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

ANNUAL REPORT 2011

BEIJING ENTERPRISES WATER GROUP LIMITED

STOCK CODE : 371

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Zhang Honghai *(Chairman)*
Mr. Zhang Gaobo
Mr. Guo Rui

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

STOCK CODE

371

WEBSITE

www.bewg.com.hk

REGISTERED OFFICE

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22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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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

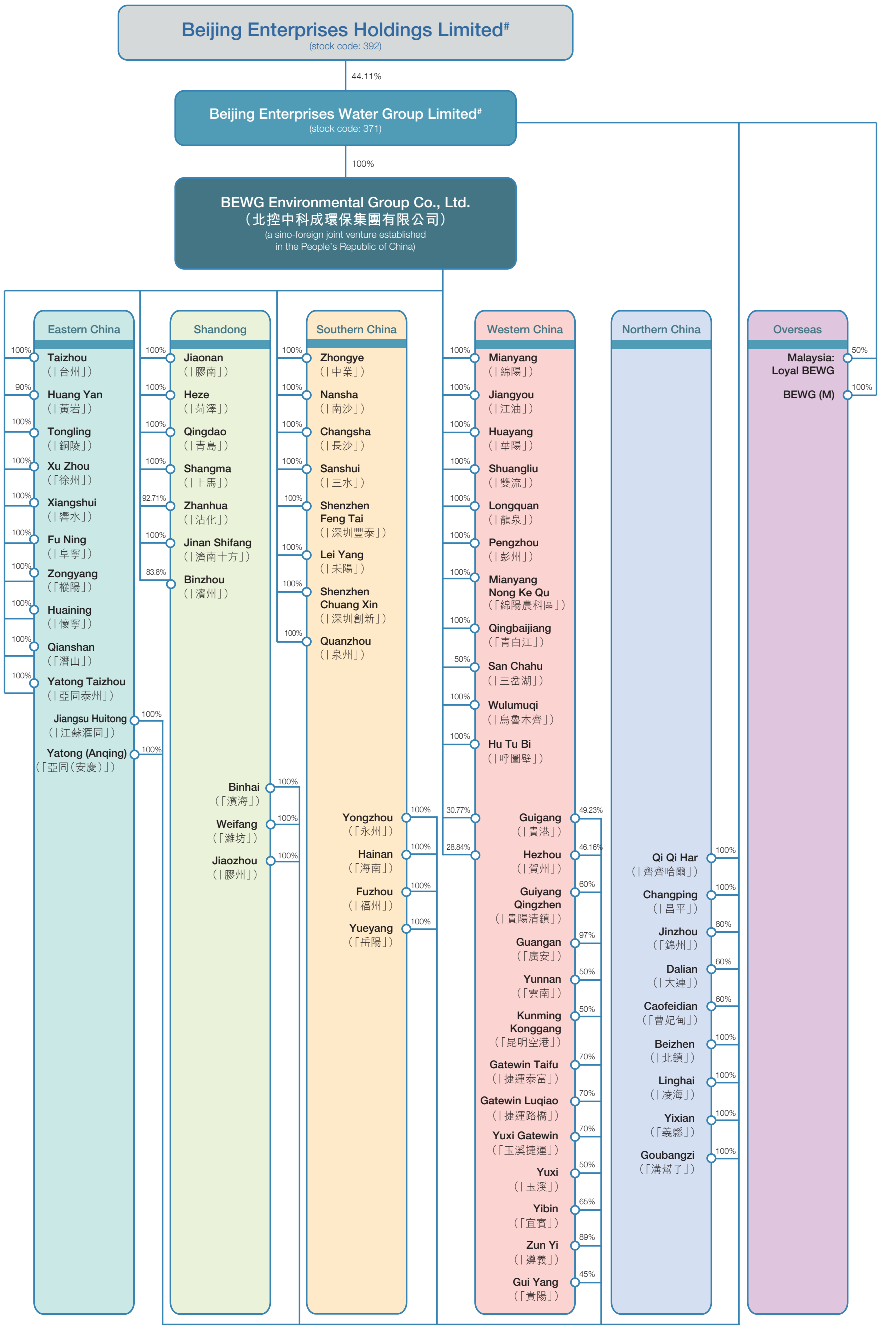
PRINCIPAL BANKERS

In Hong Kong:
Agricultural Bank of China Ltd., Hong Kong Branch
China Development Bank Corporation Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch
Mizuho Corporate Bank Ltd., Hong Kong Branch
Standard Chartered Bank (Hong Kong) Ltd

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

GROUP STRUCTURE

As at 31 December 2011



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

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2011, European debt crisis are spreading along with the continuous downturn in global economy, on the other hand, the Chinese government continued to implement its macroeconomic austerity control and tighten its financial monetary policies. Under these backgrounds, Beijing Enterprises Water Group Limited (the "Company" and the subsidiaries, collectively referred to as the "Group") persists in adhering closely to its development strategy and annual operation targets. Relying on the solid development foundation and resources advantages, the Group not only achieved a rapid expansion of its core business but also made successive breakthroughs in its segments business investment. Owing to a more rational business operation chain structure and distribution of its operating units, the Group's business will maintain a steady growth pace.

As a water supply-based utility company of Hang Seng Composite Index, Hang Seng Composite Industry Index-Utilities and Hang Seng Composite Medium-sized Stock Market Value Index, the Group was awarded the honorable title of being "China's Renowned Water Enterprise" and ranked the first in the "2011 Top Ten Influential Enterprises in the Water Industry in China" in 2011.

BUSINESS REVIEW

The revenue of the Group for the year ended 31 December 2011 was HK$2,654,454,000. During the year, profit attributable to shareholders of the Company was HK$600,736,000 with basic earnings per share of HK8.94 cents.

With respect to traditional business, as of 31 December 2011, the Group secured an additional increase in water processing capacity of 2,819,450 tons per day. The Group's business regions had expanded to 18 provinces with its industry position and brand influence significantly improved.

With respect to international business, the Group successfully awarded a construction project in Malaysia. On 3 November 2011, the Group signed an agreement with the Malaysian Government to construct the Pantai 2 underground sewage treatment plant with a capacity of 320,000 tons per day.

The seawater desalination project of the Group was awarded as "a demonstrative project for seawater desalination industry development of National Development and Reform Commission" by the National Development and Reform Commission and was formally completed in October 2011. Meanwhile, with respect to introducing seawater desalination projects in Beijing, the preliminary expert study and evaluation and other commercial and technical preparation works for the seawater desalination plant was initially completed.

In 2011, the Group obtained an equity financing of HK$3,385,362,000 and debt financing of HK$6,413,646,000 in aggregate. The Group is making significant breakthroughs in its financing activities.

CHAIRMAN'S STATEMENT

MANAGEMENT CONTROL OF THE GROUP

The Group persists to tune and optimise its operational model as well as management control model. In optimising its management control system, the Company strengthens its financial management and risk management control by means of stressing on centralised decision-making as well as coordinating resources and risks control. Especially, we emphasis on system optimisation and refine each responsibility for better management. In addition to risk prevention, the Group always strive for improving economic benefits at the same time.

The Group strengthened its personnel training and technology research and development, worked closely with the strategic platform of Tsinghua University-BE Water Group Environmental Industry Joint Research Institute to build a management team that possesses entrepreneur capabilities. The Group had obtained, applied for and participated in the research on issues at national and provincial level under The Ministry of Housing and Urban-Rural Development of the People's Republic of China, The Ministry of Science and Technology of the People's Republic of China and Beijing Municipal Science & Technology Commission.

DEVELOPMENT STRATEGY

In 2012, the Group will establish a performance-oriented operation and management mechanism. We further expand, enhance and optimise the traditional water business as well as promote seawater desalination business proactively. Apart from the stably expansion of international business, we accelerate the sludge treatment business, and stably and prudently carry out the comprehensive water environmental renovation business. The Group will not only improve the utilisation efficiency of capital and enhance income level, but also strengthen the coordination of the Group's professional resources under the implementation of talent thriving enterprises strategy. We strengthen our research and development technologies so as to create the core enterprises competitiveness. The Group focus on the building of its corporate culture and increases its corporate convergence force.

FUTURE OUTLOOK

The sustainable and favorable policy of the Chinese government for the industry, together with the expanding overall demand for environmental protection and water supply market shall contribute to the faster overall development pace over the industry compared to the overall growth of national economy. At the same time, the Chinese government increases the requirements for public service ranging from the superficial to in depth aspects, and this will facilitate the further expansion of the service scope of water environmental protection services and create more opportunities for the market.

CHAIRMAN'S STATEMENT

Save for the area of traditional water supply and sewage services, some emerging markets (including sludge treatment and seawater desalination) will become new market focuses. The promulgation of industry policies which include the Opinions of the General Office of the State Council of the People's Republic of China on Accelerating the Development of the Seawater Desalination Industry (《國務院辦公廳關於加快發展海水淡化產業的意見》) will further heat-up the seawater desalination industry.

The Group will grasp the changes of macroeconomic policies and responses actively to seize opportunities. We will also carry out specific research on the transformation in both development and management models, optimise operation structure, improve industry layout, expand market share, promote the value-innovation capability in order to facilitate the Group to continuously maintain a sound growing momentum.

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

Zhang Honghai
Chairman

29 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The Group maintained a steady growth during the year. Profit for the year attributable to shareholders of the Company increased by 17% to HK$600.7 million, with sewage treatment services emerging as a key profit driver. Revenue decreased by 58% to HK$2,654.5 million as a result of decrease in revenue contribution from construction services for the water environmental renovation.

1. FINANCIAL HIGHLIGHTS

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
Water treatment services					
Sewage and reclaimed water treatment services	994.7	37%	62%	490.9	54%
– Subsidiaries	994.7	37%	62%	484.7	53%
– Jointly-controlled entities	–	–	–	6.2	1%
Water supply services	83.2	3%	47%	12.3	1%
– Subsidiaries	83.2	3%	47%	10.9	1%
– Jointly-controlled entities	–	–	–	1.4	–
Subtotal	1,077.9	40%		503.2	55%
Construction services for the water environmental renovation					
Construction of comprehensive renovation projects	752.1	29%	4%	191.4	21%
– Project with completion rate under 10%	426.8	16%	0%	–	–
– Project with completion rate more than 10%[§]	325.3	13%	9%	65.4	7%
– Imputed interest income	–	–	0%	126.0	14%
Construction of water plants[△]	612.9	23%	10%	44.3	5%
Subtotal	1,365.0	52%		235.7	26%
Technical services for the water environmental renovation	211.6	8%	82%	169.1	19%
Business results	2,654.5	100%		908.0	100%
Others[#]				(307.3)	
Total				600.7	

[#] *Others included head office and other corporate income, net, of HK$5.7 million and finance costs of HK$313.0 million.*

[§] *Profit attributable to shareholders of the Company included share of profit of a jointly-controlled entity of HK$12.5 million.*

[△] *Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK$0.7 million.*

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M* (Restated)	*%*
Water treatment services					
Sewage and reclaimed water treatment services					
– Subsidiaries	591.6	9%	62%	248.3	30%
Water supply services					
– Subsidiaries	75.5	1%	39%	10.3	1%
Subtotal	667.1	10%		258.6	31%
Construction services for the water environmental renovation					
Construction of comprehensive renovation projects					
– Project with completion rate more than 10%	4,600.0	72%	9%	311.4	37%
Construction of water plants[△]	831.6	13%	11%	63.8	8%
Subtotal	5,431.6	85%		375.2	45%
Technical services for the water environmental renovation	249.4	5%	99%	203.1	24%
Business results	6,348.1	100%		836.9	100%
Others[#]				(324.4)	
Total				512.5	

[#] *Others included operating expenses of head office, net, of HK$89.5 million, convertible bonds interest of HK$23.8 million and other finance costs of HK$211.1 million.*

[△] *Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK$0.8 million*

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for years ended 31 December 2011 and 2010 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2011	2010	Increase/(Decrease)		**2011**	2010	Increase/(Decrease)	
	HK$'M	*HK$'M*	*HK$'M*	*%*	***HK$'M***	*HK$'M* (Restated)	*HK$'M*	*%*
Water treatment services								
Sewage and reclaimed water treatment services	**994.7**	591.6	403.1	68%	**490.9**	248.3	242.6	98%
– Subsidiaries	**994.7**	591.6	403.1	68%	**484.7**	248.3	236.4	95%
– Jointly-controlled entities	**–**	–	–	–	**6.2**	–	6.2	100%
Water supply services	**83.2**	75.5	7.7	10%	**12.3**	10.3	2.0	19%
– Subsidiaries	**83.2**	75.5	7.7	10%	**10.9**	10.3	0.6	6%
– Jointly-controlled entities	**–**	–	–	–	**1.4**	–	1.4	100%
Subtotal	**1,077.9**	667.1	410.8	62%	**503.2**	258.6	244.6	95%
Construction services for the water environmental renovation								
Construction of comprehensive renovation projects	**752.1**	4,600.0	(3,847.9)	(84%)	**191.4**	311.4	(120.0)	(39%)
– Project with completion rate under 10%	**426.8**	–	426.8	100%	**–**	–	–	–
– Project with completion rate more than 10%	**325.3**	4,600.0	(4,274.7)	(93%)	**65.4**	311.4	(246.0)	(79%)
– Imputed interest income	**–**	–	–	–	**126.0**	–	126.0	100%
Construction of water plants	**612.9**	831.6	(218.7)	(26%)	**44.3**	63.8	(19.5)	(30%)
Subtotal	**1,365.0**	5,431.6	(4,066.6)	(75%)	**235.7**	375.2	(139.5)	(37%)
Technical services for the water environmental renovation	**211.6**	249.4	(37.8)	(15%)	**169.1**	203.1	(34.0)	(17%)
Business results	**2,654.5**	6,348.1	(3,693.6)	(58%)	**908.0**	836.9	71.1	8%
Others					**(307.3)**	(324.4)	17.1	(5%)
Total					**600.7**	512.5	88.2	17%

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 18 provinces all across Mainland China.

2.1 Water treatment services

As at 31 December 2011, the Group participates in 126 water plants either in operation or going to operate in future of which includes 101 sewage treatment plants, 20 water supply plants, 4 reclaimed water plants and 1 seawater desalination plant. The total daily design capacity was increased by 2,819,450 tons to 8,728,950 tons, representing an increase of 48% as compared with last year. The increment of 2,819,450 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 544,500 tons, Transfer-Operate-Transfer ("TOT") projects of 475,000 tons, entrustment projects of 744,500 tons and acquired project of 1,055,450 tons.

Analysis of projects on hand as follows:

	Sewage treatment	**Water supply**	**Reclaimed water**	**Seawater desalination**	**Total**
(Tons)					
In operation	3,773,750	1,125,000	182,000	–	5,080,750
Not yet start operation	2,004,000	1,389,200	205,000	50,000	3,648,200
Total	5,777,750	2,514,200	387,000	50,000	8,728,950
(Number of water plants)					
In operation	65	8	2	–	75
Not yet start operation	36	12	2	1	51
Total	101	20	4	1	126

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

	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 and reclaimed water treatment services:					
– Southern	21	1,456,000	376.1	410.2	250.7
– Western	21	1,281,500	329.9	225.8	79.7
– Shandong	8	417,000	119.3	126.7	51.5
– Eastern	11	346,250	55.5	117.9	65.8
– Northern	6	455,000	88.6	114.1	43.2
	67	3,955,750	969.4	994.7	490.9
Water supply services	8	1,125,000	158.6	83.2	12.3
Total	75	5,080,750	1,128.0	1,077.9	503.2

2.1.1 Sewage and reclaimed water treatment services

As at 31 December 2011, the daily operating capacity of sewage and reclaimed water treatment plants reached to 3,773,750 tons (31 December 2010: 2,532,000 tons) and 182,000 tons (31 December 2010: 182,000 tons) respectively. The average daily processing volume is 2,792,689 tons and average daily treatment rate is 71%. The actual average contracted tariff charge of water treatment was approximately HK$1.15 per ton. The actual aggregate processing volume for the year was 969.4 million tons. Revenue was HK$994.7 million for the year (37% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK$490.9 million, of which HK$484.7 million was contributed by subsidiaries and HK$6.2 million was contributed by jointly-controlled entities. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services (Continued)

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. Most of the BOT projects secured last year commenced operations during this year, therefore, the operating volume increased significantly. As at 31 December 2011, there were 21 sewage treatment plants with total daily design capacity of 1,456,000 tons, representing an increase of 664,000 tons per day or 83.8% as compared with last year. The actual aggregate processing volume for the year amounted to 376.1 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$410.2 million and HK$250.7 million respectively during the year.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2011, there were 21 sewage treatment plants with total daily design capacity of 1,281,500 tons, representing an increase of 281,500 tons per day or 28% as compared with last year. The actual processing volume for the year was 329.9 million tons. The operating revenue of HK$225.8 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK$79.7 million.

Shandong

There were 8 plants in Shandong region. The total daily processing capacity of Shandong region had increased by 120,000 tons to 417,000 tons as compared with last year. The actual processing volume for the year was 119.3 million tons contributing operating revenue of HK$126.7 million during the year. Profit attributable to shareholders of the Company was HK$51.5 million.

Eastern China

There were 11 water plants in Eastern China which were mainly located in Zhejiang Province. As at 31 December 2011, the operating volume of Eastern China had increased by 176,250 tons to 346,250 tons as compared with last year. The actual processing volume for the year amounted to 55.5 million tons and operating revenue was HK$117.9 million during the year. Profit attributable to shareholders of the Company was HK$65.8 million.

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services (Continued)

Northern China

Currently, the Group has 6 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily processing volume is 455,000 tons, which is same as last year. The projects had achieved actual processing volume of 88.6 million tons for the year. The operating revenue was HK$114.1 million during the year. Profit attributable to shareholders of the Company was HK$43.2 million.

2.1.2 Water supply services

As at 31 December 2011, the Group had 8 water supply plants in operation. Total water supply capacity of these projects was 1,125,000 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$2.36 per ton. The aggregate actual processing volume is 158.6 million tons. Water supply services recorded revenue of HK$83.2 million (3% of the Group's total revenue) and profit attributable to shareholders of the Company of HK$12.3 million, of which HK$10.9 million was contributed by subsidiaries and HK$1.4 million was contributed by a jointly-controlled entity.

2.2 Construction services for the water environmental renovation

2.2.1 Construction of comprehensive renovation projects

The Group has five comprehensive renovation projects under construction during the year. Included in these projects, two projects commenced construction in Year 2010 was completed in Year 2011, located in Kunming and Dalian Changxingdao, contributed total construction revenue of HK$151.1 million during the Year 2011. The construction revenue from these two projects in Year 2010 was HK$2,664.6 million. Three projects commenced in Year 2011 contributed construction revenue of HK$601.0 million. The new projects are located in Guizhou Huaxi, Dalian Dengshahe and Malaysia Pantai.

The Group has eight comprehensive renovation projects in Year 2010. Included in these projects, six projects were completed in Year 2010 located in Kunming, Tongling Chengbei and Tongling Jingjiqu with total construction revenue of HK$1,935.4 million. Two projects located in Kunming and Dalian Changxingdao were completed in Year 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.2 Construction services for the water environmental renovation *(Continued)*

2.2.1 Construction of comprehensive renovation projects (Continued)

Revenue from comprehensive renovation projects decreased by HK$3,847.9 million from HK$4,600 million in Year 2010 to HK$752.1 million in Year 2011. Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK$120.0 million from HK$311.4 million last year to HK$191.4 million this year.

Revenue and profit attributable to shareholder of the Company significantly decreased since the construction service for the projects located in Kunming, Tongling Chengbei, Tongling Jingjiqu and Dalian Changxingdao was substantially completed in Year 2010 and large portion of respective construction revenue and profit had already recognised in Year 2010.

According to the contracts, the Group can charge an interest on the trade receivables from the customer with reference to a certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to the settlement of the trade receivables. The profit attributable to the shareholders of the Company generated by the imputed interest income for the Year 2011 was HK$126.0 million (2010: Nil).

2.2.2 Construction of water plants

The Group has entered into a number of service concession contracts on a BOT basis in respect of its water 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, 21 water plants were under construction. These water plants were mainly located in Sichuan, Yunnan, Shandong, Liaoning, Heilongjiang and Hunan provinces. Total revenue contribution for construction of water plants was HK$612.9 million and profit attributable to shareholders of the Company was HK$44.3 million. As at 31 December 2011, the total daily design capacity of these water plants in the construction stage was 1,408,700 tons, most of these projects are expected to commence operation in next year. The revenue and profit attributable to shareholders of the Company decreased as there was a decrease in number of BOT projects in Year 2011. The increment of capacity during Year 2011 for the year was mainly contributed by acquisitions of water companies and TOT projects.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.3 Technical services for the water environmental renovation

The Group has couples of qualification in engineering consulting and design of water treatment plants. As an integrated water system solution provider in water market, the Group has not only acquired extensive experience in bidding, building and operating sewage water treatment projects, but also successfully marketed its treatment technology and experience in construction services to other operators and constructors.

Revenue from the provision of technical services was HK$211.6 million, representing 8% of the Group's total revenue. The profit attributable to shareholders of the Company was HK$169.1 million. There are 23 projects (2010: 18 projects) for this year, two (2010: eight projects) of which relates to the Group's comprehensive renovation projects. The revenue and profit attributable to shareholders of the Company for the provision of technical services for the Group's comprehensive renovation projects were HK$27.8 million (2010: HK$226.0 million) and HK$22.2 million (2010: HK$184.0 million). Decrease in contribution from these projects was mainly due to the substantial completion of the corresponding comprehensive renovation projects. The effect was partly offset by the increase in contribution from the provision of technical services for the other water environmental renovation projects.

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded revenue of HK$2,654.5 million (compared to last year for HK$6,348.1 million). The decrease was mainly due to the decrease in construction revenue from water environmental renovation projects. The related revenue was decreased by HK$4,066.6 million from HK$5,431.6 million in the last year to HK$1,365.0 million for the year.

3.2 Cost of sales

Cost of sales for the year amounted to HK$1,746.2 million which mainly included construction cost of HK$1,272.8 million and operating cost of water plants of HK$435.8 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK$166.7 million, staff cost of HK$78.4 million and major overhaul charge of HK$33.2 million. Major overhaul charge was the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangement. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to income statement based on amortisation method during the service concession periods.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin

During the year, gross profit margin increased from 18% to 34%. The increase was mainly due to the change in mix of revenue during the year. The revenue contribution from construction services for the water environmental renovation decreased significantly from last year of 85% to 52% this year. The gross margin of construction services for the water environmental renovation is 7% for this year, which is comparatively lower than average of other business sectors of 63% and therefore the gross margin of the Group increased.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK$144.1 million during the year, compared to last year of HK$60.5 million. Other income mainly included government grant of HK$33.4 million and other gains on acquisition of a jointly-controlled entity, namely 湖南永州市景盛置業有限公司 (Hunan Yongzhou Jing Sheng Property Development Company Limited*), of HK$42.2 million.

3.5 Administrative expenses

Administrative expenses for the year was HK$301.2 million, compared to last year at HK$219.5 million. The increase was mainly contributed by the increase in staff cost by HK$42.7 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 and corporate bonds of HK$317.6 million, compared to last year at HK$215.8 million. Increase in finance cost was mainly due to issuance of RMB corporate bonds and increase in interest rate.

3.7 Income tax

Income tax expense for the year included the current PRC income tax of HK$134.4 million and Malaysia income tax of HK$1.3 million. The effective tax rate for the PRC operation was about 18% 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$34.2 million.

* *For identification purposes only*

3. FINANCIAL ANALYSIS *(Continued)*

3.8 Receivables

The Group's total receivables of HK$10,881.8 million include amounts due from contract customers of HK$1,687.2 million (non-current: HK$1,599.3 million, current: HK$87.9 million), receivables under service concession arrangements of HK$5,256.2 million (non-current: HK$5,003.1 million, current: HK$253.1 million) and trade and bills receivables of HK$3,938.4 million (non-current: HK$261.9 million, current: HK$3,676.5 million). Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC) – Int 12 *Service Concession Arrangements* was HK$6,464.7 million. Total receivables for the construction service of comprehensive renovation projects was HK$4,054.2 million. Total receivables for consultancy service and other business was HK$362.9 million.

3.9 Liquidity and financial resources

As at 31 December 2011, the Group's cash and cash equivalents amounted to HK$1,947.8 million (2010: HK$1,961.8 million). The Group's total borrowings amounted to HK$8,760.1 million (2010: HK$8,532.5 million).

The Group's total borrowings comprising bank and other borrowings of HK$6,434.5 million (2010: HK$8,527.6 million), corporate bonds of HK$2,325.6 million (2010: Nil) and finance lease payable of nil (2010: HK$4.9 million). The gearing ratio as defined as sum of bank and other borrowings, corporate bonds and net of cash and cash equivalents, divided by the total equity was 0.7 as at 31 December 2011 (2010: 1.3). The decrease in gearing ratio as at 31 December 2011 was mainly due to the increase in total equity.

As a result of an open offer held on 15 March 2011, in which the Company issued 2,283,378,231 offer shares at a price of HK$1.485 per share on the basis of one offer share for every two existing shares held by the shareholders. The total net proceed of the open offer is HK$3,385.4 million.

During the year, the Company issued RMB1,450 million 3.75% bonds due 2014 and RMB500 million 5.00% bonds due 2016. The bonds are listed on the Singapore Exchange Securities Trading Limited, have not been rated by any rating agency and are unsecured.

As at 31 December 2011, the Group had banking facilities amounting to HK$4.0 billion, of which HK$0.2 billion were unused. The banking facilities are of 1-5 years term.

3.10 Capital expenditures

During the year, the Group's total capital expenditures were HK$3,582.1 million (year ended 31 December 2010: HK$1,338.3 million), of which HK$192.8 million was paid for the acquisition of property, plant and equipment and intangible assets, HK$1,047.1 million was spent on construction and acquisition of water plants and HK$2,342.2 million was the consideration for acquisition of equity interest in subsidiaries, jointly-controlled entities, an associate and an available-for-sale. 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 2011, the Group employed 2,240 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the year ended 31 December 2011.

CHARGES ON THE GROUP'S ASSETS

The secured bank loans of the Group as at 31 December 2011 are secured by:

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

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

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

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

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

FOREIGN EXCHANGE EXPOSURE

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

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 "Board") of directors (the "Director(s)") of the Company, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices (the "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. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong, Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Hou Feng, Ms. Qi Xiaohong, Mr. Ke Jian and Mr. Tung Woon Cheung Eric; and five independent non-executive Directors (the "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 OF DIRECTORS *(Continued)*

Board Meeting

Attendance records of the Board meetings for the year ended 31 December 2011 set out below:

Name of Director		Number of meetings attended/held
Mr. Zhang Honghai		5/5
Mr. Liu Kai	(resigned on 2 June 2011)	0/1
Mr. E Meng		3/5
Mr. Jiang Xinhao		5/5
Mr. Hu Xiaoyong		5/5
Mr. Zhou Min		5/5
Mr. Li Haifeng		5/5
Mr. Zhang Tiefu		4/5
Mr. Hou Feng		4/5
Ms. Qi Xiaohong		5/5
Mr. Ju Yadong	(resigned on 24 August 2011)	3/3
Mr. Ke Jian	(appointed on 2 June 2011)	3/4
Mr. Tung Woon Cheung Eric	(appointed on 24 August 2011)	2/2
Mr. Shea Chun Lok Quadrant		3/5
Mr. Zhang Gaobo		2/5
Mr. Guo Rui		4/5
Ms. Hang Shijun		2/5
Mr. Wang Kaijun		4/5

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 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 "Bye-Laws").

The Company has received, a written 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 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 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 three board committees to strengthen its functions and corporate governance practices, namely, audit committee (the "Audit Committee"), nomination committee (the "Nomination Committee") and remuneration committee (the "Remuneration Committee"). The Audit Committee, Nomination Committee and the Remuneration Committee perform their specific roles in accordance with their respective written terms of reference.

Audit Committee

The 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 mainly 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.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

Summary of work done during the year: Reviewed the financial statements for the period from 1 January 2011 to 30 June 2011 and for the year ended 31 December 2011, 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%.

Nomination Committee

The Nomination Committee was established on 29 March 2012. The Nomination Committee comprises one executive director namely, Mr. Zhang Honghai (chairman of the Nomination Committee) and two INEDs namely, Mr. Zhang Gaobo and Mr. Guo Rui. The Nomination Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules. Prior to 29 March 2012, all new appointments and re-appointments to the Board are subject to the approval of board members.

The Nomination Committee is mainly responsible of formulating policy and making recommendations to the Board on nominations, appointment and re-appointment of directors and board succession. No Nomination Committee meeting was held since its establishment on 29 March 2012.

Remuneration Committee

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 mainly responsible of determining 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. During the year, no Remuneration Committee meeting was held to discuss remuneration related matters.

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, external auditors' remuneration for audit services was approximately HK$6.5 million and for non-audit service assignments was approximately HK$4.3 million, which represented agreed-upon procedures engagements in connection with the Group's interim financial report, open offer and issuance of corporate bonds, and tax compliance service.

CORPORATE GOVERNANCE REPORT

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. The Board convenes meeting periodically to discuss financial, operational and risk management control.

During the year ended 31 December 2011, the Board reviewed the operational and financial reports, budgets and business plans provided by the management.

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 2011, 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 59, Senior Economist, was appointed as the chairman and an executive director of the Company in May 2008. Mr. Zhang is also the chairman of nomination committee of the Company. 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. Mr. Zhang was an executive director of China Information Technology Development Limited (Stock code: 8178) during the period from February 2008 to August 2009, and then be re-designated as its non-executive director until September 2010. Mr. Zhang has accumulated extensive experience in corporate management.

Mr. E Meng, aged 53, was appointed as an executive director of the Company in February 2008. He serves as a vice general manager and 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

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Jiang Xinhao ("Mr. Jiang"), aged 47, was appointed 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 47, was appointed as an executive director and the chief executive officer 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 currently the chairman of BEWG Environmental Group Co., Ltd.

Mr. Zhou Min ("Mr. Zhou"), aged 48, 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.

Mr. Li Haifeng ("Mr. Li"), aged 41, was appointed as an executive director and a vice president of the Company in August 2008. Mr. Li graduated with a bachelor's degree in Laws 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., responsible for exploring business opportunities in water market in the PRC. He is currently the chairman and an executive director of Carry Wealth Holdings Limited (stock code: 643) and an independent non-executive director of Simsen International Corporation Limited (stock code: 993), both of which are listed on the Stock Exchange of Hong Kong Limited.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Zhang Tiefu, aged 49, 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）in 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 50, 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. 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 44, was appointed as an executive director of the Company in May 2008 and a member of remuneration committee of the Company. 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. Ke Jian ("Mr. Ke"), aged 43, was appointed as an executive director of the Company in June 2011 and is the vice president of Beijing Enterprises Holding Limited (Stock code: 392). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.

Mr. Tung Woon Cheung Eric ("Mr. Tung"), aged 41, was appointed as an executive director of the Company in August 2011. Mr. Tung is the chief financial officer and company secretary of the Company. Mr. Tung is also the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited (stock code: 392), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the company secretary of Biosino Bio-Technology and Science Incorporation* (stock code: 8247), a company listed on growth enterprise market of the Stock Exchange and an independent non-executive director of South China Financial Holdings Limited (stock code: 619), a company listed on the main board of the Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor's honours degree in administrative studies. He is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant ("Mr. Shea"), aged 45, 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 of United Kingdom, 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 ("Mr. Zhang"), aged 47, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of the audit committee and the nomination 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 its overall general management and business development. 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 44, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Guo is the president of Paragon Investment Co. Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceutics, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was 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. (formerly known as Macau Investment Holdings Limited) (stock code: 2362), a company listed on The Stock Exchange of Hong Kong Limited. Mr. Guo holds a bachelor's 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

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Ms. Hang Shijun ("Ms. Hang"), aged 70, 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 and then worked in Beijing Municipal Planning Authority（北京市規劃管理局）from 1963 to 1965 . During the period from 1983 to 1985, Ms. Hang studied in department of environmental & sanitary engineering, graduate school of engineering (currently known as department of environmental engineering, graduate school of engineering) in Kyoto University in Japan. 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 51, 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 School of Environment, Tsinghua University（清華大學環境學院）. 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.

SENIOR MANAGEMENT

Mr. Tsang Ngai Man ("Mr. Tsang"), aged 44, is an assistant to the chairman of the Company since 2009. Mr. Tsang holds a bachelor of laws degree and is qualified as a solicitor in England & Wales and Hong Kong. He acts as legal adviser to listed companies in Hong Kong and is a consultant of Yip & Liu, Solicitors. Mr. Tsang has extensive experience in areas of corporate finance, mergers & acquisitions and compliance matters.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is engaged in investment holding, and the principal subsidiaries are engaged in, where applicable, the construction of sewage and reclaimed water treatment and seawater desalination plants, and the provision of construction services for comprehensive renovation projects in Mainland China and Malaysia, the provision of sewage treatment services in Mainland China, the provision of reclaimed water treatment services and distribution and sale of piped water in Mainland China, the provision of technical services that are related to sewage treatment and construction of comprehensive renovation projects in Mainland China, and the licensing of technical know-how that is related to sewage treatment. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements.

RESULTS AND DISTRIBUTIONS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 170.

The Directors recommended to make distributions of HK3 cents per ordinary share out of the contributed surplus of the Company to shareholders whose names appear on the register of members of the Company on Monday, 18 June 2012 for their continuous supports to the Company. Subject to the approval of shareholders at the forthcoming annual general meeting, the distributions will be paid on or around 9 July 2012.

CLOSURE OF REGISTER OF MEMBERS

1. Annual General Meeting

The register of members will be closed from Wednesday, 6 June 2012 to Friday, 8 June 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Friday, 8 June 2012, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 5 June 2012.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS *(Continued)*

2. Proposed Distributions

The register of members will be closed from Thursday, 14 June 2012 to Monday, 18 June 2012 (both days inclusive), during which period no transfer of shares will be registered. The ex-entitlement date will be Tuesday, 12 June 2012. In order to qualify for entitlement to the proposed distributions, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 13 June 2012.

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 2010, is set out on pages 171 to 172. This summary does not form part of the audited financial statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB300,000 (equivalent to approximately HK$361,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group together accounted for 31% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 63% of the Group's total purchases for the year. Sales to the largest customer accounted for 16% of the Group's revenue and purchases from the largest supplier accounted for 44% of the Group's purchases.

During the year, none of the Directors, an associate of the 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) had a beneficial interest in any of the Group's five largest customers or suppliers.

REPORT OF THE DIRECTORS

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 13 to the financial statements.

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 29 and 32 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 30(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2011, the Company's reserves available for distribution to shareholders amounted to HK$5,675,232,000.

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.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Zhang Honghai *(Chairman)*	
Mr. Liu Kai	(resigned on 2 June 2011)
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	(resigned on 24 August 2011)
Mr. Ke Jian	(appointed on 2 June 2011)
Mr. Tung Woon Cheung Eric	(appointed on 24 August 2011)

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), Mr. Zhang Honghai, Mr. E Meng, Mr. Zhou Min, Mr. Li Haifeng, Mr. Shea Chun Lok Quadrant and Mr. Zhang Gaobo shall retire by rotation from office as directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

The Company has received annual confirmations of independence from each of the INEDs, and as at the date of this report still considers them to be independent.

BOARD CHANGES

There has been no change in the Board since the date of the Interim Report 2011 of the Company.

REPORT OF THE DIRECTORS

CHANGES IN DIRECTORS' INFORMATION

Change in information of Director under Rule 13.51B(1) of the Listing Rules

Change in information on Directors since the date of the Interim Report 2011 of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Guo Rui, an independent non-executive director of the Company, ceased to be a director of Shanghai Xingye Investment Limited.

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

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' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee.

Further details of the Company's remuneration committee are set out in the corporate governance report on page 22 of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2011, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"), were as follows:

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

Name of Directors	Personal interest	Family interest	Corporate interest	Other interest	Total	Approximate percentage of the Company's issued share capital *(Note 2)*
Mr. Hu Xiaoyong	100,000	–	684,789,919 *(Note 1)*	–	684,889,919	9.9128%
Mr. Zhou Min	300,000	–	684,789,919 *(Note 1)*	–	685,089,919	9.9157%
Mr. Li Haifeng	400,000	–	–	–	400,000	0.0058%
Mr. Hou Feng	40,000	–	–	–	40,000	0.0006%

Notes:

1. Messrs. Hu Xiaoyong, Zhou Min and Hou Feng, all being executive Directors, are interested in Tenson Investment Limited as to 52.62%, 44.93% and 2.45%, respectively. Tenson Investment Limited holds 684,789,919 shares.

2. The percentage represented the number of shares over the total issued share capital of the Company as at 31 December 2011 of 6,909,170,486 shares.

Save as disclosed above, as at 31 December 2011, there were no interest of the directors or chief executives of the Company in the shares, the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

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

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

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

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

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

During the year ended 31 December 2011, no share options under the Scheme was granted to the directors or employees of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of Shareholders	Nature of interest	Long position in the shares	Approximate percentage of the Company's issued share capital *(Note 3)*
Beijing Enterprises Group Company Limited *(Note 1)*	Interests of controlled corporations	3,047,556,993 *(Note 1)*	44.11%
Beijing Enterprises Holdings Limited ("BEHL") *(Note 1)*	Interests of controlled corporations	3,047,556,993 *(Note 1)*	44.11%
Tenson Investment Limited *(Note 2)*	Directly owned beneficially	684,789,919	9.91%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

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

Notes:

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

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

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

2. The share capital of Tenson Investment Limited is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive Directors.

3. The percentage represented the number of shares over the total issued share capital of the Company as at 31 December 2011 of 6,909,170,486 shares.

Save as disclosed above, as at 31 December 2011, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REPORT OF THE DIRECTORS

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.

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

As announced by the Company on 24 June 2010 and 14 December 2010, the Group entered into loan agreement and supplemental loan agreement with Meishi International Investment Group Limited ("Meishi") as borrower and Mr. Wu Lizhong ("Mr. Wu") as guarantor which constituted connected transactions for the Company. On 25 May 2011, the Company, Meishi and Mr. Wu entered into a second supplemental loan agreement (the "2nd Supplemental Loan Agreement"), pursuant to which the amount of the aforesaid loan was varied and modified from the sum of US$59,052,000 (equivalent to approximately HK$459,425,000) to the sum of US$200,000,000 (equivalent to approximately HK$1,556,000,000), representing an increase of additional loan of US$140,948,000 (equivalent to approximately HK$1,096,575,000). The provision of additional loan is solely used for its capital contribution for the purpose of sustainable development of the joint venture. As Meishi (being a controlling shareholder of the joint venture) is a connected person of the Company and the entering into of the 2nd Supplemental Loan Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules. In light of the above, the entering into of the 2nd Supplemental Loan Agreement is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. This transaction had been approved by independent shareholders of the Company at the special general meeting held on 28 June 2011, details of which can be found on the websites of the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

On 5 July 2011, the Company entered into a master agreement with BEWG Environmental Group Co., Ltd. (a subsidiary of the Company) (the "Purchaser"), 深圳市泰合環保有限公司 (Shenzhen City Taihe Huanbao Co., Ltd.*) (the "Vendor") and Violet Passion Holdings Limited ("Violet Passion") pursuant to which the Purchaser agreed to undertake, and Violet Passion agreed to transfer, its rights and benefits under an equity transfer agreement dated 11 June 2011 made between Violet Passion and the Vendor pursuant to which Violet Passion agreed to purchase and the Vendor agreed to sell an aggregate of 11.03% of the entire registered capital (paid up) of 深圳北控創新投資有限公司 (Shenzhen Bei Kong Chuang Xin Investment Co. Ltd.*) ("Bei Kong Chuang Xin") with a total consideration of RMB195.36 million (equivalent to approximately HK$235.11 million). Bei Kong Chuang Xin was held as to 11.03% by the Vendor and the remaining of 88.97% by the Purchaser as of 5 July 2011 (the "Acquisition"). The Acquisition shall be satisfied by cash for a total amount of RMB90.68 million (equivalent to approximately HK$109.13 million) to the Vendor and/or its nominee and the remaining by way of an allotment and issuance of 59,035,792 of the Company's ordinary shares (credited as fully paid) at HK$2.134 per ordinary share amounting to RMB104.68 million (equivalent to approximately HK$125.98 million) to Violet Passion on 7 September 2011. As the Vendor is a substantial shareholder of the Bei Kong Chuang Xin, the Vendor is a connected person of the Company, and the transactions contemplated under the Master Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting and announcement requirements and the independent Shareholders' approval requirements pursuant to the Listing Rules. This transaction had been approved by independent shareholders of the Company at the special general meeting held on 22 August 2011, details of which can be found on the websites of the Company and the Stock Exchange.

The Company entered into an underwriting agreement and irrevocable undertaking dated 21 December 2010 (the "Agreements") with BE Environmental, the controlling shareholder of the Company, in relation to the open offer of new ordinary shares of the Company at a price of HK$1.485 per offer share on the basis of one offer share for every two existing shares held by the qualifying shareholders of the Company on the record date i.e.17 February 2011 and payable in full upon acceptance (the "Open Offer'). The entering into the Agreements is a connected transaction and subject to the independent shareholders' approval under the Listing Rules. Connected transaction was approved by independent shareholders at special general meeting held on 17 February 2011. BE Environmental took up its entitlement to acquire 998,502,000 offer shares under the Open Offer and acquired 52,050,993 offer shares which was not taken up by certain of the qualifying shareholders pursuant to the Agreements. Details of the Open Offer and connected transaction are set out in the Company's announcements dated 22 December 2010, 14 March 2011 and 15 March 2011, the circular of the Company dated 26 January 2011 and the prospectus of the Company dated 22 February 2011.

* *For identification purposes only*

REPORT OF THE DIRECTORS

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% (representing a dilution of approximately 9.8%) of 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 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.

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

On 30 June 2011, the Company issued the CNY1,000,000,000 3.75% Bonds due 2014 (the "Original 2014 Bonds") and CNY450,000,000 5.00% Bonds due 2016 (the "Original 2016 Bonds"). On 11 October 2011, the Company further issued CNY450,000,000 3.75% Bonds due 2014 (the "Further 2014 Bonds" which was consolidated and form a single series with the Original 2014 Bonds) and CNY50,000,000 5.00% Bonds due 2016 (the "Further 2016 Bonds" which was consolidated and form a single series with the Original 2016 Bonds) (the Original 2014 Bonds, the Original 2016 Bonds, the Further 2014 Bonds and the Further 2016 Bonds are collectively referred to as the "Bonds"). The Original 2014 Bonds and Further 2014 Bonds bear interest from and including 30 June 2011 at the rate of 3.75% per annum, payable semi-annually in arrear on 30 June and 30 December in each year, commencing on 30 December 2011. The Original 2016 Bonds and Further 2016 Bonds bear interest from and including 30 June 2011 at the rate of 5.00% per annum, payable semi-annually in arrear on 30 June and 30 December in each year, commencing on 30 December 2011. The Bonds are listed on the Singapore Exchange Securities Trading Limited and have not been rated by any rating agency and are unsecured.

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

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

(a) BEHL does not or ceases to own or control more than 35% of the voting rights of the issued share capital of the Company, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

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

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

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

On 8 September 2011, the Company, as borrower, entered into a 4-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 (unless remedied by the Company or waived by the bank) if BEHL does not or ceases to own, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of the voting rights in the Company. If an event of default under the aforesaid facility agreement occurs, the bank may declare any commitment under the aforesaid facility agreement to be cancelled and/or declare all outstanding amounts together with interest accrued thereon and all other sums payable by the Company under the aforesaid facility agreement to be immediately due and payable or payable on demand. As at the date of this annual report, the aforesaid loan was fully drawn down under the facility agreement and is fully repayable within four years.

On 1 March 2012, the Company, as borrower, entered into a 3-year RMB950 million (equivalent to approximately HK$1,170,970,000) term loan bilateral facility agreement with a bank. 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 bank) if BEHL does not or ceases to own, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of the voting rights in the Company. If an event of default under the aforesaid facility agreement occurs, the bank may declare any commitment under the aforesaid facility agreement to be cancelled and/or declare all outstanding amounts together with interest accrued thereon and all other sums payable by the Company under the aforesaid facility agreement to be immediately due and payable or payable on demand. As at the date of this annual report, the aforesaid loan was partially drawn down under the aforesaid facility agreement and is fully payable within thirty-six months ending on 26 March 2015.

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 2011, 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 49 to the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2011 were approved by the board of directors on 29 March 2012.

On behalf of the Board

Zhang Honghai
CHAIRMAN

Hong Kong
29 March 2012

INDEPENDENT AUDITORS' REPORT

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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 45 to 170, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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

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 2011, 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
29 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**2,654,454**	6,348,060
Cost of sales		**(1,746,217)**	(5,226,252)
Gross profit		**908,237**	1,121,808
Interest income	5	**385,505**	22,933
Other income and gains, net	5	**144,115**	60,531
Administrative expenses		**(301,221)**	(219,465)
Other operating expenses, net		**16,402**	(56,608)
PROFIT FROM OPERATING ACTIVITIES	6	**1,153,038**	929,199
Finance costs	7	**(312,989)**	(234,908)
Share of profits and losses of jointly-controlled entities	19(a)	**20,798**	824
PROFIT BEFORE TAX		**860,847**	695,115
Income tax	10	**(169,861)**	(130,950)
PROFIT FOR THE YEAR		**690,986**	564,165
ATTRIBUTABLE TO:			
Shareholders of the Company	11	**600,736**	512,512
Non-controlling interests		**90,250**	51,653
		690,986	564,165
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	12		
			(Restated)
– Basic		**HK8.94 cents**	HK10.75 cents
			(Restated)
– Diluted		**HK8.94 cents**	HK9.95 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
PROFIT FOR THE YEAR	**690,986**	564,165
OTHER COMPREHENSIVE INCOME/(LOSS)		
– Exchange differences on translation of foreign operations	**451,838**	182,958
– Share of other comprehensive loss of a jointly-controlled entity	**(7,370)**	–
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX OF NIL	**444,468**	182,958
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,135,454**	747,123
ATTRIBUTABLE TO:		
Shareholders of the Company	**941,584**	657,248
Non-controlling interests	**193,870**	89,875
	1,135,454	747,123

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	13	**233,276**	46,114
Goodwill	15	**1,643,719**	1,580,116
Operating concessions	16	**763,381**	749,718
Other intangible assets	17	**6,455**	5,305
Investments in jointly-controlled entities	19	**1,973,493**	118,619
Investment in an associate	20	**37,038**	–
Available-for-sale investments	21	**2,964**	1,647
Amounts due from contract customers	24	**1,599,285**	1,605,284
Receivables under service concession arrangements	16	**5,003,117**	2,736,583
Trade and bills receivables	25	**261,850**	120,905
Prepayments, deposits and other receivables	26	**1,542,014**	1,408,510
Deferred tax assets	37	**28,874**	31,806
Total non-current assets		**13,095,466**	8,404,607
Current assets:			
Land held for sale	22	**999,626**	–
Inventories	23	**13,422**	12,786
Amounts due from contract customers	24	**87,865**	759,109
Receivables under service concession arrangements	16	**253,105**	123,889
Trade and bills receivables	25	**3,676,549**	4,002,108
Prepayments, deposits and other receivables	26	**4,583,574**	1,367,995
Restricted cash and pledged deposits	28	**92,367**	592,507
Cash and cash equivalents	28	**1,947,768**	1,961,828
Total current assets		**11,654,276**	8,820,222
TOTAL ASSETS		**24,749,742**	17,224,829

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	*29*	**690,917**	456,676
Reserves	*30(a)(i)*	**7,391,072**	3,436,184
		8,081,989	3,892,860
Non-controlling interests		**1,628,892**	1,175,094
TOTAL EQUITY		**9,710,881**	5,067,954
Non-current liabilities:			
Other payables and accruals	*39*	**279,909**	22,644
Bank and other borrowings	*31*	**5,364,905**	3,231,442
Corporate bonds	*33*	**2,325,633**	–
Provision for major overhauls	*35*	**167,296**	123,374
Deferred income	*36*	**25,163**	23,978
Deferred tax liabilities	*37*	**205,179**	138,688
Total non-current liabilities		**8,368,085**	3,540,126
Current liabilities:			
Trade payables	*38*	**2,049,236**	2,637,650
Other payables and accruals	*39*	**3,406,346**	569,700
Income tax payables		**145,585**	108,286
Bank and other borrowings	*31*	**1,069,609**	5,296,200
Finance lease payable	*34*	**–**	4,913
Total current liabilities		**6,670,776**	8,616,749
TOTAL LIABILITIES		**15,038,861**	12,156,875
TOTAL EQUITY AND LIABILITIES		**24,749,742**	17,224,829

Zhang Honghai
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to shareholders of the Company										
	Notes	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Contributed surplus** *HK$'000* *(note 30(a)(ii))*	**Capital reserve** *HK$'000*	**Convertible bond equity reserve** *HK$'000* *(note 32)*	**Exchange fluctuation reserve** *HK$'000*	**PRC reserve funds** *HK$'000* *(note 30(a)(iii))*	**Retained profits** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
At 1 January 2010		348,219	1,817,378	(400)	–	216,986	(5,507)	47,350	198,879	2,622,905	388,911	3,011,816
Profit for the 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	*29(a), 32*	108,457	715,053	–	–	(216,986)	–	–	–	606,524	–	606,524
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	706,208	706,208
Acquisition of subsidiaries	*41*	–	–	–	–	–	–	–	–	–	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

		Attributable to shareholders of the Company										
	Notes	Issued capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000* *(note 30(a)(ii))*	Capital reserve *HK$'000*	Defined benefit plan reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000* *(note 30(a)(iii))*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2011		456,676	2,532,431	(400)	7,448	–	139,229	101,366	656,110	3,892,860	1,175,094	5,067,954
Profit for the year:		–	–	–	–	–	–	–	600,736	600,736	90,250	690,986
Other comprehensive income/(loss) for the year:												
– Exchange differences on translation of foreign operations		–	–	–	–	–	348,218	–	–	348,218	103,620	451,838
– Share of other comprehensive loss of a jointly-controlled entity		–	–	–	–	(7,370)	–	–	–	(7,370)	–	(7,370)
Total comprehensive income/(loss) for the year		–	–	–	–	(7,370)	348,218	–	600,736	941,584	193,870	1,135,454
Issue of new shares upon completion of an open offer	*29(b)*	228,338	3,157,024	–	–	–	–	–	–	3,385,362	–	3,385,362
Issue of new shares for acquisition of the non-controlling interest in a subsidiary	*29(c)*	5,903	120,079	–	(187,233)	–	–	–	–	(61,251)	(48,139)	(109,390)
Acquisition of other non-controlling interests		–	–	–	(76,576)	–	–	–	–	(76,576)	(111,036)	(187,612)
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	484,886	484,886
Share of reserves of jointly-controlled entities		–	–	–	10	–	–	–	–	10	–	10
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	(65,783)	(65,783)
Transfer to reserves		–	–	–	–	–	–	90,508	(90,508)	–	–	–
At 31 December 2011		690,917	5,809,534*	(400)*	(256,351)*	(7,370)*	487,447*	191,874*	1,166,338*	8,081,989	1,628,892	9,710,881

* *These reserve accounts comprise the consolidated reserves of HK$7,391,072,000 (2010: HK$3,436,184,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**860,847**	695,115
Adjustments for:			
Bank interest income	5	**(21,875)**	(6,481)
Imputed interest income on trade and bills receivables with extended credit periods	5	**(241,369)**	–
Interest income from non-controlling equity holders of a non-wholly owned subsidiary	5	**(45,413)**	–
Interest income on a loan to a jointly-controlled entity	5	**(2,879)**	–
Interest income on loans to government authorities in Yunnan Province, the PRC	5	**(36,658)**	–
Interest income on loans to related companies	5	**(37,311)**	–
Loss on disposal of items of property, plant and equipment, net	6	**1,478**	225
Gain on bargain purchase of the acquisition of subsidiaries	5	**–**	(2,824)
Gain on bargain purchase of the acquisition of a jointly-controlled entity	5	**(42,235)**	–
Depreciation	6	**9,299**	8,228
Amortisation of operating concessions	6	**37,285**	30,206
Amortisation of other intangible assets	6	**903**	502
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	6	**(39,655)**	32,495
Impairment of trade and bills receivables, net	6	**17,945**	239
Impairment of other receivables, net	6	**1,808**	223
Provision for major overhauls	35	**33,207**	24,895
Finance costs	7	**321,561**	242,985
Share of profits and losses of jointly-controlled entities		**(20,798)**	(824)
Operating profit before working capital changes		**796,140**	1,024,984
Increase in land held for sale		**(999,626)**	–
Decrease/(increase) in inventories		**248**	(5,392)
Decrease/(increase) in amounts due from contract customers		**794,003**	(308,574)
Increase in receivables under service concession arrangements		**(1,691,617)**	(765,232)
Decrease/(increase) in trade and bills receivables		**598,756**	(3,916,879)
Increase in prepayments, deposits and other receivables		**(3,591,967)**	(987,908)
Increase/(decrease) in trade payables		**(726,021)**	2,081,263
Increase/(decrease) in other payables and accruals		**2,727,030**	(342,705)
Cash used in operations		**(2,093,054)**	(3,220,443)
Mainland China income tax paid		**(103,671)**	(17,626)
Malaysia corporate tax paid		**(1,310)**	–
Net cash flows used in operating activities		**(2,198,035)**	(3,238,069)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(65,987)**	(25,163)
Purchases of operating concessions	16	**(10,783)**	(112,953)
Purchases of other intangible assets	17	**(1,768)**	(2,397)
Acquisition of subsidiaries	41	**(245,218)**	476
Acquisition of and increase in investments in jointly-controlled entities		**(1,334,530)**	(75,174)
Increase in an investment in an associate		**(36,145)**	–
Acquisition of non-controlling interests		**(297,002)**	–
Acquisition of an available-for-sale investment		**(1,236)**	(1,177)
Increase in loans to a jointly-controlled entity		**(776)**	(42,625)
Increase in time deposits with maturity of more than three months when acquired		**(24,491)**	–
Decrease/(increase) in restricted cash and pledged deposits		**500,140**	(578,484)
Interest received	5	**21,875**	6,481
Net cash flows used in investing activities		**(1,495,921)**	(831,016)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions by non-controlling equity holders		**484,886**	706,208
Issue of corporate bonds		**2,325,633**	–
New loans		**4,088,013**	7,759,985
Repayment of loans		**(6,319,116)**	(3,135,538)
Proceeds from issue of shares upon the completion of an open offer	29(b)	**3,385,362**	–
Capital element of finance lease rental payments		**(5,156)**	(6,428)
Interest paid		**(317,616)**	(215,792)
Interest element of finance lease rental payments		**(234)**	(681)
Dividends paid to non-controlling equity holders		**(65,783)**	(6,325)
Net cash flows from financing activities		**3,575,989**	5,101,429
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(117,967)**	1,032,344
Cash and cash equivalents at beginning of year		**1,961,828**	876,861
Effect of foreign exchange rate changes, net		**79,416**	52,623
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,923,277**	1,961,828
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	28	**1,947,768**	1,961,828
Less: Time deposits with maturity of more than three months when acquired		**(24,491)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,923,277**	1,961,828

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	13	**1,039**	167
Investments in subsidiaries	18	**7,943,852**	6,802,932
Investments in jointly-controlled entities	19	**1,282,778**	1,269
Prepayments, deposits and other receivables	26	**1,051,225**	1,048,071
Total non-current assets		**10,278,894**	7,852,439
Current assets:			
Trade and bills receivables	25	**19,696**	19,696
Prepayments, deposits and other receivables	26	**51,597**	251,072
Due from subsidiaries	18	**3,166,450**	876,710
Cash and cash equivalents	28	**107,195**	166,814
Total current assets		**3,344,938**	1,314,292
TOTAL ASSETS		**13,623,832**	9,166,731
EQUITY AND LIABILITIES			
Equity:			
Issued capital	29	**690,917**	456,676
Reserves	30(b)	**5,675,232**	2,390,719
TOTAL EQUITY		**6,366,149**	2,847,395
Non-current liabilities:			
Bank and other borrowings	31	**3,402,217**	1,570,578
Corporate bonds	33	**2,325,633**	–
Total non-current liabilities		**5,727,850**	1,570,578
Current liabilities:			
Trade payables	38	**2,416**	12,022
Other payables and accruals	39	**20,793**	13,987
Due to subsidiaries	18	**1,117,147**	336,451
Bank and other borrowings	31	**389,477**	4,386,298
Total current liabilities		**1,529,833**	4,748,758
TOTAL LIABILITIES		**7,257,683**	6,319,336
TOTAL EQUITY AND LIABILITIES		**13,623,832**	9,166,731

Zhang Honghai
Director

Zhou Min
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the People's Republic of China (the "PRC") and Malaysia
- provision of sewage treatment services in Mainland China
- provision of reclaimed water treatment services, and distribution and sale of piped water in Mainland China
- provision of technical and consultancy services that are related to sewage treatment and construction of comprehensive renovation projects in Mainland China
- licensing of technical know-how that is related to sewage treatment in Mainland China

2.1 BASIS OF PRESENTATION AND PREPARATION

Basis of presentation

Despite that the Group had capital commitments of HK$4,928,508,000 (comprising the Group's capital commitments and the Group's share of the jointly-controlled entities' own capital commitments) in aggregate as at 31 December 2011 as detailed in note 45 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's profit forecast and cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

(a) 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;

(b) the banking facilities of the Group to be made available from the banks for the purpose of financing certain of the Group's new construction projects and service concession arrangements, and on the assumption that such facilities will be granted by the Group's bankers;

(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; and

(d) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2012 with reference to the terms of respective agreements and the current status of the projects.

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

2.1 BASIS OF PRESENTATION AND PREPARATION *(Continued)*

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

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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.

2.2 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 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 46 to the financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment 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*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment 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

31 December 2011

2.3 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 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*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 *Effective for annual periods beginning on or after 1 July 2011*
2 *Effective for annual periods beginning on or after 1 January 2012*
3 *Effective for annual periods beginning on or after 1 July 2012*
4 *Effective for annual periods beginning on or after 1 January 2013*
5 *Effective for annual periods beginning on or after 1 January 2014*
6 *Effective for annual periods beginning on or after 1 January 2015*

2.3 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 7 Amendments add new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013.

(b) 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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(c) 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 2015.

(d) HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

(e) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(f) Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

(g) HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

2.4 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

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.

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 accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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.

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 accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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.

Related parties

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

(a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group; or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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.

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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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.

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 depreciates them accordingly.

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:

Leasehold land	Over the lease terms
Buildings	30 years
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Machinery	5 to 10 years
Sewage and water pipelines	10 to 20 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	3 to 10 years

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in non-current assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under a 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 loans and receivables under "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 relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

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 reclaimed water treatment and water distribution 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 reclaimed water treatment and water distribution plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 reclaimed water treatment and water distribution plants 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Research and development costs

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

Expenditure incurred on projects to develop new products or technical know-how 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. 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, land held for sale, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 "Interest income", as appropriate, in the income statement. The loss arising from impairment is recognised in "Other operating expenses, net" in the income statement.

(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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment

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 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.

(a) 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(b) 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

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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

Derecognition

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.

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.

2.4 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.

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 a 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Land held for sale and inventories

Land held for sale and inventories are stated at the lower of cost and net realisable value. Costs are 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 the construction services for comprehensive renovation projects 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 the construction services for comprehensive renovation projects 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 sewage and reclaimed water treatment plants and a seawater desalination plant (which is carried out by a jointly-controlled entity of the Group) 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.

2.4 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

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:

- when 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, when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- when 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

For government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset received after 1 January 2009, 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.

For government loans granted with no or at a below-market rate of interest for the constructions of qualifying assets received prior to 1 January 2009, the benefits of the government loans granted are not quantified by the imputation of interest and the balances recognised were equivalent to the amounts of proceeds received.

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 services, 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 the 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(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 equity holders' right to receive payment has been established.

Employee benefits

Defined contribution pension schemes

The employees of the Group's subsidiaries which operate in Mainland China and Malaysia are required to participate in central pension schemes operated by the local municipal governments, the assets of which are held separately from those of the Group. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension schemes. The employer contributions vest fully once made.

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.

Defined benefit plan

Employees of a jointly-controlled entity can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to a defined benefit plan of the jointly-controlled entity. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method and is charged to the income statement so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. The obligation is measured at the present value of the estimated future cash outflows using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses are recognised in other comprehensive income immediately when they arise.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Defined benefit plan (Continued)

The past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled.

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 dollars, 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 arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change of fair value of the item.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

3. 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 2.4 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.

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, the expected future sewage and reclaimed water treatment volume of the relevant sewage and reclaimed water 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 2011 were HK$763,381,000 (2010: HK$749,718,000) and HK$5,256,222,000 (2010: HK$2,860,472,000), respectively. Further details of which are set out in note 16 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

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

Revenue from the construction of sewage and reclaimed water treatment and seawater desalination plants 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 a 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 based on 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 include:

(i) the peer firm must be in the field of the construction of infrastructure, majoring in sewage and reclaimed water treatment and seawater desalination 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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

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

The Group has contractual obligations which it must fulfil as a condition of its licence and is the obligations require the Group (a) to maintain the sewage and reclaimed water treatment and water distribution 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 reclaimed water treatment and water distribution 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 2011 was HK$167,296,000 (2010: HK$123,374,000), further details of which are set out in note 35 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 2011 were HK$233,276,000 (2010: HK$46,114,000) and HK$769,836,000 (2010: HK$755,023,000), respectively. Further details of which are set out in notes 13, 16 and 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

3. 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 an asset in the consolidated statement of financial position as at 31 December 2011 was HK$1,643,719,000 (2010: HK$1,580,116,000), details of which are set out in note 15 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 2.4 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 and bills receivables, and other receivables

The policy for provision for impairment of receivables under service concession arrangements, trade and bills 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 and bills receivables, and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2011 were HK$5,256,222,000 (2010: HK$2,860,472,000), HK$3,938,399,000 (2010: HK$4,123,013,000) and HK$6,101,173,000 (2010: HK$2,764,894,000), respectively. Further details of which are set out in notes 16, 25 and 26 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Defined benefit plan

The present value of the retirement benefit obligation under a jointly-controlled entity depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligation. Key assumptions for the obligation are based in part on the current market conditions. The carrying amount of the obligation carried as a liability in the statement of financial position of the joint-controlled entity as at 31 December 2011 was HK$288,377,000 and the Group's share of which, amounting to HK$129,770,000 (2010: Nil), has been reflected in the Group's investments in jointly-controlled entities.

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 2011 was HK$145,585,000 (2010: HK$108,286,000).

Deferred tax assets relating to certain temporary differences and tax losses are not recognised as management considered that these losses have 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 amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2011 were HK$28,874,000 (2010: HK$31,806,000) and HK$205,179,000 (2010: HK$138,688,000), respectively, details of which are set out in note 37 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, 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 and reclaimed water treatment and construction services segment engages in the construction and operation of sewage and reclaimed water treatment plants, the construction of a seawater desalination plant, and the provision of construction services for comprehensive renovation projects;

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

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

Management monitors the results of the Group's 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 on loans to a jointly-controlled entity and related companies, interest income from non-controlling equity holders of a non-wholly owned subsidiary, gains on bargain purchases of a jointly-controlled entity and subsidiaries, finance costs, 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, business operations of the jointly-controlled entities are organised into reportable operating segments according to the nature of their operations and the products and services they provide. Accordingly, share of profits and losses of jointly-controlled entities and interests in jointly-controlled entities are allocated to the relevant reportable 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.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water supply services *HK$'000*	Technical and consultancy services *HK$'000*	Total *HK$'000*
Segment revenue	2,359,679	83,198	211,577	2,654,454
Cost of sales	(1,664,409)	(44,104)	(37,704)	(1,746,217)
Gross profit	695,270	39,094	173,873	908,237
Segment results:				
The Group	925,239	19,219	189,978	1,134,436
Share of profits and losses of jointly-controlled entities	19,325	1,473	–	20,798
	944,564	20,692	189,978	1,155,234
Corporate and other unallocated income and expenses, net				18,602
Finance costs				(312,989)
Profit before tax				860,847
Income tax				(169,861)
Profit for the year				690,986
Profit/(loss) for the year attributable to shareholders of the Company:				
Operating segments	726,633	12,342	169,070	908,045
Corporate and other unallocated items				(307,309)
				600,736
Segment assets:				
Operating segments	20,008,637	1,172,910	776,161	21,957,708
Corporate and other unallocated items				2,792,034
				24,749,742

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011 *(Continued)*

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water supply services *HK$'000*	Technical and consultancy services *HK$'000*	Total *HK$'000*
Other segment information:				
Depreciation				
– Operating segments	5,835	810	1,023	7,668
– Amount unallocated				1,631
				9,299
Amortisation of operating concessions	26,599	10,686	–	37,285
Amortisation of other intangible assets				
– Operating segments	91	105	172	368
– Amount unallocated				535
				903
Impairment/(reversal of impairment) of segment assets, net*	(39,529)	236	19,391	(19,902)
Provision for major overhauls	32,897	310	–	33,207
Capital expenditure**				
– Operating segments	28,988	7,037	1,110	37,135
– Amount unallocated				166,463
				203,598

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010

	Sewage and reclaimed water treatment and construction services *HK$'000* (Restated)	Water supply services *HK$'000*	Technical and consultancy services *HK$'000*	Total *HK$'000* (Restated)
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:				
The Group	774,047	13,117	239,173	1,026,337
Share of profits and losses of jointly-controlled entities	824	–	–	824
	774,871	13,117	239,173	1,027,161
Corporate and other unallocated income and expenses, net				(97,138)
Finance costs				(234,908)
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:				
Operating segments	623,475	10,272	203,142	836,889
Corporate and other unallocated items				(324,377)
				512,512
Segment assets:				
Operating segments	13,657,216	206,216	806,198	14,669,630
Corporate and other unallocated items				2,555,199
				17,224,829

NOTES TO FINANCIAL STATEMENTS

31 December 2011

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010 *(Continued)*

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water supply services *HK$'000*	Technical and consultancy services *HK$'000*	Total *HK$'000*
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

4. OPERATING SEGMENT INFORMATION *(Continued)*

* *These amounts are recognised in the consolidated income statement and included impairment/(reversal of impairment) against receivables under service concession arrangements, trade and bills receivables and other receivables.*

** *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.

Information about major customers

During the year ended 31 December 2011, the Group had transactions with one (2010: three) external customer of the sewage and reclaimed water treatment and construction services segment which contributed over 10% of the Group's total revenue for the year. A summary of revenue from each of these major external customers is set out below:

	2011	2010
	HK$'000	*HK$'000*
Customer 1	**426,867**	N/A*
Customer 2	**N/A***	1,554,300
Customer 3	**N/A***	1,755,791
Customer 4	**N/A***	1,108,363
	426,867	4,418,454

* *The corresponding revenue of these customers is not disclosed as they individually did not contribute over 10% of the Group's total gross revenue for the relevant year.*

NOTES TO FINANCIAL STATEMENTS

31 December 2011

5. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET

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

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

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Sewage and reclaimed water treatment services*	**994,682**	591,648
Construction services*	**1,364,997**	5,431,562
Sale of water	**83,198**	75,460
Consultancy services	**173,216**	235,670
Licence fees	**38,361**	13,720
	2,654,454	6,348,060

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

	2011 HK$'000	2010 HK$'000
Interest income		
Bank interest income	**21,875**	6,481
Imputed interest income on trade and bills receivables with extended credit periods	**241,369**	–
Interest income from non-controlling equity holders of a non-wholly owned subsidiary[@]	**45,413**	–
Interest income on a loan to a jointly-controlled entity *(note 19(c))*	**2,879**	1,707
Interest income on loans to government authorities in Yunnan Province, the PRC *(note 26(a)(iv) and (v))*	**36,658**	–
Interest income on loans to related companies *(note 27)*	**37,311**	14,745
	385,505	22,933
Other income		
Gross rental income[#]	**734**	223
Government grants[§]	**33,370**	47,058
Sludge treatment income	**6,039**	5,754
Others	**21,635**	4,672
	61,778	57,707
Gains, net		
Gain on bargain purchase of subsidiaries *(note 41)*	**–**	2,824
Gain on bargain purchase of a jointly-controlled entity[†]	**42,235**	–
Foreign exchange differences, net	**40,102**	–
	82,337	2,824
Other income and gains, net	**144,115**	60,531

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

* Imputed interest income under service concession arrangements amounting to HK$318,822,000 (2010: HK$214,280,000) is included in the revenue derived from "Sewage and reclaimed water treatment services" and "Construction services" above.

@ Pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, China International Construction Investment Holding (Hong Kong) Limited ("CICI", a 70% owned subsidiary of the Group) and the non-controlling equity holders of CICI, the non-controlling equity holders of CICI shall pay interest to the Company at the PRC 1-year bank loan rate per annum in respect of an interest-free loan of RMB716,428,000 provided by the Company to CICI.

\# 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 reclaimed 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 44(a) to the financial statements.

§ The government grants recognised during the current year represented an incentive of RMB27,697,000 (equivalent to HK$33,370,000) provided by a local government in Yunnan Province, the PRC, for the Group's act to withhold for the local tax bureau the business tax and surcharges levied on income of certain subcontractors for their services on certain construction contracts of the Group. The government grants recognised during the prior 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 gain on bargain purchase of a jointly-controlled entity arose from the acquisition of a 60% equity interest in 湖南北控景盛建設發展有限公司 ("Beikong Jingsheng") in April 2011 for a cash consideration of RMB34,956,000 (equivalent to HK$42,116,000). Beikong Jingsheng is principally engaged in the construction of infrastructural facilities in Hunan Province, the PRC.

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2011 HK$'000	2010 HK$'000
Cost of sewage and reclaimed water treatment services rendered		**370,950**	201,179
Cost of construction services		**1,272,757**	4,950,070
Cost of water sold		**27,521**	41,416
Cost of consultancy services rendered		**35,968**	2,041
Cost of licensing		**1,736**	1,340
Depreciation	*13*	**9,299**	8,228
Amortisation of operating concessions*	*16*	**37,285**	30,206
Amortisation of other intangible assets*	*17*	**903**	502
Minimum lease payments under operating leases of land and buildings		**5,067**	1,638
Auditors' remuneration		**6,500**	5,100
Employee benefit expense (including directors' remuneration *(note 8)*):			
Salaries, allowances and benefits in kind		**208,779**	117,759
Net pension scheme contributions		**15,376**	11,180
Welfare and other expenses		**27,309**	26,126
		251,464	155,065
Loss on disposal of items of property, plant and equipment, net		**1,478**	225
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	*16(b)*	**(39,655)**	32,495
Impairment of trade and bills receivables, net	*25(c)*	**17,945**	239
Impairment of other receivables, net	*26(c)*	**1,808**	223
Provision for major overhauls	*35*	**33,207**	24,895
Foreign exchange differences, net		**(40,102)**	1,045

* *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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7. FINANCE COSTS

		Group	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years		**266,965**	208,248
Interest in other loans		**5,557**	7,544
Interest on corporate bonds		**45,094**	–
Imputed interest on convertible bonds	*32*	**–**	23,787
Interest on a finance lease		**234**	681
Total interest expenses		**317,850**	240,260
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*35*	**3,711**	2,725
Total finance costs		**321,561**	242,985
Less: Interest included in cost of construction services		**(8,572)**	(8,077)
		312,989	234,908

8. 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	
	2011	2010
	HK$'000	*HK$'000*
Fees	**2,058**	1,329
Other emoluments:		
Salaries, allowances and benefits in kind	**6,212**	12,065
Pension scheme contributions	**36**	36
	6,248	12,101
	8,306	13,430

8. DIRECTORS' REMUNERATION *(Continued)*

An analysis of the directors' remuneration, on a named basis, is as follows:

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2011				
Executive directors:				
Mr. Zhang Honghai	–	–	–	–
Mr. Liu Kai	–	–	–	–
Mr. E Meng	100	–	–	100
Mr. Jiang Xinhao	100	–	–	100
Mr. Hu Xiaoyong	253	1,597	12	1,862
Mr. Zhou Min	253	1,349	12	1,614
Mr. Li Haifeng	253	1,473	12	1,738
Mr. Zhang Tiefu	100	695	–	795
Mr. Hou Feng	100	1,098	–	1,198
Ms. Qi Xiaohong	100	–	–	100
Mr. Ju Yadong	67	–	–	67
Mr. Ke Jian	58	–	–	58
Mr. Tung Woon Cheung Eric	186	–	–	186
	1,570	6,212	36	7,818
Independent non-executive directors:				
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
Total	2,058	6,212	36	8,306

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8. DIRECTORS' REMUNERATION *(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 2010				
Executive directors:				
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
Independent non-executive directors:				
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
Total	1,329	12,065	36	13,430

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2011 and 2010 were all directors, details of whose remuneration are set out in note 8 above.

10. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2011 as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil).

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Current – PRC:		
Hong Kong	**–**	–
Mainland China	**138,048**	99,319
Overprovision in prior years	**(3,655)**	(1,617)
Current – Malaysia	**1,310**	–
Deferred *(note 37)*	**34,158**	33,248
Total tax expense for the year	**169,861**	130,950

NOTES TO FINANCIAL STATEMENTS

31 December 2011

10. 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 2011

	Hong Kong and overseas		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(98,921)		959,768		860,847	
Tax expense/(credit) at the statutory tax rate	(15,799)	16.0	239,942	25.0	224,143	26.0
Lower tax rates of specific provinces or enacted by local authorities	–	–	(11,402)	(1.2)	(11,402)	(1.3)
Tax concession enjoyed	–	–	(52,022)	(5.4)	(52,022)	(6.0)
Effect of withholding tax at 5% on the distributable profits of a PRC subsidiary of the Group	–	–	4,869	0.5	4,869	0.6
Adjustments in respect of current tax of previous periods	–	–	(3,655)	(0.4)	(3,655)	(0.4)
Profits and losses attributable to jointly-controlled entities	(344)	0.4	(4,678)	(0.5)	(5,022)	(0.6)
Income not subject to tax	(5,684)	5.7	(9,346)	(0.9)	(15,030)	(1.8)
Expenses not deductible for tax	23,137	(23.4)	7,966	0.8	31,103	3.6
Tax losses utilised from previous periods	–	–	(9,071)	(0.9)	(9,071)	(1.1)
Tax losses not recognised as deferred tax assets	–	–	5,948	0.6	5,948	0.7
Tax expense at the Group's effective rate	1,310	(1.3)	168,551	17.6	169,861	19.7

10. INCOME TAX *(Continued)*

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 expense/(credit) 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 expense at the Group's effective rate	–	–	130,950	15.8	130,950	18.8

11. 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 2011 includes a profit of HK$7,410,000 (2010: a loss of HK$55,209,000), which has been dealt with in the financial statements of the Company *(note 30(b))*.

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the 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, as adjusted to retrospectively reflect the issuance of 2,283,378,231 new ordinary shares of the Company at an offer price of HK$1.485 per ordinary share under an open offer (the "Open Offer") of the Company completed on 15 March 2011, further details of the Open Offer are set out in note 29(b) to the financial statements.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

In respect of the diluted earnings per share amount for the year ended 31 December 2011, no adjustment has been made to the basic earnings per share amount presented as the Group had no potentially dilutive shares in issue during the year. The calculation of the diluted earnings per share amount for the year ended 31 December 2010 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 after adjustment to retrospectively reflect the effect of the Open Offer.

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

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**600,736**	512,512
Interest on dilutive convertible bonds	–	23,787
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**600,736**	536,299

	2011	2010 (Restated)
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**6,719,431,905***	4,769,441,329*
Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares	–	620,611,554*
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**6,719,431,905**	5,390,052,883

* *The weighted average number of ordinary shares during the years ended 31 December 2011 and 2010 have been retrospectively adjusted to take into account the effect of the Open Offer.*

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and 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 2011							
At 1 January 2011:							
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
Net carrying amount:							
At 1 January 2011	13,551	233	1,929	10,423	17,426	2,552	46,114
Acquisition of subsidiaries *(note 41)*	–	–	–	–	–	368	368
Additions	125,544	31,693	5,032	13,385	14,998	395	191,047
Depreciation provided during the year	(235)	(204)	(632)	(3,625)	(4,603)	–	(9,299)
Disposals	–	–	(54)	(104)	(1,320)	–	(1,478)
Exchange realignment	3,754	766	117	757	293	837	6,524
At 31 December 2011	142,614	32,488	6,392	20,836	26,794	4,152	233,276
At 31 December 2011:							
Cost	143,056	33,583	8,934	30,662	43,465	4,152	263,852
Accumulated depreciation	(442)	(1,095)	(2,542)	(9,826)	(16,671)	–	(30,576)
Net carrying amount	142,614	32,488	6,392	20,836	26,794	4,152	233,276

NOTES TO FINANCIAL STATEMENTS

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

Group *(Continued)*

	Land and 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 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 41)*	–	–	–	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 16)*	(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

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

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Year ended 31 December 2011				
At 1 January 2011:				
Cost	–	34	490	524
Accumulated depreciation	–	(14)	(343)	(357)
Net carrying amount	–	20	147	167
Net carrying amount:				
At 1 January 2011	–	20	147	167
Additions	946	173	–	1,119
Depreciation provided during the year	(79)	(21)	(147)	(247)
At 31 December 2011	867	172	–	1,039
At 31 December 2011:				
Cost	946	207	490	1,643
Accumulated depreciation	(79)	(35)	(490)	(604)
Net carrying amount	867	172	–	1,039

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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

Company *(Continued)*

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2010				
At 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

14. PREPAID LAND PREMIUMS

Group

	2011 ***HK$'000***	2010 *HK$'000*
Carrying amount at 1 January	**–**	27,704
Reclassification to operating concessions *(note 16)*	**–**	(27,704)
Carrying amount at 31 December	**–**	–

15. GOODWILL

Group

	2011	2010
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**1,580,116**	1,575,451
Acquisition of subsidiaries *(note 41)*	**57,007**	–
Exchange realignment	**6,596**	4,665
At 31 December	**1,643,719**	1,580,116

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	
	2011	2010
	HK$'000	*HK$'000*
Sewage and reclaimed water treatment and construction services segment	**1,269,730**	1,206,466
Water supply services segment	**14,749**	14,410
Technical and consultancy services segment	**359,240**	359,240
	1,643,719	1,580,116

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15. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

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 fair value less costs to sell estimations using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections for the first 10-year period are 11.5% for the business units of the sewage and reclaimed water treatment and construction services segment, and the water supply services segment, and 12.9% for the business unit of the technical and consultancy services segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. 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 2011 (2010: Nil).

Key assumptions used in fair value less costs to sell estimations

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 and reclaimed water treatment and construction services segment, and the water supply services segment, the budgeted turnover is based on the projected sewage and reclaimed water treatment and water supply volume, and the latest sewage and reclaimed water treatment and water selling prices up to the date of valuation.
  - 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.

15. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in fair value less costs to sell estimations (Continued)

- 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 its sewage and reclaimed water treatment and water supply plants. Given its historical performance record and its long-established relationship with the grantors, 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 reclaimed water treatment and water supply plants shall be renewed upon expiry, and therefore the sizes of the operations of the sewage and reclaimed water treatment and water distribution operations are expected to remain constant perpetually which enables the Group to generate income perpetually.

16. 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 reclaimed water treatment, water distribution and seawater desalination. These service concession arrangements generally involve the Group as an operator (i) constructing sewage and reclaimed water treatment, water distribution and seawater desalination plants for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the sewage and reclaimed water treatment, water distribution and seawater desalination 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 reclaimed water treatment, water distribution and seawater desalination plants, however, the relevant governmental authorities as grantors will control and regulate the scope of services that the Group must provide with the sewage and reclaimed water treatment, water distribution and seawater desalination plants, and retain the beneficial entitlement to any residual interest in the sewage and reclaimed water treatment, water distribution and seawater desalination 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 reclaimed water treatment, water distribution and seawater desalination plants to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes.

16. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

At 31 December 2011, the Group had 101 service concession arrangements on sewage treatment, 4 service concession arrangements on reclaimed water treatment, 12 service concession arrangements on water distribution and a service concession arrangement on seawater desalination 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 company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
Subsidiaries:							
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 on sewage treatment	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 on sewage treatment	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 on sewage treatment	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 on sewage treatment	180,000	20 years from 2004 to 2024
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 on sewage treatment	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一期	Jiaozhou, Shandong Province, the PRC	山東省膠州市城鄉建設局	BOT on sewage treatment	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二期	Jiaozhou, Shandong Province, the PRC	山東省膠州市城鄉建設局	BOT on sewage treatment	50,000	20 years from 2011 to 2031
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 on sewage treatment	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	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033

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16. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
Subsidiaries: *(Continued)*							
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擴建工程	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	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一期	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT on sewage treatment	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 on sewage treatment	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 on sewage treatment	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 on sewage treatment	50,000	22 years from 2010 to 2032
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一期	Yongzhou, Hunan Province, the PRC	永州市公用事業管理局	BOT on sewage treatment	50,000	30 years from 2008 to 2038
16.	永州市北控污水淨化有限公司	永州市下河線污水處理廠二期	Yongzhou, Hunan Province, the PRC	永州市公用事業管理局	BOT on sewage treatment	50,000	30 years from 2011 to 2041
17.	深圳北控創新投資有限公司 ("Bei Kong Chuang Xin")	深圳市龍崗區橫嶺處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031
18.	深圳北控豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028

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16. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m³/day	Service concession period
Subsidiaries: *(Continued)*							
19.	濱州北控西海水務有限公司	濱州市西海供水廠	Binzhou, Shandong Province, the PRC	濱州市人民政府	BOT on water distribution	50,000	40 years from 2006 to 2046
20.	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 on sewage treatment	80,000	30 years from 2009 to 2039
21.	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 on sewage treatment	100,000	25 years from 2009 to 2034
22.	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 on sewage treatment	100,000	28 years (Not yet started)
23.	錦州市北控水務有限公司	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 on sewage treatment	100,000	30 years from 2009 to 2039
24.	錦州市北控水務有限公司	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 on sewage treatment	100,000	30 years from 2010 to 2040
25.	錦州市北控水務有限公司	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 on reclaimed water treatment	180,000	30 years from 2010 to 2040
26.	Fuzhou Beijing Enterprises Water Purify Limited	福州市浮村污水處理廠	Fuzhou, Fujian Province, the PRC	福州市建設局	BOT on sewage treatment	50,000	27 years from 2010 to 2037
27.	Yueyang Beijing Enterprises Sewage Treatment Ltd.	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 on sewage treatment	50,000	25 years (Not yet started)
28.	Yueyang Beijing Enterprises Water Supply Limited	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 on reclaimed water treatment	50,000	25 years (Not yet started)

16. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
Subsidiaries: *(Continued)*							
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 on sewage treatment	100,000	30 years from 2011 to 2041
30.	廣西貴港北控水務有限公司	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 on sewage treatment	100,000	30 years from 2008 to 2038
31.	廣西貴港北控水務有限公司	龍床井水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	50,000	30 years from 2008 to 2038
32.	廣西貴港北控水務有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038
33.	Zunyi BEWG Co., Ltd.	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水有限責任公司	BOT on water distribution	100,000	25 years (Not yet started)
Jointly-controlled entities:							
34.	Aqualyng Caofeidian Seawater Desalination Co. Ltd. ("ACSD")	曹妃甸海水淡化廠	Caofeidian, Hebei Province, the PRC	曹妃甸工業區管委會	BOT on seawater desalination	50,000	30 years (Not yet started)
35.	Guiyang BEWG Co. Ltd. ("Guiyang BEWG")	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
36.	Yibin Beijing Enterprises Water Limited	宜賓市南岸污水處理廠	Yi Bin, Sichuan Province, the PRC	宜賓市水務局	TOT on sewage treatment	50,000	30 years from 2011 to 2041
An associate:							
37.	Henan Kaikong Water Business Co. Ltd.	河南龍宇煤化工原水淨化及預脱鹽水站	Shangqiu, Henan Province, the PRC	河南龍宇煤化工有限公司	BOT on reclaimed water treatment	79,200	20 years (Not yet started)

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16. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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.

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 reclaimed water treatment, water distribution and seawater desalination 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 2011, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain sewage and reclaimed water treatment, water distribution and seawater desalination 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.

At 31 December 2011, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) in a then aggregate net carrying amount of HK$2,740,254,000 (2010: HK$2,323,198,000), are pledged to secure certain bank loans granted to the Group *(note 31(b)(i))*.

16. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

As further explained in the accounting policy for "Service concession arrangements" set out in note 2.4 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 a 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 a service concession arrangement) with respect to the Group's service concession arrangements:

Operating concessions

		Group	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
At 1 January:			
Cost		**896,578**	467,714
Accumulated amortisation		**(146,860)**	(68,582)
Net carrying amount		**749,718**	399,132
Net carrying amount:			
At 1 January		**749,718**	399,132
Additions		**10,783**	112,953
Amortisation provided during the year		**(37,285)**	(30,206)
Reclassification from:			
Property, plant and equipment	*13*	**–**	210,542
Prepaid land premiums	*14*	**–**	27,704
Exchange realignment		**40,165**	29,593
At 31 December		**763,381**	749,718
At 31 December:			
Cost		**957,634**	896,578
Accumulated amortisation		**(194,253)**	(146,860)
Net carrying amount		**763,381**	749,718

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31 December 2011

16. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	Group 2011 HK$'000	2010 HK$'000
Receivables under service concession arrangements	**5,257,134**	2,900,344
Impairment *(note (b))*	**(912)**	(39,872)
	5,256,222	2,860,472
Portion classified as current assets	**(253,105)**	(123,889)
Non-current portion	**5,003,117**	2,736,583

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 analyses 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 2011 HK$'000	2010 HK$'000
Billed:		
Within 3 months	**159,900**	84,741
4 to 6 months	**23,509**	19,370
7 to 12 months	**22,330**	11,122
Over 1 year	**47,366**	8,656
	253,105	123,889
Unbilled	**5,003,117**	2,736,583
	5,256,222	2,860,472

16. 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	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**39,872**	6,984
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 6)*	**(39,655)**	32,495
Exchange realignment	**695**	393
At 31 December	**912**	39,872

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2010 was a provision for individually impaired receivables of HK$39,074,000 with an aggregate carrying amount before provision of HK$63,072,000. The individually impaired receivables relate to customers that were in delinquency in principal payments and only a portion of the receivables was expected to be recovered. During the year, the Group re-assessed the recoverability of these receivables and are of the opinion that these individually impaired receivables would be fully recoverable, and hence the related provision for impairment was fully reversed during the year.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2011 and 2010 also included the provision 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

16. 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	
	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**85,682**	47,276
Less than 1 month past due	**42,996**	21,018
1 to 3 months past due	**48,214**	27,645
4 to 6 months past due	**14,949**	8,320
7 months to 1 year past due	**19,917**	8,715
Over 1 year past due	**41,347**	10,915
	253,105	123,889

Unbilled receivables were classified as non-current and 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 and reclaimed water treatment and water distribution businesses. 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.

17. OTHER INTANGIBLE ASSETS

Group

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2011			
At 1 January 2011:			
Cost	575	6,045	6,620
Accumulated amortisation	(553)	(762)	(1,315)
Net carrying amount	22	5,283	5,305
Net carrying amount:			
At 1 January 2011	22	5,283	5,305
Additions	–	1,768	1,768
Amortisation provided during the year	(26)	(877)	(903)
Exchange realignment	4	281	285
At 31 December 2011	–	6,455	6,455
At 31 December 2011:			
Cost	603	8,155	8,758
Accumulated amortisation	(603)	(1,700)	(2,303)
Net carrying amount	–	6,455	6,455

NOTES TO FINANCIAL STATEMENTS

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17. OTHER INTANGIBLE ASSETS *(Continued)*

Group *(Continued)*

	Patents	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2010			
At 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

18. INTERESTS IN SUBSIDIARIES

		Company	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
Investments in subsidiaries, included in non-current assets			
Unlisted shares or investments, at cost		**4,755,364**	4,108,515
Due from subsidiaries	*(a)*	**3,188,488**	2,694,417
		7,943,852	6,802,932
Due from subsidiaries, included in current assets	*(a)*	**3,166,450**	876,710
Due to subsidiaries, included in current liabilities	*(a)*	**(1,117,147)**	(336,451)
Interests in subsidiaries		**9,993,155**	7,343,191

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the following:

(i) an amount of US$31,000,000 (equivalent to HK$240,749,000) (2010: Nil) due from Beijing Enterprises Water Guizhou Holdings Limited, a 60% owned subsidiary of the Company, which bears interest at the PRC 1-3 year bank loan rate per annum; and

(ii) an amount of RMB67,000,000 (equivalent to HK$82,716,000) (2010: Nil) due from Kunming Gatewin Road & Bridge Co., Ltd., a 70% indirectly-owned subsidiary of the Company, which bears interest at the PRC 1-3 year bank loan rate per annum and is repayable by December 2014.

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

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18. 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 ("BE-ZKC")	PRC/Mainland China	RMB417,969,071	–	100	Consultancy service and investment holding
深圳北控創新投資有限公司	PRC/Mainland China	RMB300,000,000	–	100	Sewage treatment
深圳北控豐泰投資有限公司	PRC/Mainland China	RMB70,000,000	–	100	Sewage treatment
綿陽中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
長沙中科成污水淨化有限公司	PRC/Mainland China	RMB50,000,000	–	100	Sewage treatment
廣州中業污水處理有限公司	PRC/Mainland China	RMB85,000,000	–	100	Sewage treatment
江油中科成污水淨化有限公司	PRC/Mainland China	RMB8,000,000	–	100	Sewage treatment
成都雙流中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島中科成污水淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
廣州中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
台州市路橋中科成污水淨化有限公司	PRC/Mainland China	RMB55,500,000	–	100	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/Mainland China	RMB27,600,000	–	100	Sewage treatment

18. 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
菏澤中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
濟南中科成水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
彭州中科成污水淨化有限公司	PRC/Mainland China	RMB28,000,000	–	100	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/Mainland China	RMB76,000,000	–	100	Sewage treatment
Beijing Enterprises Water (Guangxi) Group Co. Limited	PRC/Mainland China	HK$130,000,000	–	100	Investment holding
永州市北控污水淨化有限公司Ω	PRC/Mainland China	HK$85,630,000	100	100	Sewage treatment
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	–	83.80	Water supply
沾化華強水務環保有限公司	PRC/Mainland China	RMB10,000,000	–	92.71	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	PRC/Mainland China	RMB400,000,000	–	50†	Investment holding
錦州市北控水務有限公司	PRC/Mainland China	RMB127,178,541	80	80	Sewage treatment and reclaimed water treatment
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	RMB20,000,000	–	60	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

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18. 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	Percentage of attributable equity interest held by Group	Principal activities
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	–	80	Sewage treatment and water supply
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控城投水質淨化有限公司	PRC/Mainland China	RMB53,090,000	–	50[†]	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	50[†]	Sewage treatment
北控(大連)投資有限公司(formerly known as 北科(大連)投資有限公司)[Ω]	PRC/Mainland China	US$343,630,000	60	60	Investment holding
北控(大連)開發建設有限公司[Ω]	PRC/Mainland China	US$205,630,000	–	60	Construction services
Kunming Gatewin Environmental Protection Engineering Co., Ltd.[Ω]	PRC/Mainland China	RMB680,000,000	–	70	Construction services
Kunming Gatewin Road & Bridge Co., Ltd.[Ω]	PRC/Mainland China	RMB1,200,000,000	–	70	Construction services
Fuzhou Beijing Enterprises Water Purify Limited[Ω]	PRC/Mainland China	US$4,835,000	100	100	Sewage treatment
上海亞同環保工程有限公司[δ]	PRC/Mainland China	RMB100,000,000	–	100	Investment holding
徐州創源污水處理有限公司[δ]	PRC/Mainland China	RMB10,000,000	–	100	Sewage treatment
北控(大連)環保發展有限公司[Ω]	PRC/Mainland China	US$98,000,000	–	60	Construction services

NOTES TO FINANCIAL STATEMENTS

31 December 2011

18. 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	Percentage of attributable equity interest held by Group	Principal activities
大連旅順航空小鎮生態發展有限公司[Ω,δ]	PRC/Mainland China	US$47,000,000	–	60	Sewage treatment and construction services
北控(大石橋)水務發展有限公司[Ω,δ]	PRC/Mainland China	US$5,800,000	–	60	Sewage treatment, water supply and construction services
北控(營口經濟技術開發區)新型水務發展有限公司[Ω,δ]	PRC/Mainland China	RMB280,000,000	–	60	Sewage treatment and water supply
Zunyi BEWG Co., Ltd.[Ω,δ]	PRC/Mainland China	RMB50,236,000	80	89	Water supply
BEWG (M) SDN BHD	Malaysia	RM50,000,000	100	100	Construction services

† *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.

Further details of the acquisition of subsidiaries during the year are disclosed in note 41 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

		Group		Company	
		2011	2010	**2011**	2010
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Investments in jointly-controlled entities, included in non-current assets:					
Unlisted shares or investments, at cost		**–**	–	**1,282,778**	1,269
Share of net assets	*(a)*	**1,731,044**	66,289	**–**	–
Goodwill on acquisition	*(b)*	**197,430**	9,705	**–**	–
		1,928,474	75,994	**1,282,778**	1,269
Loans to a jointly-controlled entity	*(c)*	**45,019**	42,625	**–**	–
		1,973,493	118,619	**1,282,778**	1,269
Due from jointly-controlled entities, included in current assets	*(d), 26*	**470,480**	588	**1,022**	–
Due to jointly-controlled entities, included in current liabilities	*(d), 39*	**(160,721)**	(1,873)	**–**	(1,269)
Interests in jointly-controlled entities		**2,283,252**	117,334	**1,283,800**	–

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Notes:

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	**1,598,057**	101,343
Current assets	**1,152,983**	7,280
Non-current liabilities	**(256,400)**	(41,901)
Current liabilities	**(763,596)**	(433)
Net assets	**1,731,044**	66,289

	2011	2010
	HK$'000	*HK$'000*
Share of the jointly-controlled entities' results		
Revenue	**155,514**	–
Other revenue	**17,745**	–
Total revenue	**173,259**	–
Share profit of a jointly-controlled entity	**8,915**	2,732
Total expenses	**(160,677)**	(1,908)
Profit before tax	**21,497**	824
Income tax	**(699)**	–
Profit for the year	**20,798**	824

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Notes: (Continued)

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**9,705**	–
Acquisition of jointly-controlled entities	**187,725**	9,705
At 31 December	**197,430**	9,705

The addition of goodwill during the year ended 31 December 2011 arose from the acquisition of 45% and 80% equity interests in Guiyang BEWG and 惠東縣北控華基污水項目投資有限公司 (2010: 50% equity interest in Aqualyng-BEWG China Desalination Company Limited ("ACL")), respectively.

In respect of the acquisition of Guiyang BEWG, pursuant to the share transfer agreement entered into between the Company and 貴陽市供水總公司 ("Guiyang Corporation") on 25 October 2010, the Group acquired a 45% equity interest in Guiyang BEWG for a cash consideration of RMB721,000,000. The acquisition transaction was completed on 26 April 2011. However, as at 31 December 2011 and the date of approval of these financial statements, the purchase price allocation for this acquisition is still preliminary, pending the agreement between the Group, Guiyang Corporation and The State-owned Assets Supervision and Administration Commission of the People's Government of Guiyang Municipality regarding certain assets and liabilities of Guiyang Corporation injected into Guiyang BEWG as its capital contribution. Accordingly, the acquisition consideration paid by the Group and the fair value of the identifiable assets and liabilities of Guiyang BEWG at the date of acquisition and hence the goodwill on acquisition are subject to change.

(c) The loans to a jointly-controlled entity as at 31 December 2011 are loans with principal amounts of RMB34,780,000 (equivalent to HK$42,938,000, the "RMB Loan") and US$100,000 (equivalent to HK$776,000, the "US$ Loan") advanced to ACL, to finance its investment in a 50% equity interest in ACSD, 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 RMB Loan bears interest at the PRC 5-year or above bank loan rate and is repayable in 2030 while the US$ Loan is unsecured, interest free and repayable on demand. In the opinion of the directors, the loans are considered as quasi-equity investments in ACL. Interest income of RMB2,390,000 (equivalent to HK$2,879,000) (2010: RMB1,487,000 (equivalent to HK$1,707,000)) was recognised in the consolidated income statement during the year ended 31 December 2011 in respect of the RMB 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 2011 are unsecured, interest-free and have no fixed terms of repayment.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

Notes: (Continued)

(e) Particulars of the principal jointly-controlled entities 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
Yibin Beijing Enterprises Water Limited[@]	PRC/ Mainland China	RMB75,563,400	65	65	65	Sewage treatment
Guiyang BEWG Co. Ltd.[#δ]	PRC/ Mainland China	RMB1,456,162,145	45	45	45	Water supply
惠東縣北控華基污水項目投資有限公司[@δ]	PRC/ Mainland China	RMB10,000,000	80	80	80	Sewage treatment
北控曹妃甸水務投資有限公司[#δ]	PRC/ Mainland China	RMB500,000,000	70	70	70	Investment holding
成都北控蜀都環境投資有限公司[@δ]	PRC/ Mainland China	RMB537,200,000	50	50	50	Construction services and sewage treatment
湖南北控景盛建設發展有限公司[@δ]	PRC/ Mainland China	RMB100,000,000	60	60	60	Construction services
四川三岔湖北控海天投資有限公司[@δ]	PRC/ Mainland China	RMB160,000,000	50	50	50	Sewage treatment and water supply

[#] *The equity interests of these jointly-controlled entities are directly held by the Company.*

[@] *The equity interests of these jointly-controlled entities are indirectly held by certain wholly-owned subsidiaries of the Company.*

[δ] *Acquired/incorporated during the year.*

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.

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20. INVESTMENT IN AN ASSOCIATE

Particulars of the Group's associate, which was established by the Group during the year and is an unlisted entity indirectly held by the Company, are as follows:

			Percentage of			
Company name	Place of incorporation/ registration and operation	Nominal value of paid-up capital/ registered capital	Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activity
Henan Kaikong Water Business Co. Ltd.	PRC/ Mainland China	RMB100,000,000	30	30	30	Reclaimed water treatment

The following tables illustrate the summarised financial information of the Group's associate:

	2011 HK$'000	2010 HK$'000
Share of the associate's assets and liabilities		
Non-current assets	**19,995**	–
Current assets	**17,203**	–
Current liabilities	**(160)**	–
Net assets	**37,038**	–

The Group did not share any of the associate's operating results for the year ended 31 December 2011 as the operating profits generated by the associate during the year was insignificant to the Group.

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. LAND HELD FOR SALE

Land held for sale as at 31 December 2011 represented certain land use rights held under medium and long term leases and located in Liaoning Province, the PRC, covering a total land area of 3,566,473 square metres. The Group intends to hold these land use rights for trading and hence they are classified as land held for sale.

These land use rights were acquired by the Group during the year incidental to a construction service contract with an initial contract value of RMB350,000,000 in accordance with a land use right transfer agreement entered into between the Group, the vendor of the land use rights (the "Vendor of the Land", an entity controlled by a government authority in Mainland China) and another entity controlled by a government authority in Mainland China (the "Contract Customer") on 3 December 2011, pursuant to which, the Group will perform construction services for the Contract Customer which will settle the construction service fee by way of certain land use rights held by the Vendor of the Land with a mutually-agreed total value of RMB800,000,000. The excess of the mutually-agreed value of the land use rights over the construction service fees, being RMB450,000,000, will be settled by the Group in cash. Accordingly, separate land use rights transfer agreements dated 5 December 2011 (the "Land Transfer Agreements") were entered into between the Group and the Vendor of the Land to effect such arrangement. As at 31 December 2011, in connection with the Land Transfer Agreements, a cash consideration of RMB300,000,000 has been settled by the Group and the Group has obtained the legal titles to these land use rights, notwithstanding that the construction services under the aforesaid construction service contract have not been commenced.

For accounting purposes, the land use rights were measured in the consolidated statement of financial position on initial recognition at their then fair value less costs to sell of RMB809,697,000 (equivalent to HK$999,626,000), determined by reference to a valuation carried out by Asset Appraisal Limited, independent professionally qualified valuers, on an open market value basis using the direct comparison approach. In addition, the unpaid cash consideration of RMB150,000,000 (equivalent to HK$185,185,000) and the difference of RMB359,697,000 (equivalent to HK$444,070,000) between the value of these land use rights on initial recognition and the cash consideration paid and payable were recognised as an other payable and a receipt in advance for construction services in the consolidated statement of financial position as at 31 December 2011.

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23. INVENTORIES

	Group 2011 HK$'000	2010 HK$'000
Raw materials	**11,104**	11,214
Low value consumables	**2,318**	1,572
	13,422	12,786

24. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	Group 2011 HK$'000	2010 HK$'000
Contract costs incurred plus recognised profits less recognised losses to date	**1,687,150**	2,364,393
Impairment *(note)*	**–**	–
	1,687,150	2,364,393
Portion classified as current assets	**(87,865)**	(759,109)
Non-current portion	**1,599,285**	1,605,284

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

	Group 2011 HK$'000	2010 HK$'000
At 1 January	–	6,273
Amount written off as uncollectible	–	(6,340)
Exchange realignment	–	67
At 31 December	–	–

25. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and bills receivables	**3,958,371**	4,124,522	**19,696**	19,696
Impairment *(note (c))*	**(19,972)**	(1,509)	**–**	–
	3,938,399	4,123,013	**19,696**	19,696
Portion classified as current assets	**(3,676,549)**	(4,002,108)	**(19,696)**	(19,696)
Non-current portion	**261,850**	120,905	**–**	–

Notes:

(a) The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which would settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade and bills receivables of the construction services for comprehensive renovation projects which bear interest at rates ranging from 6.56% to 6.65%, trade and bills receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

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25. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Billed:				
Within 3 months	**234,442**	282,257	**–**	–
4 to 6 months	**42,522**	82,702	**–**	–
7 to 12 months	**11,220**	7,474	**–**	–
Over 1 year	**146,671**	21,574	**19,696**	19,696
Balance with extended credit period	**181,111**	169,000	**–**	–
	615,966	563,007	**19,696**	19,696
Unbilled*	**3,322,433**	3,560,006	**–**	–
	3,938,399	4,123,013	**19,696**	19,696

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

(b) Included in the trade and bills receivables of the Group as at 31 December 2011 are (1) an aggregate amount of HK$27,387,000 (2010: HK$19,696,000) due from 北京北控環保工程技術有限公司 and 北控水務集團(海南)有限公司, both being related companies of the Group, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (2) an amount of HK$2,303,000 (2010: Nil) due from ACSD arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies were unsecured, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**1,509**	1,221
Impairment during the year recognised in the income statement, net *(note 6)*	**17,945**	239
Exchange realignment	**518**	49
At 31 December	**19,972**	1,509

25. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: *(Continued)*

(c) *(Continued)*

The above provision for impairment of trade and bills receivables was made against the whole balances of trade and bills 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 and bills receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired is as follows:

	Group		**Company**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**331,416**	368,423	**–**	–
Less than 1 month past due	**9,836**	27,944	**–**	–
1 to 3 months past due	**74,301**	82,538	**–**	–
4 to 6 months past due	**42,522**	55,054	**–**	–
7 months to 1 year past due	**11,220**	7,474	**–**	–
Over 1 year past due	**146,671**	21,574	**19,696**	19,696
	615,966	563,007	**19,696**	19,696

Receivables that were neither past due nor impaired mainly relate to the construction services rendered for comprehensive renovation projects with settlement periods 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 construction service for comprehensive renovation project has pledged the future proceeds from its disposal of certain land use rights in an amount of RMB2,486,000,000 (equivalent to HK$3,069,136,000) to secure the trade receivables due by it. As at 31 December 2011, the trade and bills receivables owed by this customer amounted to RMB1,251,268,000 (equivalent to HK$1,544,775,000) (2010: RMB1,699,052,000 (equivalent to HK$1,998,885,000)). Save as the foregoing, the Group does not hold any collateral or other credit enhancements over trade and bills receivable balances.

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2011	2010	**2011**	2010
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments		**24,415**	11,611	**4,024**	3,121
Deposits and other debtors	*(a)*	**2,035,215**	1,483,291	**1,138**	671,254
Advances to suppliers	*(b)*	**2,213,520**	410,740	**–**	–
Due from jointly-controlled entities	*19(d)*	**470,480**	588	**1,022**	–
Due from related parties	*27*	**1,387,489**	873,806	**1,096,638**	624,768
		6,131,119	2,780,036	**1,102,822**	1,299,143
Impairment	*(c)*	**(5,531)**	(3,531)	**–**	–
		6,125,588	2,776,505	**1,102,822**	1,299,143
Portion classified as current assets		**(4,583,574)**	(1,367,995)	**(51,597)**	(251,072)
Non-current portion		**1,542,014**	1,408,510	**1,051,225**	1,048,071

Notes:

(a) The Group's deposits and other debtors as at 31 December 2011 included, inter alia, the following:

(i) an instalment deposit of RMB202,000,000 (equivalent to HK$249,383,000) paid by the Group to a government authority in Mainland China in relation to the Group's acquisition of certain land use rights in Liaoning Province, the PRC. In the opinion of the directors, the purchase of the land use rights will be completed in 2012. As the Group intends to hold the land use rights for trading, the balance is classified as a current asset.

(ii) an instalment of RMB60,000,000 (equivalent to HK$74,074,000) 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 Liaoning Province, the PRC, on a TOT basis. The balance is classified as a non-current asset.

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

Notes: (Continued)

(a) *(Continued)*

(iii) an investment deposit of RMB304,062,000 (equivalent to HK$375,385,000) paid by the Group to The State-owned Assets Supervision and Administration Commission of the People's Government of Luoyang Municipality, a government authority in Mainland China, in connection with the Group's acquisition of a 40% equity interest in 洛陽市水務集團有限公司 ("Luoyang Water"). The balance is classified as a non-current asset. Luoyang Water is engaged in the distribution and sale of piped water and is accounted for as a jointly-controlled entity upon the completion of the acquisition transaction in January 2012.

In addition, in connection with the acquisition of Luoyang Water, the Group provided an interest-free loan of RMB150,000,000 (equivalent to HK$185,185,000) in November 2011 to a joint venture partner holding a 50% equity interest in Luoyang Water. The loan is unsecured and repayable in November 2012. In the opinion of the directors, no provision for impairment is considered necessary against the loan. The amortised cost of the loan of RMB141,617,000 (equivalent to HK$174,836,000) is classified as a current asset.

(iv) a loan of RMB300,000,000 (equivalent to HK$370,370,000) provided to a government authority in Yunnan Province, the PRC, in November 2011, as part of the construction funding for a land renovation project undertaken by the government authority. The loan is repayable in May 2012, provides the Group with a fixed return of 15% on the loan principal, and is secured by a pledge over the borrower's future receivable related to the land renovation project to the extent of RMB1,200,000,000 (equivalent to HK$1,481,481,000). Interest income of RMB11,475,000 (equivalent to HK$13,825,000) was recognised in the consolidated income statement during the year in respect of the loan. The balance is classified as a current asset.

(v) two loans of RMB200,000,000 (equivalent to HK$246,914,000) in aggregate provided to two government authorities in Yunnan Province, the PRC, in July 2011, as part of the construction funding for certain land renovation projects undertaken by these government authorities. The loans are unsecured, repayable in July 2012 and provide the Group with a fixed return of 15% on the loan principals plus interest at the PRC 1-year bank loan rate per annum. Interest income of RMB18,951,000 (equivalent to HK$22,833,000) in aggregate was recognised in the consolidated income statement during the year in respect of the loans. The balances are classified as current assets.

(vi) two performance bonds of RMB61,525,000 (equivalent to HK$75,956,000) (2010: 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 contracts for the comprehensive renovation projects in Liaoning Province, the PRC. These performance bonds are classified as current assets as the performance obligations are expected to be fulfilled in 2012.

(b) During the year, advance payments in an aggregate amount of RMB1,281,455,000 (equivalent to HK$1,582,043,000) were made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation projects signed between the Group and government authorities in Liaoning Province, the PRC. The construction of these projects was delayed and the subcontractors returned RMB1,115,470,000 (equivalent to HK$1,377,124,000) of these advance payments to the other subsidiaries of the Group during the year. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position *(note 39(a)(iv))*.

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

Notes: *(Continued)*

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**3,531**	3,188
Impairment during the year recognised in the income statement, net *(note 6)*	**1,808**	223
Exchange realignment	**192**	120
At 31 December	**5,531**	3,531

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.

27. BALANCES WITH RELATED PARTIES

The amounts due from/to related parties are unsecured, interest-free and have no fixed terms of repayment, except for amounts of RMB183,485,000 (equivalent to HK$226,525,000) (2010: RMB175,376,000 (equivalent to HK$206,325,000)) and US$135,365,000 (equivalent to HK$1,051,226,000, (2010: US$60,159,000 (equivalent to HK$468,253,000)) due from two joint venture partners of two subsidiaries, which bear interest at the rate of 4.77% per annum and the PRC 1-3 year bank loan rate per annum, respectively, and are repayable in May 2012 and May 2014, respectively. Interest income of HK$8,165,000 (2010: HK$6,173,000) and HK$29,146,000 (2010: HK$8,572,000), respectively, were recognised in the consolidated income statement during the year in respect of the two aforementioned interest-bearing balances with related parties.

The balances with related companies of the Group included in trade and bills receivables, deposits and other debtors, and other liabilities are disclosed in notes 25(b), 26 and 39 to the financial statements, respectively.

28. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances other than time deposits	**1,582,188**	2,403,841	**107,195**	166,814
Time deposits	**457,947**	150,494	**–**	–
Total cash and bank balances	**2,040,135**	2,554,335	**107,195**	166,814
Less: Restricted cash and pledged deposits *(note (a))*	**(92,367)**	(592,507)	**–**	–
Cash and cash equivalents	**1,947,768**	1,961,828	**107,195**	166,814

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2011 included the following:

(i) bank deposits of RMB54,421,000 (equivalent to HK$67,186,000) (2010: RMB114,411,000 (equivalent to HK$134,600,000)) which could only be applied on construction of sewage treatment plants and other infrastructural facilities undertaken by the Group;

(ii) bank deposits of RMB18,986,000 (equivalent to HK$23,440,000) (2010: RMB22,500,000 (equivalent to HK$26,471,000)) 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; and

(iii) bank deposits of RMB1,410,000 (equivalent to HK$1,741,000) (2010: RMB366,823,000 (equivalent to HK$431,436,000)) pledged to banks to secure certain banking facilities granted to the Group *(note 31(b)(iv))*.

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28. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

Notes: (Continued)

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**97,570**	193,043	**77,289**	166,738
RMB	**1,232,662**	1,970,390	**29,831**	–
US$	**653,043**	390,902	**75**	76
RM	**56,860**	–	**–**	–
	2,040,135	2,554,335	**107,195**	166,814

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 Group's bank balances are deposited with creditworthy banks with no recent history of defaults.

29. SHARE CAPITAL

	2011	2010
	HK$'000	*HK$'000*
Authorised:		
15,000,000,000 ordinary shares of HK$0.10 each	**1,500,000**	1,500,000
Issued and fully paid:		
6,909,170,486 (2010: 4,566,756,463) ordinary shares of HK$0.10 each	**690,917**	456,676

29. SHARE CAPITAL *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2011 and 2010 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 2010		3,482,196,992	348,219	1,817,378	2,165,597
Shares issued upon conversion of convertible bonds	*(a)*	1,084,559,471	108,457	715,053	823,510
At 31 December 2010 and 1 January 2011		4,566,756,463	456,676	2,532,431	2,989,107
Issue of new shares upon completion of the Open Offer	*(b)*	2,283,378,231	228,338	3,157,024	3,385,362
Issue of new shares for acquisition of the non-controlling interest in a subsidiary	*(c)*	59,035,792	5,903	120,079	125,982
At 31 December 2011		6,909,170,486	690,917	5,809,534	6,500,451

Notes:

(a) During the year ended 31 December 2010, convertible bonds of the Company with an aggregate principal amount of approximately HK$748,346,000 were converted by bondholders into 1,084,559,471 new ordinary shares of the Company in total at a conversion price of HK$0.69 per ordinary share. The difference of HK$715,053,000 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 conversion was transferred to the Company's share premium account.

(b) On 15 March 2011, as approved by the shareholders of the Company at a special general meeting held on 17 February 2011, 2,283,378,231 new ordinary shares of the Company were issued for total net proceeds of HK$3,385,362,000 under the Open Offer made to shareholders of the Company on the register of members on 17 February 2011 at an offer price of HK$1.485 per ordinary share on the basis of one offer share for every two existing shares, for the purpose of raising long-term equity capital to finance its future expansion plan. The difference of HK$3,157,024,000 between the nominal value of the ordinary shares issued and the total net proceeds was recognised in the Company's share premium account. Further details of the Open Offer are set out in the Company's prospectus dated 22 February 2011.

29. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

(c) Pursuant to a master agreement dated 5 July 2011 entered into between, among others, BE-ZKC (a subsidiary of the Company) and 深圳市泰合環保有限公司 ("Shenzhen Taihe", a then non-controlling equity holder of Bei Kong Chuang Xin), BE-ZKC acquired the 11.03% equity interest in Bei Kong Chuang Xin held by Shenzhen Taihe for a total consideration of RMB195,360,000, satisfied as to RMB90,680,000 in cash and HK$125,982,000 by way of the issuance of 59,035,792 ordinary shares of the Company at HK$2.134 per share. The transaction was completed on 12 July 2011 and the consideration shares were issued on 7 September 2011. Further details of the transaction are set out in the Company's circular dated 29 July 2011.

30. 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 2011 were distributable in the form of cash dividends.

30. 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 2010		1,817,378	60,859	216,986	(147,362)	1,947,861
Loss for the year and total comprehensive loss for the year	11	–	–	–	(55,209)	(55,209)
Conversion of convertible bonds	29(a), 32	715,053	–	(216,986)	–	498,067
At 31 December 2010 and 1 January 2011		2,532,431	60,859	–	(202,571)	2,390,719
Profit for the year and total comprehensive profit for the year	11	–	–	–	7,410	7,410
Issue of new shares upon completion of the Open Offer	29(b)	3,157,024	–	–	–	3,157,024
Issue of new shares for acquisition of the non-controlling interest in a subsidiary	29(c)	120,079	–	–	–	120,079
At 31 December 2011		5,809,534	60,859	–	(195,161)	5,675,232

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 distributions to its members out of contributed surplus subject to the Company's bye-laws and provided that 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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31. BANK AND OTHER BORROWINGS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans:				
Secured	**2,386,829**	2,316,606	**–**	–
Unsecured	**3,853,423**	6,015,701	**3,791,694**	5,956,876
	6,240,252	8,332,307	**3,791,694**	5,956,876
Other loans, unsecured	**194,262**	195,335	**–**	–
Total bank and other borrowings	**6,434,514**	8,527,642	**3,791,694**	5,956,876
Analysed into:				
Bank loans repayable:				
Within one year	**1,004,505**	5,252,147	**389,477**	4,386,298
In the second year	**1,511,376**	686,918	**1,191,385**	385,099
In the third to fifth years, inclusive	**3,085,495**	1,853,834	**2,210,832**	1,185,479
Beyond five years	**638,876**	539,408	**–**	–
	6,240,252	8,332,307	**3,791,694**	5,956,876
Other loans repayable:				
Within one year	**65,104**	44,053	**–**	–
In the second year	**17,606**	16,957	**–**	–
In the third to fifth years, inclusive	**48,868**	53,787	**–**	–
Beyond five years	**62,684**	80,538	**–**	–
	194,262	195,335	**–**	–
Total bank and other borrowings	**6,434,514**	8,527,642	**3,791,694**	5,956,876
Portion classified as current liabilities	**(1,069,609)**	(5,296,200)	**(389,477)**	(4,386,298)
Non-current portion	**5,364,905**	3,231,442	**3,402,217**	1,570,578

31. 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	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**3,645,718**	3,637,532	**3,645,718**	3,637,532
RMB	**2,572,030**	2,498,207	**–**	–
US$	**216,766**	2,391,903	**145,976**	2,319,344
	6,434,514	8,527,642	**3,791,694**	5,956,876

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

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising operating concessions and receivables under service concession arrangements) which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors *(note 16)*;

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

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

(iv) pledges over certain of the Group's bank balances of HK$1,741,000 (2010: HK$431,436,000) in aggregate *(note 28(a)(iii))*.

(c) Except for two interest-free government loans of HK$13,580,000 (2010: except for an interest-free government loan of HK$7,059,000 and a government loan of HK$14,118,000 which bears interest at a fixed rate of 2.96% per annum), all the Group's bank and other borrowings bear interest at floating rates.

(d) Loan agreements of certain unsecured bank loans of the Company in an aggregate carrying amount of HK$3,447,049,000 (2010: HK$5,219,170,000) as at 31 December 2011 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 State-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.

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32. CONVERTIBLE BONDS

The Company had two batches of convertible bonds outstanding during the year ended 31 December 2010, the summary information of which is set out as follows:

Group and Company

	ZKC Convertible Bonds 1*	ZKC Convertible Bonds 2*
Issuance date	24/7/2008	6/4/2010
Maturity date	23/7/2013	23/7/2013
Original principal amount *(HK$'000)*	589,304	238,696
Coupon rate	Zero	Zero
Conversion price per ordinary share *(HK$)*	0.69	0.69

* *As defined in the Company's circular dated 30 June 2008.*

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 2.4 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 2011 and 2010:

Group and Company

	ZKC Convertible Bonds 1 *HK$'000*	ZKC Convertible Bonds 2 *HK$'000*	Total *HK$'000*
Principal amount outstanding			
At 1 January 2010	555,059	193,287	748,346
Conversion to ordinary shares	(555,059)	(193,287)	(748,346)
At 31 December 2010, 1 January 2011 and 31 December 2011	–	–	–

32. CONVERTIBLE BONDS *(Continued)*

Group and Company *(Continued)*

	ZKC Convertible Bonds 1 *HK$'000*	ZKC Convertible Bonds 2 *HK$'000*	Total *HK$'000*
Liability component			
At 1 January 2010	424,468	158,269	582,737
Imputed interest expense *(note 7)*	17,958	5,829	23,787
Transfer to share capital and share premium account upon conversion to ordinary shares *(notes 29(a) and 30(b))*	(442,426)	(164,098)	(606,524)
At 31 December 2010, 1 January 2011 and 31 December 2011	–	–	–
Equity component (included in convertible bond equity reserve)			
At 1 January 2010	174,288	42,698	216,986
Transfer to share capital and share premium account upon conversion to ordinary shares *(notes 29(a) and 30(b))*	(174,288)	(42,698)	(216,986)
At 31 December 2010, 1 January 2011 and 31 December 2011	–	–	–

Note: ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 were issued to three third parties 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. Further details of the ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 are set out in the Company's circular dated 30 June 2008.

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33. CORPORATE BONDS

	Group and Company	
	2011	2010
	HK$'000	*HK$'000*
Unsecured corporate bonds, repayable in the third to fifth years, inclusive	**2,325,633**	–

During the year, the following batches of corporate bonds were issued by the Company:

(a) Pursuant to the subscription agreement dated 24 June 2011, corporate bonds with an aggregate principal amount of RMB1,450,000,000 (the "Bonds") were issued to certain institutional investors on 30 June 2011, of which (1) RMB1,000,000,000 is due on 30 June 2014 bearing interest at the rate of 3.75% per annum, and (2) RMB450,000,000 is due on 30 June 2016 bearing interest at the rate of 5% per annum; and

(b) Pursuant to the subscription agreement dated 30 September 2011, corporate bonds with an aggregate principal amount of RMB500,000,000 (the "Further Bonds") were issued to certain institutional investors on 11 October 2011, of which (1) RMB450,000,000 is due on 30 June 2014 bearing interest at the rate of 3.75% per annum, and (2) RMB50,000,000 is due on 30 June 2016 bearing interest at the rate of 5% per annum.

The Bonds and the Further Bonds are unsecured and would be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the Bonds and Further Bonds include covenants imposing specific performance obligations on BEHL, among which are the following events which would constitute an event of default:

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

(ii) if BEHL does not or ceases to, directly or indirectly, supervise the Company or be the single largest shareholder of the Company;

(iii) if the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors; and/or

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

33. CORPORATE BONDS *(Continued)*

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.

Further details of the Bonds and the Further Bonds are set out in the Company's announcements dated 28 June 2011 and 7 October 2011.

34. 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 five years. The finance lease payable was fully settled by the Group during the year.

At 31 December 2011, the total future minimum lease payments under the finance lease and their present values were as follows:

Group	**Minimum lease payments 2011** *HK$'000*	Minimum lease payments 2010 *HK$'000*	**Present value of minimum lease payments 2011** *HK$'000*	Present value of minimum lease payments 2010 *HK$'000*
Amounts payable within one year and total minimum finance lease payments	–	5,153	–	4,913
Future finance charges	–	(240)		
Total net finance lease payable wholly classified as a current liability	–	4,913		

35. 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 reclaimed water treatment and water distribution 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 reclaimed water treatment and water distribution 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 the provision for major overhauls of sewage and reclaimed water treatment and water distribution plants during the year are as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**123,374**	91,792
Additional provision *(note 6)*	**33,207**	24,895
Increase in discounted amounts arising from the passage of time *(note 7)*	**3,711**	2,725
Exchange realignment	**7,004**	3,962
At 31 December	**167,296**	123,374

36. DEFERRED INCOME

Deferred income of the Group represented subsidies received from fresh water customers in respect of the Group's 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 asset.

37. DEFERRED TAX

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

	Group 2011 HK$'000	2010 HK$'000
Deferred tax assets	**28,874**	31,806
Deferred tax liabilities	**(205,179)**	(138,688)
	(176,305)	(106,882)

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

Group

	Notes	Attributable to: Fair value adjustments arising from acquisition of subsidiaries HK$'000	Impairment provision HK$'000	Provision for major overhauls HK$'000	Temporary differences related to service concession arrangements HK$'000	Losses available for offsetting against future taxable profits HK$'000	Net deferred tax assets/ (liabilities) HK$'000
At 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	10	(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 and 1 January 2011		49,442	2,826	30,771	(193,551)	3,630	(106,882)
Acquisition of subsidiaries	41	(27,487)	–	–	–	–	(27,487)
Net deferred tax credited/(charged) to the income statement during the year	10	(1,247)	–	9,229	(42,140)	–	(34,158)
Exchange realignment		1,070	139	1,550	(10,599)	62	(7,778)
At 31 December 2011		21,778	2,965	41,550	(246,290)	3,692	(176,305)

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37. DEFERRED TAX *(Continued)*

Notes:

(a) At 31 December 2011, deferred tax assets have not been recognised in respect of unused tax losses of HK$35,820,000 (2010: HK$122,909,000) as they have 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$35,117,000 (2010: HK$122,206,000) 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 the 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$745,251,000 at 31 December 2011 (2010: HK$383,985,000).

38. 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**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 3 months	**196,621**	966,598	**–**	–
4 to 6 months	**8,744**	811,344	**–**	–
7 months to 1 year	**31,203**	586,585	**–**	–
1 to 2 years	**1,666,311**	268,447	**–**	12,022
2 to 3 years	**142,164**	4,500	**2,416**	–
Over 3 years	**4,193**	176	**–**	–
	2,049,236	2,637,650	**2,416**	12,022

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

39. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2011	2010	**2011**	2010
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accruals		**118,952**	98,087	**20,632**	12,718
Other liabilities	*(a)*	**3,257,359**	405,126	**–**	–
Other taxes payables	*40*	**33,817**	31,003	**161**	–
Due to jointly-controlled entities	*19(d)*	**160,721**	1,873	**–**	1,269
Due to related parties	*27*	**115,406**	56,255	**–**	–
		3,686,255	592,344	**20,793**	13,987
Portion classified as current liabilities		**(3,406,346)**	(569,700)	**(20,793)**	(13,987)
Non-current portion		**279,909**	22,644	**–**	–

Notes:

(a) The Group's other liabilities as at 31 December 2011 included, inter alia, the following:

(i) outstanding considerations in the amount of RMB31,664,000 (equivalent to HK$39,091,000) (2010: RMB41,159,000 (equivalent to HK$48,422,000)), payable to the Mianyang Government for the transfer and construction of sewage treatment facilities under a BOT arrangement. The outstanding considerations are repayable in an annual instalment of RMB15,000,000 and the last instalment of RMB14,839,000 being due for repayment in 2012;

(ii) performance bonds of RMB60,578,000 (equivalent to HK$74,788,000) (2010: RMB106,272,000 (equivalent to HK$125,026,000)) in aggregate received from various subcontractors of the construction services for comprehensive renovation projects 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 in 2012;

(iii) outstanding considerations in an aggregate amount of RMB345,179,000 (equivalent to HK$426,147,000) (2010: RMB60,900,000 (equivalent to HK$71,647,000)) payable to various governmental authorities in Mainland China for the transfers of sewage treatment facilities to the Group under TOT arrangements;

39. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

(iv) refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects of RMB1,115,470,000 (equivalent to HK$1,377,124,000), as detailed in note 26(b) to the financial statements; and

(v) an other payable and a receipt in advance of RMB150,000,000 (equivalent to HK$185,185,000) and RMB359,697,000 (equivalent to HK$444,070,000) respectively in respect of the land held for sale as detailed in note 22 to the financial statements.

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

40. OTHER TAXES PAYABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Business tax	**18,048**	20,386	**–**	–
Value-added tax	**6,487**	5,780	**–**	–
Others	**9,282**	4,837	**161**	–
	33,817	31,003	**161**	–

41. BUSINESS COMBINATIONS

Except for the receivables under service concession arrangements with an aggregate carrying amount of HK$403,623,000 immediately before the acquisitions, the fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition have no significant differences from their then respective carrying amounts. In respect of the prior year, 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.

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

	Notes	2011 HK$'000 (note (a))	2010 HK$'000 (note (b))
Net assets acquired:			
Property, plant and equipment	*13*	**368**	6,453
Receivables under service concession arrangements		**523,220**	–
Inventories		**253**	–
Amounts due from contract customers		**–**	879,574
Trade and bills receivables		**–**	463
Prepayments, deposits and other receivables		**49,391**	1,067,585
Pledged deposit		**–**	4
Cash and cash equivalents		**5,037**	1,384
Trade payables		**(7,353)**	(95,237)
Other payables and accruals		**(337,629)**	(623,629)
Income tax payables		**(206)**	(483)
Bank and other borrowings		**(12,346)**	(1,207,393)
Deferred tax liabilities	*37*	**(27,487)**	–
Non-controlling interests		**–**	(24,989)
		193,248	3,732
Goodwill on acquisition	*15*	**57,007**	–
Gain on bargain purchase	*5*	**–**	(2,824)
		250,255	908

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31 December 2011

41. BUSINESS COMBINATIONS *(Continued)*

	2011 HK$'000 (note (a))	2010 HK$'000 (note (b))
Satisfied by:		
Cash	**250,255**	–
Capital contribution to the acquiree in the form of cash	**–**	908
	250,255	908
Profit/(loss) for the year since acquisition	**1,298**	(4,850)*

* *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:

	2011 HK$'000 (note (a))	2010 HK$'000 (note (b))
Cash consideration	**(250,255)**	–
Cash injected by the Group as capital contribution	**–**	(908)
Cash and cash equivalents acquired	**5,037**	1,384
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	**(245,218)**	476

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$720,146,000 (2010: HK$570,322,000) and the Group's revenue (comprising turnover, interest income and other income and gains, net) would have been HK$2,751,570,000 (2010: HK$7,365,656,000).

41. BUSINESS COMBINATIONS *(Continued)*

Notes:

(a) Business combinations during the year ended 31 December 2011 included, inter alia, the following transactions:

(i) In April 2011, the Group acquired the entire equity interest in 徐州創源污水處理有限公司 ("Xuzhou Chuangyuan") for a cash consideration of RMB30,980,000 (equivalent to HK$38,247,000). Xuzhou Chuangyuan is principally engaged in the provision of sewage treatment services in Jiangsu Province, the PRC.

(ii) In October 2011, the Group acquired the entire equity interest in 上海亞同環保工程有限公司 and its subsidiaries (the "Shanghai Yatong Group") for a cash consideration of RMB113,890,000 (equivalent to HK$140,605,000). The Shanghai Yatong Group is principally engaged in the provision of sewage treatment services in Jiangsu, Xinjiang, Fujian and Anhui Provinces, the PRC.

(iii) In October 2011, the Group acquired the entire equity interest in 亞同環保(安慶)有限公司 ("Yatong Anqing") for a cash consideration of RMB26,800,000 (equivalent to HK$33,086,000). Yatong Anqing is principally engaged in the provision of sewage treatment services in Anhui Province, the PRC.

(iv) In October 2011, the Group acquired the entire equity interest in 江蘇匯同水處理發展有限公司 ("Huitong Water") for a cash consideration of RMB31,037,000 (equivalent to HK$38,317,000). Huitong Water is principally engaged in the provision of sewage treatment services in Jiangsu Province, the PRC.

(b) 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 provision of construction services for comprehensive renovation projects in Yunnan Province, the PRC.

42. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Pursuant to a series of offsetting agreements entered into between the Group, the former controlling shareholder of CICI and various third parties 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 ended 31 December 2010.

Save as disclosed above and the transactions detailed in notes 29 and 32 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2011 and 2010.

NOTES TO FINANCIAL STATEMENTS

31 December 2011

43. CONTINGENT LIABILITIES

During the year, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK$120,403,000) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and effects until 27 January 2019. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011.

Save as disclosed above, at 31 December 2011, the Group did not have any significant contingent liabilities (2010: Nil).

At 31 December 2011, corporate guarantees of RMB330,000,000 (equivalent to HK$407,407,000) (2010: RMB445,000,000 (equivalent to HK$523,529,000)) were given by the Company to banks in connection with bank loans of an even total amount granted to certain subsidiaries of the Company.

44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain portion of buildings under operating lease arrangements, with the leases negotiated for ranging from 3 to 10.5 years (2010: 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 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**4,907**	245
In the second to fifth years, inclusive	**18,787**	1,137
After five years	**20,976**	–
	44,670	1,382

At 31 December 2011, the Company did not have any operating lease arrangements as lessor (2010: Nil).

44. OPERATING LEASE ARRANGEMENTS *(Continued)*

(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 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within one year	**6,413**	3,734
In the second to fifth years, inclusive	**12,108**	9,862
After five years	**74,738**	73,835
	93,259	87,431

At 31 December 2011, the Company did not have any operating lease commitments as lessee (2010: Nil).

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45. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 44(b) above, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2011	2010
	HK$'000	*HK$'000*
New service concession arrangements on a TOT basis:		
Authorised, but not contracted for	**230,827**	415,294
Contracted, but not provided for	**396,699**	439,529
	627,526	854,823
New service concession arrangements on a BOT basis:		
Authorised, but not contracted for	**339,440**	227,219
Contracted, but not provided for	**2,369,592**	185,457
	2,709,032	412,676
Capital contribution to jointly-controlled entities:		
Contracted, but not provided for	**235,706**	427,576
Acquisition of subsidiaries:		
Contracted, but not provided for	**145,679**	–
Total capital commitments	**3,717,943**	1,695,075

45. CAPITAL COMMITMENTS *(Continued)*

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

	Group	
	2011	2010
	HK$'000	*HK$'000*
Authorised, but not contracted for	**707,596**	–
Contracted, but not provided for	**502,969**	–
	1,210,565	–

At 31 December 2011, the Company had a capital commitment of HK$46,692,000 (2010: HK$149,260,000) in respect of its capital contributions to subsidiaries, which is contracted but not provided for.

46. RELATED PARTY DISCLOSURES

(a) 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 given the Company an undertaking that during a period of 18 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. A refundable earnest money of HK$900,000 was paid by the Company to BEHL in December 2010. Further details of the exclusivity agreement are set out in the Company's circular dated 26 January 2011.

In addition, during the year, the Group provided technical services to ACSD and a service fee of RMB25,866,000 (equivalent to HK$31,164,000) was charged at a rate mutually agreed between the Group and ACSD.

Save as disclosed above and the transactions and balances detailed in notes 19, 25, 26, 27, 29, 31, 32, 39 and 42 to the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2011 and 2010.

46. RELATED PARTY DISCLOSURES *(Continued)*

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group had transactions with the 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 services and such pricing policies are not carried out on non-market terms and do not depend on whether or not the customers are the 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

	2011	2010
	HK$'000	*HK$'000*
Short term employee benefits	**8,270**	13,394
Pension scheme contributions	**36**	36
Total compensation paid to key management personnel	**8,306**	13,430

Further details of directors' emoluments are included in note 8 to the financial statements.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, corporate 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 and bills 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, liquidity risk and fair value 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 interest 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 and other borrowings, corporate bonds, and cash and bank balances are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk *(Continued)*

The following table sets 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 HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
31 December 2011								
Floating rate:								
Restricted cash and pledged deposits	**88,664**	**–**	**–**	**–**	**–**	**–**	**88,664**	**0.50**
Cash and cash equivalents	**1,580,368**	**–**	**–**	**–**	**–**	**–**	**1,580,368**	**0.47**
Bank and other borrowings	**1,056,029**	**1,528,982**	**328,501**	**291,986**	**2,513,876**	**701,560**	**6,420,934**	**3.88**
Fixed rate:								
Restricted cash and pledged deposits	**3,703**	**–**	**–**	**–**	**–**	**–**	**3,703**	**1.49**
Cash and cash equivalents	**457,947**	**–**	**–**	**–**	**–**	**–**	**457,947**	**1.67**
Corporate bonds	**–**	**–**	**1,729,586**	**–**	**596,047**	**–**	**2,325,633**	**4.07**
31 December 2010								
Floating rate:								
Restricted cash and pledged deposits	588,978	–	–	–	–	–	588,978	0.36
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:								
Restricted cash and pledged deposits	3,529	–	–	–	–	–	3,529	1.36
Cash and cash equivalents	150,494	–	–	–	–	–	150,494	1.36
Bank and other borrowings	–	–	–	–	–	14,118	14,118	2.96

At 31 December 2011, it is estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, 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 2011 by approximately HK$51,333,000 (2010, increase/decrease the Group's profit before tax by approximately HK$35,615,000).

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective 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 end of the next reporting period.

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 2011		
If Hong Kong dollar weakens against RMB by 5%	**47,201**	**369,577**
If Hong Kong dollar strengthens against RMB by 5%	**(47,201)**	**(369,577)**
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)

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.

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 main credit risk exposure to the Group arises from default or delinquency in principal payment of trade and bills receivables, receivables under service concession arrangements and amounts due from contract customers. In respect of trade and bills 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 and bills receivable balances, receivables under service concession arrangements and amounts due from contract customers are monitored on an ongoing basis, in the opinion of the directors, the credit risk is not significant.

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

In light of 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 and the capital commitments of the Group of HK$4,928,508,000 (comprising the Group's capital commitments and the Group's share of the jointly-controlled entities' own capital commitments) in aggregate as at 31 December 2011 as detailed in note 45 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and corporate bonds, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2012. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2.1 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period based on the contractual undiscounted payments, is 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 2011								
Bank borrowings	**–**	**1,221,512**	**1,684,090**	**450,111**	**401,583**	**2,578,897**	**661,012**	**6,997,205**
Other borrowings	**6,173**	**65,290**	**22,766**	**25,847**	**17,737**	**17,910**	**64,549**	**220,272**
Corporate bonds	**–**	**94,662**	**94,662**	**1,791,818**	**29,802**	**610,948**	**-**	**2,621,892**
Trade payables	**–**	**2,049,236**	**–**	**–**	**–**	**–**	**–**	**2,049,236**
Other liabilities	**–**	**2,977,450**	**255,756**	**24,153**	**-**	**-**	**-**	**3,257,359**
Due to related parties	**115,406**	**–**	**–**	**–**	**–**	**–**	**–**	**115,406**
	121,579	**6,408,150**	**2,057,274**	**2,291,929**	**449,122**	**3,207,755**	**725,561**	**15,261,370**
31 December 2010								
Bank borrowings	1,827,710	3,596,545	792,230	1,496,174	274,635	252,270	556,184	8,795,748
Other borrowings	–	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

NOTES TO FINANCIAL STATEMENTS

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47. 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**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets:				
Non-current receivables under service concession arrangements	**5,003,117**	2,736,583	**5,003,117**	2,736,583
Non-current trade and bills receivables	**261,850**	120,905	**261,850**	120,905
Non-current deposits and other receivables	**1,542,014**	1,408,510	**1,542,014**	1,391,355
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	**5,364,905**	3,217,324	**5,364,905**	3,217,324
Fixed rate borrowings	**–**	14,118	**–**	8,927
Corporate bonds	**2,325,633**	–	**2,325,633**	–

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 the fair value of which cannot be reasonably assessed and therefore no disclosure of the fair value of this financial instrument is made.

47. 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 corporate bonds (as shown in the statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011	2010
	HK$'000	*HK$'000*
Net debt	**6,798,799**	6,558,755
Total equity	**9,710,881**	5,067,954
Gearing ratio	**70%**	129%

48. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the 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 2011 and 2010 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

NOTES TO FINANCIAL STATEMENTS

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49. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 26a(iii) in relation to the completion of the acquisition of a 40% equity interest in Luoyang Water in January 2012, the following significant events occurred subsequent to the reporting period:

(i) On 1 March 2012, the Company entered into a term loan facility agreement (the "Facility Agreement") with a bank in the PRC for a 3-year term loan facility (the "Term Loan Facility") in the amount of RMB950,000,000 (equivalent to HK$1,170,970,000) commencing from 27 March 2012. Pursuant to the Facility Agreement, it shall be an event of default (unless remedied by the Company or waived by the bank) if BEHL does not or ceases to own, directly or indirectly, at least 35% of the issued share capital of the Company;

(ii) On 23 March 2012, as approved by the shareholders of the Company at a special general meeting held on 22 March 2012, the then total amount of the Company's share premium account of HK$5,809,534,000 was reduced to nil, with the credit arising therefrom being applied towards the then entire amount of the accumulated losses of the Company and the remaining balance being credited to the contributed surplus account of the Company. Further details of the aforesaid reduction in the share premium account of the Company are set out in the Company's circular dated 24 February 2012; and

(iii) On 29 March 2012, the directors of the Company recommended distributions of HK3 cents per ordinary share in cash for an estimated total amount of HK$207,275,000 to shareholders of the Company on the register of members of the Company on 18 June 2012. The proposed distributions are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

50. COMPARATIVE AMOUNTS

As further explained in note 4 to the financial statements, due to the reorganisation of the business operations of the jointly-controlled entities into reportable operating segments, the respective comparative amounts in note 4 to the financial statements have been reclassified and restated to conform to the current year's presentation.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2012.

FIVE YEAR FINANCIAL SUMMARY

31 December 2011

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 2010, is set out below:

RESULTS

	Year ended 30 June 2007 HK$'000	Period from 1 July 2007 to 31 December 2008 HK$'000 (Note)	Year ended 31 December 2009 HK$'000	Year ended 31 December 2010 HK$'000	Year ended 31 December **2011** ***HK$'000***
Revenue	19,899	337,681	1,730,013	6,348,060	**2,654,454**
Operating profit/(loss)	(2,620)	55,947	272,818	694,291	**840,049**
Share of profits and losses of:					
Jointly-controlled entities	–	–	–	824	**20,798**
An associate	–	(811)	4,565	–	**–**
Profit/(loss) before tax	(2,620)	55,136	277,383	695,115	**860,847**
Income tax	53	(12,234)	(48,637)	(130,950)	**(169,861)**
Profit/(loss) for the year/period	(2,567)	42,902	228,746	564,165	**690,986**
ATTRIBUTABLE TO:					
Shareholders of the Company	(2,567)	30,984	192,711	512,512	**600,736**
Non-controlling interests	–	11,918	36,035	51,653	**90,250**
	(2,567)	42,902	228,746	564,165	**690,986**

FIVE YEAR FINANCIAL SUMMARY

31 December 2011

ASSETS, LIABILITIES AND TOTAL EQUITY

	30 June	**31 December**			
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	32,115	4,816,158	7,423,717	17,224,829	**24,749,742**
Total liabilities	(679)	(2,818,201)	(4,411,901)	(12,156,875)	**(15,038,861)**
NET ASSETS	31,436	1,997,957	3,011,816	5,067,954	**9,710,881**
Equity attributable to shareholders of the Company	31,436	1,758,301	2,622,905	3,892,860	**8,081,989**
Non-controlling interests	–	239,656	388,911	1,175,094	**1,628,892**
TOTAL EQUITY	31,436	1,997,957	3,011,816	5,067,954	**9,710,881**

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, a then 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

ANNUAL REPORT 2011

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STOCK CODE : 371