414
Net carrying amount:							
At 1 January 2009	–	334	–	4,830	8,250	–	13,414
Acquisition of subsidiaries *(note 39)*	39,331	–	13,616	1,464	1,645	115,512	171,568
Additions	–	63	1,668	3,844	4,523	51,176	61,274
Transfer from construction in progress	98,129	–	65,260	99	277	(163,765)	–
Depreciation provided during the year	(5,031)	(172)	(4,938)	(1,639)	(2,590)	–	(14,370)
Disposals	–	–	(53)	–	–	–	(53)
Exchange realignment	34	–	20	2	2	136	194
At 31 December 2009	132,463	225	75,573	8,600	12,107	3,059	232,027

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14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Year ended 31 December 2010			
At 31 December 2009 and 1 January 2010:			
Cost	34	490	524
Accumulated depreciation	(7)	(196)	(203)
Net carrying amount	27	294	321
Net carrying amount:			
At 1 January 2010	27	294	321
Depreciation provided during the year	(7)	(147)	(154)
At 31 December 2010	20	147	167
At 31 December 2010:			
Cost	34	490	524
Accumulated depreciation	(14)	(343)	(357)
Net carrying amount	20	147	167
Year ended 31 December 2009			
At 1 January 2009:			
Cost	26	490	516
Accumulated depreciation	(1)	(49)	(50)
Net carrying amount	25	441	466
Net carrying amount:			
At 1 January 2009	25	441	466
Additions	8	–	8
Depreciation provided during the year	(6)	(147)	(153)
At 31 December 2009	27	294	321

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15. PREPAID LAND PREMIUMS

Group

	2010 *HK$'000*	2009 *HK$'000*
Carrying amount at 1 January	**27,704**	–
Acquisition of subsidiaries *(note 39)*	**–**	28,005
Amortisation provided during the year	**–**	(331)
Reclassification to operating concessions *(note 17)*	**(27,704)**	–
Exchange realignment	**–**	30
Carrying amount at 31 December	**–**	27,704
Portion classified as current assets	**–**	(644)
Non-current portion	**–**	27,060

The leasehold land of the Group as at 31 December 2009 were all located in Mainland China and held under medium term leases.

16. GOODWILL

Group

	2010 *HK$'000*	2009 *HK$'000*
Cost and net carrying amount:		
At 1 January	**1,575,451**	1,466,915
Acquisition of subsidiaries *(note 39)*	**–**	20,607
Acquisition of non-controlling interests	**–**	87,925
Exchange realignment	**4,665**	4
At 31 December	**1,580,116**	1,575,451

Notes to Financial Statements

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16. GOODWILL *(Continued)*

Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisitions of subsidiaries and non-controlling interests has been allocated to the relevant business units of the following individual operating segments of the Group for impairment testing, which is summarised as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Sewage treatment and construction services segment	**1,206,466**	1,202,299
Water supply services segment	**14,410**	13,912
Technical and consultancy services segment	**359,240**	359,240
	1,580,116	1,575,451

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by CB Richard Ellis Limited, independent professionally qualified valuers, on a fair value less costs to sell estimation using cash flow projections which are based on financial forecast approved by senior management covering a period of ten years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rate applied to the cash flow projections for the first ten-year period is 11.9%, which is determined by reference to the average rates for the similar industries and the business risk of the relevant business unit. A growth rate of 3% is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2010.

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31 December 2010

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in fair value less costs to sell estimation

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

- Budgeted turnover
  - in respect of the revenue from the sewage treatment and construction services segment, and the water supply services segment, the budgeted turnover is based on the projected sewage treatment and water sales volume and the latest sewage treatment and water selling prices up to the date of valuation report.
  - in respect of the revenue from the technical and consultancy services segment, the budgeted turnover is based on the expected growth rate of the market.
- Budgeted gross margins
  - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.
- Business environment
  - There have been no major changes in the existing political, legal and economic conditions in Mainland China.
  - Under the service concession arrangements, the Group has been granted with priority for renewal of operating rights of sewage and water treatment plants. Given its historical performance record and its long-established relationship with the grantor, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of sewage and water treatment plants shall be renewed at expiry, and therefore the sizes of the operations of the sewage treatment and water distribution operations are expected to remain constant perpetually which enables the Group to generate income perpetually.

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17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its sewage and water treatment businesses. These service concession arrangements generally involve the Group as an operator (i) constructing sewage and water treatment plants for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; (iii) operating and maintaining the sewage and water treatment plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 40 years (the "service concession periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the sewage and water treatment plants, however, the relevant governmental authorities as grantors will control and regulate the scope of services the Group must provide with the sewage and water treatment plants, and retain the beneficial entitlement to any residual interest in the sewage and water treatment plants at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the sewage and water treatment plants to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes.

At 31 December 2010, the Group had 51 service concession arrangements on sewage treatment and 5 service concession arrangements on water treatment and distribution with various governmental authorities in Mainland China and a summary of the major terms of principal service concession arrangements are set out as follows:

No.	Name of subsidiary as operator	Name of sewage treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
1.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT	100,000	30 years from 2002 to 2032
2.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠二期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	BOT	50,000	30 years from 2004 to 2034
3.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠三期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	BOT	50,000	30 years (Not yet started)
4.	長沙中科成污水淨化有限公司	長沙市金霞污水處理廠	Changsha, Hunan Province, the PRC	長沙市公用事業管理局	TOT	180,000	20 years from 2004 to 2024

Notes to Financial Statements

31 December 2010

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of subsidiary as operator	Name of sewage treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m³/day	Service concession period
5.	青島膠南中科成污水淨化有限公司	膠南市污水處理廠	Jiaonan, Shandong Province, the PRC	膠南市城鄉建設局	BOT	60,000	20 years from 2006 to 2026
6.	青島中科成污水淨化有限公司	山東省膠州市污水處理廠	Jiaozhou, Shandong Province, the PRC	山東省膠州市城鄉建設局	BOT	50,000	20 years from 2004 to 2024
7.	青島膠州北控水務有限公司	山東省膠州市污水處理廠	Jiaozhou, Shandong Province, the PRC	山東省膠州市城鄉建設局	BOT	50,000	20 years (Not yet started)
8.	菏澤中科成污水淨化有限公司	菏澤市污水處理廠	Heze, Shandong Province, the PRC	荷澤市建設局	TOT	80,000	25 years from 2007 to 2032
9.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠一期擴建工程	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT	100,000	25 years from 2008 to 2033
10.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠(二期)	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT	99,000	25 years from 2009 to 2034
11.	廣州中科成污水淨化有限公司	廣州南沙開發區黃閣污水處理廠	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT	50,000	22 years from 2004 to 2026
12.	廣州中科成污水淨化有限公司	廣州南沙開發區黃閣污水處理廠(二期)	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT	50,000	22 years from 2004 to 2026
13.	台州市路橋中科成污水淨化有限公司	路橋污水處理廠二期	Taizhou, Zhejiang Province, the PRC	台州市建設規劃局路橋分局	BOT	50,000	27 years from 2006 to 2033
14.	佛山市三水中科成水質淨化有限公司	佛山市三水區中心工業園南部污水處理廠	Foshan, Guangdong Province, the PRC	佛山市三水工業園區管理委員會	BOT	50,000	22 years from 2010 to 2032

Notes to Financial Statements

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17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of subsidiary as operator	Name of sewage treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m³/day	Service concession period
15.	永州市北控污水淨化有限公司	永州市下河線污水處理廠	Yongzhou, Hunan Province, the PRC	永州市公用事業管理局	BOT	50,000	30 years from 2008 to 2038
16.	深圳北控創新投資有限公司 ("Bei Kong Chuang Xin")	深圳市橫嶺污水處理廠(二期)	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT	400,000	20 years (Not yet started)
17.	深圳北控豐泰投資有限公司 (formerly known as 深圳華強豐泰投資有限公司)	深圳市龍崗區橫嶺污水處理廠	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT	200,000	25 years from 2003 to 2028
18.	濱州華強西海水務有限公司	濱州市西海供水工程#	Binzhou, Shandong Province, the PRC	濱州市人民政府	BOT	50,000	40 years from 2006 to 2046
19.	台州黃岩北控水務污水淨化有限公司	台州市黃岩區污水處理廠	Taizhou, Zhejiang Province, the PRC	台州市黃岩區建設局	TOT	80,000	30 years from 2009 to 2039
20.	成都青白江中科成污水淨化有限公司	成都市青白江區污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府	TOT	100,000	25 years from 2009 to 2034
21.	齊齊哈爾市北控污水淨化有限公司	齊齊哈爾市富拉爾基區污水處理廠	Qi Qi Har, Heilongjiang Province, the PRC	齊齊哈爾市環境保護局	BOT	100,000	28 years (Not yet started)
22.	錦州市北控水務有限公司 ("Jinzhou Beikong")	錦州市一期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	TOT	100,000	30 years from 2009 to 2039
23.	Jinzhou Beikong	錦州市二期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT	100,000	30 years from 2010 to 2040
24.	Jinzhou Beikong	錦州市再生水項目#	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT	180,000	30 years from 2010 to 2040

Notes to Financial Statements

31 December 2010

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of subsidiary as operator	Name of sewage treatment plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m³/day	Service concession period
25.	昆明空港北控城投水質淨化有限公司	昆明空港經濟區污水處理廠項目	Kunming, Yunnan Province, the PRC	昆明空港投資開發有限責任公司	BOT	70,000	20 years (Not yet started)
26.	福州北控水質淨化有限公司	福州市浮村污水處理廠	Fuzhou, Fujian Province, the PRC	福州市建設局	BOT	50,000	27 years from 2010 to 2037
27.	岳陽北控水質淨化有限公司	湖南省化工農藥產業基地污水處理廠	Linxiang, Hunan Province, the PRC	臨湘市人民政府	BOT	50,000	25 years (Not yet started)
28.	岳陽北控制水有限公司	湖南省化工農藥產業基地自來水廠#	Linxiang, Hunan Province, the PRC	臨湘市人民政府	BOT	50,000	25 years (Not yet started)
29.	玉溪北控城投水質淨化有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉建設局	TOT	100,000	30 years (Not yet started)
30.	廣西貴港北控水務有限公司 ("Guigang Water")	貴港市城西污水處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT	100,000	30 years from 2008 to 2038
31.	Guigang Water	龍床井水廠#	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT	50,000	30 years from 2008 to 2038
32.	Guigang Water	南江水廠#	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT	100,000	30 years from 2008 to 2038

\# *Except for these service concession arrangements being on water treatment and distribution, all other service concession arrangements of the Group are on sewage treatment.*

The above table lists the service concession arrangements of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other service concession arrangements would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

31 December 2010

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the sewage and water treatment plants and related land, which are generally registered under the names of the relevant companies in the Group, during the service concession periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective service concession periods. At 31 December 2010, the Group was in the process of applying for the changing of registration of the title certificates with respect to certain land use rights and buildings of certain sewage treatment plants to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

Notes to Financial Statements

31 December 2010

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

As further explained in the accounting policy for "Service concession arrangements" set out in note 3.4 to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under service concession arrangement) or a combination of both, as appropriate. The following is the summarised information of the intangible asset component (operating concession) and the financial asset component (receivable under service concession arrangement) with respect to the Group's service concession arrangements:

Operating concessions

Group

	Notes	2010 HK$'000	2009 HK$'000
At 1 January:			
Cost		**467,714**	483,337
Accumulated amortisation		**(68,582)**	(53,748)
Net carrying amount		**399,132**	429,589
Net carrying amount:			
At 1 January		**399,132**	429,589
Additions		**112,953**	44,043
Amortisation provided during the year		**(30,206)**	(19,426)
Reclassification from/(to):			
Property, plant and equipment	*14*	**210,542**	–
Prepaid land premiums	*15*	**27,704**	–
Receivables under service concession arrangements		**–**	(55,086)
Exchange realignment		**29,593**	12
At 31 December		**749,718**	399,132
At 31 December:			
Cost		**896,578**	467,714
Accumulated amortisation		**(146,860)**	(68,582)
Net carrying amount		**749,718**	399,132

At 31 December 2010, certain sewage treatment concession rights of the Group in a then aggregate net carrying amount of HK$368,760,000 (2009: HK$85,376,000), together with certain of the property, plant and equipment of the related sewage treatment plants, are pledged to secure certain bank loans granted to the Group *(note 30(b)(i))*.

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17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	Group	
	2010	2009
	HK$'000	*HK$'000*
Receivables under service concession arrangements	**2,900,344**	2,061,249
Impairment *(note (b))*	**(39,872)**	(6,984)
	2,860,472	2,054,265
Portion classified as current assets	**(123,889)**	(137,443)
Non-current portion	**2,736,583**	1,916,822

Notes:

(a) In respect of the Group's 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:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**84,741**	90,285
4 to 6 months	**19,370**	34,923
7 to 12 months	**11,122**	11,151
1 to 2 years	**8,656**	1,084
	123,889	137,443
Unbilled	**2,736,583**	1,916,822
	2,860,472	2,054,265

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31 December 2010

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

(b) The movements in provision for impairment of the Group's receivables under service concession arrangements during the year are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**6,984**	8,822
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 7)*	**32,495**	(408)
Amount written off as uncollectable	**–**	(1,430)
Exchange realignment	**393**	–
At 31 December	**39,872**	6,984

Included in the above provision for impairment of receivables under service concession arrangements is a provision for individually impaired receivables of HK$39,074,000 (2009: Nil) with a carrying amount before provision of HK$63,072,000 (2009: Nil). The individually impaired receivables under service concession arrangements relate to customers that were in delinquency in principal payments and only a portion of the receivables is expected to be recovered.

Except for the aforementioned, the above provision for impairment of receivables under service concession arrangements as at 31 December 2010 and 2009 were made against the remaining balances of the receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

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17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

(b) *(Continued)*

An aged analysis of the billed receivables under service concession arrangements that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**47,276**	43,020
Less than 1 month past due	**21,018**	12,883
1 to 3 months past due	**27,645**	44,331
4 to 6 months past due	**8,320**	29,487
7 months to 1 year past due	**8,715**	6,575
Over 1 year past due	**10,915**	1,147
	123,889	137,443

Receivables classified as non-current were neither past due nor impaired.

The above receivables were mainly due from governmental authorities in Mainland China as grantors in respect of the Group's sewage treatment business.

Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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18. OTHER INTANGIBLE ASSETS

Group

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2010			
At 31 December 2009 and 1 January 2010:			
Cost	555	3,521	4,076
Accumulated amortisation	(505)	(278)	(783)
Net carrying amount	50	3,243	3,293
Net carrying amount:			
At 1 January 2010	50	3,243	3,293
Additions	–	2,397	2,397
Amortisation provided during the year	(30)	(472)	(502)
Exchange realignment	2	115	117
At 31 December 2010	22	5,283	5,305
At 31 December 2010:			
Cost	575	6,045	6,620
Accumulated amortisation	(553)	(762)	(1,315)
Net carrying amount	22	5,283	5,305
Year ended 31 December 2009			
At 1 January 2009:			
Cost	555	1,628	2,183
Accumulated amortisation	(449)	(78)	(527)
Net carrying amount	106	1,550	1,656
Net carrying amount:			
At 1 January 2009	106	1,550	1,656
Acquisition of subsidiaries *(note 39)*	–	81	81
Additions	–	1,887	1,887
Amortisation provided during the year	(56)	(200)	(256)
Disposals	–	(75)	(75)
At 31 December 2009	50	3,243	3,293

Notes to Financial Statements

31 December 2010

19. INTERESTS IN SUBSIDIARIES

		Company		
	Note	**31 December 2010** **HK$'000**	31 December 2009 HK$'000 (Restated)	1 January 2009 HK$'000 (Restated)
Investments in subsidiaries, included in non-current assets				
Unlisted shares or investments, at cost		**4,108,515**	2,374,007	1,943,342
Due from subsidiaries	*(a)*	**2,694,417**	–	–
		6,802,932	2,374,007	1,943,342
Due from subsidiaries, included in current assets	*(a)*	**876,710**	866,240	942,352
Due to subsidiaries, included in current liabilities	*(a)*	**(336,451)**	(502,016)	–
Interests in subsidiaries		**7,343,191**	2,738,231	2,885,694

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts advanced to subsidiaries included in the investments in subsidiaries above are considered as quasi-equity loans to the subsidiaries.

Notes to Financial Statements

31 December 2010

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
BEWG Environmental Group Co., Ltd (formerly known as Beijing Enterprises Z.K.C. Environmental Co., Ltd.) ("BE-ZKC")	PRC/ Mainland China	RMB417,969,071	–	99.45	Consultancy service and investment holding
深圳北控創新投資有限公司	PRC/ Mainland China	RMB300,000,000	–	88.48	Investment holding
深圳北控豐泰投資有限公司 (formerly known as 深圳華強豐泰投資有限公司)	PRC/ Mainland China	RMB70,000,000	–	70.78	Sewage treatment
綿陽中科成污水淨化有限公司	PRC/ Mainland China	RMB40,000,000	–	99.45	Sewage treatment
長沙中科成污水淨化有限公司	PRC/ Mainland China	RMB50,000,000	–	89.51	Sewage treatment
廣州中業污水處理有限公司	PRC/ Mainland China	RMB85,000,000	–	99.45	Sewage treatment
江油中科成污水淨化有限公司	PRC/ Mainland China	RMB8,000,000	–	99.45	Sewage treatment
成都雙流中科成污水淨化有限公司	PRC/ Mainland China	RMB30,000,000	–	92.82	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/ Mainland China	RMB30,000,000	–	99.45	Sewage treatment
青島中科成污水淨化有限公司	PRC/ Mainland China	RMB20,000,000	–	99.45	Sewage treatment
廣州中科成污水淨化有限公司	PRC/ Mainland China	RMB40,000,000	–	99.45	Sewage treatment

Notes to Financial Statements

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19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
台州市路橋中科成污水淨化有限公司	PRC/ Mainland China	RMB55,500,000	–	99.45	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/ Mainland China	RMB27,600,000	–	99.45	Sewage treatment
菏澤中科成污水淨化有限公司	PRC/ Mainland China	RMB30,000,000	–	99.45	Sewage treatment
濟南中科成水質淨化有限公司	PRC/ Mainland China	RMB20,000,000	–	99.45	Sewage treatment
彭州中科成污水淨化有限公司	PRC/ Mainland China	RMB28,000,000	–	99.45	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/ Mainland China	RMB76,000,000	–	99.45	Sewage treatment
北控水務（廣西）有限公司	PRC/ Mainland China	HK$130,000,000	–	61.54	Investment holding
永州市北控污水淨化有限公司 Ω	PRC/ Mainland China	HK$73,130,000	100	100	Sewage treatment
濱州華強西海水務有限公司	PRC/ Mainland China	RMB50,000,000	–	74.15	Water supply
沾化華強水務環保有限公司	PRC/ Mainland China	RMB10,000,000	–	82.03	Sewage treatment
北控水務（中國）投資有限公司 Ω	PRC/ Mainland China	US$100,000,000	100	100	Investment holding
雲南北控城投水務有限公司 (formerly known as 雲南中科城投水務有限公司)	PRC/ Mainland China	RMB400,000,000	–	50†	Investment holding

Notes to Financial Statements

31 December 2010

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
錦州市北控水務有限公司	PRC/ Mainland China	RMB127,178,541	80	80	Sewage treatment and water supply
齊齊哈爾市北控污水淨化有限公司	PRC/ Mainland China	RMB56,000,000	–	100	Sewage treatment
清鎮市北控水務有限公司	PRC/ Mainland China	RMB10,000,000	–	60	Sewage treatment
北京北控污水淨化及回用有限公司	PRC/ Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
廣西貴港北控水務有限公司	PRC/ Mainland China	RMB55,302,635	–	49.23[†]	Sewage treatment and water supply
海南北控水務有限公司	PRC/ Mainland China	RMB5,000,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司[δ]	PRC/ Mainland China	RMB91,380,000	–	50[†]	Sewage treatment
北科(大連)投資有限公司[δΩ]	PRC/ Mainland China	US$236,430,000	60	60	Investment holding
北控(大連)開發建設有限公司[δΩ]	PRC/ Mainland China	US$157,630,000	–	60	Construction services
China International Construction Investment Holding (Hong Kong) Limited ("CICI")[δ]	Hong Kong	US$166,667	–	70	Investment holding

Notes to Financial Statements

31 December 2010

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
昆明捷運泰富環保工程有限公司 δ Ω	PRC/ Mainland China	RMB680,000,000	–	70	Construction services
昆明捷運路橋發展有限公司 ("Gatewin Luqiao") δ Ω	PRC/ Mainland China	RMB1,199,865,713	–	70	Construction services
青島膠南北控水務有限公司	PRC/ Mainland China	US$5,000,000	–	100	Sewage treatment
青島膠州北控水務有限公司	PRC/ Mainland China	US$5,500,000	–	100	Sewage treatment
昆明空港北控城投水質淨化有限公司 δ	PRC/ Mainland China	RMB53,090,000	–	50†	Sewage treatment
福州北控水質淨化有限公司 δ Ω	PRC/ Mainland China	US$1,499,988	100	100	Sewage treatment

† *These entities are accounted for as a subsidiary by virtue of the Company's control over it.*

Ω *These entities are registered as wholly-foreign-owned enterprises under the PRC Law.*

δ *Acquired/incorporated during the year.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

During the year, the Group acquired a 70% equity interest in CICI, which, together with its subsidiaries, are principally engaged in the construction of sewage and water treatment plants, and other infrastructural facilities in Yunnan Province, the PRC, under certain BT contracts. Further details of the above acquisition transaction are included in note 39 to the financial statements.

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20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

		Group		Company	
	Notes	**2010** **HK$'000**	2009 HK$'000	**2010** **HK$'000**	2009 HK$'000
Unlisted shares, at cost		**–**	–	**1,269**	–
Share of net assets	*(a)*	**66,289**	–	**–**	–
Goodwill on acquisition	*(b)*	**9,705**	–	**–**	–
		75,994	–	**1,269**	–
Loan to a jointly-controlled entity	*(c)*	**42,625**	–	**–**	–
		118,619	–	**1,269**	–

Notes:

(a) The following tables illustrate the summarised financial information of the Group's jointly-controlled entities:

	2010 **HK$'000**	2009 HK$'000
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	**101,343**	–
Current assets	**7,280**	–
Non-current liabilities	**(41,901)**	–
Current liabilities	**(433)**	–
Net assets	**66,289**	–
Share of the jointly-controlled entities' results		
Share of profit of a jointly-controlled entity	**2,732**	–
Total expenses	**(1,908)**	–
Profit before tax	**824**	–
Income tax	**–**	–
Profit for the year	**824**	–

Notes to Financial Statements

31 December 2010

20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Notes: (Continued)

(b) The movement of the amount of the goodwill included in the investments in jointly-controlled entities during the year is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**–**	–
Acquisition of a jointly-controlled entity	**9,705**	–
At 31 December	**9,705**	–

The addition of goodwill during the year ended 31 December 2010 arose from the acquisition of Aqualyng-BEWG China Desalination Company Limited ("ACL").

(c) The loan to a jointly-controlled entity as at 31 December 2010 is a loan with a principal amount of RMB34,780,000 (equivalent to HK$40,918,000) advanced to ACL, to finance its investment in a 50% equity interest in Aqualyng Caofeidian Seawater Desalination Co. Ltd., which is a jointly-controlled entity of ACL established in Mainland China for the construction and operation of a seawater desalination plant in Tangshan City, Hebei Province, the PRC. The loan to ACL bears interest at the PRC 5-year or above bank loan rate and is repayable in 2030. In the opinion of the directors, the loan is considered as a quasi-equity investment in ACL. Interest income of RMB1,487,000 (equivalent to HK$1,707,000) was recognised in the consolidated income statement during the year ended 31 December 2010 in respect of the loan.

(d) The amounts due from/to jointly-controlled entities included in current assets and current liabilities of the Group and the Company as at 31 December 2010 are unsecured, interest-free and have no fixed terms of repayment.

(e) Particulars of the principal jointly-controlled entities, which are all indirectly held by the Company, are as follows:

			Percentage of			
Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activity
Aqualyng-BEWG China Desalination Company Limited	Hong Kong	HK$1,000,000	50	50	50	Investment holding
宜賓北控水務投資有限公司	PRC/ Mainland China	RMB75,563,400	65	65	65	Sewage treatment

The table above lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results of the Group for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

31 December 2010

21. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments of the Group are unlisted equity investments in Mainland China, which are not stated at fair value but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market and hence, in the opinion of the directors, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

22. INVENTORIES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Raw materials	**11,214**	6,129
Low value consumables	**1,572**	1,010
	12,786	7,139

23. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses to date	**2,364,393**	1,141,903
Impairment *(note)*	**–**	(6,273)
	2,364,393	1,135,630
Portion classified as current assets	**(759,109)**	(49,930)
Non-current portion	**1,605,284**	1,085,700

Notes to Financial Statements

31 December 2010

23. AMOUNTS DUE FROM CONTRACT CUSTOMERS *(Continued)*

Note: The movements in provision for impairment of amounts due from contract customers during the year are as follows:

	2010 *HK$'000*	2009 *HK$'000*
At 1 January	**6,273**	–
Impairment during the year recognised in the income statement *(note 7)*	**–**	6,273
Amount written off as uncollectible	**(6,340)**	–
Exchange realignment	**67**	–
At 31 December	**–**	6,273

24. TRADE RECEIVABLES

	Group		Company	
	2010 *HK$'000*	2009 *HK$'000*	**2010 *HK$'000***	2009 *HK$'000*
Trade receivables	**4,124,522**	152,123	**19,696**	85,693
Impairment *(note (c))*	**(1,509)**	(1,221)	**–**	–
	4,123,013	150,902	**19,696**	85,693
Portion classified as current assets	**(4,002,108)**	(99,192)	**(19,696)**	(85,693)
Non-current portion	**120,905**	51,710	**–**	–

Notes:

(a) The Group's trade receivables arise from certain construction services for 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. Trade receivables are non-interest-bearing.

Notes to Financial Statements

31 December 2010

24. TRADE RECEIVABLES *(Continued)*

Notes: *(Continued)*

(a) *(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:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Billed:				
Within 3 months	**282,257**	62,763	**–**	50,239
4 to 6 months	**82,702**	324	**–**	–
7 to 12 months	**7,474**	35,667	**–**	35,454
1 to 2 years	**21,574**	438	**19,696**	–
Balance with extended credit period	**169,000**	51,710	**–**	–
	563,007	150,902	**19,696**	85,693
Unbilled*	**3,560,006**	–	**–**	–
	4,123,013	150,902	**19,696**	85,693

* *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.*

(b) Included in the trade receivables of the Group and the Company as at 31 December 2010 was an aggregate amount of HK$19,696,000 (2009: HK$85,693,000) 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 (2009: fellow subsidiaries) 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.

Further details of the transactions with the aforesaid two companies are set out in the Company's circulars dated 18 August 2009 and 13 January 2010.

Notes to Financial Statements

31 December 2010

24. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) The movements in the Group's provision for impairment of trade receivables during the year are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**1,221**	609
Impairment during the year recognised in the income statement, net *(note 7)*	**239**	612
Exchange realignment	**49**	–
At 31 December	**1,509**	1,221

The above provision for impairment of trade receivables was made against the whole balances of trade receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the billed trade receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**368,423**	108,491	**–**	50,239
Less than 1 month past due	**27,944**	606	**–**	–
1 to 3 months past due	**82,538**	5,375	**–**	–
4 to 6 months past due	**55,054**	324	**–**	–
7 months to 1 year past due	**7,474**	35,668	**–**	35,454
Over 1 year past due	**21,574**	438	**19,696**	–
	563,007	150,902	**19,696**	85,693

Receivables that were neither past due nor impaired mainly related to the construction services rendered for BT contracts with settlement period ranging from 1 year to 25 years by specified instalments. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

A customer of a BT contract provided the Group a pledge in an amount of RMB2,486,000,000 (equivalent to HK$2,924,706,000) in connection with its future receivable related to the disposal of certain land use rights to secure the trade receivables due by it. As at 31 December 2010, the trade receivable of this customer amounted to RMB1,699,052,000 (equivalent to HK$1,998,885,000). Save as the aforementioned, the Group does not hold any collateral or other credit enhancements over trade receivable balances.

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25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2010	2009	**2010**	2009
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments		**11,611**	5,202	**3,121**	417
Deposits and other debtors	*(a)*	**1,483,291**	877,761	**671,254**	586,296
Advances to suppliers		**410,740**	21,932	**–**	–
Due from a jointly-controlled entity	*20(d)*	**588**	–	**–**	–
Due from related parties	*26*	**873,806**	14,062	**624,768**	–
		2,780,036	918,957	**1,299,143**	586,713
Impairment	*(b)*	**(3,531)**	(3,188)	**–**	–
		2,776,505	915,769	**1,299,143**	586,713
Portion classified as current assets		**(1,367,995)**	(710,579)	**(251,072)**	(586,713)
Non-current portion		**1,408,510**	205,190	**1,048,071**	–

Notes:

(a) The Group's deposits and other debtors as at 31 December 2010 included, inter alia, the following:

(i) an instalment of RMB154,000,000 (equivalent to HK$181,176,000) (2009: RMB154,000,000 (equivalent to HK$175,000,000)) paid by the Group to a government authority in Mainland China for the procurement of a concession right to operate a sewage treatment plant in Shenzhen on a TOT basis. The balance is classified as a non-current asset.

(ii) a deposit of RMB103,800,000 (equivalent to HK$122,118,000) paid by the Group for the purchase of an office building in Beijing. The balance is classified as a non-current asset.

(iii) an investment deposit of RMB360,500,000 (equivalent to HK$424,118,000) paid by the Company to 貴陽市供水總公司 ("Guiyang Corporation"), a government authority in Mainland China, in connection with the Group's acquisition of a 45% equity interest in 貴陽水務有限責任公司 ("Guiyang Water"), which has not yet been completed as at the date of approval of these financial statements. Further details of the acquisition are set out in the Company's announcement dated 25 October 2010. The balance is classified as a non-current asset.

In addition, in connection with the acquisition of Guiyang Water, the Group had made advances of RMB306,000,000 (equivalent to HK$360,000,000) in aggregate to Guiyang Corporation as at 31 December 2010, among which (i) RMB206,000,000 (equivalent to HK$242,353,000) were made by the Company and are due for repayment upon the earlier of the settlement of the entire consideration of RMB721,000,000 (the "Guiyang Consideration") by the Company, or 26 March 2011; and (ii) RMB100,000,000 (equivalent to HK$117,647,000) was made by the Group which has no fixed terms of repayment. No impairment is considered necessary against these advances as the directors considered that these advances will be settled by Guiyang Corporation upon the settlement of the Guiyang Consideration by the Company. These advances are classified as current assets.

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31 December 2010

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

(iv) various tender deposits of RMB19,270,000 (equivalent to HK$22,671,000) (2009: RMB525,310,000 (equivalent to HK$596,672,000)) in aggregate paid by the Group for the bidding of potential sewage treatment projects. These deposits are classified as current assets.

(v) two performance bonds of RMB61,525,000 (equivalent to HK$72,382,000) in aggregate paid by the Group to contract customers in respect of the construction services under certain BT contracts in Liaoning Province, the PRC. These performance bonds are classified as current assets as the performance obligation is expected to be fulfilled in 2011.

(vi) a cash advance of RMB100,000,000 (equivalent to HK$117,647,000) paid by the Group to a subcontractor of the construction services for a BT contract in Liaoning Province, the PRC. The advance was subsequently repaid on 4 January 2011. The balance is classified as a current asset.

(b) The movements in provision for impairment of other receivables during the year are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**3,188**	1,074
Acquisition of subsidiaries	**–**	1,522
Impairment during the year recognised in the income statement, net *(note 7)*	**223**	592
Exchange realignment	**120**	–
At 31 December	**3,531**	3,188

The above provision for impairment of other receivables was made against the whole balances of other receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

26. DUE FROM/TO RELATED PARTIES

The amounts due from/to related parties are unsecured, interest-free and have no fixed terms of repayment, except for amounts of RMB175,376,000 (equivalent to HK$206,325,000) and US$60,159,000 (equivalent to HK$468,253,000) due from two joint venture partners of two subsidiaries, which bear interests at the rate of 4.77% per annum and the PRC 1-year bank loan rate, respectively, and are repayable in May 2011 and June 2011, respectively. Interest income of HK$6,173,000 and HK$8,572,000, respectively, were recognised in the consolidated income statement during the year in respect of the aforementioned two interest-bearing balances with related parties.

The balances with related companies of the Group included in trade receivables, deposits and other debtors, and other liabilities are disclosed in notes 24(b), 25 and 37 to the financial statements, respectively.

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27. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances other than time deposits	**2,403,841**	845,783	**166,814**	8,697
Time deposits	**150,494**	43,640	**–**	–
Cash equivalents	**–**	1,457	**–**	–
	2,554,335	890,880	**166,814**	8,697
Less: Restricted cash and pledged deposits *(note (a))*	**(592,507)**	(14,019)	**–**	–
Cash and cash equivalents	**1,961,828**	876,861	**166,814**	8,697

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2010 included the following:

(i) RMB22,500,000 (equivalent to HK$26,471,000) (2009: RMB6,500,000 (equivalent to HK$7,383,000)) pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance of the duties by the Group under the relevant service concession agreements;

(ii) RMB366,823,000 (equivalent to HK$431,436,000) (2009: RMB5,842,000 (equivalent to HK$6,636,000)) pledged to banks to secure certain banking facilities granted to the Group *(note 30(b)(iv))*; and

(iii) RMB114,411,000 (equivalent to HK$134,600,000) restricted to be applied on construction of sewage treatment plants and other infrastructural facilities undertaken by the Group (2009: Nil).

(b) The carrying amounts of the Group's and the Company's cash and bank balances are dominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**193,043**	21,964	**166,738**	7,139
RMB	**1,970,390**	865,386	**–**	–
US$	**390,902**	2,073	**76**	1,558
	2,554,335	889,423	**166,814**	8,697

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(c) The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of defaults.

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28. SHARE CAPITAL

	2010 HK$'000	2009 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.10 each	**1,500,000**	1,500,000
Issued and fully paid:		
4,566,756,463 (2009: 3,482,196,992) ordinary shares of HK$0.10 each	**456,676**	348,219

A summary of the movements in the Company's issued share capital during the years ended 31 December 2010 and 2009 is as follows:

	Notes	Number of ordinary shares in issue	Issued capital *HK$'000*	Share premium account *HK$'000*	Total *HK$'000*
At 1 January 2009		2,405,073,357	240,507	1,225,480	1,465,987
Issue of new shares	*(a)*	226,683,106	22,668	281,087	303,755
Shares issued upon conversion of convertible bonds	*(b)*	850,440,529	85,044	310,811	395,855
At 31 December 2009 and 1 January 2010		3,482,196,992	348,219	1,817,378	2,165,597
Shares issued upon conversion of convertible bonds	*(b)*	1,084,559,471	108,457	715,053	823,510
At 31 December 2010		4,566,756,463	456,676	2,532,431	2,989,107

Notes to Financial Statements

31 December 2010

28. SHARE CAPITAL *(Continued)*

Notes:

(a) Pursuant to an acquisition agreement (the "BE-ZKC Acquisition Agreement") entered into between, among others, the Company, Besto Holdings Limited ("Besto"), Tenson Investment Limited ("Tenson") and Newton Finance Holdings Limited ("Newton") (collectively the "BE-ZKC Vendors") on 3 June 2008, 226,683,106 new ordinary shares of the Company were issued during the year ended 31 December 2009 as part of the consideration for the acquisition of the 100% equity interest in Gainstar Limited, which held indirectly an 88.43% equity interest in BE-ZKC at the date of acquisition of 31 August 2008. The fair value of these ordinary shares, determined by reference to the closing quoted market price of the Company's ordinary shares on the Stock Exchange at the date of acquisition, amounted to HK$303,755,000. Following the allotment of these ordinary shares during the year ended 31 December 2009, all ordinary shares to be issued as consideration under the BE-ZKC Acquisition Agreement have been issued. Further details of the transaction are set out in the Company's circular dated 30 June 2008 (the "BE-ZKC Acquisition Circular").

Immediately following the acquisition of Gainstar Limited by the Group, Besto, Tenson and Newton became major shareholders of the Company. As at the date of approval of these financial statements, Tenson is beneficially owned as to 52.62%, 44.93% and 2.45% by Messrs. Hu Xiaoyong, Zhou Min and Hou Feng, directors of the Company, respectively.

(b) During the year ended 31 December 2010, convertible bonds of the Company with an aggregate principal amount of approximately HK$748,346,000 (2009: HK$373,654,000) were converted by bondholders into 1,084,559,471 (2009: 850,440,529) new ordinary shares of the Company in total at a conversion price of HK$0.69 (2009: HK$0.40 or HK$0.69, as appropriate) per ordinary share. The difference of approximately HK$715,053,000 (2009: HK$310,811,000) between the 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.

29. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(ii) The Group's contributed surplus account represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the group reorganisation undertaken in prior years, over the nominal value of the Company's ordinary shares issued in exchange therefor.

(iii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries. None of the Group's PRC reserve funds as at 31 December 2010 were distributable in the form of cash dividends.

Notes to Financial Statements

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29. RESERVES *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Convertible bond equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009		1,225,480	60,859	243,744	(84,857)	1,445,226
Loss for the year and total comprehensive loss for the year		–	–	–	(62,505)	(62,505)
Allotment of shares for the acquisition of Gainstar Limited	*28(a)*	281,087	–	–	–	281,087
Issue of convertible bonds	*31*	–	–	52,439	–	52,439
Conversion of convertible bonds	*28(b), 31*	310,811	–	(79,197)	–	231,614
At 31 December 2009 and 1 January 2010		1,817,378	60,859	216,986	(147,362)	1,947,861
Loss for the year and total comprehensive loss for the year	*12*	–	–	–	(55,209)	(55,209)
Conversion of convertible bonds	*28(b), 31*	715,053	–	(216,986)	–	498,067
At 31 December 2010		2,532,431	60,859	–	(202,571)	2,390,719

The Company's contributed surplus account represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation undertaken in prior years, over the nominal value of the Company's shares in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distribution to its members out of contributed surplus subject to the Company's bye-laws and provided that immediately following the distribution of dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

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30. BANK AND OTHER BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans:				
Secured	**2,316,606**	1,417,404	**–**	–
Unsecured	**6,015,701**	969,416	**5,956,876**	501,446
	8,332,307	2,386,820	**5,956,876**	501,446
Other loans, unsecured	**195,335**	224,348	**–**	–
Total bank and other borrowings	**8,527,642**	2,611,168	**5,956,876**	501,446
Analysed into:				
Bank loans repayable:				
Within one year	**5,252,147**	1,229,343	**4,386,298**	501,446
In the second year	**686,918**	170,973	**385,099**	–
In the third to fifth years, inclusive	**1,853,834**	476,196	**1,185,479**	–
Beyond five years	**539,408**	510,308	**–**	–
	8,332,307	2,386,820	**5,956,876**	501,446
Other loans repayable:				
Within one year	**44,053**	61,603	**–**	–
In the second year	**16,957**	13,708	**–**	–
In the third to fifth years, inclusive	**53,787**	53,377	**–**	–
Beyond five years	**80,538**	95,660	**–**	–
	195,335	224,348	**–**	–
Total bank and other borrowings	**8,527,642**	2,611,168	**5,956,876**	501,446
Portion classified as current liabilities	**(5,296,200)**	(1,290,946)	**(4,386,298)**	(501,446)
Non-current portion	**3,231,442**	1,320,222	**1,570,578**	–

Notes to Financial Statements

31 December 2010

30. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The carrying amounts of the Group's and the Company's bank and other borrowings are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**3,637,532**	501,446	**3,637,532**	501,446
RMB	**2,498,207**	2,033,644	**–**	–
US$	**2,391,903**	76,078	**2,319,344**	–
	8,527,642	2,611,168	**5,956,876**	501,446

(b) Certain of the Group's bank loans are secured by:

(i) mortgages over sewage treatment concession rights (comprising operating concessions and receivables under service concession arrangements), 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. These 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 *(note 17)*;

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

(iii) a pledge over the Group's 60% equity interest in Bei Kong Chuang Xin; and/or

(iv) pledges over certain of the Group's bank balances of HK$431,436,000 (2009: HK$6,636,000) in aggregate *(note 27(a)(ii))*.

(c) HK$13,630,000 of the Group's unsecured bank loans as at 31 December 2009 were guaranteed by the Jinzhou JV Partner (as defined in note 39(b)(ii)). These loans were fully repaid by the Group during the year.

(d) Except for an interest-free government loan of HK$7,059,000 (2009: HK$6,815,000) and a government loan of HK$14,118,000 (2009: certain bank and other loans with an aggregate carrying amount of HK$103,403,000) which bears interest at a fixed rate of 2.96% per annum (2009: bear interest at fixed rates of ranging from 2.96% to 7.47% per annum), all the Group's bank and other loans bear interest at floating rates.

(e) Loan agreements of certain unsecured bank loans of the Company in an aggregate carrying amount of HK$5,219,170,000 as at 31 December 2010 include covenants imposing specific performance obligations on BEHL, a substantial shareholder of the Company, among which are the following events which would constitute an event of default on the loan facilities:

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% or 40%, where applicable, of the issued share capital of the Company; and/or

(ii) if BEHL ceases to be controlled and supervised by The Stated-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Within the best knowledge of the directors, none of the above events took place during the year and as at the date of approval of these financial statements.

Notes to Financial Statements

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31. CONVERTIBLE BONDS

The Company had an aggregate of five batches of convertible bonds outstanding during the years ended 31 December 2010 and 2009, the summary information of which is set out as follows:

Group and Company

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

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

Each batch of these convertible bonds is bifurcated into a liability component and an equity component for accounting purposes, as further described in the accounting policy for "Convertible bonds" set out in note 3.4 to the financial statements. The following tables summarise the movements in the principal amounts, the liability and equity components of the Company's convertible bonds during the years ended 31 December 2010 and 2009:

Group and Company

	Tranche 1 Bond *HK$'000* *(note (a))*	Tranche 2 Bond *HK$'000* *(note (a))*	Firm Bonds *HK$'000* *(note (b))*	ZKC Convertible Bonds 1 *HK$'000* *(note (c))*	ZKC Convertible Bonds 2 *HK$'000* *(note (c))*	Total *HK$'000*
Principal amount outstanding						
At 1 January 2009	34,000	80,000	180,000	589,304	–	883,304
Issue of convertible bonds	–	–	–	–	238,696	238,696
Conversion to ordinary shares	(34,000)	(80,000)	(180,000)	(34,245)	(45,409)	(373,654)
At 31 December 2009 and 1 January 2010	–	–	–	555,059	193,287	748,346
Conversion to ordinary shares	–	–	–	(555,059)	(193,287)	(748,346)
At 31 December 2010	–	–	–	–	–	–

Notes to Financial Statements

31 December 2010

31. CONVERTIBLE BONDS *(Continued)*

Group and Company *(Continued)*

	Tranche 1 Bond	Tranche 2 Bond	Firm Bonds	ZKC Convertible Bonds 1	ZKC Convertible Bonds 2	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(note (a))	*(note (a))*	*(note (b))*	*(note (c))*	*(note (c))*	
Liability component						
At 1 January 2009	30,779	66,907	153,364	418,225	–	669,275
Issue of convertible bonds	–	–	–	–	186,257	186,257
Imputed interest expense *(note 8)*	710	2,087	3,084	30,569	7,413	43,863
Transfer to share capital and share premium account upon conversion to ordinary shares *(note 28(b))*	(31,489)	(68,994)	(156,448)	(24,326)	(35,401)	(316,658)
At 31 December 2009 and 1 January 2010	–	–	–	424,468	158,269	582,737
Imputed interest expense *(note 8)*	–	–	–	17,958	5,829	23,787
Transfer to share capital and share premium account upon conversion to ordinary shares *(note 28(b))*	–	–	–	(442,426)	(164,098)	(606,524)
At 31 December 2010	–	–	–	–	–	–
Equity component (included in convertible bond equity reserve)						
At 1 January 2009	5,874	17,034	35,795	185,041	–	243,744
Issue of convertible bonds *(note 29(b))*	–	–	–	–	52,439	52,439
Transfer to share capital and share premium account upon conversion to ordinary shares *(notes 28(b) and 29(b))*	(5,874)	(17,034)	(35,795)	(10,753)	(9,741)	(79,197)
At 31 December 2009 and 1 January 2010	–	–	–	174,288	42,698	216,986
Transfer to share capital and share premium account upon conversion to ordinary shares *(notes 28(b) and 29(b))*	–	–	–	(174,288)	(42,698)	(216,986)
At 31 December 2010	–	–	–	–	–	–

Notes to Financial Statements

31 December 2010

31. CONVERTIBLE BONDS *(Continued)*

Notes:

(a) Tranche 1 Bond and Tranche 2 Bond were issued to Pioneer Wealth Limited, a former shareholder of the Company, pursuant to a convertible bond subscription agreement dated 12 April 2007 for the purpose of financing future investments in water treatment businesses in the PRC (as amended) and providing additional working capital (as amended) to the Group. Further details of these convertible bonds are set out in the Company's circulars dated 3 May 2007 and announcements dated 27 July 2007, 31 March 2008 and 12 June 2008.

(b) The Firm Bonds were issued to Beijing Enterprises Environmental Construction Limited ("BE Environmental"), the former immediate holding company of the Company, pursuant to a subscription agreement dated 21 January 2008 entered into between BEHL, BE Environmental and the Company for the purpose of financing investment and development of water treatment and environmental business and providing additional working capital to the Group. Further details of these convertible bonds are set out in the Company's circular dated 18 February 2008.

(c) ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 were issued to the BE-ZKC Vendors as part of the consideration for the acquisition of the 100% equity interest in Gainstar Limited, which held indirectly an 88.43% equity interest in BE-ZKC at the date of acquisition of 31 August 2008, pursuant to the BE-ZKC Acquisition Agreement. Further details of the ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 are set out in the BE-ZKC Acquisition Circular.

32. FINANCE LEASE PAYABLE

The purchase of certain equipment, which forms part of a sewage treatment plant constructed by the Group, was financed by a finance lease arrangement with an original lease term of 5 years.

At 31 December 2010, the total future minimum lease payments under the finance lease and their present values were as follows:

Group	**Minimum lease payments 2010**	Minimum lease payments 2009	**Present value of minimum lease payments 2010**	Present value of minimum lease payments 2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**5,153**	7,055	**4,913**	5,676
In the second year	**–**	4,975	**–**	4,743
Total minimum finance lease payments	**5,153**	12,030	**4,913**	10,419
Future finance charges	**(240)**	(1,611)		
Total net finance lease payable	**4,913**	10,419		
Portion classified as current liabilities	**(4,913)**	(5,676)		
Non-current portion	**–**	4,743		

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33. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession agreements entered into by the Group, the Group has contractual obligations to maintain the sewage and water treatment plants it operates to a specified level of serviceability and/or to restore the plants to a specified condition before they are handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the sewage and water treatment plants, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as “major overhauls”. The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in provision for the major overhauls of sewage and water treatment plants during the year, are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**91,792**	69,006
Additional provision *(note 7)*	**24,895**	20,775
Increase in discounted amounts arising from the passage of time *(note 8)*	**2,725**	2,011
Exchange realignment	**3,962**	–
At 31 December	**123,374**	91,792

34. DEFERRED INCOME

Deferred income of the Group represented subsidies received from third parties, fresh water customers and government authorities in respect of the Group’s sewage treatment businesses and the construction of a sewage treatment plant. The subsidies are interest-free and not required to be repaid, and are recognised in the consolidated income statement on the straight-line basis over the expected useful life of the relevant assets.

Notes to Financial Statements

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35. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated statement of financial position are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Deferred tax assets	**31,806**	31,071
Deferred tax liabilities	**(138,688)**	(100,305)
	(106,882)	(69,234)

The components of deferred tax assets and liabilities and their movements during the year are as follows:

Group

	Note	Fair value adjustments arising from acquisition of subsidiaries	Impairment provision	Provision for major overhauls	Temporary differences related to service concession arrangements	Losses available for offsetting against future taxable profits	Net deferred tax assets/ (liabilities)
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009		49,939	2,498	16,505	(101,537)	–	(32,595)
Net deferred tax credited/(charged) to the income statement during the year	*11*	–	151	5,696	(46,923)	4,440	(36,636)
Exchange realignment		–	–	–	–	(3)	(3)
At 31 December 2009 and 1 January 2010		49,939	2,649	22,201	(148,460)	4,437	(69,234)
Net deferred tax credited/(charged) to the income statement during the year	*11*	(1,247)	80	6,834	(38,053)	(862)	(33,248)
Exchange realignment		750	97	1,736	(7,038)	55	(4,400)
At 31 December 2010		49,442	2,826	30,771	(193,551)	3,630	(106,882)

Notes to Financial Statements

31 December 2010

35. DEFERRED TAX *(Continued)*

Notes:

(a) At 31 December 2010, deferred tax assets have not been recognised in respect of unused tax losses of HK$122,909,000 (2009: HK$28,274,000) as they have been arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK$122,206,000 (2009: HK$13,080,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$383,985,000 at 31 December 2010 (2009: HK$132,093,000).

(c) In the opinion of the directors, there are no income tax consequences regarding the Company's convertible bonds outstanding during the current and prior years and hence, no deferred tax liabilities have been provided in respect to these convertible bonds.

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36. 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:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 3 months	**966,598**	387,843	**–**	21,159
4 to 6 months	**811,344**	14,559	**–**	8,900
7 months to 1 year	**586,585**	15,978	**–**	4,226
1 to 2 years	**268,447**	12,670	**12,022**	–
2 to 3 years	**4,500**	6,169	**–**	–
Over 3 years	**176**	8,008	**–**	–
	2,637,650	445,227	**12,022**	34,285

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

37. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2010	2009	**2010**	2009
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accruals		**98,087**	56,754	**12,718**	5,107
Other liabilities		**405,126**	428,003	**–**	–
Other taxes payables	*38*	**31,003**	7,176	**–**	–
Due to a jointly-controlled entity	*20(d)*	**1,873**	–	**1,269**	–
Due to related parties	*26*	**56,255**	28,172	**–**	–
		592,344	520,105	**13,987**	5,107
Portion classified as current liabilities		**(569,700)**	(482,551)	**(13,987)**	(5,107)
Non-current portion		**22,644**	37,554	**–**	–

Notes to Financial Statements

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37. OTHER PAYABLES AND ACCRUALS *(Continued)*

The Group's other liabilities as at 31 December 2010 included, inter alia, the following:

(a) outstanding considerations in the amounts of RMB3,680,000 (equivalent to HK$4,329,000) (2009: RMB3,680,000 (equivalent to HK$4,180,000)) and RMB41,159,000 (equivalent to HK$48,422,000) (2009: RMB41,159,000 (equivalent to HK$46,750,000)), payable to the Mianyang Government for the transfer and construction of sewage treatment facilities under a TOT agreement and a BOT arrangement, respectively. The outstanding considerations are repayable in two annual instalments of RMB15,000,000 and the last instalment of RMB14,839,000 being due for repayment in 2012.

(b) performance bonds of RMB106,272,000 (equivalent to HK$125,026,000) in aggregate received from various subcontractors of the construction services for BT contracts in Yunnan Province, the PRC. The balances are fully repayable upon the completion of final inspection by government authorities which, in the opinion of the directors, will be completed in 2011.

(c) outstanding considerations in the amounts of RMB31,500,000 (equivalent to HK$37,059,000) and RMB29,400,000 (equivalent HK$34,588,000) payable to Linghai Government and Beizhen Government, respectively, for the transfers of sewage treatment facilities to the Group under TOT arrangements. The balances are fully repayable in 2011.

(d) outstanding consideration of RMB20,000,000 (equivalent to HK$23,529,000) payable to a third party for the acquisition of a 10% equity interest in Gatewin Luqiao. The acquisition transaction was completed during the year.

Other payables are non-interest-bearing and have an average term of three months.

38. OTHER TAXES PAYABLES

	Group	
	2010	2009
	HK$'000	*HK$'000*
Business tax	**20,386**	1,015
Value-added tax	**5,780**	2,519
Others	**4,837**	3,642
	31,003	7,176

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39. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of its subsidiaries acquired during the year ended 31 December 2010 as at the date of acquisition have no significant differences from their then respective carrying amounts. In respect of the prior year, except for the property, plant and equipment, prepaid land premiums and receivables under service concession arrangements with respective carrying amounts of HK$159,362,000, HK$25,773,000 and HK$126,110,000 immediately before the acquisitions, the fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2009 as at their respective dates of acquisition have no significant differences from their then respective carrying amounts.

The fair values of the identifiable assets and liabilities of subsidiaries as at their respective dates of acquisition are set out as follows:

	Notes	**2010** ***HK$'000*** ***(note (a))***	2009 *HK$'000* *(note (b))*
Net assets acquired:			
Property, plant and equipment	*14*	**6,453**	171,568
Prepaid land premiums	*15*	**–**	28,005
Other intangible assets	*18*	**–**	81
Inventories		**–**	4,213
Amounts due from contract customers		**879,574**	112,201
Receivables under service concession arrangements		**–**	134,874
Trade receivables		**463**	3,776
Prepayments, deposits and other receivables		**1,067,585**	8,139
Pledged deposit		**4**	–
Cash and cash equivalents		**1,384**	122,418
Trade payables		**(95,237)**	(40,643)
Other payables and accruals		**(623,629)**	(67,843)
Income tax payable		**(483)**	(103)
Bank and other borrowings		**(1,207,393)**	(255,855)
Deferred income		**–**	(16,254)
Non-controlling interests		**(24,989)**	(50,069)
		3,732	154,508
Goodwill on acquisition	*16*	**–**	20,607
Gain on bargain purchase	*6*	**(2,824)**	–
		908	175,115

Notes to Financial Statements

31 December 2010

39. BUSINESS COMBINATIONS *(Continued)*

	2010 *HK$'000* *(note (a))*	2009 *HK$'000* *(note (b))*
Satisfied by:		
Cash	–	56,837
Capital contribution to the acquiree in the form of cash	908	115,500
Costs associated with the acquisitions	–	2,778
	908	175,115
Profit/(loss) for the year since acquisition	(4,850)*	28,793

* *The loss for the year since acquisition included interest expenses of HK$69,092,000 charged by the Company.*

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2010 *HK$'000* *(note (a))*	2009 *HK$'000* *(note (b))*
Cash consideration	–	(56,837)
Cash injected by the Group as capital contribution	(908)	(115,500)
Cash and bank balances acquired	1,384	122,418
Cash paid for costs associated with the acquisitions	–	(2,778)
Cash consideration prepaid during the period ended 31 December 2008 *(note (b)(i))*	–	56,837
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	476	4,140

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$570,322,000 (2009: HK$228,356,000) and the Group's revenue (comprising turnover and other income and gains, net) would have been HK$7,365,656,000 (2009: HK$1,759,060,000).

Notes to Financial Statements

31 December 2010

39. BUSINESS COMBINATIONS *(Continued)*

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$908,000). The transaction was completed on 29 April 2010 and the transaction was accounted for as a business combination in accordance with HKFRS 3.

CICI and its subsidiaries are principally engaged in the construction of sewage and water treatment plants, and other infrastructural facilities in Yunnan Province, the PRC.

(b) The subsidiaries acquired during the year ended 31 December 2009 comprised Guigang Water and its subsidiaries, and Jinzhou Beikong. A summary information of these acquisitions is set out as follows:

(i) 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 Company's shareholders at a special general meeting held on 19 January 2009, the Group acquired a 66.67% equity interest in 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. 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.

(ii) Pursuant to a joint venture agreement (the "Jinzhou Joint Venture Agreement") entered into between the Group and a government authority in Mainland China (the "Jinzhou JV Partner") on 30 June 2009, Jinzhou Beikong was established by the Group and the Jinzhou JV Partner for the purpose of operating sewage and water treatment plants under a service concession agreement (the "Jinzhou Sewage and Water Concessions") granted to Jinzhou Beikong. Jinzhou Beikong was established with an initial registered capital of RMB127,179,000, which was satisfied as to RMB101,743,000 (equivalent to HK$115,500,000) in cash by the Group and as to RMB25,436,000 in the form of the Jinzhou Sewage and Water Concessions and related liabilities by the Jinzhou JV Partner. The transaction was completed on 15 August 2009 and the transaction was accounted for as a business combination in accordance with HKFRS 3.

Notes to Financial Statements

31 December 2010

40. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2009, the Group disposed of its entire equity interest in 四川中科成投資管理有限公司 ("Sichuan ZKC Investment Management"), a then 86.86% indirectly-owned subsidiary of the Company, to certain related parties (the "Sichuan ZKC Investment Management Purchasers") for an aggregate cash consideration of RMB20,000,000 (equivalent to HK$22,718,000). Sichuan ZKC Investment Management was an investment holding company at the date of disposal.

An analysis of the net assets of the subsidiary disposed of during the year ended 31 December 2009, is as follows:

	2010	2009
	HK$'000	*HK$'000*
Net assets disposed of:		
Investment in an associate	–	27,281
Cash and bank balances	–	242
Prepayments, deposits and other receivables	–	1,963
Non-controlling interests	–	(3,846)
	–	25,640
Loss on disposal of a subsidiary *(note 7)*	–	(2,922)
	–	22,718
Satisfied by cash	–	22,718

An analysis of the cash flows in respect of the disposal of a subsidiary is as follows:

	2010	2009
	HK$'000	*HK$'000*
Cash consideration	–	22,718
Consideration satisfied by offsetting current account *(note 41(b))*	–	(1,768)
Cash and bank balances disposal of	–	(242)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	20,708

Notes to Financial Statements

31 December 2010

41. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Apart from the transaction detailed in notes 28(a), 28(b) and 31(c) to the financial statements, the Group had the following major non-cash transactions of investing and financing activities during the years ended 31 December 2010 and 2009:

(a) Pursuant to a series of offsetting agreements entered into between the Group, the former controlling shareholder of CICI, and various third parties of the Group on 20 October 2010, the amounts due from the various third parties in an aggregate amount of HK$227,286,000 were offset against part of the Group's amount due to the former controlling shareholder of CICI during the year.

(b) Pursuant to a deed of setoff entered into between the Group and the Sichuan ZKC Investment Management Purchasers, part of the cash consideration of RMB1,567,000 (equivalent to HK$1,768,000) receivable from the Sichuan ZKC Investment Management Purchasers in respect of the disposal of Sichuan ZKC Investment Management was offset against the current accounts between the parties during the year ended 31 December 2009.

(c) Included in the amounts due from related parties of the Group as at 31 December 2008 was an amount of RMB86,908,000 (equivalent to HK$98,716,000) due from 鴻橋投資有限公司 ("Hong Qiao", a company established in Mainland China holding a 40% equity interest in Bei Kong Chuang Xin), which represented the remaining unsettled portion of the purchase consideration paid to the vendor on behalf of Hong Qiao by the Group pursuant to the Assignment of Equity Interest Agreement (as defined in the Company's circular dated 6 October 2008) entered into between the Group and Hong Qiao in connection with the acquisition of Bei Kong Chuang Xin in 2008. During the year ended 31 December 2009, the amount was settled by the deduction in the same amount of the capital contributed by Hong Qiao in Bei Kong Chuang Xin in accordance with a share transfer agreement entered into between the Group and Hong Qiao on 30 June 2009. Following the completion of the transaction in the prior year, the Group's equity interest in Bei Kong Chuang Xin increased from 60% to 88.97% while the profit sharing ratio remains to be 60%.

42. CONTINGENT LIABILITIES

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

At 31 December 2010, corporate guarantees of RMB445,000,000 (equivalent to HK$523,529,000) (2009: a corporate guarantee of RMB714,000,000 (equivalent to HK$810,995,000)) were given by the Company to banks in connection with bank loans of an equivalent amount granted to certain subsidiaries of the Company.

Notes to Financial Statements

31 December 2010

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain portion of buildings (which the Group has the right to use under service concession agreements) under operating lease arrangements, with the leases negotiated for a term of 7 years (2009: 7 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

At 31 December 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within one year	**245**	207
In the second to fifth years, inclusive	**1,137**	981
After five years	**–**	600
	1,382	1,788

At 31 December 2010, the Company did not have any operating lease arrangements as lessor (2009: Nil).

(b) As lessee

The Group leases a piece of land, a motor vehicle and certain office properties under operating lease arrangements with the leases negotiated for terms ranging from 1 to 46 years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within one year	**3,734**	1,726
In the second to fifth years, inclusive	**9,862**	1,963
After five years	**73,835**	8,362
	87,431	12,051

At 31 December 2010, the Company did not have any operating lease commitments as lessee (2009: Nil).

Notes to Financial Statements

31 December 2010

44. CAPITAL COMMITMENTS

In addition to the operating lease commitment detailed in note 43(b) above, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Acquisition of plant and equipment under service concession arrangements on a TOT basis:		
Authorised, but not contracted for	**415,294**	–
Contracted, but not provided for	**439,529**	405,026
	854,823	405,026
Acquisition of plant and equipment, and a land use right under service concession arrangements on a BOT basis:		
Authorised, but not contracted for	**227,219**	11,884
Contracted, but not provided for	**185,457**	363,359
	412,676	375,243
Capital contribution to a jointly-controlled entity		
Contracted, but not provided for	**427,576**	–
Total capital commitments	**1,695,075**	780,269

At 31 December 2010, the Company had a capital commitment of HK$149,260,000 (2009: HK$676,389,000) in respect of its capital contributions to subsidiaries, which are contracted but not provided for.

Notes to Financial Statements

31 December 2010

45. RELATED PARTY DISCLOSURES

(a) Other than the transactions and balances detailed in notes 20, 24, 25, 26, 28, 30, 31, 37, and 41 to the financial statements, the Group had no other transactions and outstanding balances with related parties during the years ended 31 December 2010 and 2009.

(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 year, 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

	2010 ***HK$'000***	2009 *HK$'000*
Short term employee benefits	**13,394**	5,209
Pension scheme contributions	**36**	36
Total compensation paid to key management personnel	**13,430**	5,245

Further details of directors' emoluments are included in note 9 to the financial statements.

Notes to Financial Statements

31 December 2010

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, convertible bonds, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and amounts due from/to related parties which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks loans, convertible bonds, cash and bank balances are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

Notes to Financial Statements

31 December 2010

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Interest rate risk *(Continued)*

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total	Effective interest rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
31 December 2010								
Floating rate:								
Cash and cash equivalents	2,402,703	–	–	–	–	–	2,402,703	0.34
Bank and other borrowings	5,289,141	703,875	1,440,771	241,652	225,198	605,828	8,506,465	2.75
Fixed rate:								
Cash and cash equivalents	150,494	–	–	–	–	–	150,494	1.36
Bank and other borrowings	–	–	–	–	–	14,118	14,118	2.96
31 December 2009								
Floating rate:								
Cash and cash equivalents	833,221	–	–	–	–	–	833,221	0.36
Bank and other borrowings	1,226,581	184,114	191,939	158,547	159,450	532,045	2,452,676	4.73
Fixed rate:								
Cash and cash equivalents	43,640	–	–	–	–	–	43,640	1.63
Bank and other borrowings	57,550	568	826	826	18,242	73,665	151,677	5.64
Convertible bonds	–	–	–	582,737	–	–	582,737	7.32

At 31 December 2010, it is estimated that a general decrease/increase of 100 basis points in interest rate of average balances of bank and other loans, cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2010 by approximately HK$38,616,000 (2009, increase/decrease the Group's profit before tax by approximately HK$10,385,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the respective end of the reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual end of the reporting period.

Notes to Financial Statements

31 December 2010

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's statement of financial position can be affected significantly by movements in the RMB/HK$ exchange rate.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB/HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
31 December 2010		
If Hong Kong dollar weakens against RMB by 5%	37,724	281,400
If Hong Kong dollar strengthens against RMB by 5%	(37,724)	(281,400)
31 December 2009		
If Hong Kong dollar weakens against RMB by 5%	16,480	125,354
If Hong Kong dollar strengthens against RMB by 5%	(16,480)	(125,354)

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than unit's functional currency.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group does not have any significant credit risk as credit given to any individual or corporate entity is not significant. The main credit risk exposure to the Group arises from default or delinquency in principal payment of trade receivables, receivables under service concession arrangements and amounts due from contract customers. In respect of trade receivables, receivables under service concession arrangements and amounts due from contract customers, the Group trades mainly with municipal governments in different provinces which do not have significant credit risk. In addition, trade receivable balances, receivables under services concession arrangements and amounts due from contract customers are monitored on an ongoing basis, in the opinion of directors, the credit risk is not significant.

Notes to Financial Statements

31 December 2010

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Credit risk *(Continued)*

With respect to credit risk arising from the other major financial assets of the Group, which comprise deposits and other receivables, amounts due from related parties and cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other interest-bearing loans and convertible bonds. In the opinion of the directors of the Company, most of the borrowings that mature within one year can be renewed, and hence the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position.

The maturity profile of the Group's financial liabilities as at each end of the reporting periods based on the contracted undiscounted payments, was as follows:

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2010								
Bank loans	1,827,710	3,596,545	792,230	1,496,174	274,635	252,270	556,184	8,795,748
Other loans	–	52,267	23,900	26,694	25,421	17,398	82,626	228,306
Trade payables	–	2,637,650	–	–	–	–	–	2,637,650
Other liabilities	–	382,482	22,644	–	–	–	–	405,126
Finance lease payable	–	4,913	–	–	–	–	–	4,913
Due to related parties	56,255	–	–	–	–	–	–	56,255
	1,883,965	6,673,857	838,774	1,522,868	300,056	269,668	638,810	12,127,998
31 December 2009								
Bank loans	–	1,319,984	233,434	232,024	190,202	182,511	525,113	2,683,268
Other loans	22,845	41,223	21,109	19,700	18,055	34,542	97,776	255,250
Trade payables	–	445,227	–	–	–	–	–	445,227
Other liabilities	–	390,448	18,401	19,154	–	–	–	428,003
Finance lease payable	–	5,676	4,743	–	–	–	–	10,419
Due to related parties	1,057	26,742	–	–	–	–	–	27,799
Convertible bonds	–	–	–	–	582,737	–	–	582,737
	23,902	2,229,300	277,687	270,878	790,994	217,053	622,889	4,432,703

Notes to Financial Statements

31 December 2010

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Fair values

The following table sets out a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values. The fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates:

	Carrying amount		Fair value	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets:				
Non-current receivables under service concession arrangements	**2,736,583**	1,916,822	**2,736,583**	1,916,822
Non-current other receivables	**623,953**	1,973	**606,798**	1,973
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	**3,217,324**	1,226,095	**3,217,324**	1,226,095
Fixed rate borrowings	**14,118**	94,127	**8,927**	79,907
Convertible bonds	**–**	582,737	**–**	610,184
Finance lease payable	**–**	4,743	**–**	4,743

Note: The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 21 to the financial statements, the available-for-sale investments of the Group are not stated at fair value but at cost less any accumulated impairment losses because fair value of which cannot be reasonably assessed and therefore no disclosure of the fair value of this financial instrument is made.

Notes to Financial Statements

31 December 2010

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt.

The Group monitors capital using the gearing ratio. This ratio is calculated based on net debt and total equity. Net debt is calculated as total interest-bearing bank and other borrowings and convertible bonds (as shown in the statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Net debt	**6,558,755**	2,310,228
Total equity	**5,067,954**	3,011,816
Gearing ratio	**129%**	77%

47. FINANCIAL INSTRUMENTS BY CATEGORY

Other than unlisted equity investments being classified as available-for-sale investments as disclosed in note 21 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2010 and 2009 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

Notes to Financial Statements

31 December 2010

48. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the following significant events occurred:

(i) On 17 February 2011, the Company's shareholders approved an exclusivity agreement entered into between the Company and BEHL on 21 December 2010, pursuant to which, among other things, BEHL has undertaken to the Company that during a period of eighteen months ending on 16 August 2012, it shall not, directly or indirectly, enter into any discussion or agreement with any person except the Company relating to the proposed injection to the Company of certain sewage treatment and water supply and waste treatment plants currently owned by BEHL and/or its subsidiaries. Further details of the exclusivity agreement are set out in the Company's circular dated 26 January 2011.

(ii) On 15 March 2011, a total of 2,283,378,231 new ordinary shares of the Company were issued under the Open Offer (as defined in note 2 to the financial statements) at an offer price of HK$1.485 per ordinary share for a total net proceeds of approximately HK$3,391 million. Following the completion of the Open Offer, the issued share capital of the Company has been increased from approximately HK$456,676,000 divided into 4,566,756,463 shares to approximately HK$685,013,000 divided into 6,850,134,694 shares.

(iii) On 28 March 2011, the Company entered into a term loan facility agreement (the "Facility Agreement") with a syndicate of banks for a term loan facility (the "Syndicated Loan Facility") in the amount of HK$1,300,000,000. The Syndicated Loan Facility has a term of five years commencing from 28 March 2011. Pursuant to the Facility Agreement, it shall be an event of default (unless remedied by the Company or waived by the syndicate of banks) if BEHL, a substantial shareholder of the Company, 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.

49. COMPARATIVE AMOUNTS

During the year, the directors of the Company have reconsidered the classification of amounts due from/to subsidiaries in the Company's separate financial statements between non-current and current portions and hence, certain comparative amounts of the Company's separate financial statements have been reclassified and restated to conform to the current year's presentation, and a third statement of financial position of the Company as at 1 January 2009 has been presented. The effects of the reclassification of comparative amounts of the Company are summarised as follows:

	Company	
	31 December 2009	1 January 2009
	HK$'000	*HK$'000*
Decrease in investments in subsidiaries	**(364,224)**	(942,352)
Increase in due from subsidiaries, included in current assets	**866,240**	942,352
Increase in due to subsidiaries, included in current liabilities	**502,016**	–

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2011.

Five Year Financial Summary

31 December 2010

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2009, is set out below:

RESULTS

	Year ended 30 June		Period from 1 July 2007 to 31 December	Year ended 31 December	
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	***HK$'000***
Revenue	35,786	19,899	337,681	1,730,013	**6,348,060**
Operating profit/(loss)	(3,202)	(2,620)	55,947	272,818	**694,291**
Share of profits and losses of:					
Jointly-controlled entities	–	–	–	–	**824**
An associate	–	–	(811)	4,565	**–**
Profit/(loss) before tax	(3,202)	(2,620)	55,136	277,383	**695,115**
Income tax	14	53	(12,234)	(48,637)	**(130,950)**
Profit/(loss) for the year/period	(3,188)	(2,567)	42,902	228,746	**564,165**
ATTRIBUTABLE TO:					
Shareholders of the Company	(3,188)	(2,567)	30,984	192,711	**512,512**
Non-controlling interests	–	–	11,918	36,035	**51,653**
	(3,188)	(2,567)	42,902	228,746	**564,165**

ASSETS, LIABILITIES AND TOTAL EQUITY

	30 June			31 December	
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	34,096	32,115	4,816,158	7,423,717	**17,224,829**
Total liabilities	(744)	(679)	(2,818,201)	(4,411,901)	**(12,156,875)**
NET ASSETS	33,352	31,436	1,997,957	3,011,816	**5,067,954**
REPRESENTED BY:					
Equity attributable to shareholders of the Company	33,352	31,436	1,758,301	2,622,905	**3,892,860**
Non-controlling interests	–	–	239,656	388,911	**1,175,094**
TOTAL EQUITY	33,352	31,436	1,997,957	3,011,816	**5,067,954**

Note:

Pursuant to an ordinary resolution passed at the Company's special general meeting held on 4 March 2008, the Company changed its financial year end date from 30 June to 31 December with effect from 4 March 2008 to align the financial year end date with that of Beijing Enterprises Holdings Limited, an intermediate holding company whose shares are listed on the Stock Exchange.

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

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