

Interim  
Report  
中期報告  
2012

**BEIJING ENTERPRISES  
WATER GROUP LIMITED**

STOCK CODE : 371




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





# CONTENTS

<u>02</u>	/	Corporate Information
<u>03</u>	/	Group Structure
<u>04</u>	/	Chairman's Statement
<u>08</u>	/	Management Discussion And Analysis
<u>21</u>	/	Condensed Consolidated Income Statement
<u>22</u>	/	Condensed Consolidated Statement Of Comprehensive Income
<u>23</u>	/	Condensed Consolidated Statement Of Financial Position
<u>25</u>	/	Condensed Consolidated Statement Of Changes In Equity
<u>27</u>	/	Condensed Consolidated Statement Of Cash Flows
<u>28</u>	/	Notes To Condensed Consolidated Financial Statements
<u>44</u>	/	Discloseable Information
<u>50</u>	/	Corporate Governance



# 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](http://www.bewg.com.hk)

## REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

66th Floor  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2796 9963  
Fax: (852) 2796 9972

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITORS

Ernst & Young

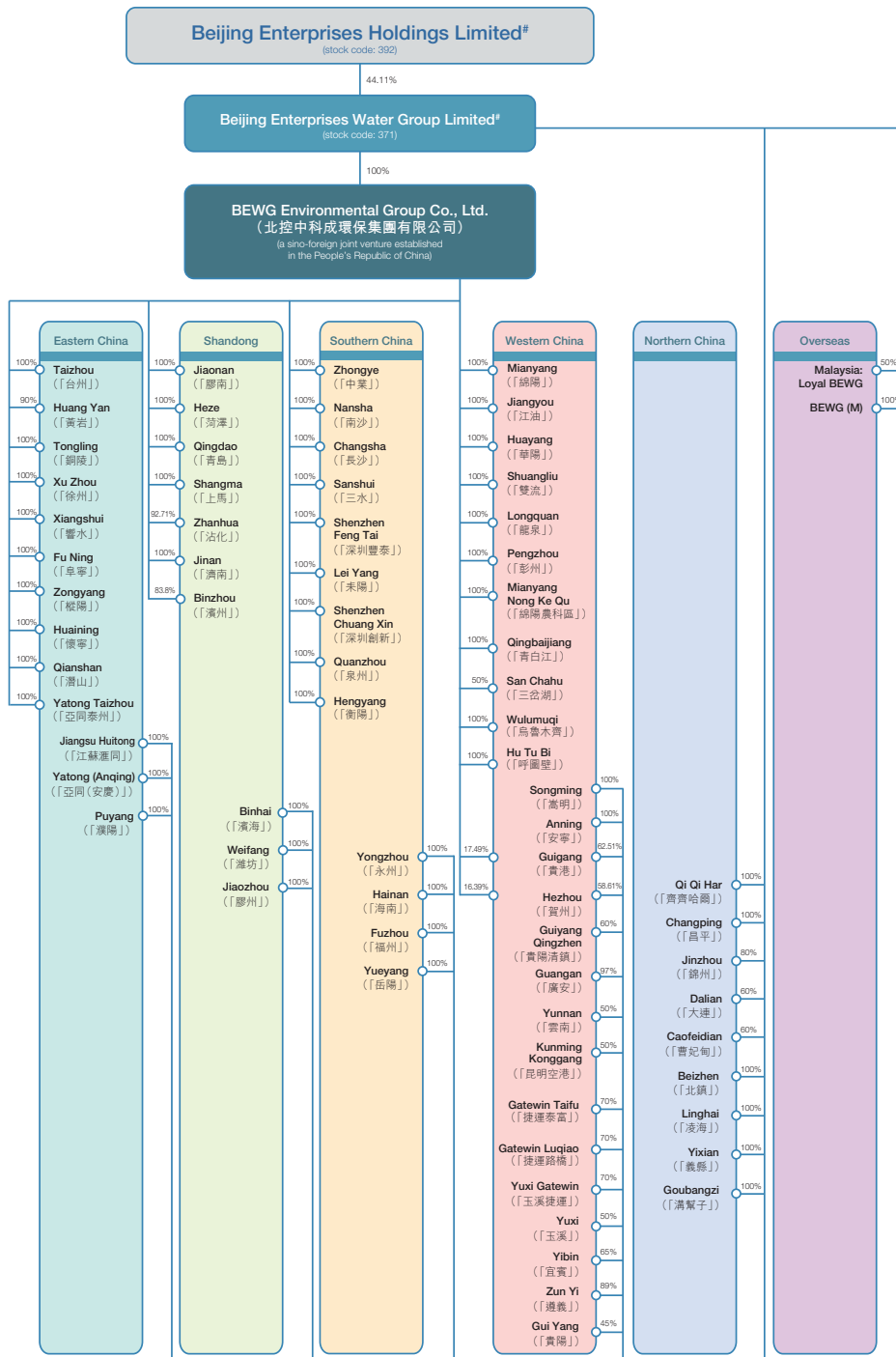
## PRINCIPAL BANKERS

In Hong Kong:  
Agricultural Bank of China Ltd., Hong Kong Branch  
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  
Bank of Communications  
The Industrial and Commercial Bank of China  
China Construction Bank

# GROUP STRUCTURE

30 June 2012



<sup>#</sup> Listed on the Main Board of The Stock Exchange of Hong Kong Limited



# CHAIRMAN'S STATEMENT

**Dear Shareholders,**

In the first half of 2012, with the continuous downturn in global economy, the growth for China's economy is increasingly slowing down, while the industry is now speeding up for its development as a result of market competition intensifying. Under these backgrounds, Beijing Enterprises Water Group Limited (the "Company" and its subsidiaries, collectively referred to as the "Group" or "BEWG") according to the "12th Five-Year" development plan and the tasks that are deployed at the beginning of the year as well as our annual operation target, adhered to our development concept of "adjustment and consolidation, attach equal importance to volume and capacity expansion as well as its efficiency and quality to achieve synchronise progress in benefits and scale" in order to further deepen our system and mechanism reform, optimise economic structure, perfect our business layout, thereby facilitating our works comprehensively and orderly in all respects and sustaining growth in enterprise operation as well as laying a solid foundation for achieving the annual targets and sustainable development of the Group.

## **BUSINESS REVIEW**

For the six months ended 30 June 2012, the Group recorded a revenue of HK\$1,401.5 million, representing a significant increase of 56% over the corresponding period of previous year, achieved profit attributable to shareholders of the Company of HK\$386.6 million, representing an increase of 25% over the corresponding period of previous year. Basic earnings per share for the period was HK5.6 cents. The board (the "Board") of directors (the "Director(s)") of the Company resolved to pay distributions of HK2 cents per share to shareholders reciprocating their continuous support to the Company.

In the first half year, relying on its stringent control on its project investments, BEWG actively adjusted its competitive strategies in response to its relative risks and earnings assurance. The Group continues not only to develop extensively into the regions markets, but also explore peripheral markets of its existing projects. We devise and implement key development plans for significant water projects in emerging regions, vigorously conduct the investigation, research and verification on developing projects so as to optimise the structure of project transactions. We further expand our water business by means of equity capital operation, including the mergers and acquisitions, coupled with the traditional market development models comprising the BOT and TOT tendering projects. The total daily design capacity was increased by 980,000 tons. The Group successfully obtained the Bayannur Water Project. This represents the Company not only to secure the highland water resources in Yellow River basin project, but also enhance our business presence in this region.

On the other hand, the Group continues to develop prudently the comprehensive water environmental renovation business. We gradually explore and formulate our traditional water business stepping into the target markets, and then strategically consolidating local social resources so as to introduce advantageously the comprehensive water environmental renovation project into the target markets, therefore at the same time this profit model would nurture and further consolidate our water business development, thereby maximising our investment income. Furthermore, the Group continues to move towards international markets actively and steadily especially the seawater desalination strategic projects. The Group will dig out and enhance the emerging new industry markets such as the sludge treatment sector and endeavour to optimise and upgrade the Company's structure level in the industry, thereby forming new profit growth points.

# CHAIRMAN'S STATEMENT

## MANAGEMENT CONTROL

To meet the Group's strategic development needs, we use our endeavour to advance the transformation of management system and operation mechanism and introduce the departmental system organisation model comprehensively and establish a performance-oriented operation and management system as well as an assessment and incentive mechanism. At the beginning of the year, we set up the water supply division, drainage division, business development division, overseas division and seawater desalination division in order to fully promote the market development and management operation in their respective businesses. At the same time, the Group also sets up three working groups in respect of market valuation, management control and business operation in which they are fully responsible for leading and promoting our market value management, system control management and business operation development.

To cater for the adjustment to the Group's management control system, further perfect the system and its ancillary workflow construction works and boost the synergy effect of the Group's value chain, we therefore further strengthened the control in respect of the functional management of our headquarters. As such, the Group enhanced to regulate its business operation and perfect its management system on controlled companies under its division. The Group further enhanced to take comprehensive precaution and control system against risk, especially in the preliminary investigation, research and verification of significant investment projects, project profitability model and design of the transaction structure, process monitoring and post-evaluation, and had completed the post-evaluation works for the 2012 investment projects on schedule and further strengthened its supervision in the finance, audit and its effectiveness in order to create a sound internal environment for its stable growth in operating results.

## DEVELOPMENT STRATEGY

In the second half year, with effective risks control, we will actively adjust our investment strategies in order to further increase the integration capability in business, resources and talents. We will grasp opportunities, tap in depth into business potentials, cultivate our market, steadily carry out our investments in projects, accelerate the fostering of the core competitiveness, speed up the momentum in mergers, acquisitions and integration, and thus facilitate the sustainable and healthy development of our core businesses.

Our main strategy is to achieve the overall acquisition of large-scale sewage and water projects as well as other small and medium-sized water investment companies and other packing projects. We will also participate in single sewage and water projects, and strive for a breakthrough in key projects. The Group continues to develop and explore prudently in water environmental treatment business under due control in a steady pace. By securing our contracted projects, we focus on their implementation and facilitating their construction progress as well as their payback period. We continue to fulfill its internationalisation strategy steadily and put forward the seawater desalination business orderly by establishing a practical and feasible business model to achieve a substantive progress by end of the year.

At the same time, in light of further strengthening the management of project companies after our investment, we enhance our resources allocation to a professional level, co-ordinate and organise the development of different business activities in order to ensure projects are in an "earlier commencement of construction, earlier commencement of operation and earlier payback" mode.

# CHAIRMAN'S STATEMENT

## FUTURE OUTLOOK

From the perspective of macro financial environment, firstly, the combination of the uncertainties in the outlook of global economic recovery and international financial market turmoil as well as spreading out of European debt crisis, major developed countries are in the weak economic growth, together with the accelerated slowing down in growth and inflationary pressure of emerging economies. These have affected the overseas development and cost competitiveness of PRC enterprises. These also have fuelled up the uncertainties of our international business development, therefore, we have to enhance risk control especially. Secondly, the PRC government continues to implement a proactive fiscal policy and loosening monetary policy in which it focuses on supporting the infrastructural construction particularly in water conservancy in the underdeveloped regions, those weak sectors such as science and technology innovation, energy savings and environmental protection. It maintains the support on approved projects under construction and those projects that are in progress. It also maintains the social financing scale at a reasonable growth with deposit reserve rates entering into a declining trend and deposit and loan interest rates starting to decline, and the overall financing environment has tended to be loosened. However, the continued downturn of capital market has resulted increasing difficulties in direct financing. The pressure remains high in capital management enhancement, safeguard of capital provision, prevention and control of capital chain risk.

From the perspective of industry environment, on one hand, driven by the intensive national industry policies, the water environmental protection industry will enter into a new round of strategic development opportunity phase. Due to the increase of water tariff, it is expected that the overall income in the industry tends to be moving upward, and investment opportunities will be fully triggered in the entire water industry chain. On the other hand, we are facing severe challenges of increasing industry competition. Firstly, large-scale water enterprises have accelerated their regional layout business expansion along with in-depth industrialisation, the quantity for quality projects in the market are rapidly declining as a result of more intense competition. Secondly, with the continuous influx of new market participants, the competition for market share is becoming fiercer as a result of a profit margin squeeze. Thirdly, competition tends to incline to rely more and more on model innovation under the entire industry chain competition concept with merger and acquisition activities intensifying. It is increasingly popular that a combined model of traditional water business and comprehensive water environmental treatment business will replace a single business model in the market. As such, we need to adjust our market competition strategy in time to further increase the integration capability in business, resources and talents. At the same time, the escalation of water quality standard, industry supervision enhancement and rising trend of operational costs have also exerted pressure on our operation and management of projects.

Based on the above, the Group still envisages more opportunities than challenges in the second half year.

In the second half year, the Group will adhere firmly the implementation of its established strategy, entwine round our core business strategy of “maintaining targets and keeping on growth”, pay close attention to the macro-control policy trend, carefully look into the characteristics of market changes, bring into full play the shareholder advantages, integrate actively all the resources with reasonable deployment, enhance the advantages and avoid the disadvantages and co-ordinate and stabilise the broad and in-depth development of the Group's business.



# CHAIRMAN'S STATEMENT

The Group will continue to implement firmly the objectives of “based on core business, facilitating the industry chain, ensuring sustainable business volume and its expansion development, co-ordinating the development of the two sectors and two markets, namely traditional water business and water environmental renovation, and the local and international markets”. We adjust the investment strategies actively and optimise our competitive strategy. We continue not only to expand our core business but also widen the service scale and service sectors of the Group’s water treatment business rapidly and steadily by consolidation of the vested advantages.

Under the Group’s strategic business framework, we will continue to develop the comprehensive water environment renovation business actively and prudently, continue to move towards international markets actively and steadily and continue to promote the seawater desalination business proactively and orderly and moderately increase the marketing momentum in new businesses, explore more actively the opportunities for high value-added market segments of industries such as sludge treatment and industrial waste water treatment, and endeavour to facilitate the optimisation and upgrading of the Group’s industry chain structure.

The Group will increase the investments in technological research and development, strengthen technical innovations, promote the strategic co-operation in industry–university–research, and accelerate the fostering of technical core competitiveness, thereby underpinning technical upgrades and industry chain extension. At the same time, the Group will enhance its energy into the operational management and engineering construction management by means of strengthening the synergy of value chain, improving the comprehensive budget management, strengthening the fulfilment of target responsibilities, and marketing the refined management, thereby further improve the profitability of investment projects.

While strengthening the management on financing and capital, the Group will progressively broaden the financing channels, lower capital cost, and strengthen the cash flow management to maximise the value of capital utilisation. The Group will strengthen the study on market values and increase the capability of the Group’s value creation. In addition, the Group will strengthen the establishment of the ancillary management control system, enhance comprehensive risk prevention and control, and reinforce and monitor on finance, audit and effective supervision so as to create an internal environment for sustainable development.

In light of the continuous implementation of talent thriving enterprises strategy, the Group will establish a professional team, further perfect the corporate culture of “the Government assured upon the public’s satisfaction as well as corporation gains profit, employee receives benefits together with our parties in win-win situation” and earnestly perform the social responsibilities as a corporate citizen, by capitalising on the continuous growth in results and provide excellent service in order to maximise the returns for all the stakeholders of the Group.

**Zhang Honghai**

*Chairman*

30 August 2012

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group maintained a steady growth in the first half of year 2012. Profit for the period attributable to shareholders of the Company increased by 25% to HK\$386.6 million. Revenue increased by 56% to HK\$1,401.5 million as a result of increase in revenue contribution from sewage and reclaimed water treatment services and construction services for the water environmental renovation.

## 1. FINANCIAL HIGHLIGHTS

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>Water treatment services</b>					
Sewage and reclaimed water treatment services					
– Subsidiaries	624.2	44%	64%	312.3	50%
– Jointly-controlled entities	–	–	–	23.2	4%
	624.2	44%	64%	335.5	54%
Water supply services					
– Subsidiaries	53.5	4%	43%	10.9	2%
– Jointly-controlled entities	–	–	–	(2.1)	(1%)
	53.5	4%	43%	8.8	1%
Subtotal	677.7	48%		344.3	55%
<b>Construction services for the water environmental renovation</b>					
Construction services for comprehensive renovation projects					
– Project with completion rate under 10%	14.3	1%	–	–	–
– Project with completion rate more than 10% <sup>§</sup>	282.3	20%	14%	72.2	12%
– Interest income	–	–	–	55.4	9%
	296.6	21%	14%	127.6	21%
Construction of water plants <sup>△</sup>	240.1	17%	10%	14.1	3%
Subtotal	536.7	38%		141.7	24%
<b>Technical services for the water environmental renovation</b>	187.1	14%	86%	128.6	21%
<b>Business results</b>	1,401.5	100%		614.6	100%
<b>Others<sup>#</sup></b>				(228.0)	
<b>Total</b>				386.6	

<sup>#</sup> Others included head office and other corporate expenses, net, of HK\$0.9 million and finance costs of HK\$227.1 million.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK\$12.6 million.

<sup>△</sup> Profit attributable to shareholders of the Company included share of losses of jointly-controlled entities of HK\$4.0 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio		Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%	(Restated)
<b>Water treatment services</b>						
Sewage and reclaimed water treatment services						
– Subsidiaries	420.7	47%	63%	179.0	41%	
– Jointly-controlled entities	–	–	–	10.7	2%	
	420.7	47%	63%	189.7	43%	
Water supply services						
– Subsidiaries	35.7	4%	42%	9.6	2%	
Subtotal	456.4	51%		199.3	45%	
<b>Construction services for the water environmental renovation</b>						
Construction services for comprehensive renovation projects						
– Project with completion rate more than 10% <sup>§</sup>	112.9	13%	11%	12.9	3%	
– Interest income	–	–	–	80.0	19%	
	112.9	13%	11%	92.9	22%	
Construction of water plants <sup>△</sup>	166.4	18%	10%	11.0	3%	
Subtotal	279.3	31%		103.9	25%	
Technical services for the water environmental renovation	164.8	18%	94%	127.4	30%	
<b>Business results</b>	900.5	100%		430.6	100%	
<b>Others<sup>#</sup></b>				(120.9)		
<b>Total</b>				309.7		

<sup>#</sup> Others included head office and other corporate income, net, of HK\$3.7 million and finance costs of HK\$124.6 million.

<sup>△</sup> Profit attributable to shareholders of the Company included share of profits of a jointly-controlled entity of HK\$1.4 million.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK\$10.4 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

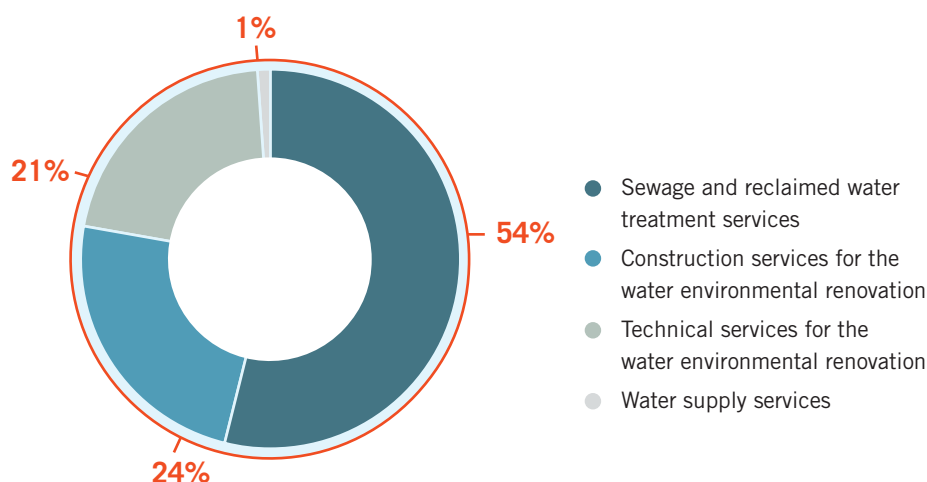
The comparison of the Group's financial results for the six months ended 30 June 2012 and 2011 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June		Increase/(Decrease)		For the six months ended 30 June		Increase/(Decrease)	
	2012 HK\$'M	2011 HK\$'M	HK\$'M	%	2012 HK\$'M	2011 HK\$'M	HK\$'M	%
						(Restated)		
<b>Water treatment services</b>								
Sewage and reclaimed water treatment services								
– Subsidiaries	624.2	420.7	203.5	48%	312.3	179.0	133.3	74%
– Jointly-controlled entities	–	–	–	–	23.2	10.7	12.5	117%
	624.2	420.7	203.5	48%	335.5	189.7	145.8	77%
Water supply services								
– Subsidiaries	53.5	35.7	17.8	50%	10.9	9.6	1.3	14%
– Jointly-controlled entities	–	–	–	–	(2.1)	–	(2.1)	(100%)
	53.5	35.7	17.8	50%	8.8	9.6	(0.8)	(8%)
Subtotal	677.7	456.4	221.3	48%	344.3	199.3	145.0	73%
<b>Construction services for the water environmental renovation</b>								
Construction services for comprehensive renovation projects								
– Project with completion rate under 10%	14.3	–	14.3	100%	–	–	–	–
– Project with completion rate more than 10%	282.3	112.9	169.4	150%	72.2	12.9	59.3	460%
– Interest income	–	–	–	–	55.4	80.0	(24.6)	(31%)
	296.6	112.9	183.7	163%	127.6	92.9	34.7	37%
Construction of water plants	240.1	166.4	73.7	44%	14.1	11.0	3.1	28%
Subtotal	536.7	279.3	257.4	92%	141.7	103.9	37.8	36%
Technical services for the water environmental renovation	187.1	164.8	22.3	14%	128.6	127.4	1.2	1%
<b>Business results</b>	1,401.5	900.5	501	56%	614.6	430.6	184.0	43%
<b>Others</b>					(228.0)	(120.9)	(107.1)	89%
<b>Total</b>					386.6	309.7	76.9	25%

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

Profit attributable to shareholders of the Company  
(Six months ended 30 June 2012)



## 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 19 provinces all across Mainland China.

### 2.1 Water treatment services

As at 30 June 2012, the Group participates in 144 water plants either in operation or going to operate in the future including 111 sewage treatment plants, 28 water supply plants, 4 reclaimed water treatment plants and 1 seawater desalination plant. The total daily design capacity was increased by 980,000 tons to 9,708,950 tons, representing an increase of 11% as compared with last year. The increment of 980,000 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 240,000 tons, Transfer-Operate-Transfer ("TOT") projects of 135,000 tons, entrustment operation projects of 25,000 tons and acquired project of 580,000 tons.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.1 Water treatment services *(Continued)*

Analysis of projects on hand is as follows:

<i>(Tons/Day)</i>	<b>Sewage treatment</b>	<b>Water supply</b>	<b>Reclaimed water</b>	<b>Seawater desalination</b>	<b>Total</b>
In operation	4,277,250	1,975,000	387,000	–	6,639,250
Not yet start operation	2,005,500	994,200	20,000	50,000	3,069,700
<b>Total</b>	<b>6,282,750</b>	<b>2,969,200</b>	<b>407,000</b>	<b>50,000</b>	<b>9,708,950</b>

*(Number of water plants)*

In operation	72	14	4	–	90
Not yet start operation	39	14	–	1	54
<b>Total</b>	<b>111</b>	<b>28</b>	<b>4</b>	<b>1</b>	<b>144</b>

	<b>Number of plants</b>	<b>Design capacity <i>(Tons/Day)</i></b>	<b>Actual processing capacity during the period <i>(Tons (M))</i></b>	<b>Revenue <i>HK\$'(M)</i></b>	<b>Profit attributable to shareholders of the Company <i>HK\$'(M)</i></b>
Sewage and reclaimed water treatment services:					
– Southern	24	1,790,000	223.8	251.6	134.6
– Western	23	1,391,500	212.3	124.2	79.5
– Shandong	8	417,000	63.3	63.9	21.0
– Eastern	14	580,750	51.5	104.5	57.6
– Northern	7	485,000	51.7	80.0	42.8
	76	4,664,250	602.6	624.2	335.5
Water supply services	14	1,975,000	148.0	53.5	8.8
<b>Total</b>	<b>90</b>	<b>6,639,250</b>	<b>750.6</b>	<b>677.7</b>	<b>344.3</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.1 Water treatment services *(Continued)*

#### 2.1.1 Sewage and reclaimed water treatment services

As at 30 June 2012, the daily design capacity of sewage and reclaimed water treatment in operation reached to 4,277,250 tons (31 December 2011: 3,773,750 tons) and 387,000 tons (31 December 2011: 182,000 tons) respectively. The average daily processing volume is 3,337,573 tons and average daily treatment rate is 72%. The actual average contracted tariff charge of water treatment was approximately HK\$1.15 per ton. The actual aggregate processing volume for the period was 602.6 million tons, of which 501.6 million tons was contributed by subsidiaries and 101.0 million tons was contributed by jointly-controlled entities. Revenue was HK\$624.2 million for the period (44% of the Group's total revenue). Profit attributable to shareholders of the Company was HK\$335.5 million, of which HK\$312.3 million was contributed by subsidiaries and HK\$23.2 million was contributed by jointly-controlled entities. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

#### Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. As at 30 June 2012, there were 24 sewage treatment plants in operation with total daily design capacity of 1,790,000 tons, representing an increase of 334,000 tons per day or 23% as compared with last year. The actual aggregate processing volume for the period amounted to 223.8 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$251.6 million and HK\$134.6 million respectively during the period.

#### Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2012, there were 23 sewage treatment plants in operation with total daily design capacity of 1,391,500 tons, representing an increase of 110,000 tons per day or 8.6% as compared with last year. The actual processing volume for the period was 212.3 million tons. The operating revenue of HK\$124.2 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$79.5 million.

#### Shandong

There were 8 plants under operation in Shandong region. The total daily design capacity of Shandong region is 417,000 tons, which is same as last year. The actual processing volume for the period was 63.3 million tons contributing operating revenue of HK\$63.9 million during the period. Profit attributable to shareholders of the Company was HK\$21.0 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.1 Water treatment services *(Continued)*

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

##### Eastern China

There were 14 water plants under operation in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 30 June 2012, the total daily design capacity of Eastern China had increased by 234,500 tons to 580,750 tons or 67.7% as compared with last year. The actual processing volume for the period amounted to 51.5 million tons and operating revenue was HK\$104.5 million during the period. Profit attributable to shareholders of the Company was HK\$57.6 million.

##### Northern China

Currently, the Group has 7 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily design capacity of Northern China had increased by 30,000 tons to 485,000 tons as compared with last year. The projects had achieved actual processing volume of 51.7 million tons for the period. The operating revenue was HK\$80.0 million during the period. Profit attributable to shareholders of the Company was HK\$42.8 million.

#### 2.1.2 Water supply services

As at 30 June 2012, the Group had 14 water supply plants in operation. Total daily design capacity of these projects was 1,975,000 tons per day, representing an increase of 850,000 tons per day or 75.6% as compare with last year. The plants were located in Guizhou Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water supply is approximately HK\$2.3 per ton. The aggregate actual processing volume is 148.0 million tons, of which 27.6 million tons was contributed by subsidiaries and 120.4 million tons was contributed by jointly controlled entities. Water supply services recorded revenue of HK\$53.5 million (4% of the Group's total revenue) and profit attributable to shareholders of the Company of HK\$8.8 million, of which HK\$10.9 million was contributed by subsidiaries and a loss of HK\$2.1 million in aggregate was incurred by jointly-controlled entities.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.2 Construction services for the water environmental renovation

#### 2.2.1 Construction services for comprehensive renovation projects

The Group had three comprehensive renovation projects under construction during the period. The projects located in Dalian Dengshahe, Dalian Yingkou and Malaysia Pantai. Last period, the Group had three comprehensive renovation projects under construction which located in Guizhou Huaxi, Dalian Changxingdao and Kunming. Revenue from comprehensive renovation projects increased by HK\$183.7 million from last period of HK\$112.9 million to HK\$296.6 million this period. Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK\$34.7 million from last period of HK\$92.9 million to HK\$127.6 million this period. The increase was mainly due to the commencement of construction work for new projects during this period. During the last period, construction work for projects were almost completed and only contributed profit attributable to shareholders of HK\$12.9 million. This period, construction work for the new projects were commenced and generated profit attributable to shareholders of HK\$72.2 million. The effect was partly offset by the decrease in interest income of HK\$24.6 million. According to the contracts, the Group can charge an interest on the trade receivables from the customer with reference to certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to time of the receipt of the trade receivables. Large portion of trade receivables was received since the completion of construction work for Kunming projects and Dalian Changxingdao project in last year. Trade receivables for these projects were substantially decreased as compared with last period. As such, there was a decrease in interest income for this period.

Trade and bills receivables of HK\$974.1 million (equivalent to RMB789.0 million) for construction of comprehensive renovation projects in Kunming were received during the period. As at 30 June 2012, the accumulated receipts from Kunming projects was HK\$2,772.6 million (equivalent to RMB2,273.5 million). As at 30 June 2012, the trade and bills receivables for these projects were HK\$2,098.6 million (equivalent to RMB1,720.8 million).

As at 30 June 2012, the accumulated receipts from Dalian Changxingdao projects was HK\$1,082.2 million (equivalent to RMB887.4 million). As at 30 June 2012, the trade and bills receivables for these projects were HK\$220.2 million (equivalent to RMB180.6 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

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

During the period, 21 water plants were under construction. These water plants were mainly located in Jiangsu, Sichuan, Shandong, Yunnan, Heilongjiang and Hunan provinces. Total revenue contribution for construction of water plants was HK\$240.1 million and profit attributable to shareholders of the Company was HK\$14.1 million. As at 30 June 2012, the total daily design capacity of these water plants in the construction stage was 2,029,700 tons, most of these projects are expected to commence operation in next year.

### 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\$187.1 million, representing 14% of the Group's total revenue. The profit attributable to shareholders of the Company was HK\$128.6 million. Increase in contribution from provision of technical services was mainly due to the increase in contribution from the provision of technical services for the comprehensive renovation projects. There are 20 projects (Six months ended 30 June 2011: 15 projects) for this period, four (Six months ended 30 June 2011: two projects) of which relates to the comprehensive renovation projects. The revenue and profit attributable to shareholders of the Company for the provision of technical services for the comprehensive renovation projects were HK\$85.5 million (Six months ended 30 June 2011: HK\$76.9 million) and HK\$65.7 million (Six months ended 30 June 2011: HK\$59.4 million), respectively.

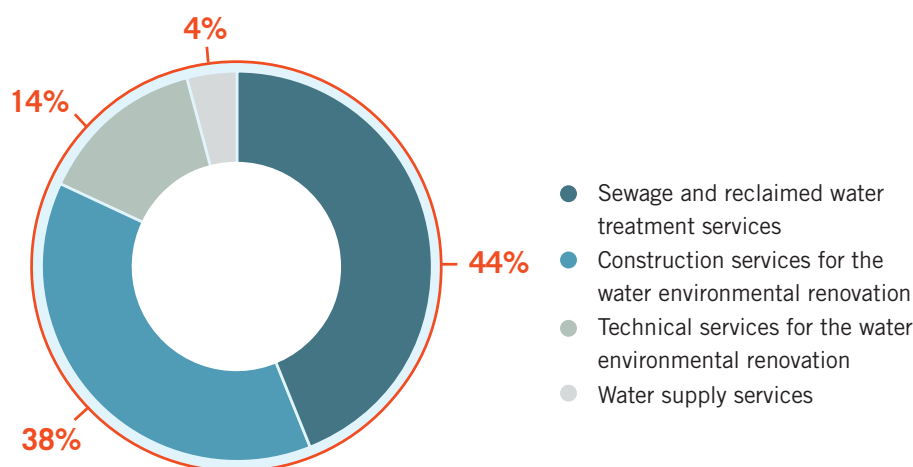
# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS

### 3.1 Revenue

During the period, the Group recorded revenue of HK\$1,401.5 million (compared to last period of HK\$900.5 million). The increase was mainly due to the increase in revenue from sewage and reclaimed water treatment services and construction of comprehensive renovation projects. The related construction revenue increased by HK\$183.7 million and the revenue from sewage and reclaimed water treatment services increased by HK\$203.5 million for the period.

**Revenue**  
(Six months ended 30 June 2012)



### 3.2 Cost of sales

Cost of sales for the period amounted to HK\$755.5 million which mainly included construction cost of HK\$471.0 million and operating cost of water plants of HK\$258.0 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK\$114.0 million, staff cost of HK\$36.6 million and major overhaul charge of HK\$23.5 million. Major overhaul charge was the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangement. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to income statement based on amortisation method during the service concession periods.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.3 Gross profit margin

During the period, gross profit margin decreased from 52% to 46%. The decrease was mainly due to the change in mix of revenue during the period. The revenue contribution from construction services for comprehensive renovation projects and construction of water plants increased from last period of 31% to 38% this period. The gross margin of construction services for the water environmental renovation is 12% for the period, which is comparatively lower than the average of other business sectors of 67% and therefore the gross margin of the Group decreased.

### 3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$15.7 million during the period, compared to last period of HK\$53.3 million. Last period, there was a gain on bargain purchase of HK\$42.2 million from 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\*). There was no such gain this period.

### 3.5 Administrative expenses

Administrative expenses for the period were HK\$148.8 million, compared to last period at HK\$149.6 million. The decrease was mainly due to the decrease in research and development fee of HK\$5.9 million and consultancy fee of HK\$11.1 million. The effect was partly offset by the increase in staff cost of HK\$10.4 million and depreciation of HK\$4.9 million.

### 3.6 Finance costs

Finance costs were mainly represented by interest on bank and other borrowings of HK\$172.6 million (Six months ended 30 June 2011: HK\$122.6 million) and interest on corporate bonds of HK\$51.9 million (Six months ended 30 June 2011: Nil). The increase in finance cost was mainly due to the issuance of RMB corporate bonds on 30 June 2011 and 11 October 2011. Also, there was an increase in interest rate as compared with last period.

### 3.7 Income tax

Income tax expense for the period included the current PRC income tax of HK\$57.7 million and Malaysia income tax credit of HK\$0.2 million. The effective tax rate for the PRC operation was about 15% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the period was HK\$11.8 million.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.8 Receivables

The Group's total receivables of HK\$10,783.9 million (31 December 2011: HK\$10,881.8 million) include amounts due from contract customers of HK\$2,137.5 million (31 December 2011: HK\$1,687.2 million) (non-current: HK\$2,029.5 million, current: HK\$108.0 million), receivables under service concession arrangements of HK\$5,497.8 million (31 December 2011: HK\$5,256.2 million) (non-current: HK\$5,131.8 million, current: HK\$366.0 million) and trade and bills receivables of HK\$3,148.6 million (31 December 2011: HK\$3,938.4 million) (non-current: HK\$258.8 million, current: HK\$2,889.8 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\$6,990.5 million (31 December 2011: HK\$6,464.7 million). Total receivables for the construction service of comprehensive renovation projects were HK\$3,324.7 million (31 December 2011: HK\$4,167.9 million). Total receivables for consultancy services and other businesses were HK\$468.7 million (31 December 2011: 249.2 million).

### 3.9 Liquidity and financial resources

As at 30 June 2012, the Group's cash and cash equivalents amounted to HK\$1,853.7 million (31 December 2011: HK\$1,947.8 million). The Group's total borrowings amounted to HK\$10,042.8 million (31 December 2011: HK\$8,760.1 million).

The Group's total borrowings comprise bank and other borrowings of HK\$7,678.8 million (31 December 2011: HK\$6,434.5 million) and corporate bonds of HK\$2,364.0 million (31 December 2011: HK\$2,325.6 million). The gearing ratio as defined as sum of bank and other borrowings and corporate bonds, net of cash and cash equivalents, divided by the total equity was 0.84 as at 30 June 2012 (31 December 2011: 0.7). The increase in the gearing ratio as at 30 June 2012 was mainly due to the increase in bank and other borrowings.

As at 30 June 2012, the Group had banking facilities amounting to HK\$4.96 billion, of which HK\$0.48 billion were unused. The banking facilities are of 1-5 years term.

### 3.10 Capital expenditures

During the period, the Group's total capital expenditures were HK\$356.0 million (Six months ended 30 June 2011: HK\$1,178.6 million), of which HK\$15.0 million was paid for the acquisition of property, plant and equipment and intangible assets, HK\$290.4 million was spent on construction and acquisition of water plants and HK\$50.6 million was the consideration for acquisition of equity interest in subsidiaries and a jointly-controlled entity. The decrease was mainly due to the decrease in capital expenditure on the acquisition of equity interest in subsidiaries and jointly-controlled entities.

# MANAGEMENT DISCUSSION AND ANALYSIS

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2012, the Group employed 2,635 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

## **SIGNIFICANT INVESTMENTS AND ACQUISITIONS**

The Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the period ended 30 June 2012.

## **CHARGES ON THE GROUP'S ASSETS**

The secured bank loans of the Group as at 30 June 2012 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.

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		For the six months ended 30 June	
		2012	2011
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
REVENUE	3	1,401,506	900,458
Cost of sales		(755,490)	(435,483)
Gross profit		646,016	464,975
Interest income		179,055	150,433
Other income and gains, net		15,659	53,344
Administrative expenses		(148,762)	(149,550)
Other operating expenses, net		(28,321)	(16,667)
PROFIT FROM OPERATING ACTIVITIES	4	663,647	502,535
Finance costs	5	(227,065)	(124,589)
Share of profits and losses of jointly-controlled entities		29,695	22,484
PROFIT BEFORE TAX		466,277	400,430
Income tax	6	(69,274)	(66,282)
PROFIT FOR THE PERIOD		397,003	334,148
ATTRIBUTABLE TO:			
Shareholders of the Company		386,593	309,670
Non-controlling interests		10,410	24,478
		397,003	334,148
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic and diluted		HK5.60 cents	HK4.73 cents

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	397,003	334,148
OTHER COMPREHENSIVE INCOME/(LOSS)		
– Exchange differences on translation of foreign operations	(148,452)	211,007
– Share of other comprehensive loss of a jointly-controlled entity	(3,776)	–
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX OF NIL	(152,228)	211,007
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	244,775	545,155
ATTRIBUTABLE TO:		
Shareholders of the Company	262,517	458,019
Non-controlling interests	(17,742)	87,136
	244,775	545,155



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

		<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
	<i>Notes</i>		
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment		<b>237,457</b>	233,276
Goodwill		<b>1,675,672</b>	1,643,719
Operating concessions		<b>734,426</b>	763,381
Other intangible assets		<b>6,312</b>	6,455
Investments in jointly-controlled entities		<b>2,536,883</b>	1,973,493
Investment in an associate		<b>36,587</b>	37,038
Available-for-sale investments		<b>2,928</b>	2,964
Amounts due from contract customers		<b>2,029,474</b>	1,599,285
Receivables under service concession arrangements	<i>9</i>	<b>5,131,842</b>	5,003,117
Trade and bills receivables	<i>10</i>	<b>258,772</b>	261,850
Prepayments, deposits and other receivables	<i>11</i>	<b>1,338,300</b>	1,542,014
Deferred tax assets		<b>29,373</b>	28,874
<b>Total non-current assets</b>		<b>14,018,026</b>	13,095,466
Current assets:			
Land held for sale		<b>987,435</b>	999,626
Inventories		<b>22,193</b>	13,422
Amounts due from contract customers		<b>108,074</b>	87,865
Receivables under service concession arrangements	<i>9</i>	<b>365,950</b>	253,105
Trade and bills receivables	<i>10</i>	<b>2,889,759</b>	3,676,549
Prepayments, deposits and other receivables	<i>11</i>	<b>6,311,374</b>	4,583,574
Restricted cash and pledged deposits		<b>45,606</b>	92,367
Cash and cash equivalents		<b>1,853,655</b>	1,947,768
<b>Total current assets</b>		<b>12,584,046</b>	11,654,276
<b>TOTAL ASSETS</b>		<b>26,602,072</b>	24,749,742

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

30 June 2012

	<i>Notes</i>	<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the Company</b>			
Issued capital	<i>12</i>	<b>690,917</b>	690,917
Reserves		<b>7,446,314</b>	7,391,072
		<b>8,137,231</b>	8,081,989
<b>Non-controlling interests</b>		<b>1,623,864</b>	1,628,892
<b>TOTAL EQUITY</b>		<b>9,761,095</b>	9,710,881
<b>Non-current liabilities:</b>			
Other payables and accruals	<i>14</i>	<b>240,715</b>	279,909
Bank and other borrowings		<b>6,022,815</b>	5,364,905
Corporate bonds		<b>2,364,061</b>	2,325,633
Provision for major overhauls		<b>190,964</b>	167,296
Deferred income		<b>24,856</b>	25,163
Deferred tax liabilities		<b>214,939</b>	205,179
<b>Total non-current liabilities</b>		<b>9,058,350</b>	8,368,085
<b>Current liabilities:</b>			
Trade payables	<i>13</i>	<b>1,990,903</b>	2,049,236
Other payables and accruals	<i>14</i>	<b>3,985,387</b>	3,406,346
Income tax payables		<b>150,379</b>	145,585
Bank and other borrowings		<b>1,655,958</b>	1,069,609
<b>Total current liabilities</b>		<b>7,782,627</b>	6,670,776
<b>TOTAL LIABILITIES</b>		<b>16,840,977</b>	15,038,861
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>26,602,072</b>	24,749,742

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to shareholders of the Company											Total equity
	Issued capital (Unaudited) HK\$'000	Share		Capital reserve (Unaudited) HK\$'000	Defined benefit plan reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Distributions declared (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	
		premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000									
At 1 January 2012	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
Profit for the period	-	-	-	-	-	-	-	386,593	-	386,593	10,410	397,003
Other comprehensive loss for the period:												
- Exchange differences on translation of foreign operations	-	-	-	-	-	(120,300)	-	-	-	(120,300)	(28,152)	(148,452)
- Share of other comprehensive loss of a jointly-controlled entity	-	-	-	-	(3,776)	-	-	-	-	(3,776)	-	(3,776)
Total comprehensive income/(loss) for the period	-	-	-	-	(3,776)	(120,300)	-	386,593	-	262,517	(17,742)	244,775
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	31,233	31,233
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	(18,519)	(18,519)
Final 2011 distributions	-	-	(207,275)	-	-	-	-	-	-	(207,275)	-	(207,275)
Interim 2012 distributions declared	-	-	(138,183)	-	-	-	-	-	138,183	-	-	-
Transfer between reserves	-	(5,809,534)	5,570,203	-	-	-	3,711	235,620	-	-	-	-
At 30 June 2012	690,917	-*	5,224,345*	(256,351)*	(11,146)*	367,147*	195,585*	1,788,551*	138,183*	8,137,231	1,623,864	9,761,095

\* These reserve accounts comprise the consolidated reserves of HK\$7,446,314,000 (unaudited) (31 December 2011: HK\$7,391,072,000) in the condensed consolidated statement of financial position as at 30 June 2012.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2012

	Attributable to shareholders of the Company									
	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Issued capital	Share premium account	Contributed surplus	Capital reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits			
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2011	456,676	2,532,431	(400)	7,448	139,229	101,366	656,110	3,892,860	1,175,094	5,067,954
Profit for the period	-	-	-	-	-	-	309,670	309,670	24,478	334,148
Other comprehensive income for the period:										
– Exchange differences on translation of foreign operations	-	-	-	-	148,349	-	-	148,349	62,658	211,007
Total comprehensive income for the period	-	-	-	-	148,349	-	309,670	458,019	87,136	545,155
Issue of new shares upon completion of an open offer	228,338	3,157,024	-	-	-	-	-	3,385,362	-	3,385,362
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	447,148	447,148
Acquisition of non-controlling interests	-	-	-	(38,066)	-	-	-	(38,066)	(56,502)	(94,568)
Dividend paid to non-controlling equity holders	-	-	-	-	-	-	-	-	(3,810)	(3,810)
Transfer to reserves	-	-	-	-	-	2,155	(2,155)	-	-	-
At 30 June 2011	685,014	5,689,455	(400)	(30,618)	287,578	103,521	963,625	7,698,175	1,649,066	9,347,241

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash flows used in operating activities	(259,986)	(407,207)
Net cash flows used in investing activities	(812,164)	(1,022,962)
Net cash flows from financing activities	943,453	3,383,436
Net increase/(decrease) in cash and cash equivalents	(128,697)	1,953,267
Cash and cash equivalents at beginning of period	1,947,768	1,961,828
Effect of foreign exchange rate changes, net	(38,713)	46,558
Cash and cash equivalents at end of period	1,780,358	3,961,653
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,704,013	1,722,299
Time deposits	195,248	2,346,491
Less: Restricted cash and pledged deposits	(45,606)	(107,137)
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	1,853,655	3,961,653
Less: Time deposits with maturity of more than three months when acquired	(73,297)	–
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	1,780,358	3,961,653

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2012, the Group was 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

## 1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The accounting policies and basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2011 except for the changes in accounting policies made thereafter in adopting the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which became effective for the first time for the current period's financial statements, as further detailed in note 1.3 below.

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 1.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current interim period:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements.

## 2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the period attributable to shareholders of the Company, which is a measure of adjusted profit for the period attributable to shareholders of the Company. The adjusted profit for the period attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on loans to jointly-controlled entities and related companies, interest income from non-controlling equity holders of a non-wholly owned subsidiary, gain on bargain purchase of a jointly-controlled entity, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

During the six months ended 30 June 2012, 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 is allocated to the relevant reportable operating segments. The corresponding comparative amounts of the segment information have been revised to reflect the above change and to conform to the current period's presentation.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2012

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000	Water supply services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	1,160,933	53,539	187,034	1,401,506
Cost of sales	(698,781)	(30,257)	(26,452)	(755,490)
Gross profit	462,152	23,282	160,582	646,016
Segment results				
– The Group	495,627	11,823	153,539	660,989
– Share of profits and losses of jointly-controlled entities	31,810	(2,115)	–	29,695
	527,437	9,708	153,539	690,684
Corporate and other unallocated income and expenses, net				2,658
Finance costs				(227,065)
Profit before tax				466,277
Income tax				(69,274)
Profit for the period				397,003
Profit/(loss) for the period attributable to shareholders of the Company:				
– Operating segments	477,278	8,777	128,552	614,607
– Corporate and other unallocated items				(228,014)
				386,593



# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2011

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i> (Restated)	Water supply services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i> (Restated)
Segment revenue	700,030	35,669	164,759	900,458
Cost of sales	(404,793)	(20,804)	(9,886)	(435,483)
Gross profit	295,237	14,865	154,873	464,975
Segment results				
– The Group	353,620	6,851	149,254	509,725
– Share of profits and losses of jointly-controlled entities	22,484	–	–	22,484
	376,104	6,851	149,254	532,209
Corporate and other unallocated income and expenses, net				(7,190)
Finance costs				(124,589)
Profit before tax				400,430
Income tax				(66,282)
Profit for the period				334,148
Profit/(loss) for the period attributable to shareholders of the Company:				
– Operating segments	293,494	9,621	127,440	430,555
– Corporate and other unallocated items				(120,885)
				309,670

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 2. OPERATING SEGMENT INFORMATION *(Continued)*

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

30 June 2012

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water supply services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment assets	20,813,252	1,842,986	813,148	23,469,386
Corporate and other unallocated items				3,132,686
Total assets				26,602,072

31 December 2011

	Sewage and reclaimed water treatment and construction services (Audited) <i>HK\$'000</i>	Water supply services (Audited) <i>HK\$'000</i>	Technical and consultancy services (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets	20,008,637	1,172,910	776,161	21,957,708
Corporate and other unallocated items				2,792,034
Total assets				24,749,742

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 2. OPERATING SEGMENT INFORMATION *(Continued)*

### Geographical information

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

### Information about major customers

During the six months ended 30 June 2012 and 2011, none of the Group's individual customers contributed 10% or more of the Group's revenue.

## 3. REVENUE

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts and service contracts relating to sewage and reclaimed water treatment, net of business tax and government surcharges; (2) an appropriate proportion of contract revenue of other construction contracts, net of business tax and government surcharges; (3) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax, business tax and government surcharges; (4) an appropriate proportion of contract revenue of consultancy services contracts, net of business tax and government surcharges; (5) the value of licence fees, net of business tax and government surcharges; and (6) the imputed interest income on service concession arrangements.

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sewage and reclaimed water treatment services*	624,245	420,750
Construction services*	536,688	279,280
Sale of water	53,539	35,669
Consultancy services	143,848	138,854
Licence fees	43,186	25,905
	<b>1,401,506</b>	<b>900,458</b>

\* Imputed interest income under service concession arrangements amounting to HK\$205,195,000 (Six months ended 30 June 2011: HK\$120,210,000) are included in the revenue derived from "Sewage and reclaimed water treatment services" and "Construction services" above.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Cost of sewage and reclaimed water treatment services rendered	215,587	140,840
Cost of construction services	471,023	250,477
Cost of water sold	21,272	13,304
Cost of consultancy services rendered	25,703	9,276
Cost of licensing	749	610
Depreciation	10,420	4,956
Amortisation of operating concessions*	21,156	20,976
Amortisation of other intangible assets*	524	602

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

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest on bank loans and other loans wholly repayable within five years	177,274	125,283
Interest on other loans	1,744	1,708
Interest on corporate bonds	51,943	–
Interest on a finance lease	–	121
Total interest expenses	230,961	127,112
Increase in discounted amounts of provision for major overhauls arising from the passage of time	2,502	1,833
Total finance costs	233,463	128,945
Less: Interest included in cost of construction contracts	(6,398)	(4,356)
	227,065	124,589

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 6. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2012 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2011: Nil).

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong	–	–
Current – Mainland China		
Charge for the period	<b>66,028</b>	64,892
Overprovision in prior periods	<b>(8,332)</b>	(2,716)
Current – Malaysia		
Charge for the period	<b>843</b>	–
Overprovision in prior periods	<b>(1,056)</b>	–
Deferred	<b>11,791</b>	4,106
Total tax expense for the period	<b>69,274</b>	66,282

## 7. INTERIM DISTRIBUTIONS

On 30 August 2012, the Board declared interim cash distributions of HK2.0 cents per share (Six months ended 30 June 2011: Nil) totalling approximately HK\$138,183,000 (Six months ended 30 June 2011: Nil).

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the six months ended 30 June 2012 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 6,909,170,486 ordinary shares in issue during the period. The calculation of basic earnings per share amount presented for the six months ended 30 June 2011 was based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 6,548,727,678 ordinary shares in issue during the period, as adjusted to reflect the issuance of 2,283,378,231 new ordinary shares of the Company at an offer price of HK\$1.485 per ordinary share under an open offer of the Company completed on 15 March 2011.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2012 and 2011.

## 9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

	<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
Billed:		
Within 3 months	<b>232,951</b>	159,900
4 to 6 months	<b>35,722</b>	23,509
7 to 12 months	<b>55,609</b>	22,330
Over 1 year	<b>41,668</b>	47,366
	<b>365,950</b>	253,105
Unbilled	<b>5,131,842</b>	5,003,117
	<b>5,497,792</b>	5,256,222
Portion classified as current assets	<b>(365,950)</b>	(253,105)
Non-current portion	<b>5,131,842</b>	5,003,117

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 10. TRADE AND BILLS RECEIVABLES

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 5.85% to 6.65%, trade and bills receivables are non-interest-bearing.

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

	<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
Billed:		
Within 3 months	<b>303,975</b>	234,442
4 to 6 months	<b>18,759</b>	42,522
7 to 12 months	<b>146,351</b>	11,220
Over 1 year	<b>157,073</b>	146,671
Balance with extended credit period	<b>177,824</b>	181,111
	<b>803,982</b>	615,966
Unbilled*	<b>2,344,549</b>	3,322,433
	<b>3,148,531</b>	3,938,399
Portion classified as current assets	<b>(2,889,759)</b>	(3,676,549)
	<b>258,772</b>	261,850

\* The unbilled balance was attributable to certain construction services rendered under 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.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Prepayments	27,900	24,415
Deposits and other debtors	2,569,286	2,035,215
Advances to suppliers	2,742,695	2,213,520
Due from jointly-controlled entities	664,850	470,480
Due from related parties	1,648,641	1,387,489
	<b>7,653,372</b>	<b>6,131,119</b>
Impairment	(3,698)	(5,531)
	<b>7,649,674</b>	<b>6,125,588</b>
Portion classified as current assets	<b>(6,311,374)</b>	<b>(4,583,574)</b>
Non-current portion	<b>1,338,300</b>	<b>1,542,014</b>

## 12. SHARE CAPITAL

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
<i>Authorised:</i>		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
<i>Issued and fully paid:</i>		
6,909,170,486 ordinary shares of HK\$0.10 each	690,917	690,917



# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 13. TRADE PAYABLES

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

	30 June 2012 (Unaudited) <i>HK\$'000</i>	31 December 2011 (Audited) <i>HK\$'000</i>
Within 3 months	366,852	196,621
4 to 6 months	30,733	8,744
7 months to 1 year	109,551	31,203
1 to 2 years	1,365,441	1,666,311
2 to 3 years	114,185	142,164
Over 3 years	4,141	4,193
	<b>1,990,903</b>	<b>2,049,236</b>

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

## 14. OTHER PAYABLES AND ACCRUALS

	30 June 2012 (Unaudited) <i>HK\$'000</i>	31 December 2011 (Audited) <i>HK\$'000</i>
Accruals	70,737	118,952
Other liabilities	3,518,954	3,257,359
Other taxes payables	15,501	33,817
Distributions payable to shareholders	207,275	–
Due to jointly-controlled entities	293,749	160,721
Due to related parties	119,886	115,406
	<b>4,226,102</b>	<b>3,686,255</b>
Portion classified as current liabilities	<b>(3,985,387)</b>	<b>(3,406,346)</b>
Non-current portion	<b>240,715</b>	<b>279,909</b>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 15. CONTINGENT LIABILITIES

During the year ended 31 December 2011, 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 effect 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 30 June 2012, the Group did not have any significant contingent liabilities.

## 16. CAPITAL COMMITMENTS

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

	30 June 2012 (Unaudited) <i>HK\$'000</i>	31 December 2011 (Audited) <i>HK\$'000</i>
New service concession arrangements on a TOT basis:		
Authorised, but not contracted for	228,012	230,827
Contracted, but not provided for	450,825	396,699
	<b>678,837</b>	627,526
New service concession arrangements on a BOT basis:		
Authorised, but not contracted for	197,673	339,440
Contracted, but not provided for	2,858,716	2,369,592
	<b>3,056,389</b>	2,709,032
New service concession arrangements on a Build-Own-Operate basis:		
Contracted, but not provided for	974,362	–
Capital contribution to jointly-controlled entities:		
Contracted, but not provided for	50,027	235,706
Acquisition of subsidiaries:		
Contracted, but not provided for	457,352	145,679
Total capital commitments	<b>5,216,967</b>	3,717,943

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 16. 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:

	<b>30 June 2012 (Unaudited) HK\$'000</b>	31 December 2011 (Audited) HK\$'000
Authorised, but not contracted for	<b>709,301</b>	707,596
Contracted, but not provided for	<b>482,818</b>	502,969
	<b>1,192,119</b>	1,210,565

## 17. EVENTS AFTER THE REPORTING PERIOD

- (a) On 18 July 2012, the Company and Beijing Enterprises Holdings Limited ("BEHL"), a substantial shareholder of the Company entered into a framework agreement (the "Framework Agreement"), pursuant to which, among other things, the following revisions were made on certain terms of the exclusivity agreement entered into between the Company and BEHL on 21 December 2010 in relation to the proposed injection of assets and operation currently owned by BEHL and/or its subsidiaries to the Company (the "Proposed Injection"):
- (i) the scope of the Proposed Injection was revised and comprised certain sewage treatment and water supply operations (the "Revised Subject Assets"); and
  - (ii) pursuant to the exclusivity agreement, the consideration in respect of the acquisition of the Revised Subject Assets shall be satisfied by way of the issuance of the ordinary shares of the Company at approximately HK\$1.9788 per share (the "Consideration Shares Price"). Upon signing of the framework agreement, the Consideration Shares Price was fixed at HK\$1.62 per share.

Further details of the Framework Agreement are set out in the Company's announcement dated 18 July 2012.

- (b) On 1 August 2012, the Company entered into a note purchase agreement with, amongst others, an institutional investor in Hong Kong independent to the Group, pursuant to which, the Company issued a note (the "Note") in the principal amount of RMB1,200,000,000 (equivalent to HK\$1,463,415,000) to be due on 7 August 2021 and it shall be an event of default if:
- (i) 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) BEHL does not or ceases to supervise the Company;
  - (iii) BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company; and/or
  - (iv) the nominees of BEHL cease to comprise the majority of the members of the Company's Board.

Further details of the Note are set out in the Company's announcement dated 1 August 2012.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 18. RELATED PARTY DISCLOSURES

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

Name of the related party	Nature of transaction	Notes	For the six months ended 30 June	
			2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
<b>Jointly-controlled entity</b>				
Aqualyng-BEWG China Desalination Company Limited	Technical service income	(i)	–	30,793
<b>Non-controlling equity holders of the Group</b>				
Meishi International Investment Group Limited	Interest income	(ii)	24,586	11,920
Yunnan Water Industry Investment Co., Limited* (雲南省水務產業投資有限公司)	Interest income	(iii)	–	3,253
Mr. So King Yuk and Mr. Liang Jianhua	Interest income	(iv)	23,224	–

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

(ii) The interest income was charged at the rates of the PRC 1-3 year bank loan rate and the PRC 5-year or above bank loan rate per annum.

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

(iv) The interest income was charged at the PRC 1-3 year bank loan rate per annum.

\* for identification purpose only

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 18. RELATED PARTY DISCLOSURES *(Continued)*

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “Other SOEs”). During the period, the Group has transactions with Other SOEs including, but not limited to, the sale of piped water, provision of sewage treatment and construction services, bank deposits and borrowings, and utilities consumptions. The Directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group’s business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies are not carried out on a 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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	7,991	1,856
Pension scheme contributions	79	18
Total compensation paid to key management personnel	8,070	1,874

## 19. COMPARATIVE AMOUNTS

As explained in note 2 to these unaudited interim condensed consolidated financial statements, due to the reorganisation of the business operation of the jointly-controlled entities into reportable operating segments, the respective comparative amounts in note 2 to these unaudited interim condensed consolidated financial statements have been reclassified and restated to conform to the current period’s presentation.

## 20. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2012 amounted to HK\$4,801,419,000 (unaudited) (31 December 2011: HK\$4,983,500,000) and HK\$18,819,445,000 (unaudited) (31 December 2011: HK\$18,078,966,000), respectively.

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS

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

As at 30 June 2012, 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:

- Messrs. Hu Xiaoyong, Zhou Min and Hou Feng, all being executive Directors, are interested in Tenson Investment Limited ("Tenson") as to 52.62%, 44.93% and 2.45%, respectively. Tenson holds 684,789,919 shares. The Company noted from the website of the Stock Exchange that on 29 May 2012, BEHL and Tenson entered into a share charge agreement whereby Tenson agreed to charge mortgaged shares of 400,000,000 ordinary shares of the Company ("Mortgaged Shares") beneficially owned by Tenson in favour of BEHL as security for the provision of guarantee entered into by BEHL on 29 May 2012 in favour of DBS Bank Ltd., Hong Kong Branch ("DBS") in respect of a loan facility granted to Tenson by DBS ("Guarantee").
- The percentage represented the number of shares over the total issued share capital of the Company as at 30 June 2012 of 6,909,170,486 shares.

Save as disclosed above, as at 30 June 2012, there were no interest or short position of the directors or chief executives of the Company in the shares, the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

### Directors' Rights to Acquire Shares

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

### Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2012, 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	Capacity in which shares were held	Long position in the shares	Approximate percentage of the Company's issued share capital <i>(Note 5)</i>
Beijing Enterprises Group Company Limited <i>(Notes 1, 2 &amp; 3)</i>	Interest of controlled corporation	3,047,556,993	44.11%
	Security Interest	400,000,000	5.79%
BEHL <i>(Notes 1, 2 &amp; 3)</i>	Interest of controlled corporation	3,047,556,993	44.11%
	Security Interest	400,000,000	5.79%
Tenson <i>(Notes 2 &amp; 4)</i>	Beneficial owner	684,789,919	9.91%

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

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

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

Notes:

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

<u>Name</u>	<u>Long position in shares</u>
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 Company noted from the website of the Stock Exchange that on 29 May 2012, BEHL and Tenson entered into a share charge agreement whereby Tenson agreed to charge the Mortgaged Shares beneficially owned by Tenson in favour of BEHL as security for the provision of the Guarantee.
3. The long positions held by Beijing Enterprises Group Company Limited and BEHL include: (i) the 3,047,556,993 Shares as described in Note 1 above; and (ii) 400,000,000 Mortgaged Shares as described in Note 2 above. Beijing Enterprises Group Company Limited is deemed to be interested in 400,000,000 Mortgaged Shares as its indirect holding of shares of BEHL as described in Note 1 above.
4. The share capital of Tenson 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.
5. The percentage represented the number of shares over the total issued share capital of the Company as at 30 June 2012 of 6,909,170,486 shares.

Save as disclosed above, as at 30 June 2012, 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.



# DISCLOSEABLE INFORMATION

## 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 Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

During the six months ended 30 June 2012, no share options under the Scheme was granted, exercised, lapsed, cancelled and remained outstanding.

## BOARD CHANGE

Since the date of the Annual Report 2011 of the Company, there is no change to the Board.

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

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

Each of 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, Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun, has entered into a service contract with the Company from 1 April 2012 for three years but is subject to retirement by rotation and re-election in accordance with the provisions of the bye-laws of the Company.

Mr. Shea Chun Lok Quadrant, an independent non-executive Director, is now the member of Chartered Global Management Accountant.

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

# DISCLOSEABLE INFORMATION

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

Details of the agreements (the “Agreement(s)”) with covenants relating to specific performance of the controlling shareholder which constitute disclosure obligation pursuant to Rules 13.18 and 13.21 of the Listing Rules are as follows:

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount (million)	Final maturity	Specific performance obligations
27 July 2010	Term loan facility with a bank	HK\$250	July 2013	<i>Note 1</i>
28 March 2011	Term loan facility with a syndicate of banks	HK\$1,300	March 2016	<i>Note 2</i>
18 April 2011	Term loan facility with a syndicate of banks	HK\$700	March 2016	<i>Note 2</i>
24 June 2011	Subscription agreement for issuance of bonds	RMB1,000	June 2014	<i>Note 3</i>
	Subscription agreement for issuance of bonds	RMB450	June 2016	<i>Note 3</i>
8 September 2011	Term loan facility with a bank	HK\$250	September 2015	<i>Note 2</i>
30 September 2011	Subscription agreement for issuance of bonds	RMB450	June 2014	<i>Note 3</i>
	Subscription agreement for issuance of bonds	RMB50	June 2016	<i>Note 3</i>
1 March 2012	Term loan facility with a bank	RMB950	March 2015	<i>Note 2</i>
1 August 2012	Note purchase agreement with an institutional investor	RMB1,200	August 2021	<i>Note 3</i>

*Notes:*

- 1 BEHL holds at least 35% of the issued share capital of the Company.
- 2 BEHL owns, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company.
- 3 (i) BEHL owns or controls 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; (ii) BEHL supervises the Company; (iii) BEHL is directly or indirectly, the single largest shareholder of the Company; and/or (iv) the nominees of BEHL comprise the majority of the members of the Board.

According to the respective terms and conditions of the Agreements, breach of the above specific performance obligations will constitute events of default. If an event of default occurs, (a) the bank or syndicate of banks may declare any commitment under the Agreements to be cancelled and/or declare all outstanding amounts together with interest accrued thereon and all others sums to be immediately due and payable or payable on demand; or (b) holders of the bonds or notes will have right at their options to require the Company to redeem all but not some only of that holders’ bonds or notes at 101% of their respective principal amounts together with accrued interest.

# DISCLOSEABLE INFORMATION

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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

## **DISTRIBUTIONS**

The Board resolved to pay distributions of HK2 cents per ordinary share out of the contributed surplus of the Company, payable on or before 26 October 2012 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 5 October 2012 for their continuous supports to the Company.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 3 October 2012 to Friday, 5 October 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the 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 Friday, 28 September 2012.



# CORPORATE GOVERNANCE

## **CORPORATE GOVERNANCE**

During the six months ended 30 June 2012, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (“CG Code”) as set out in Appendix 14 of the Listing Rules, except as disclosed hereinbelow.

Prior to 1 April 2012, the non-executive Directors (all are independent non-executive Directors) were not appointed for a specific term that was deviated from the requirement under code provision A.4.1 under the CG Code. However, all Directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the bye-laws of the Company. Sufficient measures had been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirms that during the six months ended 30 June 2012, all Directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by the Directors.

## **AUDIT COMMITTEE**

The audit committee of the Company (“Audit Committee”) comprises three independent non-executive Directors, namely Mr. Shea Chun Lok Quadrant (the chairman of the Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 have been reviewed and approved by the Audit Committee of the Company. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant financial statements and sufficient disclosures have been made.

## **INTERNAL CONTROLS**

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