Annual Report 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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Honghai *(Chairman)*
Mr. E Meng *(Vice Chairman)*
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
Mr. Yu Ning

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

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
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

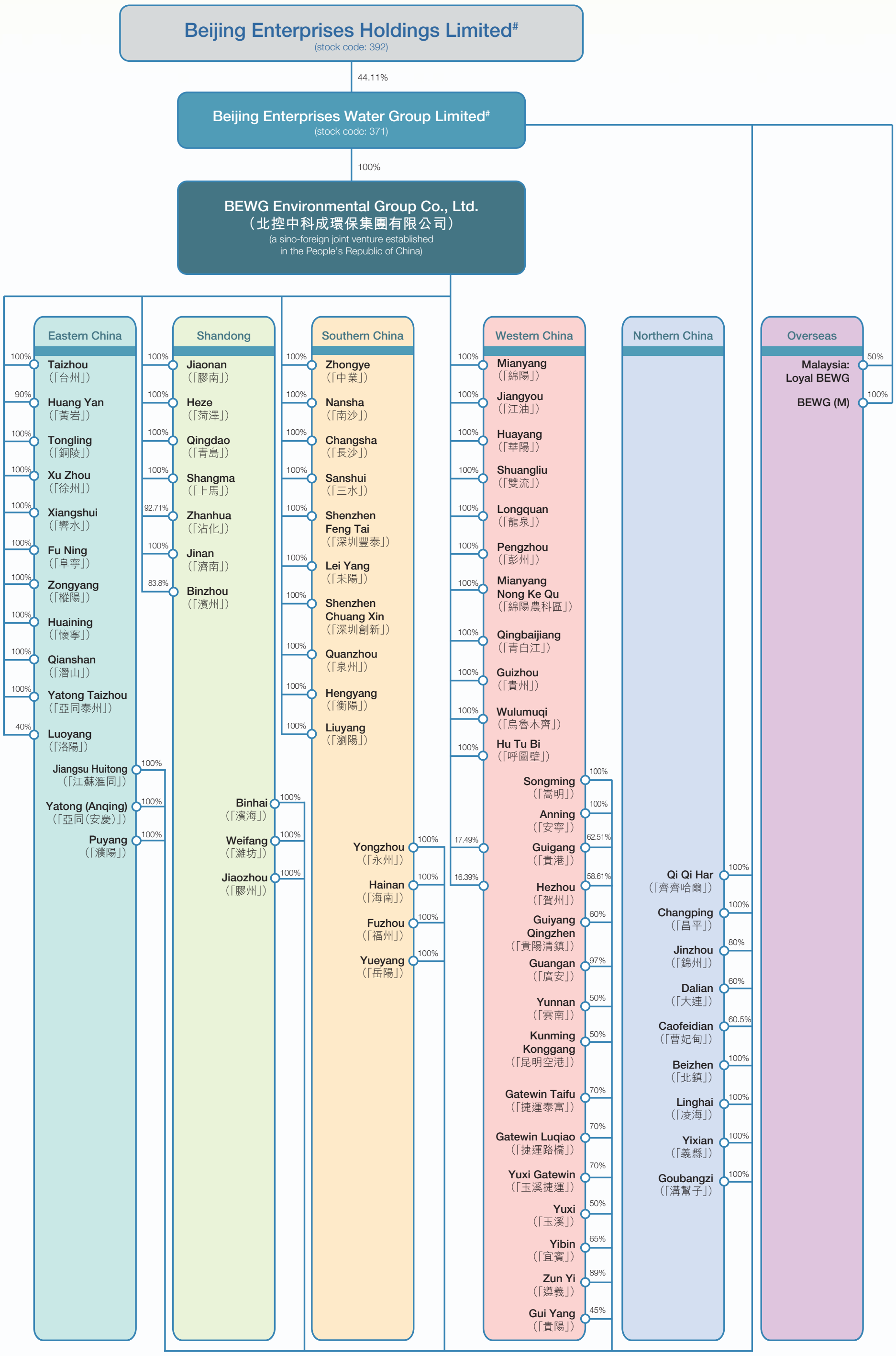
PRINCIPAL BANKERS

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

31 December 2012



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

Note: The above group chart only lists out major subsidiaries and jointly-controlled entities

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2012, Beijing Enterprises Water Group Limited (the "Company" and the subsidiaries, collectively referred to as the "Group") continued to manage a sound growth trend in its business operations and further reinforced its foundation for swift and ongoing development, as it performed its tasks on all fronts in an orderly progress so as to deepen our system and mechanism reforms, optimise its industrial structure, perfect its business layout and embark on business innovation, in strict adherence to its development strategy and annual operation targets and persistent implementation of the business strategy of "adjustment and consolidation, attach equal importance to volume and capacity expansion as well as its efficiency and quality".

The Group garnered further recognition for its corporate image in 2012 with the award of honorary titles such as "Flagship Enterprise in the Water Industry" and "Most Influential Investment and Operating Enterprise in the Water Industry of China," underpinning wide public approval of the business philosophy and development strategy upheld by the Group over the past years.

BUSINESS REVIEW

The Group recorded revenue of HK$3,727,379,000 for the year ended 31 December 2012. Profit attributable to shareholders of the Company for the year grew to HK$750,474,000, and basic earnings per share was HK10.86 cents.

Guided by its established development strategy, the Group continued to expand its core business by leveraging its financial strengths, pooling its resources as well as intensely cultivating in the market in 2012 subject to stringent control over the quality of investment. As at 31 December 2012, the increment of daily water processing capacity for the year was 1,765,500 tons and business footprint was expanded to cover 19 provinces.

Our business in comprehensive water environmental renovation continued in rapid development. During the year, as part of its proactive strategy, the Group established an investment company to strengthen its ability in resource integration and pooling in response to changes in the environmental renovation pertaining to the supply of water resources.

CHAIRMAN'S STATEMENT

The seawater desalination project designed to supply water to Beijing, as a top priority project in the Group's strategic business development, continued to advance with solid progress. The seawater desalination project achieved progressively development with the completion of an official application for admission to national project listing of the water production and conveyance water works and the conduct of technological exchanges and researches.

Our overseas business has also rolled out steadily under a well-elucidated road map for global business development. In addition to the construction of Pantai 2 sewage treatment plant in Malaysia as scheduled, the Group with cautious strategy also leveraged significant acquisition or investment opportunities in the overseas market to investigate the possibility of tapping the markets for water business into Southeast Asia, the Middle East and Europe as well.

We continued to extend our industry chain towards the higher end, achieving breakthroughs for our sludge treatment business in terms of project sign-ups in the environmental protection sector in Guigang, Kunming, Hubei and Jilin. Substantial progress has been made in the sinked-style reconstruction on the urban sewage plant and the construction of community ecological square in terms of both conceptual exploration and specific project.

Meanwhile, solid progress has also been made in the Group's assets injection with the support of the controlling shareholder. The completion of the injection of assets in the water business with an aggregate capacity of 1,290,000 tons is expected not only to further expand the scale of the Company's core business, but also to substantially boost the results of the Company and enhance its financing ability.

MANAGEMENT CONTROL OF THE GROUP

The Group's enterprise management standards were enhanced on all fronts in 2012, as it further strengthened the building of its internal control regime, accelerated the transformation of its management system and operating mechanism, facilitated reforms with the introduction of the departmental system and developed a sound, performance-oriented operations management mechanism with the aim of improving economic efficiency. The establishment of divisions of water distribution, drainage, business development, overseas and seawater desalination has provided a strong driving force to specialise management and operations development of various business segments, while further perfect the Group's management control system by optimising management models and enhancing efficiency in management control. Credit to timely, complementary improvements to the performance-oriented appraisal and incentive mechanism, the Group's strategic business framework and layout for coordinated development have been further reinforced.

CHAIRMAN'S STATEMENT

We continued to pursue the strategy of bolstering the enterprise with the benefit of high-calibre personnel, while increasing our investment in technological innovation. At the beginning of 2013, the Group took an initiative lead in the establishment of 北京北華清創環境科技有限公司 Beijing Bei Hua Qing Chuang Environmental Technology Co., Ltd.^ in cooperation with Tsinghua University, aiming to foster a leading edge in technology and facilitate the upgrade of the Company's industrial structure by enhancing the research and development of industrial technologies and facilitating cooperation among business, academics and research institutions.

DEVELOPMENT STRATEGY

The Group continues to expand its investment in the traditional water business while vigorously embark on project market development and horizontal acquisitions in resolute implementation of the strategy of expanding its core businesses. We further concentrate our resources and continue to take part in prudently investments in key regional water environmental renovation business through cooperation with strategic partnerships as well as develop quality overseas projects which are promising sound strategic value under due control in tandem with its proactive pursuit of global business presence. We also advance our seawater desalination project in a vigorous and orderly manner and step up with the development of its sludge treatment project; expedite the research, development and commercialisation of applied technologies for underground sewage water treatment system, in a move to continuously enhance its ability to add value.

Meanwhile, the Company continues to carry out in greater depth reforms of the systems and regimes managed by the Group, aiming to increase the efficiency of management and control, improve the standards of foundational management, strengthen human resource management, foster of corporate culture, enhance risk control management of project investments, fortify synergistic operations, ensure proper execution of invested projects and identify further potentials in the operation and management of the existing business, with a view to further enhancing the Group's profitability and procuring sound and rapid development on a sustainable basis.

FUTURE OUTLOOK

The government's macro-economic policy should continue to be in our favour. With the in-depth implementation of the national "12th Five-Year" planning, we expect to see investment and development peak in 2013. With the successive implementation of policies and planning regarding water-related industries, our investments in the water business and comprehensive water environmental renovation projects will be met with unprecedented market opportunities.

^ For identification purpose only

CHAIRMAN'S STATEMENT

In terms of micro-economic factors, industry concentration will grow at an accelerated pace, government policy as well as market opportunities will abound for superior enterprises in the industry to further expand and build up strengths, underpinned by a notable increase in openings for horizontal mergers and acquisitions. There will also be more opportunities for re-investment projects in connection with, among others, technological upgrade and conversion of storage volume projects and the upgrade, conversion and capacity expansion of pipeline networks.

At the same time, market competition will become more intense. Superior enterprises will step up with their business deployment and expansion, while competitors and potential competitor in the first tier will gradually increase. With rapidly escalating industry competition, the challenge for market share will be more ferocious than ever.

In conclusion, the coming year will present unprecedented opportunities as well as challenges, although the opportunities should outweigh the challenges. We remain convinced that 2013 will be a year of harvest and development for the Group.

The Group will embark on in-depth policy research and market analysis to capitalise on prime opportunities arising in the development of the industry, as it continues to follow a path of quality, profitability and sustainability and steadily drive in the Company's business towards broader and more sophisticated developments by introducing innovative profit models, deepening internal reforms and strengthening team building, so that it may reward shareholders and employees with ongoing and solid growth in business results.

Lastly, I would like to extend my sincere gratitude to all shareholders, customers, joint venture partners and staff for their long-standing trust in and tremendous support for the Group.

Zhang Honghai
Chairman

27 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

The Group maintained a steady growth this year. Profit for the year attributable to shareholders of the Company increased by 24.9% to HK$750.5 million. Revenue increased by 40.4% to HK$3,727.4 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 year is set out in details below:

	Revenue HK$'M	%	GP ratio %	Profit attributable to shareholders of the Company HK$'M	%
Water treatment services					
Sewage treatment and reclaimed water services					
— Subsidiaries	1,425.0	38%	63%	694.2	50%
— Jointly-controlled entities and associates	–	–	–	22.1	2%
	1,425.0	38%	63%	716.3	52%
Water supply services					
— Subsidiaries	105.6	3%	44%	13.2	1%
— Jointly-controlled entities	–	–	–	30.4	2%
	105.6	3%	44%	43.6	3%
Subtotal	1,530.6	41%		759.9	55%
Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
— Project with completion rate under 10%	14.4	1%	0%	–	–
— Project with completion rate more than 10%§	992.1	26%	21%	214.5	16%
— Interest income	–	–	–	177.5	13%
	1,006.5	27%	21%	392.0	29%
Construction of water plants	967.9	26%	11%	65.3	5%
Subtotal	1,974.4	53%		457.3	34%
Technical services for the water environmental renovation	222.4	6%	82%	150.8	11%
Business results	3,727.4	100%		1,368.0	100%
Others#				(617.5)	
Total				750.5	

Others included head office and other corporate expenses of HK$123.2 million and finance costs of HK$494.3 million.

§ *Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK$2.1 million.*

MANAGEMENT DISCUSSION AND ANALYSIS

1. Financial highlights *(Continued)*

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. Financial highlights *(Continued)*

The comparison of the Group's financial results for the years ended 31 December 2012 and 2011 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2012	2011	Increase/(decrease)		**2012**	2011	Increase/(decrease)	
	HK$'M	*HK$'M*	*HK$'M*	%	***HK$'M***	*HK$'M*	*HK$'M*	%
Water treatment services								
Sewage treatment and reclaimed water services								
– Subsidiaries	**1,425.0**	994.7	430.3	43%	**694.2**	484.7	209.5	43%
– Jointly-controlled entities and associates	**–**	–	–	–	**22.1**	6.2	15.9	256%
	1,425.0	994.7	430.3	43%	**716.3**	490.9	225.4	46%
Water supply services								
– Subsidiaries	**105.6**	83.2	22.4	27%	**13.2**	10.9	2.3	21%
– Jointly-controlled entities	**–**	–	–	–	**30.4**	1.4	29.0	2,071%
	105.6	83.2	22.4	27%	**43.6**	12.3	31.3	254%
Subtotal	**1,530.6**	1,077.9	452.7	42%	**759.9**	503.2	256.7	51%
Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Project with completion rate under 10%	**14.4**	426.8	(412.4)	(97%)	**–**	–	–	–
– Project with completion rate more than 10%	**992.1**	325.3	666.8	205%	**214.5**	65.4	149.1	228%
– Interest income	**–**	–	–	–	**177.5**	126.0	51.5	41%
	1,006.5	752.1	254.4	34%	**392.0**	191.4	200.6	105%
Construction of water plants	**967.9**	612.9	355.0	58%	**65.3**	44.3	21.0	47%
Subtotal	**1,974.4**	1,365.0	609.4	45%	**457.3**	235.7	221.6	94%
Technical services for the water environmental renovation	**222.4**	211.6	10.8	5%	**150.8**	169.1	(18.3)	(11%)
Business results	**3,727.4**	2,654.5	1,072.9	40%	**1,368.0**	908.0	460.0	51%
Others					**(617.5)**	(307.3)	(310.2)	(101%)
Total					**750.5**	600.7	149.8	25%

MANAGEMENT DISCUSSION AND ANALYSIS

2. Business review

The principal businesses of the Group includes 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 31 December 2012, the Group participates in 155 water plants either in operation or going to operate in near future including 120 sewage treatment plants, 30 water supply plants, 4 reclaimed water treatment plants and 1 seawater desalination plant. The total daily design capacity was increased by 1,765,500 tons to 10,494,450 tons, representing an increase of 20% as compared with last year. The increment of 1,765,500 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 405,000 tons, Transfer-Operate-Transfer ("TOT") projects of 255,000 tons, entrustment operation projects of 95,500 tons, acquired project of 890,000 tons and raw water projects of 120,000 tons.

Analysis of projects on hand is as follows:

	Sewage treatment	Water supply	Reclaimed water	Seawater desalination	Total
(Tons)					
In operation	4,777,250	2,130,000	387,000	–	7,294,250
Not yet start operation	1,813,500	1,224,200	112,500	50,000	3,200,200
Total	6,590,750	3,354,200	499,500	50,000	10,494,450
(Number of water plants)					
In operation	83	21	4	–	108
Not yet start operation	37	9	–	1	47
Total	120	30	4	1	155

MANAGEMENT DISCUSSION AND ANALYSIS

2. Business review *(Continued)*

2.1 Water treatment services *(Continued)*

	Number of plants	Design capacity *(Tons/Day)*	Actual processing capacity during the year *(Tons (M))*	Revenue *HK$'(M)*	Profit attributable to shareholders of the Company *HK$'(M)*
Sewage and reclaimed water treatment services:					
– Southern	27	1,965,000	541.1	564.9	293.6
– Western	27	1,461,500	402.1	301.8	187.4
– Shandong	8	417,000	118.4	197.8	70.2
– Eastern	14	580,750	104.1	157.8	72.6
– Northern	11	740,000	112.2	202.7	92.5
	87	5,164,250	1,277.9	1,425.0	716.3
Water supply services	21	2,130,000	333.1	105.6	43.6
Total	108	7,294,250	1,611.0	1,530.6	759.9

2.1.1 Sewage and reclaimed water treatment services

As at 31 December 2012, the daily design capacity of sewage and reclaimed water treatment reached to 4,777,250 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 3,770,352 tons and average daily treatment rate is 73%. The actual average contracted tariff charge of water treatment was approximately HK$1.16 per ton. The actual aggregate processing volume for the year was 1,277.9 million tons, of which 1,105.5 million tons was contributed by subsidiaries and 172.4 million tons was contributed by jointly-controlled entities. Revenue was HK$1,425.0 million for the year (38% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK$716.3 million, of which HK$694.2 million was contributed by subsidiaries and HK$22.1 million was contributed by jointly-controlled entities and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

2. Business review *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services (Continued)

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. As at 31 December 2012, there were 27 sewage treatment plants with total daily design capacity of 1,965,000 tons, representing an increase of 509,000 tons per day or 35% as compared with last year. The actual aggregate processing volume for the year amounted to 541.1 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$564.9 million and HK$293.6 million respectively during the year.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2012, there were 27 sewage treatment plants with total daily design capacity of 1,461,500 tons, representing an increase of 180,000 tons per day or 14% as compared with last year. The actual processing volume for the year was 402.1 million tons. The operating revenue of HK$301.8 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK$187.4 million.

Shandong

There were 8 plants 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 year was 118.4 million tons contributing operating revenue of HK$197.8 million during the year. Profit attributable to shareholders of the Company was HK$70.2 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 in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 31 December 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 year amounted to 104.1 million tons and operating revenue was HK$157.8 million during the year. Profit attributable to shareholders of the Company was HK$72.6 million.

Northern China

Currently, the Group has 11 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily design capacity of Northern China had increased by 285,000 tons to 740,000 tons 62.6% as compared with last year. The projects had achieved actual processing volume of 112.2 million tons for the year. The operating revenue was HK$202.7 million during the year. Profit attributable to shareholders of the Company was HK$92.5 million.

2.1.2 Water supply services

As at 31 December 2012, the Group had 21 water supply plants in operation. Total daily design capacity of these projects was 2,130,000 tons per day, representing an increase of 1,005,000 tons per day or 89% as compared with last year. The plants were located in Guizhou Province, Shandong Province, Henan Province, Guangxi Province and Inner Mongolia. The actual average contracted tariff charge of water supply is approximately HK$2.57 per ton. The aggregate actual processing volume is 333.1 million tons, of which 73.2 million tons was contributed by subsidiaries and 259.9 million tons was contributed by jointly controlled entities. Water supply services recorded revenue of HK$105.6 million (3% of the Group's total revenue) and profit attributable to shareholders of the Company of HK$43.6 million, of which HK$13.2 million was contributed by subsidiaries and HK$30.4 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 five comprehensive renovation projects under construction during the year. The projects located in Guangxi Guigang, Dalian Dengshahe, Dalian Dashiqiao, Guizhou Nanminghe and Malaysia Pantai. Last year, the Group had five comprehensive renovation projects under construction which located in Guizhou Huaxi, Dalian Changxingdao, Dalian Dengshahe, Kunming and Malaysia Pantai.

Revenue from comprehensive renovation projects increased by HK$254.4 million from last year of HK$752.1 million to HK$1,006.5 million this year. The increase was mainly due to the new commencement of construction work for Guangxi Guigang, Dalian Dashiqiao and Guizhou Nanminghe projects.

According to the contracts, the Group can charge an interest on the trade receivables from the customers 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. Interest income increased as there was an increase in receivables from water environmental renovation project.

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK$200.6 million from last year of HK$191.4 million to HK$392.0 million this year. The increase was mainly due to the commencement of construction work for Guangxi Guigang, Dalian Dashiqiao and Guizhou Nanminghe projects which contributed profit of HK$113.7 million in Year 2012.

Trade and bills receivables of HK$1,430.9 million (equivalent to RMB1,159.0 million) for construction of comprehensive renovation projects in Kunming were settled during the year. As at 31 December 2012, the accumulated receipts from Kunming projects was HK$3,263.5 million (equivalent to RMB2,643.4 million). As at 31 December 2012, the trade and bills receivables for these projects amounted to HK$1,654.3 million (equivalent to RMB1,340.0 million).

Trade and bills receivables of HK$165.9 million (equivalent to RMB134.4 million) for construction of comprehensive renovation projects in Dalian were settled during the year. As at 31 December 2012, the accumulated receipts from Dalian Changxingdao projects was HK$1,261.6 million (equivalent to RMB1,021.9 million). As at 31 December 2012, the trade and bills receivables for these projects amounted to HK$68.0 million (equivalent to RMB55.1 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 year, 21 water plants were under construction. These water plants were mainly located in Beijing, Sichuan, Shandong, Yunnan, Dalian and Hunan provinces. Total revenue contribution for construction of water plants was HK$967.9 million and profit attributable to shareholders of the Company was HK$65.3 million. As at 31 December 2012, the total daily design capacity of these water plants in the construction stage was 1,964,700 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$222.4 million, representing 6% of the Group's total revenue. The profit attributable to shareholders of the Company was HK$150.8 million (2011: HK$169.1 million). Decrease in profit attributable to shareholders of the Company was mainly due to increase in profit tax rate.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Financial analysis

3.1 Revenue

During the year, the Group recorded revenue of HK$3,727.4 million (2011: HK$2,654.5 million). The increase was mainly due to the increase in revenue from sewage and reclaimed water treatment services and construction services for the water environmental renovation. The related revenue from sewage and reclaimed water treatment services increased by HK$430.3 million and construction revenue increased by HK$609.4 million for the year.

3.2 Cost of sales

Cost of sales for the year amounted to HK$2,290.4 million which mainly included construction cost of HK$1,658.7 million and operating cost of water plants of HK$591.3 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK$231.7 million, staff cost of HK$106.1 million and major overhaul charge of HK$49.3 million. Major overhaul charge was the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangement. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to income statement based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the year, gross profit margin increased from 34% to 39%. The increase was mainly due to the gross profit margin of construction services for comprehensive renovation projects increased from 4% to 21%. The increase was due to the new comprehensive renovation project, Guizhou Nanminghe, which gross profit margin is 21% and attributed 52% revenue in the construction revenue for comprehensive renovation projects.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK$193.9 million during the year, compared to last year of HK$144.1 million. The increase was mainly due to the increase in investment incentive and government grants by HK$92.9 million. The effect was partly offset by the decrease in foreign exchange gain of HK$40.1 million.

3.5 Administrative expenses

Administrative expenses for the year was HK$439.6 million, compared to last year at HK$301.2 million. The increase was mainly due to the increase in staff cost of HK$60.3 million, business development expense of HK$17.1 million, land use tax expense of HK$20.0 million and depreciation of HK$15.6 million.

3.6 Other operating expenses, net

Other operating expenses for the year included the exchange loss in a RMB note payable and RMB corporate bonds of HK$78.1 million as a result of the appreciation of RMB and research and development expense of HK$27.6 million during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Financial analysis *(Continued)*

3.7 Finance costs

Finance costs mainly represented interest on bank and other borrowings of HK$362.0 million (2011: HK$272.5 million) and interest on corporate bonds and a note payable of HK$141.0 million (2011: HK$45.1 million) in total. Increase in finance costs was mainly due to the issuance of RMB corporate bonds on 30 June 2011, 11 October 2011 and the issuance of a RMB note on 1 August 2012. Also, there was an increase in interest rate as compared with last year.

3.8 Income tax

Income tax expense for the year included the current PRC income tax of HK$165.2 million and Malaysia income tax of HK$2.9 million. The effective tax rate for the PRC operation was about 16% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the year was HK$56.5 million.

3.9 Property, plant and equipment

Property, plant and equipment increased by HK$294.3 million which was mainly attributable to the acquisition of 內蒙古黃河西部水業股份有限公司 (Inner Mongolia Yellow River Western Water Industry Co., Ltd^).

3.10 Receivables

The Group's total receivables of HK$12,128.3 million (2011: HK$10,881.8 million) include:

By accounting nature:

	2012			2011		
	Non-current *HK$'M*	**Current** *HK$'M*	**Total** *HK$'M*	Non-current *HK$'M*	Current *HK$'M*	Total *HK$'M*
(i) Amounts due from contract customers	**2,762.0**	**31.6**	**2,793.6**	1,599.3	87.9	1,687.2
(ii) Receivables under service concession arrangements	**6,469.5**	**382.5**	**6,852.0**	5,003.1	253.1	5,256.2
(iii) Trade and bills receivables	**97.2**	**2,385.5**	**2,482.7**	261.9	3,676.5	3,938.4
Total	**9,328.7**	**2,799.6**	**12,128.3**	6,864.3	4,017.5	10,881.8

^ For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

3. Financial analysis *(Continued)*

3.10 Receivables *(Continued)*

(i) Amounts due from contract customers of HK$2,793.6 million represents the balance of accumulated construction costs incurred to date plus recognised accumulated gross profits exceed progress billings which arose from BOT and comprehensive renovation projects during the phase of construction. The balance increased by HK$1,106.4 million (non-current portion increased by HK$1,162.7 million and current portion decreased by HK$56.3 million) was mainly due to the recognition of construction services for water environmental renovation projects and BOT projects in Dalian and a water environmental renovation project in Nanminghe;

(ii) Receivables under service concession arrangements of HK$6,852.0 million represents the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts. The balance arises from BOT and TOT projects in operation. The balance increased by HK$1,595.8 million (non-current portion increased by HK$1,466.4 million and current portion increased by HK$129.4 million) was mainly due to acquisition of various TOT projects in Sichuan, Yunnan, Dalian and Hubei which accounted for an increase in receivable balance of around HK$963.0 million. Also BOT projects in Qiqihar, Changping, Heze, Yongzhou, Pengzhou and Fuzhou completed its construction and started to operate in this year which accounted for an increase in receivable balance of around HK$601.6 million; and

(iii) Trade and bills receivables of HK$2,482.7 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance decreased by HK$1,455.7 million (non-current portion decreased by HK$164.7 million and current portion decreased by HK$1,291.0 million), mainly due to settlement of receivables for construction services of comprehensive renovation projects in Kunming of HK$1,430.9 million (equivalent to RMB1,159.0 million) and Dalian Changxingdao of HK$165.9 million (equivalent to RMB134.4 million) during the year.

By business nature:

	2012	2011
	HK$'M	*HK$'M*
BOT and TOT projects	**8,433.3**	6,464.7
Construction services of comprehensive renovation projects	**3,246.6**	4,167.9
Technical and consultancy services and other businesses	**448.4**	249.2
Total	**12,128.3**	10,881.8

MANAGEMENT DISCUSSION AND ANALYSIS

3. Financial analysis *(Continued)*

3.10 Receivables *(Continued)*

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$8,433.3 million (2011: HK$6,464.7 million). Total receivables for the construction service of comprehensive renovation projects were HK$3,246.6 million (2011: HK$4,167.9 million). Total receivables for technical and consultancy services and other businesses were HK$448.4 million (2011: HK$249.2 million).

3.11 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is not an unconditional right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The balance arises from BOT and TOT projects in operation. The balance increased by HK$210.0 million was mainly due to the acquisition of operating concession in Hezhou of HK$183.3 million.

3.12 Investments in jointly-controlled entities

Investments in jointly-controlled entities increased by HK$344.2 million, mainly due to the acquisition of 洛陽北控水務集團有限公司 (Luoyang Beijing Enterprises Water Group Limited^) with consideration of RMB454.1 million (equivalent to HK$560.6 million) and share of profits of jointly-controlled entities of HK$56.0 million. The effect was partly offset by the acquisition of additional equity interest of 18.5% in 成都北控蜀都投資有限公司 (Chengdu Beikong Shudu Investment Co, Ltd.^). Chengdu Beikong Shudu Investment Co, Ltd. became a subsidiary in the Group after the acquisition and there was a corresponding decrease in interests in jointly-controlled entities of HK$353.2 million as a result.

3.13 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK$1,817.6 million (non-current portion increased by HK$1,005.2 million and current portion increased by HK$812.4 million), mainly due to increase in construction prepayment of HK$291.3 million and increase in deposits and other receivables of HK$1,369.9 million. Increase in deposits and other receivables was due to a deposit of HK$326.5 million for acquisition of a project in Jilin. Additionally, there was an increase in investment deposit related to water environmental renovation projects of HK$1,337.3 million.

^ For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

3. Financial analysis *(Continued)*

3.14 Cash and cash equivalents

Cash and cash equivalents increased by HK$2,343.1 million, mainly due to increase in bank borrowings and other borrowings.

Under Hong Kong Financial Reporting Standards, part of the cash flows related to BOT, TOT and comprehensive renovation projects are classified as cash flows of operating activities. Such part of cash flows are adjusted and reclassified as cash flows of investing activities as follows:

	For the years ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
Net cash flows used in operating activities per audited financial statements	**(772,800)**	(2,198,035)
Net cash flows used in BOT projects	**670,324**	893,239
Net cash flows used in TOT projects	**803,390**	454,151
Net cash flows used in comprehensive renovation projects	**219,350**	1,702,632
Net cash flows from operating activities per management	**920,264**	851,987
Net cash flows used in investing activities per audited financial statements	**(559,926)**	(1,495,921)
Net cash flows used in BOT projects	**(670,324)**	(893,239)
Net cash flows used in TOT projects	**(803,390)**	(454,151)
Net cash flows used in comprehensive renovation projects	**(219,350)**	(1,702,632)
Net cash flows used in investing activities per management	**(2,252,990)**	(4,545,943)
Net cash flows from financing activities per audited financial statements	**2,968,672**	3,575,989
Net increase/(decrease) in cash and cash equivalents per audited financial statements	**1,635,946**	(117,967)

MANAGEMENT DISCUSSION AND ANALYSIS

3. Financial analysis *(Continued)*

3.15 Other payables and accruals

Other payables and accruals increased by HK$816.1 million (non-current portion decreased by HK$46.7 million and current portion increased by HK$862.8 million). Increase was mainly due to increase in other liabilities due to subcontractors.

3.16 Note payable

Note payable represented the issuance of a note in the principal amount of RMB1,200.0 million (equivalent to HK$1,481.5 million) in August 2012.

3.17 Liquidity and financial resources

As at 31 December 2012, the Group's cash and cash equivalents amounted to HK$4,290.9 million (2011: HK$1,947.8 million).

The Group's total borrowings amounted to HK$13,294.5 million (2011: HK$8,760.1 million) and comprised bank and other borrowings of HK$9,403.7 million (2011: HK$6,434.5 million), finance lease payable of HK$19.7 million, a note payable of HK$1,476.6 million and corporate bonds of HK$2,394.5 million (2011: HK$2,325.6 million).

As at 31 December 2012, the Group had banking facilities amounting to HK$6.39 billion, of which HK$0.79 billion have not been utilised. The banking facilities are of 1 to 5 years term.

The gearing ratio as defined as sum of bank and other borrowings, finance lease payable, note payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 0.84 as at 31 December 2012 (2011: 0.7). The increase in the gearing ratio as at 31 December 2012 was mainly due to the increase in bank and other borrowings and issuance of a RMB note in Hong Kong. Assuming the Asset Injection (further details please refer to note 50(a) in the notes to financial statements) completes on 31 December 2012 and other factors remain unchanged, the total equity would be increased by HK$1,369.7 million to HK$12,101.2 million and gearing ratio would be 0.74.

3.18 Capital expenditures

During the year, the Group's total capital expenditures were HK$1,580.6 million (2011: HK$3,582.1 million), of which HK$50.5 million was paid for the acquisition of property, plant and equipment and intangible assets, HK$1,290.8 million was spent on construction and acquisition of water plants and HK$239.3 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 31 December 2012, the Group employed 3,005 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the year ended 31 December 2012.

CHARGES ON THE GROUP'S ASSETS

The secured bank loans and a finance lease payable of the Group as at 31 December 2012 are secured by:

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, 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) mortgages over the water fee collection right of a water distribution operation;

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

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

(v) pledges and a charge 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

Majority of the subsidiaries of the Company operates in the PRC with most of the transaction denominated and settled in RMB. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Composition and Role

The board (the "Board") of directors (the "Director(s)") of the Company currently consists of seventeen directors: comprising eleven executive Directors, namely, 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 and Mr. Tung Woon Cheung Eric; and six independent non-executive Directors (the "INED(s)"), namely, Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun, Mr. Wang Kaijun and Mr. Yu Ning. One of the INEDs namely, Mr. Shea Chun Lok Quadrant, has the professional and accounting qualifications required by Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The biographical details of the Directors are set out in the section headed "Directors and Senior Management" in this annual report.

The function of the Board is to formulate corporate strategy and business development. The Board has met regularly during the year to approve acquisition, material contracts, discloseable and/or connected transactions, director's appointment or re-appointment, significant policy and monitoring the financial performance of the Group in pursuit of its strategic goals. Day to day operation of the Company is delegated to the chief executive officer and the management of the Company. There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship.

Newly appointed Director would receive a comprehensive induction package covering the statutory and regulatory obligations of a director of a listed company. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged trainings for Directors in the form of seminar and provision of training materials. Guidance notes and memorandum are issued to Directors where appropriate, to ensure awareness of best corporate governance practices.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Composition and Role *(Continued)*

According to the records maintained by the Company, the current Directors received the following training in respect of the roles, functions and duties of a director of a listed company in compliance with the new requirement of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules on continuous professional development during the year ended 31 December 2012.

	Corporate Governance/ updates on laws, rules & regulations		Accounting/ financial/management or other professional skills	
Name of Directors	**Read materials**	**Attended seminars/ briefing**	**Read materials**	**Attended seminars/ briefing**
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	✓	✓		
Mr. Yu Ning (appointed on 28 December 2012)	✓	N/A	N/A	N/A

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held four Board meetings and three general meetings during the financial year ended 31 December 2012. Directors present in those Board meetings were either in person or through electronic means of communication. Attendance records of the Board meetings and general meetings for the year ended 31 December 2012 are set out below:

Name of Directors	Number of Board meetings attended/held	Number of general meetings attended/held
Executive Directors:		
Mr. Zhang Honghai *(Chairman)*	4/4	3/3
Mr. E Meng	1/4	0/3
Mr. Jiang Xinhao	3/4	0/3
Mr. Hu Xiaoyong *(Chief Executive Officer)*	4/4	0/3
Mr. Zhou Min	4/4	1/3
Mr. Li Haifeng	4/4	0/3
Mr. Zhang Tiefu	4/4	0/3
Mr. Hou Feng	3/4	0/3
Ms. Qi Xiaohong	3/4	0/3
Mr. Ke Jian	2/4	0/3
Mr. Tung Woon Cheung Eric	4/4	2/3
Independent Non-executive Directors:		
Mr. Shea Chun Lok Quadrant	2/4	1/3
Mr. Zhang Gaobo	3/4	2/3
Mr. Guo Rui	4/4	0/3
Ms. Hang Shijun	3/4	0/3
Mr. Wang Kaijun	3/4	0/3
Mr. Yu Ning (appointed on 28 December 2012)	0/0	0/0

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the financial year ended 31 December 2012, the positions of the chairman and the chief executive officer of the Company were held separately. The chairman of the Company is Mr. Zhang Honghai and the chief executive officer of the Company is Mr. Hu Xiaoyong. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board considers that the INEDs can provide independent advices on the Company's business strategies, results and management so as to safeguard the interests of the Company and its shareholders.

As from 1 April 2012, all INEDs had entered into letters of appointment with the Company for a term of three years but are subject to retirement by rotation and re-election in accordance with the bye-laws of the Company (the "Bye-Laws").

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD COMMITTEES

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee

The Audit Committee is composed of three INEDs namely, Mr. Shea Chun Lok Quadrant (chairman of the Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui.

The Board adopted a set of the revised terms of reference of the Audit Committee effective from 30 March 2012, which had included changes in line with the requirements under the Listing Rules. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time.

The Audit Committee is mainly responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements and issues arising from the audit, and the review of the Group's internal controls and risk management.

In addition, the Audit Committee had been delegated the responsibility to perform the corporate governance duties including:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the board;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Summary of work done during the year: Reviewed the financial statements for the period from 1 January 2012 to 30 June 2012 and for the year ended 31 December 2012, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company and the internal control system and risk management and determined the policy for corporate governance.

The Audit Committee held two meetings during the financial year ended 31 December 2012 with an attendance rate of 100%.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee

The Nomination Committee comprises one executive director namely, Mr. Zhang Honghai (chairman of the Nomination Committee) and two INEDs namely, Mr. Zhang Gaobo and Mr. Guo Rui.

Prior to 30 March 2012, all new appointments and re-appointments to the Board are subject to the approval of the Board. The Board newly adopted a set of the terms of reference of the Nomination Committee effective from 30 March 2012, which had included changes in line with the requirements under the Listing Rules. The Nomination Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time. The Nomination Committee is mainly responsible for formulating policy and making recommendations to the Board on nominations, appointment and re-appointment of directors and board succession.

Summary of work done during the year: reviewed the size, structure and composition of the Board to complement the Group's corporate strategy, obtained the opinion of existing Directors (including INEDs), assessed the independence of the proposed new INEDs in accordance with requirements under the Listing Rules and considered and made recommendation to the Board.

The Nomination Committee held a meeting during the financial year ended 31 December 2012 with an attendance rate of 100%.

Remuneration Committee

The Remuneration Committee comprises one executive director namely, Ms. Qi Xiaohong and two INEDs namely, Mr. Zhang Gaobo (chairman of the Remuneration Committee) and Mr. Guo Rui.

The Board adopted a set of the revised terms of reference of the Remuneration Committee effective from 30 March 2012, which had included changes in line with the requirements under the Listing Rules. The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time. The Remuneration Committee adopted the operation model where it performs an advisory role to the Board and to make recommendations to the Board on the remuneration packages of individual executive directors and senior management with the Board retaining the final authority to approve executive directors' and senior management remuneration. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration.

Summary of work done during the year: reviewed the remuneration policy and approval of establishment of a subcommittee to oversee the remuneration packages of executive directors and senior management taking consideration of factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management.

During the year, no Remuneration Committee meeting was held but dealt with matters by way of circulation.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK$7.2 million and for non-audit service assignments was approximately HK$2.4 million, which represented agreed-upon procedures engagements in connection with the Group's interim financial report, assets acquisition and tax advisory and compliance services. The Audit Committee had satisfied that the non-audit services in 2012 did not affect the independence of the external auditors.

INTERNAL CONTROLS

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

During the year ended 31 December 2012, the Board reviewed the operational and financial reports, budgets and business plans provided by the management.

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

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on page 50 of the "Independent Auditors' Report" in this annual report.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening a special general meeting by shareholders ("SGM")

The Board shall on the written requisition of any two or more shareholders of the Company holding at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at the SGM, forthwith proceed duly to convene the SGM ("Requisition"). The Requisition, which may consist of several documents in like form each signed by one or more requisitionists, must state the objects of the SGM and deposited at the Company's head office and principal place of business in Hong Kong.

If the Board does not within 21 days from the date of the deposit of the Requisition proceed duly to convene a SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM in the same manner, as nearly as possible, as that in which SGM may be convened by the Board, but any meeting so convened shall not be held after the expiration of three months from the aforesaid date of the deposit of the Requisition.

All reasonable expenses incurred by the requisitionists as a result of the failure of the Board to convene such a SGM shall be reimbursed to them by the Company.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries to the Board for the attention of the Secretary of the Company ("Company Secretary") via email (mailbox@bewg.com.hk) or directed to the Company's head office and principal place of business in Hong Kong at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. Shareholders may also make enquiries with the Board at the general meetings of the Company.

Procedures for putting forward proposals at shareholders' meetings

If a shareholder of the Company wishes to put forward proposals at the annual general meeting (the "AGM")/SGM which is to be held, such shareholder, who is duly qualified to attend and vote at such general meeting, shall follow the procedures as set out below which are required in accordance with the bye-laws of the Company ("Bye-laws") and the Listing Rules.

1. A shareholder shall validly serve on the Company Secretary his/her written and signed notice of intention to propose a resolution at the AGM/SGM.

2. The foregoing documents shall be lodged at the Company's head office and principal place of business in Hong Kong at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for putting forward proposals at shareholders' meetings *(Continued)*

3. The period for lodgment of the foregoing notices required under the Bye-Laws shall commence on the day after the despatch of the notice of the AGM/SGM and end no later than 7 days prior to the date of the AGM/SGM and such period shall be at least 7 days.

4. If the foregoing notices shall be received less than 10 business days prior to the date of such AGM/SGM, the Company needs to consider the adjournment of such AGM/SGM in order to allow shareholders of the Company 14 days' notice (the notice period must include 10 business days) of the proposal.

5. The foregoing notice of intention to propose a resolution will be verified by the Company's branch share registrar in Hong Kong (the "Branch Share Registrar"). Upon confirmation from the Branch Share Registrar, the Company Secretary will present to the board of Directors for their approval on the inclusion of the proposed resolutions in the AGM/SGM.

Shareholders may take reference to the procedures made available under headed the "About BEWG" and "Corporate Governance" section ("Procedure for Shareholders to Propose a Person for Election as a Director") of the Company's website.

INVESTOR RELATIONS

Communication with shareholders

The Board believes that effective and proper investor relations play an important role in creating shareholders' value, enhancing the corporate transparency as well as establishing market confidence.

During the financial year ended 31 December 2012, the Company has proactively taken the following measures to ensure effective shareholders' communication and enhance our transparency:

1. maintained frequent contacts with institutional shareholders and investors through various channels such as meetings, telephone and emails;

2. updated regularly the Company's news and developments through the "investor relations" section of the Company's website; and

3. arranged on-site visits to the Group's projects for investors and research analysts.

The above measures will be provided them with the latest development of the Group as well as the water industry.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS *(Continued)*

Constitutional documents

The special resolution regarding the amendments to the Bye-laws had been passed by the shareholders of the Company at the SGM held on 22 March 2012.

An updated consolidated version of the Memorandum of Association and Bye-Laws is available on both the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. In the opinion of the Board, the Company had complied with all code provisions set out in the CG Code during the financial year ended 31 December 2012 and up to the date of publication of this annual report, except as disclosed herein below.

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 general meetings in accordance with the Bye-laws. Sufficient measures had been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

DIRECTORS AND SENIOR MANAGEMENT

As at the date of this annual report, the Board consists of seventeen Directors, comprising eleven executive Directors and six independent non-executive Directors.

DIRECTORS

Executive Directors

Mr. Zhang Honghai ("Mr. Zhang"), aged 60, Senior Economist, was appointed as the chairman and an executive director of the Company in May 2008. Mr. Zhang is also the chairman of nomination committee of the Company. He serves as a director of Beijing Enterprises Group Company Limited, a vice chairman and the chief executive officer of Beijing Enterprises Holdings Limited (stock code: 392) and an executive director of Beijing Development (Hong Kong) Limited (stock code: 154). Mr. Zhang graduated from Peking University in 1982 and subsequently obtained a master's degree in business studies at the International Business School of Hunan University. Mr. Zhang graduated from the EMBA program of Guanghua School of Management, Peking University. Mr. Zhang has worked for the Beijing Municipal Government for many years. Prior to joining the Company, Mr. Zhang was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. Mr. Zhang is currently the vice president of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as deputy general manager and was then promoted to vice chairman and general manager of Beijing International Trust Investment Limited during the period from 1990 to 1998. Mr. Zhang was an executive director of China Information Technology Development Limited (Stock code: 8178) during the period from February 2008 to August 2009, and then be re-designated as its non-executive director until September 2010. Mr. Zhang has accumulated extensive experience in corporate management.

Mr. E Meng, aged 54, was appointed as an executive director of the Company in February 2008. He serves as a vice general manager and the chief financial officer of Beijing Enterprises Group Company Limited. He is also an executive director and an executive vice president of Beijing Enterprises Holdings Limited (stock code: 392) and the chairman and an executive director of Beijing Development (Hong Kong) Limited (stock code: 154). Mr. E Meng also is an independent non-executive director of JLF Investment Company Limited (stock code: 472). Mr. E Meng graduated from China Science and Technology University with a master's degree in engineering. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E Meng has extensive experience in economics, finance and enterprise management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Jiang Xinhao ("Mr. Jiang"), aged 48, was appointed as an executive director of the Company in June 2008. Mr. Jiang also serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice president of Beijing Enterprises Holdings Limited (stock code: 392) and an executive director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, and then in 1992 with a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. He served as a policy analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. Mr. Jiang has many years of experience in economics, finance and corporate management.

Mr. Hu Xiaoyong ("Mr. Hu"), aged 48, was appointed as an executive director and the chief executive officer of the Company in August 2008. Mr. Hu graduated with an EMBA from the Tsinghua University. He was the vice chairman of the China Environmental Service Industry Association (全國工商聯環境服務業商會). Mr. Hu is currently the chairman of BEWG Environmental Group Co., Ltd.

Mr. Zhou Min ("Mr. Zhou"), aged 49, was appointed as an executive director and a vice president of the Company in August 2008. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People's Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now a director and the chief financial officer of BEWG Environmental Group Co., Ltd.

Mr. Li Haifeng ("Mr. Li"), aged 42, was appointed as an executive director and a vice president of the Company in August 2008. Mr. Li graduated with a bachelor's degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). Mr. Li is now the chairman of the Supervisory Committee of BEWG Environmental Group Co., Ltd., responsible for exploring business opportunities in water market in the PRC. He is currently the chairman and an executive director of Carry Wealth Holdings Limited (stock code: 643) and an independent non-executive director of Simsen International Corporation Limited (stock code: 993), both of which are listed on the Stock Exchange of Hong Kong Limited.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Zhang Tiefu, aged 50, was appointed as an executive director and a vice president of the Company in April 2009. He graduated from Jilin Industrial Institute with a bachelor's degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) in 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and is concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management. He joined the Group in April 2009.

Mr. Hou Feng ("Mr. Hou"), aged 51, was appointed as an executive director of the Company in September 2010 and a vice president of the Company in 2008. He is concurrently acting a director of certain subsidiaries of the Company. Mr. Hou was awarded Master of Science in Environmental Engineering from Sichuan University. Prior to joining the Group, Mr. Hou was appointed as a director and president of BEWG Environmental Group Co., Ltd. from 2001 to 2008. Mr. Hou is the registered environmental protection engineer (全國註冊環保工程師), an advanced member of the Chinese Society For Environmental Sciences (中國環境科學學會), a director of the Fifth Council for the Water Industry Branch of China Civil Engineer Society (中國土木工程協會水工業分會第五屆理事會). He has extensive experiences in engineering, construction and operation work as well as investment in water industry.

Ms. Qi Xiaohong ("Ms. Qi"), aged 45, was appointed as an executive director of the Company in May 2008 and a member of remuneration committee of the Company. Ms. Qi graduated from Capital Normal University and subsequently obtained a master degree in economic management at Capital University of Economics and Business. She has worked for the Beijing Municipal Government for many years. She joined Beijing Enterprises Holdings Limited in 1997 and is now an assistant to CEO and a general manager of administration department of Beijing Enterprises Holdings Limited, responsible for corporation administration and human resources management.

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

Mr. Tung Woon Cheung Eric ("Mr. Tung"), aged 42, was appointed as an executive director of the Company in August 2011. Mr. Tung is the chief financial officer and company secretary of the Company. Mr. Tung is also the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited (stock code: 392), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the company secretary of Biosino Bio-Technology and Science Incorporation* (stock code: 8247), a company listed on growth enterprise market of the Stock Exchange and an independent non-executive director of South China Financial Holdings Limited (stock code: 619), a company listed on the main board of the Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor's honours degree in administrative studies. He is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

* *For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant ("Mr. Shea"), aged 46, was appointed as an independent non-executive director of the Company in April 2002. He is also the chairman of audit committee of the Company. Mr. Shea graduated from Monash University of Australia with a bachelor's degree in business. He is also a fellow member of CPA Australia, a member of Chartered Institute of Management Accountants of United Kingdom, Institute of Certified Public Accountants of Singapore, Chartered Global Management Accountant and Hong Kong Institute of Certified Public Accountants. Also, Mr. Shea is a Certified Tax Adviser of Hong Kong. Mr. Shea currently serves as financial controller of a main board listed company in Hong Kong. Mr. Shea has been working as a company secretary and qualified accountant in various Hong Kong main board listed companies for many years. He has substantial experience as a financial controller of listed companies.

Mr. Zhang Gaobo, aged 48, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of the Company. He obtained a bachelor's degree in science from Henan University in 1985 and later graduated from Peking University with a master's degree in Economics in 1988. From 1988 to 1991, he was a deputy chief of the policy division of the Hainan Provincial Government. From 1991 to 1993, he was the deputy chief of Financial Markets Administration Committee of PBOC Hainan Branch. From 1992 to 1994, he was the chairman of Hainan Stock Exchange Centre. Since 1993, he has been a founding partner and chief executive officer of Oriental Patron Financial Group and is responsible for its overall general management and business development. He is also an executive director and the chief executive officer of OP Financial Investments Limited (stock code: 1140), a company listed on the Stock Exchange of Hong Kong Limited and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange.

Mr. Guo Rui ("Mr. Guo"), aged 45, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Guo is the president of Paragon Investment Co. Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceutics, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was a former senior consultant of Arthur Andersen LLC from 1999 to 2001. From August to November 2010, Mr. Guo was a non-executive director of Jinchuan Group International Resources Co. Ltd. (formerly known as Macau Investment Holdings Limited (stock code: 2362), a company listed on The Stock Exchange of Hong Kong Limited. Mr. Guo holds a bachelor's degree of computer science (or engineering) from Peking University and a master degree of computer engineering from Northwestern University, U.S.A.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Ms. Hang Shijun ("Ms. Hang"), aged 71, was appointed as an independent non-executive director of the Company in August 2008. She graduated from the Beijing Industrial University majored in Water Supply and Drainage in 1963 and then worked in Beijing Municipal Planning Authority (北京市規劃管理局) from 1963 to 1965. During the period from 1983 to 1985, Ms. Hang studied in department of environmental & sanitary engineering, graduate school of engineering (currently known as department of environmental engineering, graduate school of engineering) in Kyoto University in Japan. Ms. Hang has been working in the Beijing General Municipal Engineering Design&Research Institute (北京市市政工程設計研究總院) since 1966, served as various positions such as head of design department, chief engineer of design department and vice chief engineer of the institute, and is now the chief technology officer of its project center. Ms. Hang is an expert in sewage treatment, solid wastes treatment and disposal as well as recycled water (reused water) technology and project.

Mr. Wang Kaijun ("Mr. Wang"), aged 52, was appointed as an independent non-executive director of the Company in August 2008. Mr. Wang holds a Doctor degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang was previously appointed as the chief engineer of Beijing Municipal Environmental Protection Technology Research Centre (北京市環境保護科學研究院). He is now working as a professor in School of Environment, Tsinghua University (清華大學環境學院), a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Engineering Center for Technology Management and Evaluation. Mr. Wang has been engaged and experienced in the research, development and industrialisation of sewage pollution control technologies and the evaluation of policy-making over the years. Mr. Wang has unique and innovative opinions on the academic study and has made many achievements and demonstration cases on the hydrolysis-aerobic process theory, aerobic and anaerobic reactor theory and design, development and application of sewage sludge treatment and disposal technologies, planning and management of state environment protection administration system, etc. Mr. Wang also developed the new research fields on municipal sewage hydrolysis-aerobic treatment process, high performance anaerobic reactors, sewage sludge treatment and disposal, livestock dejection treatment and rural environmental protection.

Mr. Yu Ning ("Mr. Yu"), aged 59, was appointed as an independent non-executive director of the Company in December 2012. Mr. Yu is a qualified PRC lawyer. Mr. Yu graduated from the law department of Peking University with a bachelor degree in 1983 and obtained a master degree specialising in economic law from the law department of Peking University in 1996. Mr. Yu is a member of the Chinese People's Political Consultative Conference. Mr. Yu was previously the president of All China Lawyers Association. Mr. Yu served as principal lawyer at Beijing Times Highland Law Firm, part-time professor at Peking University and mentor of master postgraduates at the Law School of Tsinghua University. He is an independent director of each of Bank of Beijing Co., Ltd. (Stock Code: 601169), Sinolink Securities Co., Ltd. (Stock Code: 600109) and China CSSC Holdings Limited (Stock Code: 600150), these three companies listed on The Shanghai Stock Exchange. He is also an independent director of United Mechanical and Electrical Co., Ltd. (Stock Code: 000925), a company listed on the Shenzhen Stock Exchange. Mr. Yu is also an independent non-executive director of Intime Department Store (Group) Company Limited (Stock Code: 1833) and was an independent non-executive director of Huaneng Power International, Inc. (Stock Code: 902), both are companies listed on the main board of The Stock Exchange of Hong Kong Limited.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is engaged in investment holding, and the principal subsidiaries are engaged in, where applicable, the construction of sewage and reclaimed water treatment and seawater desalination plants, and the provision of construction services for comprehensive renovation projects in Mainland China and Malaysia, the provision of sewage and reclaimed water treatment services and distribution and sale of piped water in Mainland China, the provision of technical and consultancy services that are related to sewage treatment and construction of comprehensive renovation projects in Mainland China, and the licensing of technical know-how that is related to sewage treatment in Mainland China. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements.

RESULTS AND DISTRIBUTIONS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 52 to 170. An interim distribution of HK2 cents per ordinary share was paid on 26 October 2012. The Board recommended to make final distribution of HK2 cents per share out of the contributed surplus of the Company to shareholders of the Company for their continuous supports to the Company. This recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The final distribution will be paid on or around 7 June 2013.

CLOSURES OF REGISTER OF MEMBERS

1. Annual General Meeting

The register of members will be closed from Thursday, 16 May 2013 to Tuesday, 21 May 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Tuesday, 21 May 2013, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 15 May 2013.

2. Proposed Final Distribution

The register of members will be closed from Monday, 27 May 2013 to Tuesday, 28 May 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final distribution, all properly completed transfer forms accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, 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, 24 May 2013.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2012, is set out on pages 171 to 172. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB730,000 (equivalent to approximately HK$901,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group together accounted for 36% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 54% of the Group's total purchases for the year. Sales to the largest customer accounted for 14% of the Group's revenue and purchases from the largest supplier accounted for 27% of the Group's purchases.

During the year, none of the Directors, an associate of the Director or a shareholder of the Company (which to the best knowledge of the Directors owns more than 5% of the Company's share capital) had a beneficial interest in any of the Group's five largest customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year, together with the reasons therefor, are set out in note 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2012, the Company's reserves available for distribution to shareholders amounted to HK$5,025,899,000.

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

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

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

REPORT OF THE DIRECTORS

DIRECTORS

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

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
Mr. Yu Ning (appointed on 28 December 2012)

In accordance with Bye-law 99(B), Mr. Jiang Xinhao, Mr. Hu Xiaoyong, Mr. Hou Feng, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun shall retire by rotation from office as directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

In accordance with Bye-law 91, Mr. Yu Ning shall retire from office as director at the forthcoming annual general meeting and being eligible, offer himself for re-election.

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

REPORT OF THE DIRECTORS

BOARD CHANGES

Since the date of the Interim Report 2012 of the Company and up to the date of this annual report, there has been a change to the Board as follow:

Mr. Yu Ning was appointed as an independent non-executive director of the Company with effect from 28 December 2012.

CHANGES IN DIRECTORS' INFORMATION

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

Change in information on Directors since the date of the Interim Report 2012 of the Company and up to the date of this annual report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Wong Kaijun, an independent non-executive director of the Company, is now a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Engineering Center for Technology Management and Evaluation.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and the senior management of the Company are set out on pages 34 to 38 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As from 1 April 2012, all Directors (including INEDs) had entered into letters of appointment with the Company for a term of three years but are subject to retirement by rotation and re-election in accordance with the bye-laws of the Company.

DIRECTORS' REMUNERATION

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

Further details of the Company's remuneration committee are set out in the corporate governance report on page 29 of this annual report.

REPORT OF THE DIRECTORS

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

As at 31 December 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:

1. 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, Beijing Enterprises Holdings Limited ("BEHL", a substantial shareholder of the Company) and Tenson entered into a share mortgage 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").

2. The percentage represented the number of shares over the total issued shares of the Company as at 31 December 2012 of 6,909,170,486 shares.

Save as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

The maximum number of unexercised share options currently permitted to be granted under the Scheme is 685,013,469, being an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of the Company in issue at the date of passing the resolution which the Scheme was adopted. The maximum number of ordinary shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

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

During the year ended 31 December 2012, no share options under the Scheme was granted to the directors or employees of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 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 *(Note 5)*
Beijing Enterprises Group Company Limited *(Notes 1, 2 & 3)*	Interest of controlled corporation	3,047,556,993	44.11%
	Security Interest	400,000,000	5.79%
BEHL *(Notes 1, 2 & 3)*	Interest of controlled corporation	3,047,556,993	44.11%
	Security Interest	400,000,000	5.79%
Tenson *(Notes 2 & 4)*	Beneficial owner	684,789,919	9.91%
Wang Taoguang	Beneficial owner	347,479,119	5.03%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

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

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

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

2. The Company noted from the website of the Stock Exchange that on 29 May 2012, BEHL and Tenson entered into a share mortgage 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 shares of the Company as at 31 December 2012 of 6,909,170,486 shares.

Save as disclosed above, as at 31 December 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.

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

The emolument of each of Directors and the employees of the Group is on the basis of their merit, qualification, competence and experience in the industry, the profitability of the Group as well as remuneration benchmarks from other local and international companies and prevailing market conditions. Directors and employees also participate in bonus arrangements which are determined in accordance with the performance of the Group and the individual's performance.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

RELATED PARTY TRANSACTIONS

The Group entered into certain activities with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to the activities in the ordinary course of the Group's business and were negotiated on normal commercial terms and an arm's length basis. Certain transactions set out in note 47 to the financial statements are connected transactions as defined under the Listing Rules and were complied with the requirements of Chapter 14A of the Listing Rules. The disclosures required by Rule 14A.45 of the Listing Rules are provided in the paragraph headed "Connected Transactions" as identified below.

CONNECTED TRANSACTIONS

On 26 September 2012, the Company, along with its certain of its subsidiaries (the "Purchasers") entered into the master agreement ("Master Agreement") with BEHL and certain of its subsidiaries (the "Vendors") in respect of acquisitions of the following assets namely, (i) the estimated future net cash income (after deducting all state and local taxes in the PRC and operating costs) generated from the service concession arrangement on the water purification and treatment operation of the Phase 1 of No. 9 water treatment plant in Beijing for the six years ending 31 December 2018; (ii) the entire equity interest in 濰坊北控水務有限公司 (Beijing Enterprises Water (Weifang) Company Limited^) which is engaged in a service concession arrangement on water supply in Shandong Province, the PRC; (iii) the entire equity interest in Beijing Enterprises Water Company Limited, an investment holding company holding an interest in a jointly-controlled entity which is engaged in a service concession arrangement on water supply in Beijing (asset (i), (ii) & (iii) hereinafter collectively referred as to "Proposed Assets Injection"); and (iv) a 90% equity interest in 北控水務集團(海南)有限公司 (Beijing Enterprises Water Group (Hainan) Company Limited^), which is principally engaged in sewage treatment operation in Hainan Province, the PRC (hereinafter referred as to "Proposed BE Water (Hainan) Transfer"). The total consideration of HK$1,258,433,558 in respect of the above acquisitions was satisfied by way of the issuance of 776,810,838 ordinary shares of the Company at HK$1.62 per share to Beijing Enterprises Environmental Construction Limited ("BE Environmental"), a wholly-owned subsidiary of BEHL.

Under the Master Agreement, as consideration for the Proposed Asset Injection, 658,357,748 shares at HK$1.62 per share were allotted and issued to BE Environmental upon the completion took place on 5 February 2013. As consideration for the Proposed BE Water (Hainan) Transfer, 118,453,090 shares at HK$1.62 per share will be allotted and issued to BE Environmental upon its completion. As at the date of this annual report, the Proposed BE Water (Hainan) Transfer has not been completed.

Since the Vendors are connected persons of the Company as defined under Chapter 14A of the Listing Rules and the Master Agreement and the Proposed Asset Injection and Proposed BE Water (Hainan) Transfer contemplated therein constitute connected transactions of the Company and are subject to the reporting and announcement requirements and the independent shareholders' approval requirement pursuant to the Listing Rules. This transaction had been approved by independent shareholders of the Company at the special general meeting held on 18 December 2012, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules and can be found on the websites of the Company and the Stock Exchange.

^ For identification purpose only

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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	*Note 1*
28 March 2011	Term loan facility with a syndicate of banks	HK$1,300	March 2016	*Note 2*
18 April 2011	Term loan facility with a syndicate of banks	HK$700	March 2016	*Note 2*
24 June 2011	Subscription agreement for issuance of bonds	RMB1,000	June 2014	*Note 3*
	Subscription agreement for issuance of bonds	RMB450	June 2016	*Note 3*
8 September 2011	Term loan facility with a bank	HK$250	September 2015	*Note 2*
30 September 2011	Subscription agreement for issuance of bonds	RMB450	June 2014	*Note 3*
	Subscription agreement for issuance of bonds	RMB50	June 2016	*Note 3*
1 March 2012	Term loan facility with a bank	RMB950	March 2015	*Note 2*
1 August 2012	Note purchase agreement with an institutional investor	RMB1,200	August 2021	*Note 3*
21 December 2012	Term loan facility with a bank	US$175	December 2017	*Note 2*

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.

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

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.

CORPORATE GOVERNANCE

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. In the opinion of the board of directors of the Company, the Company had complied with all code provisions set out in the CG Code contained in Appendix 14 of Rules Governing the Listing Rules during the financial year ended 31 December 2012 and up to the date of publication of this annual report, except as disclosed in the Corporate Governance Report.

COMPLIANCE WITH THE MODEL CODE

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

AUDITORS

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

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 50 to the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2012 were approved by the board of directors on 27 March 2013.

On behalf of the Board

Zhang Honghai
CHAIRMAN

Hong Kong
27 March 2013

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 52 to 170, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

INDEPENDENT AUDITORS' REPORT

Auditors' responsibility *(Continued)*

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2013

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	6	**3,727,379**	2,654,454
Cost of sales		**(2,290,350)**	(1,746,217)
Gross profit		**1,437,029**	908,237
Interest income	6	**467,546**	385,505
Other income and gains, net	6	**193,877**	144,115
Administrative expenses		**(439,575)**	(301,221)
Other operating expenses, net		**(127,396)**	16,402
PROFIT FROM OPERATING ACTIVITIES	7	**1,531,481**	1,153,038
Finance costs	8	**(494,290)**	(312,989)
Share of profits and losses of:			
Jointly-controlled entities	20(a)	**56,011**	20,798
Associates	21(a)	**(1,409)**	–
PROFIT BEFORE TAX		**1,091,793**	860,847
Income tax	11	**(224,643)**	(169,861)
PROFIT FOR THE YEAR		**867,150**	690,986
ATTRIBUTABLE TO:			
Shareholders of the Company	12	**750,474**	600,736
Non-controlling interests		**116,676**	90,250
		867,150	690,986
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	14		
Basic and diluted		**HK10.86 cents**	HK8.94 cents

Details of the cash distributions out of contributed surplus account declared and proposed for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
PROFIT FOR THE YEAR	**867,150**	690,986
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**(5,588)**	451,838
Share of other comprehensive income/(loss) of a jointly-controlled entity	**6,973**	(7,370)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX OF NIL	**1,385**	444,468
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**868,535**	1,135,454
ATTRIBUTABLE TO:		
Shareholders of the Company	**751,350**	941,584
Non-controlling interests	**117,185**	193,870
	868,535	1,135,454

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	**2012** ***HK$'000***	2011 *HK$'000*
ASSETS			
Non-current assets:			
Property, plant and equipment	*15*	**527,549**	233,276
Goodwill	*16*	**1,762,151**	1,643,719
Operating concessions	*17*	**973,357**	763,381
Other intangible assets	*18*	**17,295**	6,455
Investments in jointly-controlled entities	*20*	**2,317,740**	1,973,493
Investments in associates	*21*	**100,867**	37,038
Available-for-sale investments	*22*	**7,094**	2,964
Amounts due from contract customers	*25*	**2,761,981**	1,599,285
Receivables under service concession arrangements	*17*	**6,469,498**	5,003,117
Trade and bills receivables	*26*	**97,225**	261,850
Prepayments, deposits and other receivables	*27*	**2,547,230**	1,542,014
Deferred tax assets	*38*	**28,690**	28,874
Total non-current assets		**17,610,677**	13,095,466
Current assets:			
Land held for sale	*23*	**1,077,403**	999,626
Inventories	*24*	**30,453**	13,422
Amounts due from contract customers	*25*	**31,637**	87,865
Receivables under service concession arrangements	*17*	**382,464**	253,105
Trade and bills receivables	*26*	**2,385,500**	3,676,549
Prepayments, deposits and other receivables	*27*	**5,395,988**	4,583,574
Restricted cash and pledged deposits	*29*	**84,892**	92,367
Cash and cash equivalents	*29*	**4,290,866**	1,947,768
Total current assets		**13,679,203**	11,654,276
TOTAL ASSETS		**31,289,880**	24,749,742

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	30	**690,917**	690,917
Reserves	31(a)(i)	**7,776,207**	7,391,072
		8,467,124	8,081,989
Non-controlling interests		**2,264,369**	1,628,892
TOTAL EQUITY		**10,731,493**	9,710,881
Non-current liabilities:			
Other payables and accruals	40	**233,217**	279,909
Bank and other borrowings	32	**6,593,424**	5,364,905
Corporate bonds	33	**2,394,530**	2,325,633
Note payable	34	**1,476,567**	–
Finance lease payable	35	**12,928**	–
Provision for major overhauls	36	**221,643**	167,296
Deferred income	37	**80,785**	25,163
Deferred tax liabilities	38	**287,010**	205,179
Total non-current liabilities		**11,300,104**	8,368,085
Current liabilities:			
Trade and bills payables	39	**1,919,238**	2,049,236
Other payables and accruals	40	**4,269,166**	3,406,346
Income tax payables		**252,802**	145,585
Bank and other borrowings	32	**2,810,313**	1,069,609
Finance lease payable	35	**6,764**	–
Total current liabilities		**9,258,283**	6,670,776
TOTAL LIABILITIES		**20,558,387**	15,038,861
TOTAL EQUITY AND LIABILITIES		**31,289,880**	24,749,742

Zhang Honghai
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

		Attributable to shareholders of the Company										
	Note	Issued capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Capital reserve *HK$'000*	Defined benefit plan reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000* *(note 31(a)(ii))*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *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 year		–	–	–	–	–	–	–	750,474	750,474	116,676	867,150
Other comprehensive income/(loss) for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	(6,097)	–	–	(6,097)	509	(5,588)
Share of other comprehensive income of a jointly-controlled entity		–	–	–	–	6,973	–	–	–	6,973	–	6,973
Total comprehensive income/(loss) for the year		–	–	–	–	6,973	(6,097)	–	750,474	751,350	117,185	868,535
Reduction of share premium account	*31(b)(ii)*	–	(5,809,534)	5,570,203	–	–	–	–	239,331	–	–	–
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	502,376	502,376
Acquisition of non-controlling interests		–	–	–	(10,348)	–	–	–	–	(10,348)	(13,465)	(23,813)
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	31,233	31,233
Share of reserves of jointly-controlled entities		–	–	–	(10,409)	–	–	–	–	(10,409)	–	(10,409)
Dividend paid to a non-controlling equity holder		–	–	–	–	–	–	–	–	–	(1,852)	(1,852)
Final 2011 cash distributions		–	–	(207,275)	–	–	–	–	–	(207,275)	–	(207,275)
Interim 2012 cash distributions		–	–	(138,183)	–	–	–	–	–	(138,183)	–	(138,183)
Transfer to reserves		–	–	–	–	–	–	58,564	(58,564)	–	–	–
At 31 December 2012		690,917	–*	5,224,345*	(277,108)*	(397)*	481,350*	250,438*	2,097,579*	8,467,124	2,264,369	10,731,493

* *These reserve accounts comprise the consolidated reserves of HK$7,776,207,000 (2011: HK$7,391,072,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,091,793**	860,847
Adjustments for:			
Bank interest income	6	**(34,911)**	(21,875)
Imputed interest income on trade and bills receivables with extended credit periods	6	**(129,021)**	(241,369)
Interest income from non-controlling equity holders of subsidiaries	6	**(68,036)**	(82,724)
Interest income on loans to jointly-controlled entities	6	**(12,522)**	(2,879)
Interest income on loans to government authorities in Mainland China	6	**(212,707)**	(36,658)
Imputed interest income on an interest-free loan to a joint venturer	6	**(10,349)**	–
Loss on disposal of items of property, plant and equipment, net	7	**589**	1,478
Gains on bargain purchase of subsidiaries	6	**(12,692)**	–
Gain on bargain purchase of a jointly-controlled entity	6	**–**	(42,235)
Gain on remeasurement of a pre-existing interest in a jointly-controlled entity	6	**(23,484)**	–
Depreciation	7	**25,232**	9,299
Amortisation of operating concessions	7	**43,524**	37,285
Amortisation of other intangible assets	7	**985**	903
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	7	**10,063**	(39,655)
Impairment of trade and bills receivables, net	7	**1,772**	17,945
Impairment of other receivables, net	7	**1,608**	1,808
Write-off of an amount due from a related party	7	**9,523**	–
Provision for major overhauls	36	**49,343**	33,207
Finance costs	8	**509,115**	321,561
Share of profits and losses of jointly-controlled entities	20	**(56,011)**	(20,798)
Share of profits and losses of associates	21	**1,409**	–
Operating profit before working capital changes		**1,185,223**	796,140
Increase in land held for sale		**–**	(999,626)
Decrease/(increase) in inventories		**(5,106)**	248
Decrease/(increase) in amounts due from contract customers		**(1,079,124)**	794,003
Increase in receivables under service concession arrangements		**(1,192,950)**	(1,691,617)
Decrease in trade and bills receivables		**1,666,996**	598,756
Increase in prepayments, deposits and other receivables		**(1,327,879)**	(3,591,967)
Decrease in trade and bills payables		**(162,283)**	(726,021)
Increase in other payables and accruals		**212,936**	2,727,030
Cash used in operations		**(702,187)**	(2,093,054)
Mainland China income tax paid		**(67,683)**	(103,671)
Malaysia corporate tax paid		**(2,930)**	(1,310)
Net cash flows used in operating activities		**(772,800)**	(2,198,035)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	15	**(38,449)**	(65,987)
Purchases of operating concessions	17	**(62,487)**	(10,783)
Purchases of other intangible assets	18	**(7,980)**	(1,768)
Acquisition of subsidiaries	42	**(134,111)**	(245,218)
Acquisition of and increase in investments in jointly-controlled entities		**(248,625)**	(1,334,530)
Increase in investments in associates		**(100,000)**	(36,145)
Acquisition of non-controlling interests		**(23,813)**	(297,002)
Acquisition of an available-for-sale investment		**–**	(1,236)
Increase in loans to a jointly-controlled entity		**(6,400)**	(776)
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**19,553**	(24,491)
Decrease in restricted cash and pledged deposits		**7,475**	500,140
Interest received		**34,911**	21,875
Net cash flows used in investing activities		**(559,926)**	(1,495,921)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**31,233**	484,886
Issue of a note payable	34	**1,476,567**	–
Issue of corporate bonds		**–**	2,325,633
New loans		**4,025,803**	4,088,013
Repayment of loans		**(1,406,686)**	(6,319,116)
Proceeds from issue of shares upon the completion of an open offer	30(a)	**–**	3,385,362
Capital element of finance lease rental payments		**(6,316)**	(5,156)
Interest paid		**(502,944)**	(317,616)
Interest element of finance lease rental payments		**(1,167)**	(234)
Dividends paid to non-controlling equity holders		**(1,852)**	(65,783)
Increase in bank deposits that require approval of a bank for any withdrawal in excess of a threshold	29(c)	**(645,966)**	–
Net cash flows from financing activities		**2,968,672**	3,575,989
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,635,946**	(117,967)
Cash and cash equivalents at beginning of year		**1,923,277**	1,961,828
Effect of foreign exchange rate changes, net		**80,739**	79,416
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,639,962**	1,923,277
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	29	**4,290,866**	1,947,768
Less: Time deposits with maturity of more than three months when acquired		**(4,938)**	(24,491)
Less: Bank deposits that require approval of a bank for any withdrawal in excess of a threshold	29(c)	**(645,966)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**3,639,962**	1,923,277

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	15	**808**	1,039
Investments in subsidiaries	19	**8,659,389**	7,943,852
Investments in jointly-controlled entities	20	**1,282,778**	1,282,778
Prepayments, deposits and other receivables	27	**1,100,577**	1,051,225
Total non-current assets		**11,043,552**	10,278,894
Current assets:			
Trade and bills receivables	26	**21,432**	19,696
Prepayments, deposits and other receivables	27	**4,221,141**	3,218,047
Cash and cash equivalents	29	**384,397**	107,195
Total current assets		**4,626,970**	3,344,938
TOTAL ASSETS		**15,670,522**	13,623,832
EQUITY AND LIABILITIES			
Equity:			
Issued capital	30	**690,917**	690,917
Reserves	31(b)	**5,025,899**	5,675,232
TOTAL EQUITY		**5,716,816**	6,366,149
Non-current liabilities:			
Bank and other borrowings	32	**3,393,136**	3,402,217
Corporate bonds	33	**2,394,530**	2,325,633
Note payable	34	**1,476,567**	–
Total non-current liabilities		**7,264,233**	5,727,850
Current liabilities:			
Trade payables	39	**388**	2,416
Other payables and accruals	40	**1,336,789**	1,137,940
Bank and other borrowings	32	**1,352,296**	389,477
Total current liabilities		**2,689,473**	1,529,833
TOTAL LIABILITIES		**9,953,706**	7,257,683
TOTAL EQUITY AND LIABILITIES		**15,670,522**	13,623,832

Zhang Honghai
Director

Zhou Min
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2012

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively the "Group") were involved in the following principal activities:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the People's Republic of China (the "PRC") and Malaysia

- provision of sewage and reclaimed water treatment services in Mainland China

- distribution and sale of piped water in Mainland China

- provision of technical and consultancy services that are related to sewage treatment and construction of comprehensive renovation projects in Mainland China

- licensing of technical know-how that is related to sewage treatment in Mainland China

2. BASIS OF PRESENTATION

Basis of presentation

Despite that the Group had capital commitments of approximately HK$8.3 billion (comprising the Group's capital commitments and the Group's share of the jointly-controlled entities' own capital commitments) in aggregate as at 31 December 2012 as detailed in note 46 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's profit forecast and cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

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

(b) Beijing Enterprises Holdings Limited ("BEHL"), a substantial beneficial owner of the Company, has the intention to maintain directly or indirectly of not less than 40% equity interest in the Company in the foreseeable future; and

(c) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2013 with reference to the terms of respective agreements and the current status of the projects.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

2. BASIS OF PRESENTATION *(Continued)*

Basis of presentation *(Continued)*

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

3.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — Transition Guidance[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

(a) The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

(c) HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of the Group.

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

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

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

(c) *(Continued)*

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

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

(e) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to the income statement at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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

(g) The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

(h) The *Annual Improvements to HKFRSs 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(i) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(ii) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 Income Taxes. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entities *(Continued)*

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

Associates

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

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

Related parties

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

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

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

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) *(Continued)*

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in the income statement or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

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

Property, plant and equipment and depreciation

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

Leases

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

Service concession arrangements

Consideration given by the grantor

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

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

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

Construction or upgrade services

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

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

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

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

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

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

Patents

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Computer software

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

Research and development costs

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

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

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs.

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

Subsequent measurement

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

(a) Loans and receivables

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

(b) Available-for-sale investments

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment

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

(a) Loans and receivables

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment *(Continued)*

(b) Available-for-sale investments

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

Derecognition

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Financial liabilities (loans and borrowings)

Initial recognition and measurement

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (loans and borrowings) *(Continued)*

Subsequent measurement

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

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

Derecognition

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

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

Financial guarantee contracts

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

Offsetting of financial instruments

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value of financial instruments

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

Land held for sale and inventories

Land held for sale and inventories are stated at the lower of cost and net realisable value. Costs are determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

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

Revenue from the construction services for comprehensive renovation projects is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services

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

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

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

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

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

Cash and cash equivalents

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

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

Provisions

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

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

Income tax

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

Government grants

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

For government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset received after 1 January 2009, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities (loans and borrowings)" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants *(Continued)*

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

Revenue recognition

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

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

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

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

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

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

(f) dividend income, when the equity holders’ right to receive payment has been established.

Employee benefits

Defined contribution plans

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Defined contribution plans (Continued)

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

Defined benefit plan

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

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

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

Borrowing costs

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Percentage of completion of construction work and service contracts

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

Classification between operating concessions and receivables under service concession arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, the expected future sewage and reclaimed water treatment volume of the relevant sewage and reclaimed water treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2012 were HK$973,357,000 (2011: HK$763,381,000) and HK$6,851,962,000 (2011: HK$5,256,222,000), respectively. Further details of which are set out in note 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

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

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

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

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

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

Estimate of water consumption

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

The actual consumption could deviate from those estimates.

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

The Group has contractual obligations which it must fulfil as a condition of its licence and is the obligations require the Group (a) to maintain the sewage and reclaimed water treatment and water distribution plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the sewage and reclaimed water treatment and water distribution plants over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the provision for major overhauls carried as a liability in the consolidated statement of financial position as at 31 December 2012 was HK$221,643,000 (2011: HK$167,296,000), further details of which are set out in note 36 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

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

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment, and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment, and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of property, plant and equipment, and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2012 were HK$527,549,000 (2011: HK$233,276,000) and HK$990,652,000 (2011: HK$769,836,000) in aggregate, respectively. Further details of which are set out in notes 15, 17 and 18 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2012 was HK$1,971,881,000 (2011: HK$1,841,149,000) in aggregate, details of which are set out in notes 16 and 20 to the financial statements.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

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

The policy for provision for impairment of receivables under service concession arrangements, trade and bills receivables, and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of receivables under service concession arrangements, trade and bills receivables, and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2012 were HK$6,851,962,000 (2011: HK$5,256,222,000), HK$2,482,725,000 (2011: HK$3,938,399,000) and HK$7,914,428,000 (2011: HK$6,101,173,000), respectively. Further details of which are set out in notes 17, 26 and 27 to the financial statements.

Defined benefit plan

The present value of the retirement benefit obligation under the defined benefit plan of a jointly-controlled entity depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligation. Key assumptions for the obligation are based in part on the current market conditions. The carrying amount of the obligation carried as a liability in the statement of financial position of the joint-controlled entity as at 31 December 2012 was HK$283,312,000 (2011: HK$288,377,000) and the Group's share of which, amounting to HK$127,490,000 (2011: HK$129,770,000), has been reflected in the Group's investments in jointly-controlled entities.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and Malaysia. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as liabilities in the consolidated statement of financial position as at 31 December 2012 was HK$252,802,000 (2011: HK$145,585,000).

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2012 were HK$28,690,000 (2011: HK$28,874,000) and HK$287,010,000 (2011: HK$205,179,000), respectively, details of which are set out in note 38 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

5. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2012

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services *HK$'000*	Total *HK$'000*
Segment revenue	3,399,365	105,602	222,412	3,727,379
Cost of sales	(2,191,423)	(58,613)	(40,314)	(2,290,350)
Gross profit	1,207,942	46,989	182,098	1,437,029
Segment results:				
The Group	1,457,552	20,854	178,809	1,657,215
Share of profits and losses of:				
Jointly-controlled entities	25,637	30,374	–	56,011
Associates	(1,409)	–	–	(1,409)
	1,481,780	51,228	178,809	1,711,817
Corporate and other unallocated income and expenses, net				(125,734)
Finance costs				(494,290)
Profit before tax				1,091,793
Income tax				(224,643)
Profit for the year				867,150
Profit/(loss) for the year attributable to shareholders of the Company:				
Operating segments	1,173,565	43,615	150,839	1,368,019
Corporate and other unallocated items				(617,545)
				750,474
Segment assets:				
Operating segments	25,682,292	2,464,787	646,251	28,793,330
Corporate and other unallocated items				2,496,550
				31,289,880

NOTES TO FINANCIAL STATEMENTS

31 December 2012

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2012 *(Continued)*

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services *HK$'000*	Total *HK$'000*
Other segment information:				
Capital expenditure*				
— Operating segments	74,737	7,650	1,194	83,581
— Amount unallocated				25,335
				108,916
Depreciation				
— Operating segments	10,963	609	1,026	12,598
— Amount unallocated				12,634
				25,232
Amortisation of operating concessions	32,086	11,438	–	43,524
Amortisation of other intangible assets				
— Operating segments	11	72	248	331
— Amount unallocated				654
				985
Impairment/(reversal of impairment) of segment assets, net**	14,964	458	(1,979)	13,443
Provision for major overhauls	49,020	323	–	49,343

NOTES TO FINANCIAL STATEMENTS

31 December 2012

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011 *(Continued)*

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

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

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

Geographical information

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

5. OPERATING SEGMENT INFORMATION *(Continued)*

Information about a major customer

During the year ended 31 December 2012, the Group had transactions with one (2011: one) external customer of the sewage and reclaimed water treatment and construction services segment which contributed over 10% of the Group's total revenue for the year. A summary of revenue from each of the major external customer in 2012 and 2011 is set out below:

	2012	2011
	HK$'000	*HK$'000*
Customer 1	**523,071**	N/A*
Customer 2	**N/A***	426,867
	523,071	426,867

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

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

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts and service contracts relating to sewage and reclaimed water treatment, net of value-added 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 and government surcharges; (4) an appropriate proportion of contract revenue of technical and consultancy services contracts, net of business tax and government surcharges; and (5) the imputed interest income on service concession arrangements.

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

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Sewage and reclaimed water treatment services*	**1,424,987**	994,682
Construction services*	**1,974,378**	1,364,997
Sale of water	**105,602**	83,198
Technical and consultancy services	**222,412**	211,577
	3,727,379	2,654,454

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

	2012 HK$'000	2011 HK$'000
Interest income		
Bank interest income	**34,911**	21,875
Imputed interest income on trade and bills receivables with extended credit periods	**129,021**	241,369
Interest income from non-controlling equity holders of subsidiaries@	**68,036**	82,724
Interest income on loans to jointly-controlled entities$^{\pi}$	**12,522**	2,879
Interest income on loans to government authorities in Mainland China$^{\delta}$	**212,707**	36,658
Imputed interest income on an interest-free loan to a joint venturer	**10,349**	–
	467,546	385,505
Other income		
Gross rental income#	**5,619**	734
Government grants§	**126,257**	33,370
Sludge treatment income	**6,202**	6,039
Others	**19,623**	21,635
	157,701	61,778
Gains, net		
Gains on bargain purchase of subsidiaries *(note 42)*	**12,692**	–
Gain on bargain purchase of a jointly-controlled entity†	**–**	42,235
Gain on remeasurement of a pre-existing interest in a jointly-controlled entity *(note 42(a)(ii))*	**23,484**	–
Foreign exchange differences, net	**–**	40,102
	36,176	82,337
Other income and gains, net	**193,877**	144,115

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

* *Imputed interest income under service concession arrangements amounting to HK$417,857,000 (2011: HK$318,822,000) is included in the revenue derived from "Sewage and reclaimed water treatment services" and "Construction services" above.*

@ *The interest income recognised during the year comprised (i) interest income of HK$23,172,000 on a loan to a non-controlling equity holder of a subsidiary (2011: HK$37,311,000 on loans to non-controlling equity holders of two subsidiaries) as further detailed in note 28 to the financial statements; and (ii) interest income of HK$44,864,000 (2011: HK$45,413,000) from non-controlling equity holders of China International Construction Investment Holding (Hong Kong) Limited ("CICI", a 70% owned subsidiary of the Group). Pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, CICI and the non-controlling equity holders of CICI, the non-controlling equity holders of CICI shall pay interest to the Company at the PRC 1-year bank loan rate per annum in respect of an interest-free loan of RMB716,428,000 provided by the Company to CICI.*

π *The interest income recognised during the year comprised (i) interest income of RMB2,347,000 (equivalent to HK$2,897,000) (2011: RMB2,390,000 (equivalent to HK$2,879,000)) on a loan to Aqualyng-BEWG China Desalination Company Limited ("ABCD"), a jointly-controlled entity of the Group, as further detailed in note 20(c) to the financial statements; and (ii) interest income of RMB7,797,000 (equivalent to HK$9,625,000) on a loan of RMB170,000,000 (equivalent to HK$209,877,000) provided to 成都北控蜀都環境投資有限公司 ("Beikong Shudu"), a then jointly-controlled entity of the Group. The loan to Beikong Shudu bore interest at the rate of 15% per annum and was fully repaid during the year.*

δ *Apart from the interest income on the loans as detailed in note 27(a)(ii) of RMB109,412,000 (equivalent to HK$135,077,000) in aggregate, interest income of RMB62,880,000 (equivalent to HK$77,630,000) (2011: RMB30,426,000 (equivalent to HK$36,658,000)) in aggregate was recognised during the year in respect of three other loans (the "Three Other Loans") provided by the Group to certain government authorities in Yunnan Province, the PRC during the year ended 31 December 2011. The Three Other Loans and respective interest receivables were fully settled during the year.*

The Group leased a portion of its office premises and certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and reclaimed water treatment operations, to third parties under operating lease arrangements and accordingly, earned rental income therefrom for the year. Further details of the operating lease arrangements are set out in note 45(a) to the financial statements.

§ *The government grants recognised during the year included (i) an incentive of RMB94,344,000 (equivalent to HK$116,474,000) (2011: Nil) provided by a local government in Liaoning Province, the PRC, for an investment by the Group in the region; (ii) an incentive of RMB4,268,000 (equivalent to HK$5,269,000) (2011: RMB27,697,000 (equivalent to HK$33,370,000)) provided by a local government in Yunnan Province, the PRC, for the Group's act to withhold for the local tax bureau the business tax and surcharges levied on income of certain subcontractors for their services on certain construction contracts of the Group; and (iii) subsidies received from certain government authorities in respect of the fulfilment of certain specific duties by the Group under the relevant service concession agreements.*

† *The gain on bargain purchase of a jointly-controlled entity during the year ended 31 December 2011 arose from the acquisition of a 60% equity interest in 湖南北控景盛建設發展有限公司 ("Beikong Jingsheng") in April 2011 for a cash consideration of RMB34,956,000 (equivalent to HK$42,116,000). Beikong Jingsheng is principally engaged in the construction of infrastructural facilities in Hunan Province, the PRC.*

NOTES TO FINANCIAL STATEMENTS

31 December 2012

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2012 HK$'000**	2011 HK$'000
Cost of sewage and reclaimed water treatment services rendered		**504,151**	370,950
Cost of construction services		**1,658,737**	1,272,757
Cost of water sold		**43,624**	27,521
Cost of technical and consultancy services rendered		**40,314**	37,704
Depreciation	*15*	**25,232**	9,299
Amortisation of operating concessions*	*17*	**43,524**	37,285
Amortisation of other intangible assets*	*18*	**985**	903
Minimum lease payments under operating leases:			
Land and buildings		**9,196**	5,067
Plant and machinery		**290**	–
Auditors' remuneration		**7,200**	6,500
Employee benefit expense (including directors' remuneration *(note 9)*):			
Salaries, allowances and benefits in kind		**267,766**	208,779
Net pension scheme contributions		**20,972**	15,376
Welfare and other expenses		**40,029**	27,309
		328,767	251,464
Loss on disposal of items of property, plant and equipment, net		**589**	1,478
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	*17(b)*	**10,063**	(39,655)
Impairment of trade and bills receivables, net	*26(c)*	**1,772**	17,945
Impairment of other receivables, net	*27(c)*	**1,608**	1,808
Write-off of an amount due from a related party	*28*	**9,523**	–
Provision for major overhauls	*36*	**49,343**	33,207
Foreign exchange differences, net		**73,449**	(40,102)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

8. FINANCE COSTS

		Group	
		2012	2011
	Note	***HK$'000***	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years		**351,883**	266,965
Interest on other loans		**10,091**	5,557
Interest on corporate bonds		**104,459**	45,094
Interest on a note payable		**36,511**	–
Interest on a finance lease		**1,167**	234
Total interest expense		**504,111**	317,850
Increase in discounted amounts of provision for major overhauls arising from the passage of time	*36*	**5,004**	3,711
Total finance costs		**509,115**	321,561
Less: Interest included in cost of construction services		**(14,825)**	(8,572)
		494,290	312,989

9. DIRECTORS' REMUNERATION

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Fees	**2,692**	2,058
Other emoluments:		
Salaries, allowances and benefits in kind	**11,724**	6,212
Pension scheme contributions	**42**	36
	11,766	6,248
	14,458	8,306

NOTES TO FINANCIAL STATEMENTS

31 December 2012

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2012				
Executive directors:				
Mr. Zhang Honghai *(Chairman)*	–	–	–	–
Mr. E Meng	100	–	–	100
Mr. Jiang Xinhao	100	–	–	100
Mr. Hu Xiaoyong *(Chief Executive Officer)*	401	3,293	14	3,708
Mr. Zhou Min	401	2,708	14	3,123
Mr. Li Haifeng	401	2,073	14	2,488
Mr. Zhang Tiefu	100	1,568	–	1,668
Mr. Hou Feng	100	2,082	–	2,182
Ms. Qi Xiaohong	100	–	–	100
Mr. Ke Jian	100	–	–	100
Mr. Tung Woon Cheung Eric	401	–	–	401
	2,204	11,724	42	13,970
Independent non-executive directors:				
Mr. Shea Chun Lok Quadrant	68	–	–	68
Mr. Zhang Gaobo	120	–	–	120
Mr. Guo Rui	100	–	–	100
Ms. Hang Shijun	100	–	–	100
Mr. Wang Kaijun	100	–	–	100
Mr. Yu Ning (appointed on 28 December 2012)	–	–	–	–
	488	–	–	488
Total	2,692	11,724	42	14,458

NOTES TO FINANCIAL STATEMENTS

31 December 2012

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2011				
Executive directors:				
Mr. Zhang Honghai *(Chairman)*	–	–	–	–
Mr. Liu Kai	–	–	–	–
Mr. E Meng	100	–	–	100
Mr. Jiang Xinhao	100	–	–	100
Mr. Hu Xiaoyong *(Chief Executive Officer)*	253	1,597	12	1,862
Mr. Zhou Min	253	1,349	12	1,614
Mr. Li Haifeng	253	1,473	12	1,738
Mr. Zhang Tiefu	100	695	–	795
Mr. Hou Feng	100	1,098	–	1,198
Ms. Qi Xiaohong	100	–	–	100
Mr. Ju Yadong	67	–	–	67
Mr. Ke Jian	58	–	–	58
Mr. Tung Woon Cheung Eric	186	–	–	186
	1,570	6,212	36	7,818
Independent non-executive directors:				
Mr. Shea Chun Lok Quadrant	68	–	–	68
Mr. Zhang Gaobo	120	–	–	120
Mr. Guo Rui	100	–	–	100
Ms. Hang Shijun	100	–	–	100
Mr. Wang Kaijun	100	–	–	100
	488	–	–	488
Total	2,058	6,212	36	8,306

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

NOTES TO FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2012 and 2011 were all directors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2012 as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil).

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Current — PRC:		
Hong Kong	**–**	–
Mainland China	**165,334**	138,048
Overprovision in prior years	**(112)**	(3,655)
Current — Malaysia	**2,930**	1,310
Deferred *(note 38)*	**56,491**	34,158
Total tax expense for the year	**224,643**	169,861

NOTES TO FINANCIAL STATEMENTS

31 December 2012

11. INCOME TAX *(Continued)*

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

Group — Year ended 31 December 2012

	Hong Kong and overseas		Mainland China		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Profit/(loss) before tax	(305,150)		1,396,943		1,091,793	
Tax expense/(credit) at the statutory tax rate	(49,289)	16.2	349,236	25.0	299,947	27.5
Lower tax rates of specific provinces or enacted by local authorities	–	–	(58,797)	(4.2)	(58,797)	(5.4)
Tax concession enjoyed	–	–	(54,465)	(3.9)	(54,465)	(5.0)
Adjustments in respect of current tax of previous periods	–	–	(112)	–	(112)	–
Profits and losses attributable to jointly-controlled entities and associates	1,148	(0.4)	(15,390)	(1.1)	(14,242)	(1.3)
Income not subject to tax	(4,754)	1.6	(17,377)	(1.2)	(22,131)	(2.0)
Expenses not deductible for tax	52,882	(17.4)	10,229	0.7	63,111	5.8
Tax losses utilised from previous periods	–	–	(6,275)	(0.4)	(6,275)	(0.6)
Tax losses not recognised as deferred tax assets	2,943	(1.0)	14,664	1.0	17,607	1.6
Tax expense at the Group's effective tax rate	2,930	(1.0)	221,713	15.9	224,643	20.6

NOTES TO FINANCIAL STATEMENTS

31 December 2012

11. INCOME TAX *(Continued)*

Group — Year ended 31 December 2011

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

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

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2012 includes a loss of HK$303,875,000 (2011: a profit of HK$7,410,000), which has been dealt with in the financial statements of the Company (note 31(b)).

NOTES TO FINANCIAL STATEMENTS

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13. CASH DISTRIBUTIONS

	2012	2011
	HK$'000	*HK$'000*
Interim — HK2 cents (2011: Nil) per ordinary share	**138,183**	–
Proposed final — HK2 cents (2011: HK3 cents) per ordinary share	**151,351**	207,275
	289,534	207,275

The proposed final cash distribution out of contributed surplus account for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2012 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 6,909,170,486 ordinary shares in issue during the year. The calculation of the basic earnings per share amount for the year ended 31 December 2011 was based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 6,719,431,905 ordinary shares in issue during the year, as adjusted to reflect the issuance of 2,283,378,231 new ordinary shares of the Company at an offer price of HK$1.485 per ordinary share under an open offer (the "Open Offer") of the Company completed on 15 March 2011.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improvements HK$'000	Machinery, and sewage and water pipelines HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2012							
At 1 January 2012:							
Cost	143,056	33,583	8,934	30,662	43,465	4,152	263,852
Accumulated depreciation	(442)	(1,095)	(2,542)	(9,826)	(16,671)	–	(30,576)
Net carrying amount	142,614	32,488	6,392	20,836	26,794	4,152	233,276
Net carrying amount:							
At 1 January 2012	142,614	32,488	6,392	20,836	26,794	4,152	233,276
Acquisition of subsidiaries *(note 42)*	101,729	–	156,626	1,385	4,480	17,323	281,543
Additions	–	6,417	4,146	15,056	12,830	–	38,449
Depreciation provided during the year	(7,805)	(2,127)	(1,232)	(7,503)	(6,565)	–	(25,232)
Disposals	(144)	–	11	(346)	(110)	–	(589)
Transfers	–	4,152	–	–	–	(4,152)	–
Exchange realignment	(2)	–	(6)	56	54	–	102
At 31 December 2012	236,392	40,930	165,937	29,484	37,483	17,323	527,549
At 31 December 2012:							
Cost	266,610	44,152	208,258	48,644	62,256	17,323	647,243
Accumulated depreciation	(30,218)	(3,222)	(42,321)	(19,160)	(24,773)	–	(119,694)
Net carrying amount	236,392	40,930	165,937	29,484	37,483	17,323	527,549

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Group *(Continued)*

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Machinery, and sewage and water pipelines *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Year ended 31 December 2011							
At 1 January 2011:							
Cost	13,742	1,078	3,829	17,912	31,253	2,552	70,366
Accumulated depreciation	(191)	(845)	(1,900)	(7,489)	(13,827)	–	(24,252)
Net carrying amount	13,551	233	1,929	10,423	17,426	2,552	46,114
Net carrying amount:							
At 1 January 2011	13,551	233	1,929	10,423	17,426	2,552	46,114
Acquisition of subsidiaries *(note 42)*	–	–	–	–	–	368	368
Additions	125,544	31,693	5,032	13,385	14,998	395	191,047
Depreciation provided during the year	(235)	(204)	(632)	(3,625)	(4,603)	–	(9,299)
Disposals	–	–	(54)	(104)	(1,320)	–	(1,478)
Exchange realignment	3,754	766	117	757	293	837	6,524
At 31 December 2011	142,614	32,488	6,392	20,836	26,794	4,152	233,276
At 31 December 2011:							
Cost	143,056	33,583	8,934	30,662	43,465	4,152	263,852
Accumulated depreciation	(442)	(1,095)	(2,542)	(9,826)	(16,671)	–	(30,576)
Net carrying amount	142,614	32,488	6,392	20,836	26,794	4,152	233,276

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Year ended 31 December 2012				
At 1 January 2012:				
Cost	946	207	490	1,643
Accumulated depreciation	(79)	(35)	(490)	(604)
Net carrying amount	867	172	–	1,039
Net carrying amount:				
At 1 January 2012	867	172	–	1,039
Depreciation provided during the year	(189)	(42)	–	(231)
At 31 December 2012	678	130	–	808
At 31 December 2012:				
Cost	946	207	490	1,643
Accumulated depreciation	(268)	(77)	(490)	(835)
Net carrying amount	678	130	–	808

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Company *(Continued)*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

16. GOODWILL

	Group 2012 HK$'000	2011 HK$'000
Cost and net carrying amount:		
At 1 January	**1,643,719**	1,580,116
Acquisition of subsidiaries *(note 42)*	**118,432**	57,007
Exchange realignment	**–**	6,596
At 31 December	**1,762,151**	1,643,719

Impairment testing of goodwill

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

	Group 2012 HK$'000	2011 HK$'000
Sewage and reclaimed water treatment and construction services segment	**1,364,190**	1,269,730
Water distribution services segment	**38,721**	14,749
Technical and consultancy services segment	**359,240**	359,240
	1,762,151	1,643,719

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by CB Richard Ellis Limited or Greater China Appraisal Limited, independent professionally qualified valuers, on fair value less costs to sell estimations using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections for the first 10-year period are 12.84% for the business units of the sewage and reclaimed water treatment and construction services segment and the water distribution services segment, and 12.71% for the business unit of the technical and consultancy services segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 3% is used for the perpetual period.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2012 (2011: Nil).

Key assumptions used in fair value less costs to sell estimations

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

17. SERVICE CONCESSION ARRANGEMENTS

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

At 31 December 2012, the Group had 116, 6, 16 and 1 service concession arrangements on sewage treatment, reclaimed water treatment, and water distribution and seawater desalination, respectively, with various governmental authorities in Mainland China and a summary of the major terms of principal service concession arrangements are set out as follows:

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m^3/day	Service concession period
Subsidiaries:							
1.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT on sewage treatment	100,000	30 years from 2002 to 2032
2.	長沙中科成污水淨化有限公司	長沙市金霞污水處理廠	Changsha, Hunan Province, the PRC	長沙市公用事業管理局	TOT on sewage treatment	180,000	20 years from 2004 to 2024
3.	青島膠南中科成污水淨化有限公司	膠南市污水處理廠	Jiaonan, Shandong Province, the PRC	膠南市城鄉建設局	BOT on sewage treatment	60,000	20 years from 2006 to 2026
4.	菏澤中科成污水淨化有限公司	菏澤市污水處理廠	Heze, Shandong Province, the PRC	荷澤市建設局	TOT on sewage treatment	80,000	25 years from 2007 to 2032
5.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033

NOTES TO FINANCIAL STATEMENTS

31 December 2012

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m³/day	Service concession period
Subsidiaries: *(Continued)*							
6.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠二期擴建工程	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	99,000	25 years from 2009 to 2034
7.	深圳北控創新投資有限公司 ("Bei Kong Chuang Xin")	深圳市龍崗區橫嶺污水處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031
8.	深圳北控豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028
9.	台州黃岩北控水務污水淨化有限公司	台州市黃岩區污水處理廠	Taizhou, Zhejiang Province, the PRC	台州市黃岩區建設局	TOT on sewage treatment	80,000	30 years from 2009 to 2039
10.	成都青白江中科成污水淨化有限公司	成都市青白江區污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府	TOT on sewage treatment	100,000	25 years from 2009 to 2034
11.	齊齊哈爾市北控污水淨化有限公司	齊齊哈爾市富拉爾基區污水處理廠	Qi Qi Har, Heilongjiang Province, the PRC	齊齊哈爾市環境保護局	BOT on sewage treatment	100,000	28 years from 2012 to 2040
12.	錦州市北控水務有限公司	錦州市一期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	TOT on sewage treatment	100,000	30 years from 2009 to 2039
13.	錦州市北控水務有限公司	錦州市二期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on sewage treatment	100,000	30 years from 2011 to 2040
14.	錦州市北控水務有限公司	錦州市再生水項目	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on reclaimed water treatment	180,000	30 years from 2010 to 2040
15.	玉溪北控城投水質淨化有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2010 to 2041
16.	廣西貴港北控水務有限公司	貴港市城西污水處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
17.	廣西貴港北控水務有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038
18.	Zunyi BEWG Co., Ltd.	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水有限責任公司	BOT on water distribution	100,000	25 years (Not yet started)

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17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m³/day	Service concession period
Subsidiaries: *(Continued)*							
19.	衡陽市海朗水務有限公司	衡陽市珠暉自來水制水廠	Hengyang, Hunan Province, the PRC	衡陽市建設局	BOT on water distribution	200,000	30 years (Not yet started)
20.	廣安北控廣和水務有限公司	廣安新橋園區供水廠（一期）	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years from 2011 to 2041
21.	廣安北控廣和水務有限公司	廣安新橋園區供水廠（二期）	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years (Not yet started)
22.	昆明空港北控城投水質淨化有限公司	昆明空港（二期）	Kunming, Yunnan Province, the PRC	昆明市人民政府	BOT on sewage treatment	130,000	20 years (Not yet started)
23.	成都北控蜀都投資有限公司	成都北控蜀都污水處理廠	Chengdu, Sichuan Province, the PRC	成都市郫縣水務局	TOT on sewage treatment	100,000	25 years from 2012 to 2037
24.	北京稻香水質淨化有限公司	海澱區稻香湖再生水廠項目	Beijing Haidian, the PRC	北京市海澱區水務局	BOT on reclaimed water	160,000	30 years (Not yet started)
25.	安寧北控浩源水務有限公司	雲南省安寧市污水處理廠	Anning, Yunnan Province, the PRC	雲南省安寧市住房和城鄉建設局	TOT on sewage treatment	50,000	30 years from 2012 to 2042
26.	南寧市大沙田供水有限責任公司	大沙田供水廠	Nanning, Guangxi Province, the PRC	邕寧縣人民政府	TOT on water distribution	135,000	30 years (Not yet started)
Jointly-controlled entities:							
27.	Aqualyng Caofeidian Seawater Desalination Co. Ltd. ("ACSD")	曹妃甸海水淡化廠	Caofeidian, Hebei Province, the PRC	曹妃甸工業區管委會	BOT on seawater desalination	50,000	30 years (Not yet started)
28.	Guiyang BEWG Co. Ltd. ("Guiyang BEWG")	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
29.	Henan Kaikong Water Business Co., Ltd. ("Henan Kaikong")	河南龍宇煤化工原水淨化及預脫鹽水站	Shangqiu, Henan Province, the PRC	河南龍宇煤化工有限公司	BOT on reclaimed water treatment	79,200	20 years (Not yet started)

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

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31 December 2012

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the Facilities and related land, which are generally registered under the names of the relevant companies in the Group, during the Service Concession Periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. At 31 December 2012, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

At 31 December 2012, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) in a then aggregate net carrying amount of HK$3,574,879,000 (2011: HK$2,740,254,000) were pledged to secure certain bank loans granted to the Group (note 32(b)(i)).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

		Group	
		2012	2011
	Note	***HK$'000***	*HK$'000*
At 1 January:			
Cost		**957,634**	896,578
Accumulated amortisation		**(194,253)**	(146,860)
Net carrying amount		**763,381**	749,718
Net carrying amount:			
At 1 January		**763,381**	749,718
Acquisition of subsidiaries	*42*	**191,013**	–
Additions		**62,487**	10,783
Amortisation provided during the year		**(43,524)**	(37,285)
Exchange realignment		**–**	40,165
At 31 December		**973,357**	763,381
At 31 December:			
Cost		**1,211,134**	957,634
Accumulated amortisation		**(237,777)**	(194,253)
Net carrying amount		**973,357**	763,381

NOTES TO FINANCIAL STATEMENTS

31 December 2012

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	Group 2012 HK$'000	Group 2011 HK$'000
Receivables under service concession arrangements	**6,862,937**	5,257,134
Impairment *(note (b))*	**(10,975)**	(912)
	6,851,962	5,256,222
Portion classified as current assets	**(382,464)**	(253,105)
Non-current portion	**6,469,498**	5,003,117

Notes:

(a) In respect of the Group's receivables under service concession arrangements, the various group companies have different credit policies, depending on the requirements of the locations in which they operate. Aged analyses of receivables under service concession arrangements is closely monitored in order to minimise any credit risk associated with the receivables.

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

	Group 2012 HK$'000	Group 2011 HK$'000
Billed:		
Within 3 months	**205,531**	159,900
4 to 6 months	**52,362**	23,509
7 to 12 months	**43,436**	22,330
Over 1 year	**81,135**	47,366
	382,464	253,105
Unbilled	**6,469,498**	5,003,117
	6,851,962	5,256,222

NOTES TO FINANCIAL STATEMENTS

31 December 2012

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (continued)

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**912**	39,872
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 7)*	**10,063**	(39,655)
Exchange realignment	**–**	695
At 31 December	**10,975**	912

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2012 was a provision for individually impaired receivables of HK$8,870,000 with an aggregate carrying amount before provision of HK$37,742,000. The individually impaired receivables relate to a customer that was in dispute with the Group on the past service concession fee. Negotiation between the Group and this customer is undergoing and only a portion of the receivables is expected to be recovered.

Included in the provision for impairment of receivables under service concession arrangements as at 1 January 2011 was a provision for individually impaired receivables of HK$39,074,000 with an aggregate carrying amount before provision of HK$63,072,000. The individually impaired receivables relate to customers that were in delinquency in principal payments and only a portion of the receivables was expected to be recovered. During the year ended 31 December 2011, the Group re-assessed the recoverability of these receivables and were of the opinion that these individually impaired receivables would be fully recoverable, and hence the related provision for impairment was fully reversed during the year ended 31 December 2011.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2012 and 2011 also included the provision made against the remaining balances of the receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (continued)

(b) *(continued)*

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**103,126**	85,682
Less than 1 month past due	**59,981**	42,996
1 to 3 months past due	**69,191**	48,214
4 to 6 months past due	**35,669**	14,949
7 months to 1 year past due	**32,139**	19,917
Over 1 year past due	**82,358**	41,347
	382,464	253,105

Unbilled receivables were classified as non-current and were neither past due nor impaired. The above receivables were mainly due from governmental authorities in Mainland China as grantors in respect of the Group's sewage and reclaimed water treatment and water distribution businesses. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS

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18. OTHER INTANGIBLE ASSETS

Group

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2012			
At 1 January 2012:			
Cost	603	8,155	8,758
Accumulated amortisation	(603)	(1,700)	(2,303)
Net carrying amount	–	6,455	6,455
Net carrying amount:			
At 1 January 2012	–	6,455	6,455
Acquisition of subsidiaries *(note 42)*	–	3,845	3,845
Additions	–	7,980	7,980
Amortisation provided during the year	–	(985)	(985)
At 31 December 2012	–	17,295	17,295
At 31 December 2012:			
Cost	603	20,777	21,380
Accumulated amortisation	(603)	(3,482)	(4,085)
Net carrying amount	–	17,295	17,295

NOTES TO FINANCIAL STATEMENTS

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18. OTHER INTANGIBLE ASSETS *(Continued)*

Group *(Continued)*

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

NOTES TO FINANCIAL STATEMENTS

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19. INTERESTS IN SUBSIDIARIES

	Note	Company 2012 HK$'000	2011 HK$'000
Investments in subsidiaries, included in non-current assets			
Unlisted shares or investments, at cost		**5,187,624**	4,755,364
Due from subsidiaries	(a)	**3,471,765**	3,188,488
		8,659,389	7,943,852
Due from subsidiaries, included in current assets	(a)	**4,018,549**	3,166,450
Due to subsidiaries, included in current liabilities	(a)	**(1,213,087)**	(1,117,147)
Total interests in subsidiaries		**11,464,851**	9,993,155

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the following loans to subsidiaries as at 31 December 2011:

(i) an amount of US$31,000,000 (equivalent to HK$240,749,000) due from Beijing Enterprises Water Guizhou Holdings Limited ("BEW Guizhou"), a then 60% owned subsidiary of the Company, which originally bore interest at the PRC 1–3 year bank loan rate per annum. Pursuant to an agreement dated 1 July 2012 entered into between the Company and BEW Guizhou, the loan was restructured as an interest-free loan; and

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

In the opinion of the directors, the amounts advanced to subsidiaries included in the investments in subsidiaries above are considered as quasi-equity loans to the subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

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

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
BEWG Environmental Group Co., Ltd ("BE-ZKC")	PRC/Mainland China	RMB417,969,071	–	100	Consultancy service and investment holding
深圳北控創新投資有限公司	PRC/Mainland China	RMB300,000,000	–	100	Sewage treatment
深圳北控豐泰投資有限公司	PRC/Mainland China	RMB70,000,000	–	100	Sewage treatment
綿陽中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
長沙中科成污水淨化有限公司	PRC/Mainland China	RMB50,000,000	–	100	Sewage treatment
廣州中業污水處理有限公司	PRC/Mainland China	RMB85,000,000	–	100	Sewage treatment
江油中科成污水淨化有限公司	PRC/Mainland China	RMB8,000,000	–	100	Sewage treatment
成都雙流中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島中科成污水淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
廣州中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
台州市路橋中科成污水淨化有限公司	PRC/Mainland China	RMB55,500,000	–	100	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/Mainland China	RMB27,600,000	–	100	Sewage treatment
菏澤中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
濟南中科成水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
彭州中科成污水淨化有限公司	PRC/Mainland China	RMB28,000,000	–	100	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/Mainland China	RMB76,000,000	–	100	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2012

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Group	Principal activities
永州市北控污水淨化有限公司^	PRC/Mainland China	HK$85,630,000	100	100	Sewage treatment
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	–	83.80	Water distribution
沾化華強水務環保有限公司	PRC/Mainland China	RMB10,000,000	–	92.71	Sewage treatment
北控水務(中國)投資有限公司^	PRC/Mainland China	US$100,000,000	100	100	Investment holding
雲南北控城投水務有限公司	PRC/Mainland China	RMB400,000,000	–	50†	Investment holding
錦州市北控水務有限公司	PRC/Mainland China	RMB127,178,541	80	80	Sewage treatment and reclaimed water treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB20,000,000	–	60	Sewage treatment
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB55,302,635	–	80	Sewage treatment and water distribution
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控城投水質淨化有限公司	PRC/Mainland China	RMB53,090,000	–	50†	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	50†	Sewage treatment
北控(大連)投資有限公司^	PRC/Mainland China	US$353,630,000	60	60	Investment holding
北控(大連)開發建設有限公司	PRC/Mainland China	US$205,630,000	–	60	Construction services
Kunming Gatewin Environmental Protection Engineering Co., Ltd.^	PRC/Mainland China	RMB680,000,000	–	70	Construction services

NOTES TO FINANCIAL STATEMENTS

31 December 2012

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
Kunming Gatewin Road & Bridge Co., Ltd.[Ω]	PRC/Mainland China	RMB1,200,000,000	–	70	Construction services
福州北控水質淨化有限公司	PRC/Mainland China	US$4,835,000	100	100	Sewage treatment
上海北控亞同水務投資有限公司	PRC/Mainland China	RMB100,000,000	–	100	Investment holding
徐州創源污水處理有限公司 ("Xuzhou Chuangyuan")	PRC/Mainland China	RMB10,000,000	–	100	Sewage treatment
北控(大連)環保發展有限公司	PRC/Mainland China	US$198,000,000	–	60	Construction services
大連旅順航空小鎮生態發展有限公司	PRC/Mainland China	US$47,000,000	–	60	Sewage treatment and construction services
北控(大石橋)水務發展有限公司	PRC/Mainland China	RMB316,628,160	–	60	Sewage treatment and construction services
北控(營口經濟技術開發區)新型水務發展有限公司[Ω]	PRC/Mainland China	RMB280,000,000	–	60	Sewage treatment and water distribution
Zunyi BEWG Co., Ltd.	PRC/Mainland China	RMB50,236,000	80	89	Water distribution
BEWG (M) SDN BHD	Malaysia	RM50,000,000	100	100	Construction services
Beikong Shudu[δ]	PRC/Mainland China	RMB852,750,000	–	68.5	Construction services and sewage treatment

† *These entities are accounted for as subsidiaries by virtue of the Company's control over them.*

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

δ *Acquired during the year.*

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

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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

		Group		Company	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Investments in jointly-controlled entities, included in non-current assets:					
Unlisted shares or investments, at cost		**–**	–	**1,282,778**	1,282,778
Share of net assets	*(a)*	**2,056,591**	1,731,044	**–**	–
Goodwill on acquisition	*(b)*	**209,730**	197,430	**–**	–
		2,266,321	1,928,474	**1,282,778**	1,282,778
Loans to a jointly-controlled entity	*(c)*	**51,419**	45,019	**–**	–
		2,317,740	1,973,493	**1,282,778**	1,282,778
Due from jointly-controlled entities, included in current assets	*(d), 27*	**554,032**	470,480	**73,386**	1,022
Due to jointly-controlled entities, included in current liabilities	*(d), 40*	**(296,863)**	(160,721)	**–**	–
Total interests in jointly-controlled entities		**2,574,909**	2,283,252	**1,356,164**	1,283,800

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Notes:

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

	Group 2012 HK$'000	2011 HK$'000
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	**2,147,357**	1,598,057
Current assets	**1,498,677**	1,152,983
Non-current liabilities	**(402,048)**	(256,400)
Current liabilities	**(1,187,395)**	(763,596)
Net assets	**2,056,591**	1,731,044

	Group 2012 HK$'000	2011 HK$'000
Share of the jointly-controlled entities' results		
Revenue	**652,218**	155,514
Other revenue	**90,285**	17,745
Total revenue	**742,503**	173,259
Total expenses	**(649,286)**	(160,677)
Share of profit/(loss) of jointly-controlled entities	**(13,964)**	8,915
Profit before tax	**79,253**	21,497
Income tax	**(23,242)**	(699)
Profit for the year	**56,011**	20,798

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Notes: (Continued)

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**197,430**	9,705
Acquisition of jointly-controlled entities	**12,300**	187,725
At 31 December	**209,730**	197,430

The addition of goodwill during the year ended 31 December 2012 arose from the acquisition of a 40% equity interest in 洛陽北控水務集團有限公司 ("Luoyang BEWG") and the acquisition of a 30% additional equity interest in Henan Kaikong, a then associate of the Group held as to 30% and 60% by the Group immediately before and after the acquisition transaction.

The addition of goodwill during the year ended 31 December 2011 arose from the acquisition of 45% and 80% equity interests in Guiyang BEWG and 惠東縣北控華基污水項目投資有限公司, respectively.

In respect of the acquisition of Luoyang BEWG, pursuant to the equity transfer agreement entered into between BE-ZKC and 洛陽市人民政府國有資產監督管理委員會 ("Luoyang SASAC", an independent third party), BE-ZKC acquired a 40% equity interest in Luoyang BEWG from Luoyang SASAC for a cash consideration of RMB454,062,000 (equivalent to HK$560,570,000) in January 2012. However, as at 31 December 2012 and the date of approval of these financial statements, the purchase price allocation for this acquisition is still preliminary, pending for the finalisation of the terms of the service concession agreements to be entered into between Luoyang BEWG and a government authority in Luoyang City, Henan Province, the PRC. Accordingly, the fair values of the identifiable assets and liabilities of Luoyang BEWG at the date of acquisition and its associated goodwill are subject to change.

(c) The loans to a jointly-controlled entity as at 31 December 2012 are loans with principal amounts of RMB34,780,000 (equivalent to HK$42,938,000, the "RMB Loan") and US$100,000 (equivalent to HK$776,000, the "US$ Loan") advanced to ABCD to finance its investment in a 50% equity interest in ACSD, a jointly-controlled entity of ABCD established in the PRC for the construction and operation of a seawater desalination plant in Tangshan City, Hebei Province, the PRC. The RMB Loan bears interest at the PRC 5-year or above bank loan rate and is repayable in 2030 while the US$ Loan is unsecured, interest-free and repayable on demand. In the opinion of the directors, the loans are considered as quasi-equity investments in ABCD. Interest income of RMB2,347,000 (equivalent to HK$2,897,000) (2011: RMB2,390,000 (equivalent to HK$2,879,000)) was recognised in the consolidated income statement during the year ended 31 December 2012 in respect of the RMB Loan.

(d) The amounts due from/to jointly-controlled entities included in current assets and current liabilities of the Group and the Company as at 31 December 2012 are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Notes: (Continued)

(e) Particulars of the principal jointly-controlled entities are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal activity
Luoyang BEWG[δ]	PRC/Mainland China	RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services
Guiyang BEWG[#]	PRC/Mainland China	RMB1,456,162,145	45	45	45	Water distribution
ABCD	Hong Kong	HK$1,000,000	51	51	51	Investment holding
Henan Kaikong[δ]	PRC/Mainland China	RMB100,000,000	60	60	60	Reclaimed water treatment and water distribution
Yibin Beijing Enterprises Water Limited	PRC/Mainland China	RMB75,563,400	65	65	65	Sewage treatment
北控曹妃甸水務投資有限公司[#]	PRC/Mainland China	RMB500,000,000	70	70	70	Investment holding
湖南北控景盛建設發展有限公司	PRC/Mainland China	RMB100,000,000	60	60	60	Construction services
四川三岔湖北控海天投資有限公司	PRC/Mainland China	RMB160,000,000	50	50	50	Sewage treatment and water distribution

[#] *Directly held by the Company.*

[δ] *Acquired during the year.*

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

NOTES TO FINANCIAL STATEMENTS

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21. INTERESTS IN ASSOCIATES

		Group		Company	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Investments in associates, included in non-current assets:					
Share of net assets	*(a)*	**100,867**	37,038	**–**	–
Due to an associate, included in current liabilities	*(b), 40*	**(49,995)**	–	**(49,995)**	–
Total interests in associates		**50,872**	37,038	**(49,995)**	–

Notes:

(a) The following tables illustrate the summarised financial information of the Group's associates:

	2012	2011
	HK$'000	*HK$'000*
Share of the associates' assets and liabilities		
Non-current assets	**1,887**	19,995
Current assets	**99,096**	17,203
Current liabilities	**(116)**	(160)
Net assets	**100,867**	37,038
Share of the associates' results		
Other revenue	**1**	–
Total expenses	**(1,410)**	–
Loss for the year	**(1,409)**	–

(b) The balance is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

21. INTERESTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

Company name	Place of incorporation/ registration and operation	Nominal value of issued capital	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal activity
Beijing Enterprises Water Environmental Investment Ltd.	Hong Kong	HK$250,000,000	40	40	40	Investment holding

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

22. AVAILABLE-FOR-SALE INVESTMENTS

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

23. LAND HELD FOR SALE

Land held for sale of the Group as at 31 December 2012 represented certain land use rights held under medium and long term leases and located in Liaoning Province and Sichuan Province, the PRC, covering a total land area of approximately 3,578,000 square metres. The Group intends to hold these land use rights for trading and hence they are classified as land held for sale.

24. INVENTORIES

	Group 2012 HK$'000	Group 2011 HK$'000
Raw materials	**26,744**	11,104
Low value consumables	**3,709**	2,318
	30,453	13,422

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25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	Group	
	2012	2011
	HK$'000	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses to date	**2,793,618**	1,687,150
Portion classified as current assets	**(31,637)**	(87,865)
Non-current portion	**2,761,981**	1,599,285

26. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade and bills receivables	**2,511,042**	3,958,371	**21,432**	19,696
Impairment *(note (c))*	**(28,317)**	(19,972)	**–**	–
	2,482,725	3,938,399	**21,432**	19,696
Portion classified as current assets	**(2,385,500)**	(3,676,549)	**(21,432)**	(19,696)
Non-current portion	**97,225**	261,850	**–**	–

Notes:

(a) The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which would settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade and bills receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 5.85% to 9.05%, trade and bills receivables are non-interest-bearing.

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26. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Billed:				
Within 3 months	**1,935,375**	234,442	**–**	–
4 to 6 months	**–**	42,522	**–**	–
7 to 12 months	**62,829**	11,220	**–**	–
Over 1 year	**255,915**	146,671	**21,432**	19,696
Balance with extended credit period	**217,768**	181,111	**–**	–
	2,471,887	615,966	**21,432**	19,696
Unbilled*	**10,838**	3,322,433	**–**	–
	2,482,725	3,938,399	**21,432**	19,696

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

(b) Included in the trade and bills receivables of the Group as at 31 December 2012 are (i) an aggregate amount of HK$29,123,000 (2011: HK$27,387,000) due from 北京北控環保工程技術有限公司 and 北控水務集團(海南)有限公司 ("BE Water (Hainan)"), both being related companies of the Group, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (ii) an amount of HK$2,303,000 (2011: HK$2,303,000) due from ACSD arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies were unsecured, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**19,972**	1,509
Acquisition of subsidiaries	**6,573**	–
Impairment during the year recognised in the income statement, net *(note 7)*	**1,772**	17,945
Exchange realignment	**–**	518
At 31 December	**28,317**	19,972

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26. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

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

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Neither past due nor impaired	**357,764**	331,416	**–**	–
Less than 1 month past due	**64,286**	9,836	**–**	–
1 to 3 months past due	**1,731,093**	74,301	**–**	–
4 to 6 months past due	**4,097**	42,522	**–**	–
7 months to 1 year past due	**66,298**	11,220	**–**	–
Over 1 year past due	**248,349**	146,671	**21,432**	19,696
	2,471,887	615,966	**21,432**	19,696

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

A customer of the construction service for a comprehensive renovation project has pledged the future receivables from its comprehensive renovation services on certain government reserve land owned by a government authority in Mainland China in an aggregate amount of RMB2,486,000,000 (equivalent to HK$3,069,136,000) to secure the trade and bills receivables due by it. As at 31 December 2012, the trade and bills receivables owed by this customer amounted to RMB878,778,000 (equivalent to HK$1,084,911,000) (2011: RMB1,251,268,000 (equivalent to HK$1,544,775,000)). Save as the foregoing, the Group does not hold any collateral or other credit enhancements over trade and bills receivable balances.

(d) At 31 December 2012, receivables of RMB5,480,000 (equivalent to HK$6,765,000) (2011: Nil) of a water distribution operation were pledged to secure a bank loan granted to the Group (note 32(b)(ii)).

NOTES TO FINANCIAL STATEMENTS

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27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments		**28,790**	24,415	**1**	4,024
Deposits and other debtors	*(a)*	**3,405,113**	2,035,215	**38,928**	1,138
Advances to subcontractors and suppliers	*(b)*	**2,504,828**	2,213,520	**–**	–
Due from subsidiaries	*19(a)*	**–**	–	**4,018,549**	3,166,450
Due from jointly-controlled entities	*20(d)*	**554,032**	470,480	**73,386**	1,022
Due from related parties	*28*	**1,458,335**	1,387,489	**1,190,854**	1,096,638
		7,951,098	6,131,119	**5,321,718**	4,269,272
Impairment	*(c)*	**(7,880)**	(5,531)	**–**	–
		7,943,218	6,125,588	**5,321,718**	4,269,272
Portion classified as current assets		**(5,395,988)**	(4,583,574)	**(4,221,141)**	(3,218,047)
Non-current portion		**2,547,230**	1,542,014	**1,100,577**	1,051,225

Notes:

(a) The Group's deposits and other debtors as at 31 December 2012 included, inter alia, the following:

(i) an instalment deposit of RMB422,031,000 (equivalent to HK$521,026,000) (2011: RMB202,000,000 (equivalent to HK$249,383,000)) paid by the Group to a government authority in Mainland China in relation to the Group's acquisition of certain land use rights in Liaoning Province, the PRC. In the opinion of the directors, the purchase of the land use rights will be completed in 2013. As the Group intends to hold the land use rights for trading, the balance is classified as a current asset.

(ii) loans and related interest receivables of RMB1,567,573,000 (equivalent to HK$1,935,275,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. The loans provide the Group with returns ranging from 14.8% to 20% per annum on the loan principals.

Except for loans and corresponding interest receivables of RMB881,341,000 (equivalent to HK$1,088,075,000) in aggregate that are repayable in 2013 and are classified as current assets, the settlement of the remaining balances of RMB686,232,000 (equivalent to HK$847,200,000) in aggregate is supported by the sale proceeds of the corresponding land use rights of the comprehensive renovation projects by relevant government authorities. In the opinion of the directors, the disposals of the respective land use rights and the repayments of the loans and related interest receivables are not expected to be completed by 2013 and the balances are classified as non-current assets.

NOTES TO FINANCIAL STATEMENTS

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

Notes: (Continued)

(a) *(Continued)*

(ii) *(Continued)*

The loans and related interest receivables are secured/guaranteed by:

(i) a pledge over the borrower's future receivable of the corresponding comprehensive renovation projects;

(ii) guarantees over the values of certain land use rights given by relevant government authorities in Mainland China, the PRC; and/or

(iii) guarantees over the proceeds from the disposals of the land use rights of corresponding comprehensive renovation projects by relevant government authorities.

Interest income of RMB143,377,000 (equivalent to HK$177,009,000) in aggregate was charged on these loans during the year, of which RMB109,412,000 (equivalent to HK$135,077,000) in aggregate and RMB33,965,000 (equivalent to HK$41,932,000) (2011: RMB9,038,000 (equivalent to HK$10,889,000)) were recognised in the Group's consolidated income statement as "other income and gains, net" and the income statement of Beikong Shudu when Beikong Shudu was a jointly-controlled entity of the Group, respectively.

(iii) an investment deposit of RMB264,500,000 (equivalent to HK$326,543,000) paid to an independent third party in connection with the Group's acquisition of a 99.5% equity interest in 吉林市雙嘉環保能源利用有限公司, which is engaged in the operation of waste-to-energy treatment plants in Jilin City, Jilin Province, the PRC. The balance is classified as a non-current asset.

(b) The Group's advances to subcontractors and suppliers mainly represented advance payments in an aggregate amount of RMB1,758,203,000 (equivalent to HK$2,170,621,000) (2011: RMB1,281,455,000 (equivalent to HK$1,582,043,000)) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation projects signed between the Group and government authorities in Liaoning Province, the PRC. The constructions of these projects were delayed and the subcontractors returned an aggregate amount of RMB1,507,516,000 (equivalent to HK$1,861,131,000) (2011: RMB1,115,470,000 (equivalent to HK$1,377,124,000)) of these advance payments to the other subsidiaries of the Group. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position (note 40(b)(i)).

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**5,531**	3,531
Acquisition of subsidiaries	**735**	–
Impairment during the year recognised in the income statement, net *(note 7)*	**1,608**	1,808
Exchange realignment	**6**	192
At 31 December	**7,880**	5,531

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

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28. BALANCES WITH RELATED PARTIES

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

(i) an amount of US$142,347,000 (equivalent to HK$1,103,186,000) (2011: US$135,365,000 (equivalent to HK$1,051,226,000)) due from a non-controlling equity holder of a subsidiary, which bears interest at the rate of the PRC 1-3 year bank loan rate per annum and is repayable in May 2014. Interest income of HK$23,172,000 (2011: HK$29,146,000) was recognised in the consolidated income statement during the year in respect of the loan; and

(ii) an amount of RMB175,371,000 (equivalent to HK$216,507,000) (2011: RMB183,085,000 (equivalent to HK$226,031,000)) due from a joint venture partner of a subsidiary of the Group, which bore interest at the rate of 4.77% per annum during the year ended 31 December 2011. Interest receivables of RMB13,085,000 was subsequently reduced to RMB5,371,000 (equivalent to HK$6,631,000). Accordingly, interest receivables in an amount of RMB7,714,000 (equivalent to HK$9,523,000) were written-off by the Group during the year.

The balances with related companies of the Group included in trade and bills receivables, deposits and other debtors, and other liabilities are disclosed in notes 26(b), 27 and 40 to the financial statements, respectively.

29. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances other than time deposits	**4,277,940**	1,582,188	**384,397**	107,195
Time deposits	**97,818**	457,947	**–**	–
Total cash and bank balances	**4,375,758**	2,040,135	**384,397**	107,195
Less: Restricted cash and pledged deposits *(note (a))*	**(84,892)**	(92,367)	**–**	–
Cash and cash equivalents	**4,290,866**	1,947,768	**384,397**	107,195

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29. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS *(Continued)*

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2012 included the following:

(i) bank deposits of RMB52,375,000 (equivalent to HK$64,661,000) (2011: RMB54,421,000 (equivalent to HK$67,186,000)) which could only be applied on construction of sewage treatment plants and other infrastructural facilities undertaken by the Group;

(ii) bank deposits of RMB15,684,000 (equivalent to HK$19,363,000) (2011: RMB18,986,000 (equivalent to HK$23,440,000)) pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance of the duties by the Group under certain service concession agreements; and

(iii) bank deposits of RMB703,000 (equivalent to HK$868,000) (2011: RMB1,410,000 (equivalent to HK$1,741,000)) pledged to banks to secure certain banking facilities granted to the Group (note 32(b)(vi)).

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**63,911**	97,570	**44,268**	77,289
RMB	**2,662,443**	1,232,662	**340,054**	29,831
US$	**1,423,547**	653,043	**75**	75
RM	**225,588**	56,860	**–**	–
TWD	**267**	–	**–**	–
KRW	**2**	–	**–**	–
	4,375,758	2,040,135	**384,397**	107,195

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

(c) As at 31 December 2012, two bank balances of RM45,091,000 (equivalent to HK$114,238,000) and US$68,610,000 (equivalent to HK$531,728,000) were designated as a charge for the repayment of a bank loan in a principal amount of US$100,000,000 (equivalent to HK$775,490,000), and any fund withdrawals of over US$6,500,000 from these bank accounts shall be approved by the bank.

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

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30. SHARE CAPITAL

	2012 HK$'000	2011 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.10 each	**1,500,000**	1,500,000
Issued and fully paid:		
6,909,170,476 ordinary shares of HK$0.10 each	**690,917**	690,917

A summary of the movements in the Company's issued share capital during the years ended 31 December 2012 and 2011 is as follows:

	Notes	**Number of ordinary shares in issue**	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 January 2011		4,566,756,463	456,676	2,532,431	2,989,107
Issue of new shares upon completion of the Open Offer	*(a)*	2,283,378,231	228,338	3,157,024	3,385,362
Issue of new shares for acquisition of the non-controlling interest in a subsidiary	*(b)*	59,035,792	5,903	120,079	125,982
At 31 December 2011 and 1 January 2012		6,909,170,486	690,917	5,809,534	6,500,451
Reduction of share premium account	*31(b)(ii)*	–	–	(5,809,534)	(5,809,534)
At 31 December 2012		6,909,170,486	690,917	–	690,917

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31 December 2012

30. SHARE CAPITAL *(Continued)*

Notes:

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

(b) Pursuant to a master agreement dated 5 July 2011 entered into between, among others, BE-ZKC (a subsidiary of the Company) and 深圳市泰合環保有限公司 ("Shenzhen Taihe", a then non-controlling equity holder of Bei Kong Chuang Xin (a subsidiary of the Company)), BE-ZKC acquired the 11.03% equity interest in Bei Kong Chuang Xin held by Shenzhen Taihe for a total consideration of RMB195,360,000 (equivalent to HK$235,373,000), satisfied as to RMB90,680,000 (equivalent to HK$109,391,000) in cash and HK$125,982,000 by way of the issuance of 59,035,792 ordinary shares of the Company at HK$2.134 per share. The transaction was completed on 12 July 2011 and the consideration shares were issued on 7 September 2011. Further details of the transaction are set out in the Company's circular dated 29 July 2011.

31. RESERVES

(a) Group

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

(ii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries. None of the Group's PRC reserve funds as at 31 December 2012 were distributable in the form of cash dividends.

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31. RESERVES *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000 *(note (i))*	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011		2,532,431	60,859	(202,571)	2,390,719
Profit for the year and total comprehensive income for the year	*12*	–	–	7,410	7,410
Issue of new shares upon completion of the Open Offer	*30(a)*	3,157,024	–	–	3,157,024
Issue of new shares for acquisition of the non-controlling interest in a subsidiary	*30(b)*	120,079	–	–	120,079
At 31 December 2011 and 1 January 2012		5,809,534	60,859	(195,161)	5,675,232
Loss for the year and total comprehensive loss for the year	*12*	–	–	(303,875)	(303,875)
Final 2011 cash distributions		–	(207,275)	–	(207,275)
Interim 2012 cash distributions		–	(138,183)	–	(138,183)
Reduction of share premium account	*(ii)*	(5,809,534)	5,570,203	239,331	–
At 31 December 2012		–	5,285,604	(259,705)	5,025,899

Notes:

(i) Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of contributed surplus account of the Company subject to the Company's bye-laws and provided that the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(ii) As approved by the shareholders of the Company at a special general meeting held on 22 March 2012, the total amount standing on the Company's share premium account of HK$5,809,534,000 was reduced to nil on 23 March 2012, with the credit arising therefrom being applied towards the then entire balance of the accumulated losses of the Company of HK$239,331,000 and the remaining balance of HK$5,570,203,000 being credited to the contributed surplus account of the Company. Further details of the aforesaid reduction in the share premium account of the Company are set out in the Company's circular dated 24 February 2012.

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32. BANK AND OTHER BORROWINGS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans:				
Secured	**3,857,616**	2,386,829	**–**	–
Unsecured	**5,054,074**	3,853,423	**4,745,432**	3,791,694
	8,911,690	6,240,252	**4,745,432**	3,791,694
Other loans:				
Secured	**123,457**	–	**–**	–
Unsecured	**368,590**	194,262	**–**	–
	492,047	194,262	**–**	–
Total bank and other borrowings	**9,403,737**	6,434,514	**4,745,432**	3,791,694
Analysed into:				
Bank loans repayable:				
Within one year	**2,430,860**	1,004,505	**1,352,296**	389,477
In the second year	**439,836**	1,511,376	**–**	1,191,385
In the third to fifth years, inclusive	**5,363,458**	3,085,495	**3,393,136**	2,210,832
Beyond five years	**677,536**	638,876	**–**	–
	8,911,690	6,240,252	**4,745,432**	3,791,694
Other loans repayable:				
Within one year	**379,453**	65,104	**–**	–
In the second year	**29,541**	17,606	**–**	–
In the third to fifth years, inclusive	**67,298**	48,868	**–**	–
Beyond five years	**15,755**	62,684	**–**	–
	492,047	194,262	**–**	–
Total bank and other borrowings	**9,403,737**	6,434,514	**4,745,432**	3,791,694
Portion classified as current liabilities	**(2,810,313)**	(1,069,609)	**(1,352,296)**	(389,477)
Non-current portion	**6,593,424**	5,364,905	**3,393,136**	3,402,217

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32. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**3,417,562**	3,645,718	**3,417,562**	3,645,718
RMB	**4,990,484**	2,572,030	**1,172,870**	–
US$	**995,691**	216,766	**155,000**	145,976
	9,403,737	6,434,514	**4,745,432**	3,791,694

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

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) in a then aggregate net carrying amount of HK$3,574,879,000 (2011: HK$2,740,254,000) as at 31 December 2012, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors (note 17);

(ii) mortgages over the water fee collection right of a water distribution operation. As at 31 December 2012, the carrying amount of the related trade receivables amounted to RMB5,480,000 (equivalent to HK$6,765,000) (2011: Nil) (note 26(d));

(iii) mortgages over certain land use rights and buildings given by certain non-controlling interests of the Group;

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

(v) pledges over certain of the Group's equity interests in subsidiaries;

(vi) pledges over certain of the Group's bank balances of RMB703,000 (equivalent to HK$868,000) (2011: RMB1,410,000 (equivalent to HK$1,741,000)) in aggregate (note 29(a)(iii)); and/or

(vii) a charge over two bank balances of RM45,091,000 (equivalent to HK$114,238,000) and US$68,610,000 (equivalent to HK$531,728,000) for the repayment of a bank loan in a principal amount of US$100,000,000 (equivalent to HK$775,490,000) (note 29(c)).

(c) The Group's bank and other borrowings bear interest at floating rates, except for the following:

(i) a bank loan and an other loan in an aggregate principal amount of RMB951,091,000 (equivalent to HK$1,174,217,000) (2011: Nil) bearing interest at a fixed rate of 5% per annum;

(ii) a bank loan in a principal amount of RMB210,000,000 (equivalent to HK$259,259,000) (2011: Nil) bearing interest at a fixed rate of 6.75% per annum;

(iii) two other loans in an aggregate principal amount of RMB250,000,000 (equivalent to HK$308,642,000) (2011: Nil) bearing interest at a fixed rate of 6% per annum; and

(iv) two interest-free government loans in an aggregate principal amount of RMB10,829,000 (equivalent to HK$13,369,000) (2011: RMB11,000,000 (equivalent to HK$13,580,000)).

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32. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(d) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK$5,264,313,000 (2011: HK$3,447,049,000) as at 31 December 2012 include covenants imposing specific performance obligations on BEHL, a substantial beneficial owner of the Company, among which are the following events which would constitute an event of default on the loan facilities:

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

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

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

33. CORPORATE BONDS

	Group and Company	
	2012	2011
	HK$'000	*HK$'000*
Unsecured corporate bonds, repayable:		
In the second year	**1,781,433**	–
In the third to fifth years, inclusive	**613,097**	2,325,633
	2,394,530	2,325,633

During the year ended 31 December 2011, the following batches of corporate bonds were issued by the Company:

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

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

NOTES TO FINANCIAL STATEMENTS

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33. CORPORATE BONDS *(Continued)*

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

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

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

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

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

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

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

34. NOTE PAYABLE

	Group and Company	
	2012	2011
	HK$'000	*HK$'000*
Unsecured note payable, repayable beyond five years	**1,476,567**	–

Pursuant to the note purchase agreement dated 1 August 2012 entered into, amongst others, the Company and an institutional investor in Hong Kong independent to the Group, a note with a principal amount of RMB1,200,000,000 (equivalent to HK$1,481,481,000) was issued to the institutional investor.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

34. NOTE PAYABLE *(Continued)*

The note is unsecured, bears interest at the rate of 6.15% per annum and would be due for repayment on 7 August 2021 unless being redeemed prior to the maturity pursuant to the terms thereof and of the indenture. In addition, the note includes covenants imposing specific performance obligations on BEHL, among which are the following events which would constitute an event of default:

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

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

(iii) if BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company;

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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35. FINANCE LEASE PAYABLE

The Group leases certain equipment for its sewage treatment services business under a finance lease arrangement. The lease is classified as a finance lease and has a remaining lease term of three years as at the end of the reporting period. At 31 December 2012, the total future minimum lease payments under the finance lease and its present values were as follows:

Group

	Minimum lease payments 2012 *HK$'000*	Minimum lease payments 2011 *HK$'000*	**Present value of minimum lease payments 2012 *HK$'000***	Present value of minimum lease payments 2011 *HK$'000*
Amounts payable:				
Within one year	**7,870**	–	**6,764**	–
In the second year	**7,870**	–	**7,210**	–
In the third year	**5,903**	–	**5,718**	–
Total minimum finance lease payments	**21,643**	–	**19,692**	–
Future finance charges	**(1,951)**	–		
Total net finance lease payable	**19,692**	–		
Portion classified as current liabilities	**(6,764)**	–		
Non-current portion	**12,928**	–		

NOTES TO FINANCIAL STATEMENTS

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36. PROVISION FOR MAJOR OVERHAULS

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

The movements in the provision for major overhauls of the Facilities during the year are as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**167,296**	123,374
Additional provision (note 7)	**49,343**	33,207
Increase in discounted amounts arising from the passage of time *(note 8)*	**5,004**	3,711
Exchange realignment	**–**	7,004
At 31 December	**221,643**	167,296

37. DEFERRED INCOME

Deferred income of the Group represented (i) subsidies of RMB20,382,000 (equivalent to HK$25,163,000) (2011: RMB20,382,000 (equivalent to HK$25,163,000)) received from fresh water customers in respect of the Group's construction of a sewage treatment plant in Guangxi Province, the PRC; and (ii) government subsidies of RMB45,054,000 (equivalent to HK$55,622,000) (2011: Nil) in respect of the Group's construction of the pipelines and water distribution facilities in Inner Mongolia. These subsidies are interest-free and not required to be repaid, and are recognised in the consolidated income statement on the straight-line basis over the expected useful life of the relevant assets.

NOTES TO FINANCIAL STATEMENTS

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38. DEFERRED TAX

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

	Group 2012 HK$'000	Group 2011 HK$'000
Deferred tax assets	**28,690**	28,874
Deferred tax liabilities	**(287,010)**	(205,179)
	(258,320)	(176,305)

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

Group

	Notes	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Impairment provision HK$'000	Provision for major overhauls HK$'000	Temporary differences related to service concession arrangements HK$'000	Losses available for offsetting against future taxable profits HK$'000	Net deferred tax assets/ (liabilities) HK$'000
		Attributable to					
At 1 January 2011		49,442	2,826	30,771	(193,551)	3,630	(106,882)
Acquisition of subsidiaries	42	(27,487)	–	–	–	–	(27,487)
Net deferred tax credited/(charged) to the income statement during the year	11	(1,247)	–	9,229	(42,140)	–	(34,158)
Exchange realignment		1,070	139	1,550	(10,599)	62	(7,778)
At 31 December 2011 and 1 January 2012		21,778	2,965	41,550	(246,290)	3,692	(176,305)
Acquisition of subsidiaries	42	(27,557)	2,020	–	–	–	(25,537)
Net deferred tax credited/(charged) to the income statement during the year	11	(1,247)	(526)	13,770	(68,488)	–	(56,491)
Exchange realignment		–	–	13	–	–	13
At 31 December 2012		(7,026)	4,459	55,333	(314,778)	3,692	(258,320)

NOTES TO FINANCIAL STATEMENTS

31 December 2012

38. DEFERRED TAX *(Continued)*

Notes:

(a) At 31 December 2012, deferred tax assets have not been recognised in respect of unused tax losses of HK$90,599,000 (2011: HK$35,820,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK$69,449,000 (2011: HK$35,117,000) will expire in one to five years.

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

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$1,018,692,000 (2011: HK$745,251,000) at 31 December 2012.

39. TRADE AND BILLS PAYABLES

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

	Group		**Company**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 3 months	**610,163**	196,621	**–**	–
4 to 6 months	**271,075**	8,744	**–**	–
7 months to 1 year	**72,105**	31,203	**–**	–
1 to 2 years	**105,980**	236,272	**–**	–
2 to 3 years	**148,764**	142,164	**–**	2,416
Over 3 years	**88,415**	4,193	**388**	–
Balance with extended credit period	**622,736**	1,430,039	**–**	–
	1,919,238	2,049,236	**388**	2,416

Apart from certain trade and bills payables relating to certain construction for comprehensive renovation projects which would become due for payments upon settlements of progress billings by relevant contract customers, the trade and bills payables are non-interest-bearing and are normally settled on 60-day terms.

NOTES TO FINANCIAL STATEMENTS

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40. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2012	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Accruals		**241,557**	118,952	**73,700**	20,632
Other liabilities	*(a)*	**795,335**	853,452	**7**	–
Receipt in advance		**813,790**	692,935	**–**	–
Due to subcontractors	*(b)*	**2,166,809**	1,710,972	**–**	–
Due to subsidiaries	*19(a)*	**–**	–	**1,213,087**	1,117,147
Due to jointly-controlled entities	*20(d)*	**296,863**	160,721	**–**	–
Due to an associate	*21(b)*	**49,995**	–	**49,995**	–
Due to related parties	*28*	**82,840**	115,406	**–**	–
Other taxes payables	*41*	**55,194**	33,817	**–**	161
		4,502,383	3,686,255	**1,336,789**	1,137,940
Portion classified as current liabilities		**(4,269,166)**	(3,406,346)	**(1,336,789)**	(1,137,940)
Non-current portion		**233,217**	279,909	**–**	–

Notes:

(a) The Group's other liabilities as at 31 December 2012 included, inter alia, the following:

(i) outstanding considerations in an aggregate amount of RMB237,302,000 (equivalent to HK$292,965,000) (2011: RMB345,179,000 (equivalent to HK$426,147,000)) payable to various governmental authorities in Mainland China for the transfers of sewage treatment facilities to the Group under TOT arrangements; and

(ii) an other payable of RMB70,000,000 (equivalent to HK$86,420,000) (2011: RMB150,000,000 (equivalent to HK$185,185,000)) in respect of the acquisition of the Group's land held for sale.

(b) The amounts due to subcontractors of the Group as at 31 December 2012 included the following:

(i) refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of RMB1,507,516,000 (equivalent to HK$1,861,131,000) (2011: RMB1,115,470,000 (equivalent to HK$1,377,124,000)), as further detailed in note 27(b) to the financial statements; and

(ii) performance bonds of RMB247,600,000 (equivalent to HK$305,678,000) (2011: RMB270,417,000 (equivalent to HK$333,848,000)) in aggregate received from various subcontractors of the construction services for comprehensive renovation projects in Yunnan Province and Liaoning Province, the PRC. The balances are fully repayable upon the completion of the final inspection by relevant government authorities which, in the opinion of the directors, will be in 2013.

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

NOTES TO FINANCIAL STATEMENTS

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41. OTHER TAXES PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Business tax	**32,241**	18,048	**–**	–
Value-added tax	**11,240**	6,487	**–**	–
Others	**11,713**	9,282	**–**	161
	55,194	33,817	**–**	161

NOTES TO FINANCIAL STATEMENTS

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42. BUSINESS COMBINATIONS

Except for the property, plant and equipment, land held for sale, operation concessions and receivables under service concession arrangements with respective carrying amounts of HK$254,029,000, HK$89,176,000, HK$168,383,000 and HK$331,991,000 (2011: receivables under service concession arrangements with an aggregate carrying amount of HK$403,623,000) immediately before the acquisitions, the fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition have no significant differences from their then respective carrying amounts, and are set out as follows:

	Notes	**2012** ***HK$'000*** *(note (a))*	2011 *HK$'000* *(note (b))*
Property, plant and equipment	*15*	**281,543**	368
Operating concessions	*17*	**191,013**	–
Other intangible assets	*18*	**3,845**	–
Investment in an associate		**1,867**	–
Available-for-sale investments		**4,130**	–
Amounts due from contract customers		**27,344**	–
Receivables under service concession arrangements		**412,853**	523,220
Deferred tax assets	*38*	**53**	–
Land held for sale		**77,778**	–
Inventories		**11,925**	253
Trade receivables		**77,588**	–
Prepayments, deposits and other receivables		**561,544**	49,391
Cash and cash equivalents		**666,210**	5,037
Deferred income		**(55,622)**	–
Deferred tax liabilities	*38*	**(25,590)**	(27,487)
Trade payables		**(32,284)**	(7,353)
Other payables and accruals		**(217,070)**	(337,629)
Income tax payables		**(9,678)**	(206)
Bank and other borrowings		**(336,901)**	(12,346)
Finance lease payable		**(26,008)**	–
Total identifiable net assets at fair value		**1,614,540**	193,248
Non-controlling interests		**(502,376)**	–
		1,112,164	193,248
Goodwill on acquisition	*16*	**118,432**	57,007
Gains on bargain purchase	*6*	**(12,692)**	–
Gain on remeasurement of a pre-existing interest in a jointly-controlled entity	*(a)(ii), 6*	**(23,484)**	–
		1,194,420	250,255

NOTES TO FINANCIAL STATEMENTS

31 December 2012

42. BUSINESS COMBINATIONS *(Continued)*

	2012	2011
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Satisfied by:		
Cash	**205,697**	250,255
Capital contribution to the acquirees in the form of cash	**635,291**	–
Reclassification from an investment in a jointly-controlled entity to an investment in a subsidiary	**353,432**	–
	1,194,420	250,255
Profit for the year since acquisition	**27,888**	1,298

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

	2012	2011
	HK$'000	*HK$'000*
	(note (a))	*(note (b))*
Cash consideration	**(205,697)**	(250,255)
Cash injected by the Group as capital contribution	**(635,291)**	–
Cash and cash equivalents acquired	**666,210**	5,037
Amortised costs of outstanding cash consideration at end of year	**40,667**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(134,111)**	(245,218)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$895,807,000 (2011: HK$720,146,000) and the Group's revenue (comprising turnover, interest income and other income and gains, net) would have been HK$4,593,454,000 (2011: HK$2,751,570,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

42. BUSINESS COMBINATIONS *(Continued)*

Notes:

(a) Business combinations during the year ended 31 December 2012 included, inter alia, the following transactions:

(i) In July 2012, the Group acquired a 67% equity interest in 內蒙古北控西部水業股份有限公司 ("Inner Mongolia BEWG") by way of completing a capital contribution in an amount of RMB182,403,000 (equivalent to HK$225,189,000) to Inner Mongolia BEWG. Inner Mongolia BEWG is principally engaged in the provision of water distribution and related services in Inner Mongolia, the PRC;

(ii) In October 2012, the Group acquired a 18.5% additional equity interest in Beikong Shudu, a then jointly-controlled entity of the Group held as to 50% by the Group immediately before the further acquisition, by way of completing a capital contribution in an amount of RMB332,183,000 (equivalent to HK$410,102,000) to Beikong Shudu. In accordance with HKFRS 3 (Revised), the acquisition date fair value of the Group's previously held 50% equity interest in Beikong Shudu is remeasured at fair value as at the acquisition date through the income statement and a gain on such remeasurement of RMB19,022,000 (equivalent to HK$23,484,000) was recognised in the "Other income and gains, net" in the consolidated income statement during the year; and

(iii) During the year, certain sewage treatment and water distribution operations located in Hunan, Guangxi, Shandong and Yunnan Province, the PRC, were acquired by the Group from independent third parties for an aggregate cash consideration of RMB166,615,000 (equivalent to HK$205,697,000).

(b) Business combinations during the year ended 31 December 2011 included the following transactions:

(i) In April 2011, the Group acquired the entire equity interest in Xuzhou Chuangyuan for a cash consideration of RMB30,980,000 (equivalent to HK$38,247,000). Xuzhou Chuangyuan is principally engaged in the provision of sewage treatment services in Jiangsu Province, the PRC; and

(ii) In October 2011, the Group acquired the entire equity interests in certain sewage treatment operations located in Jiangsu, Xinjiang, Fujian and Anhui Provinces, the PRC, for an aggregate cash consideration of RMB171,727,000 (equivalent to HK$212,008,000).

43. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Save as disclosed above and the transactions detailed in notes 30(b) and 31(b)(ii) to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

44. CONTINGENT LIABILITIES

At 31 December 2012, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK$124,552,000) (2011: RM49,162,000 (equivalent to HK$120,403,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and effects until 27 January 2019. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011.

Save as disclosed above, at 31 December 2012, the Group did not have any significant contingent liabilities.

At 31 December 2012, corporate guarantees of RMB286,000,000 (equivalent to HK$353,086,000) and RM306,094,000 (equivalent to HK$775,490,000) (2011: RMB330,000,000 (equivalent to HK$407,407,000)) were given by the Company to banks in connection with bank loans of an even total amount granted to certain subsidiaries of the Company.

45. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain portion of buildings under operating lease arrangements, with the leases negotiated for terms ranging from 2 to 10.5 years (2011: 3 to 10.5 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within one year	**6,844**	4,907
In the second to fifth years, inclusive	**19,259**	18,787
After five years	**19,054**	20,976
	45,157	44,670

At 31 December 2012, the Company did not have any operating lease arrangements as lessor (2011: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

45. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases a piece of land and certain office properties under operating lease arrangements with the leases negotiated for terms ranging from three months to 46 years (2011: 1 to 46 years).

At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	*HK$'000*
Within one year	**8,039**	6,413
In the second to fifth years, inclusive	**12,081**	12,108
After five years	**72,348**	74,738
	92,468	93,259

At 31 December 2012, the Company did not have any operating lease commitments as lessee (2011: Nil).

NOTES TO FINANCIAL STATEMENTS

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46. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 45(b) above, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	*HK$'000*
New service concession arrangements on a TOT basis:		
Authorised, but not contracted for	**204,338**	230,827
Contracted, but not provided for	**411,926**	396,699
	616,264	627,526
New service concession arrangements on a BOT basis:		
Authorised, but not contracted for	**76,341**	339,440
Contracted, but not provided for	**3,848,311**	2,369,592
	3,924,652	2,709,032
New service concession arrangements on a Build-Own-Operate basis:		
Contracted, but not provided for	**983,017**	–
Capital contribution to jointly-controlled entities:		
Contracted, but not provided for	**33,766**	235,706
Acquisition of subsidiaries:		
Contracted, but not provided for	**1,642,197**	145,679
Total capital commitments	**7,199,896**	3,717,943

NOTES TO FINANCIAL STATEMENTS

31 December 2012

46. CAPITAL COMMITMENTS *(Continued)*

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

	Group	
	2012	2011
	HK$'000	*HK$'000*
Authorised, but not contracted for	**595,962**	707,596
Contracted, but not provided for	**497,442**	502,969
	1,093,404	1,210,565

At 31 December 2012, the Company had capital commitments of HK$1,258,434,000 (2011: HK$46,692,000 in respect of its capital contribution to a subsidiary) in aggregate in respect of the acquisition of assets from BEHL as detailed in note 50(a) to the financial statements, which are contracted but not provided for.

47. RELATED PARTY DISCLOSURES

(a) (i) During the year, the Group engaged ABCD and the joint venture partner of ABCD for the research and provision of feasibility studies on a potential seawater desalination project at a total service fee of US$3,295,000 (equivalent to HK$25,602,000), which was mutually agreed between the three parties.

(ii) During the year ended 31 December 2011, the Group provided technical services to ACSD and a service fee of RMB25,866,000 (equivalent to HK$31,164,000) was charged at a rate mutually agreed between the Group and ACSD.

Save as disclosed above and the transactions and balances detailed in notes 20, 21, 26, 27, 28, 30, 32 and 40 to the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

47. RELATED PARTY DISCLOSURES *(Continued)*

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

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

(c) Compensation of key management personnel of the Group

	2012	2011
	HK$'000	*HK$'000*
Short term employee benefits	**14,416**	8,270
Pension scheme contributions	**42**	36
Total compensation paid to key management personnel	**14,458**	8,306

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Banks and other borrowings, corporate bonds, a note payable, a finance lease payable, and cash and bank balances are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Interest rate risk *(Continued)*

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

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total	Effective interest rate
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*
31 December 2012								
Floating rate:								
Restricted cash and pledged deposits	79,954	–	–	–	–	–	79,954	0.35
Cash and cash equivalents	4,195,693	–	–	–	–	–	4,195,693	0.52
Bank and other borrowings	2,228,594	468,816	1,094,189	2,662,142	501,218	693,291	7,648,250	4.08
Finance lease payable	6,764	7,210	5,718	–	–	–	19,692	5.62
Fixed rate:								
Restricted cash and pledged deposits	4,938	–	–	–	–	–	4,938	1.35
Cash and cash equivalents	92,880	–	–	–	–	–	92,880	2.94
Bank and other borrowings	568,350	449	1,173,319	–	–	–	1,742,118	5.44
Corporate bonds	–	1,781,433	–	613,097	–	–	2,394,530	4.07
Note payable	–	–	–	–	–	1,476,567	1,476,567	6.15
31 December 2011								
Floating rate:								
Restricted cash and pledged deposits	88,664	–	–	–	–	–	88,664	0.50
Cash and cash equivalents	1,491,704	–	–	–	–	–	1,491,704	0.47
Bank and other borrowings	1,056,029	1,528,982	328,501	291,986	2,513,876	701,560	6,420,934	3.88
Fixed rate:								
Restricted cash and pledged deposits	3,703	–	–	–	–	–	3,703	1.49
Cash and cash equivalents	454,244	–	–	–	–	–	454,244	1.67
Corporate bonds	–	–	1,729,586	–	596,047	–	2,325,633	4.07

At 31 December 2012, it is estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, a finance lease payable, cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2012 by approximately HK$41,164,000 (2011: increase/decrease the Group's profit before tax by approximately HK$51,777,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Interest rate risk *(Continued)*

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

Foreign currency risk

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

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

	Increase/ (decrease) in profit before tax *HK$'000*	**Increase/ (decrease) in equity** *HK$'000*
31 December 2012		
If Hong Kong dollar weakens against RMB by 5%	69,847	457,109
If Hong Kong dollar strengthens against RMB by 5%	(69,847)	(457,109)
31 December 2011		
If Hong Kong dollar weakens against RMB by 5%	47,201	369,577
If Hong Kong dollar strengthens against RMB by 5%	(47,201)	(369,577)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Credit risk

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

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

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

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK$8.3 billion (comprising the Group's capital commitments and the Group's share of the jointly-controlled entities' own capital commitments) in aggregate as at 31 December 2012 as detailed in note 46 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds, a note payable and a finance lease payable, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2013. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period based on the contractual undiscounted payments, is as follows:

	On demand *HK$'000*	Within 1 year *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 3 years *HK$'000*	More than 3 years but less than 4 years *HK$'000*	More than 4 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total *HK$'000*
31 December 2012								
Bank borrowings	–	2,766,977	717,925	2,456,237	2,739,682	550,074	699,759	9,930,654
Other borrowings	6,173	388,289	33,322	24,703	38,388	10,459	16,227	517,561
Corporate bonds	–	97,459	1,845,490	30,655	636,088	–	–	2,609,692
Note payable	–	90,809	90,809	90,809	90,809	90,809	1,809,532	2,263,577
Finance lease payable	–	7,870	7,870	5,903	–	–	–	21,643
Trade and bills payables	–	1,919,238	–	–	–	–	–	1,919,238
Other liabilities	346,858	3,542,717	229,637	3,580	–	–	–	4,122,792
Due to related parties	82,840	–	–	–	–	–	–	82,840
	435,871	8,813,359	2,925,053	2,611,887	3,504,967	651,342	2,525,518	21,467,997
31 December 2011								
Bank borrowings	–	1,221,512	1,684,090	450,111	401,583	2,578,897	661,012	6,997,205
Other borrowings	6,173	65,290	22,766	25,847	17,737	17,910	64,549	220,272
Corporate bonds	–	94,662	94,662	1,791,818	29,802	610,948	–	2,621,892
Trade payables	–	2,049,236	–	–	–	–	–	2,049,236
Other liabilities	160,721	2,977,450	255,756	24,153	–	–	–	3,418,080
Due to related parties	115,406	–	–	–	–	–	–	115,406
	282,300	6,408,150	2,057,274	2,291,929	449,122	3,207,755	725,561	15,422,091

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

Fair values

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

	Carrying amount		Fair value	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets:				
Non-current receivables under service concession arrangements	**6,469,498**	5,003,117	**6,469,498**	5,003,117
Non-current trade and bills receivables	**97,225**	261,850	**97,225**	261,850
Non-current deposits and other receivables	**2,547,230**	1,542,014	**2,547,230**	1,542,014
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	**5,419,656**	5,364,905	**5,419,656**	5,364,905
Fixed rate borrowings	**1,173,768**	–	**1,092,331**	–
Corporate bonds	**2,394,530**	2,325,633	**2,397,543**	2,325,633
Note payable	**1,476,567**	–	**1,476,567**	–
Finance lease payable	**12,928**	–	**12,928**	–

Note: The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 22 to the financial statements, the available-for-sale investments of the Group are not stated at fair value but at cost less any accumulated impairment losses because the fair value of which cannot be reasonably assessed and therefore no disclosure of the fair value of this financial instrument is made.

Capital management

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2012

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

Capital management *(Continued)*

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, a note payable and a finance lease payable (as shown in the statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Net debt	**9,003,660**	6,812,379
Total equity	**10,731,493**	9,710,881
Gearing ratio	**84%**	70%

49. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the unlisted equity investments being classified as available-for-sale investments as disclosed in note 22 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2012 and 2011 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

50. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the following significant events took place:

(a) On 5 February 2013, the Group completed acquisitions of the following assets from BEHL and certain of its subsidiaries (the "Assets Vendors"):

(i) the estimated future net cash income (after deducting all state and local taxes in the PRC and operating costs) generated from the service concession arrangement on the water purification and treatment operation of the Phase 1 of No. 9 water treatment plant in Beijing for the six years ending 31 December 2018;

(ii) the entire equity interest in 濰坊北控水務有限公司 which is engaged in a service concession arrangement on water distribution in Shandong Province, the PRC; and

(iii) the entire equity interest in Beijing Enterprises Water Company Limited, an investment holding company holding an interest in a jointly-controlled entity which is engaged in a service concession arrangement on water distribution in Beijing.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

50. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(a) *(Continued)*

The above acquisitions were made pursuant to a master agreement (the "Master Agreement") dated 26 September 2012 entered into between the Group and the Assets Vendors, and the total consideration of HK$1,066,540,000 in respect of the above acquisitions was satisfied by way of the issuance of 658,357,748 ordinary shares of the Company at HK$1.62 per share to Beijing Enterprises Environmental Construction Limited ("BE Environmental"), a wholly-owned subsidiary of BEHL. The Group is not yet in a position to disclose any financial impact of the above acquisitions on the Group.

On the other hand, pursuant to the Master Agreement, the Group will also acquire a 90% equity interest in BE Water (Hainan), which is principally engaged in sewage treatment operation in Hainan Province, the PRC for a consideration of RMB157,000,000 (equivalent to HK$191,894,000) to be settled by way of the issuance of 118,453,090 ordinary shares of the Company at HK$1.62 per share to BE Environmental. As at the date of approval of these financial statements, the acquisition has not been completed.

Further details of the acquisition transactions are set out in the Company's circular and announcement dated 30 November 2012 and 5 February 2013, respectively.

(b) On 6 February 2013, the Company and three independent third parties (collectively the "Dongguan Vendors") entered into an equity transfer agreement, pursuant to which the Company conditionally agreed to acquire, and the Dongguan Vendors conditionally agreed to sell, the entire equity interests in seven companies established in Mainland China and principally engaged in the sewage treatment operations in Dongguan City, Guangdong Province, the PRC, for an aggregate consideration of RMB504,100,000 (equivalent to approximately HK$620,900,000). As at the date of approval of these financial statements, the transaction has not been completed.

Further details of the transaction are set out in the Company's announcement dated 6 February 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2012

50. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(c) On 21 March 2013, the Company and Veolia Eau — Compagnie Générale des Eaux, S.C.A. ("Veolia Water", an independent third party) entered into a sale and purchase agreement, pursuant to which the Company will acquire from Veolia Water the following assets for an aggregate consideration of €95,093,073 (equivalent to approximately HK$960,440,000):

(i) the entire share capital of Compagnie Générale des Eaux (Portugal) — Consultadoria e Engenharia, S.A. ("CGEP"), which is a private water and sewage treatment operator in Portugal;

(ii) the quasi-capital contributions made by Veolia Water to CGEP; and

(iii) a shareholder's loan granted by Veolia Water to CGEP and the corresponding interest payable.

The consideration for the transaction is subject to an adjustment of up to €5,000,000 (equivalent to HK$50,500,000) and the maximum aggregate consideration for the acquisition shall be amounted to €100,093,073 (equivalent to approximately HK$1,010,940,000). As at the date of approval of these financial statements, the transaction has not been completed.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

FIVE YEAR FINANCIAL SUMMARY

31 December 2012

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2011, is set out below:

RESULTS

	Period from 1 July 2007 to 31 December 2008	Year ended 31 December			
		2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Note)				
Revenue	337,681	1,730,013	6,348,060	2,654,454	**3,727,379**
Operating profit	55,947	272,818	694,291	840,049	**1,037,191**
Share of profits and losses of:					
Jointly-controlled entities	–	–	824	20,798	**56,011**
Associates	(811)	4,565	–	–	**(1,409)**
Profit before tax	55,136	277,383	695,115	860,847	**1,091,793**
Income tax	(12,234)	(48,637)	(130,950)	(169,861)	**(224,643)**
Profit for the year/period	42,902	228,746	564,165	690,986	**867,150**
ATTRIBUTABLE TO:					
Shareholders of the Company	30,984	192,711	512,512	600,736	**750,474**
Non-controlling interests	11,918	36,035	51,653	90,250	**116,676**
	42,902	228,746	564,165	690,986	**867,150**

FIVE YEAR FINANCIAL SUMMARY

31 December 2012

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	4,816,158	7,423,717	17,224,829	24,749,742	**31,289,880**
Total liabilities	(2,818,201)	(4,411,901)	(12,156,875)	(15,038,861)	**(20,558,387)**
NET ASSETS	1,997,957	3,011,816	5,067,954	9,710,881	**10,731,493**
Equity attributable to shareholders of the Company	1,758,301	2,622,905	3,892,860	8,081,989	**8,467,124**
Non-controlling interests	239,656	388,911	1,175,094	1,628,892	**2,264,369**
TOTAL EQUITY	1,997,957	3,011,816	5,067,954	9,710,881	**10,731,493**

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

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