



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

Stock Code: 371

BEIJING
ENTERPRISES
WATER GROUP
LIMITED

Interim Report 2014

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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
Ms. Qi Xiaohong
Mr. Ke Jian
Mr. Tung Woon Cheung Eric
Mr. Li Li

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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Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITORS

Ernst & Young

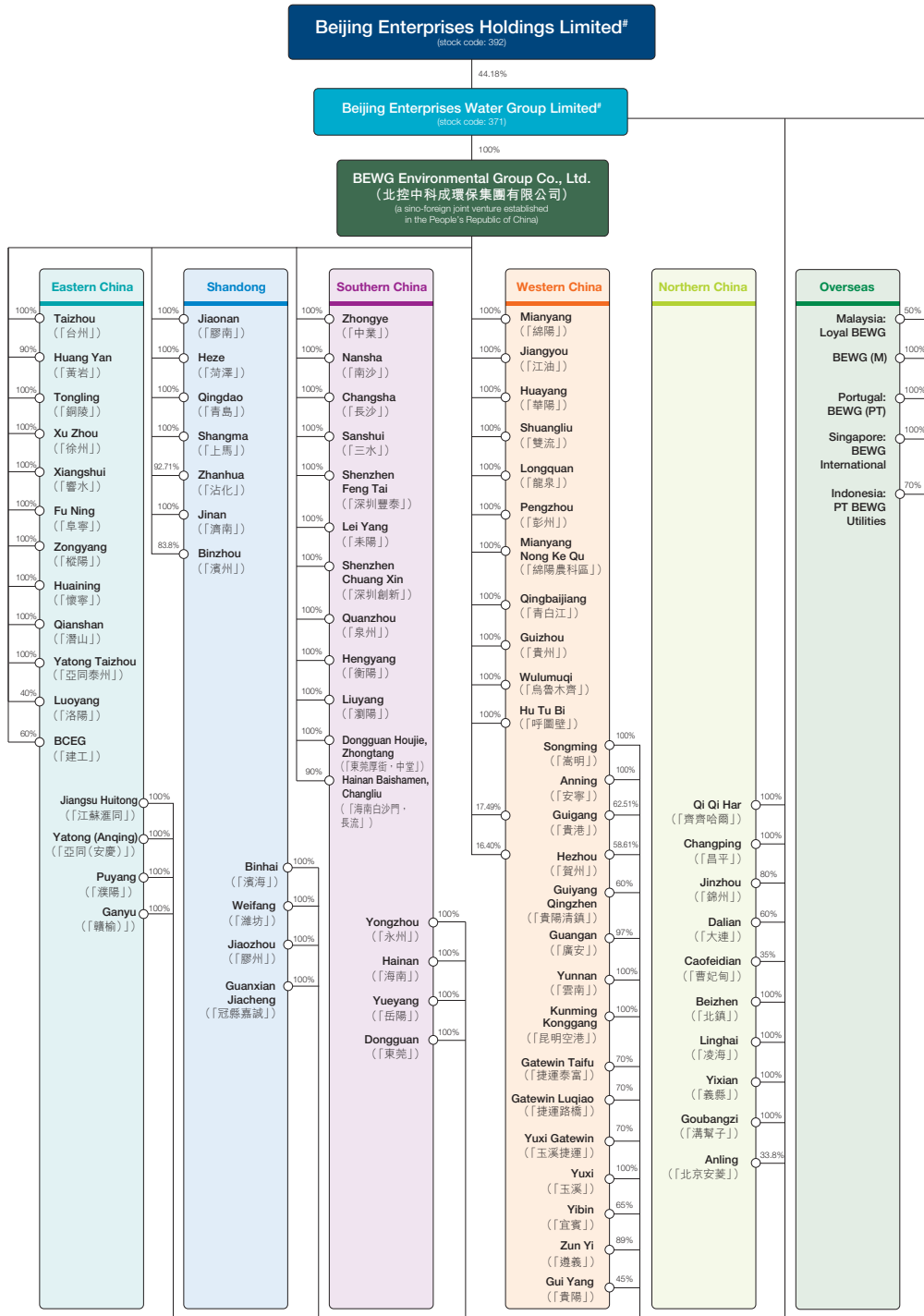
PRINCIPAL BANKERS

In Hong Kong:
Agricultural Bank of China Ltd., Hong Kong Branch
Asian Development Bank
China Development Bank Corporation, Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch
Mizuho Corporate Bank Ltd., Hong Kong Branch

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

GROUP STRUCTURE

30 June 2014



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

Note: The above group chart only lists out major subsidiaries and joint ventures

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2014, the global economy had entered into a period of transformation with in-depth adjustments. Although the domestic economy in China has been slowing down and local governments have been under increasing pressure to repay due debts, the water environment protection industry developed rapidly, making market competition more severe. Under these circumstances, Beijing Enterprises Water Group Limited (the “Company”, and together with its subsidiaries collectively referred to as the “Group” or “BEWG”) carried out its work tasks established at the beginning of the year of “fast development, management elevation and innovative reform”, and pursued its yearly business goals. It has implemented various solid measures and achieved a stable growth in operating results. Coupled with the strengthening of market competitiveness and brand influence, such growth has laid the foundation for the Group’s sustainable growth.

BUSINESS REVIEW

For the six months ended 30 June 2014, the Group’s revenue was HK\$3,815,507,000, representing an increase of 38% over the corresponding period last year, and the Group achieved a profit attributable to the shareholders of the Company of HK\$714,006,000, representing an increase of 39% over the corresponding period last year. Basic earnings per share for the period were HK8.31 cents. The directors of the Company (the “Board”) resolved to make an interim distribution of HK3.0 cents per share to the shareholders to reciprocate their continuous support to the Company.

In the first half of 2014, under stringent risk control and for the sake of safe and profitable investments, the Group had better utilised its resources and speeded up its mergers, acquisitions and integration. Apart from maintaining the rapid growth of the traditional water business, it has also accelerated the market planning of the comprehensive water environmental renovation business. During the period, the net increase in total daily design capacity was 1,447,900 tons. Furthermore, the Group was designated as the main investor and constructor of the comprehensive water environmental renovation project for Liangshui River, Beijing.

The Group insisted on implementing its outward expansion strategy in three core business aspects, namely management of existing overseas assets, development of new operations and management of overseas construction projects. It has been carrying out the construction project in Pantai, Malaysia in an orderly manner, signed contracts for water distribution projects in Kota Medan, Indonesia, invested in the wastewater treatment project of Rich Development in Taiwan, and established an overseas business platform in Singapore. The platform in Singapore will facilitate the consolidation of all internal and external resources across the overseas operations, centralise the management of the Group’s overseas assets, enhance managerial standard and, thus, enhance the progress of the Group’s globalisation plan.

On 10 March 2014 and 9 June 2014, BEWG became a constituent of Hang Seng China-Affiliated Corporations Index and Hang Seng Mainland 100, respectively. It has also been selected as a constituent of Hang Seng Composite MidCap Index for The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and is likely to become one of the pilot eligible stocks for Southbound Trading Link under Shanghai-Hong Kong Stock Connect.

CHAIRMAN'S STATEMENT

CORPORATE MANAGEMENT AND CONTROL

To consolidate resources across the Group, strengthen the “intelligent water system” that built on “intelligent management” and “intelligent operation” and capitalise on management information control, an Information Technology Department has been formed. On the other hand, a Corporate Development Department was also established to facilitate the rapid growth of the core business and the diversification of the emerging environment business, tighten control on subsidiaries, enhance overall corporate innovation and reform, and carry out strategic planning and management of top level design management.

Meanwhile, the Group has employed and attracted professional talents to advance its corporate culture, discover in depth the characteristics of corporate culture, develop culture inheritance, analyse the cultural status quo and thereby compact the core elements into its corporate culture. It has also actively engaged external professional resources to launch an overall strategic planning consultation with the aim of formulating and analysing strategies framework.

At the same time, the Group further encouraged innovation, revitalised its organisational structure and implemented a new business platform. In addition, it improves its internal capital management system through the use of informative capital management system and leverage its centralised capital management. The Group not only controls closely its legal risk but also reinforces its compliance management. Investor relations management has also been improved by perfecting the information disclosure system and strengthening interaction with the capital market, thereby enhancing the transparency and efficiency of the Group's management.

DEVELOPMENT STRATEGY

In view of the complicated economic situation and the sweeping reforms of the water market, the Group will endeavor to control its risks and continue to position itself strategically as a “leading professional integrated water environment service provider” in the second half of 2014. It will enhance and better utilise its business, resources and talents based on its development strategies so as to actively speed up the pace of mergers, acquisitions and integration activities, and persistently foster the healthy growth of its core business.

In order to maintain our two principal businesses, namely the traditional water business and water environmental treatment, going forward hand in hand, the Group will continue to further strengthen our capacity in the expansion of our traditional water business, and strive to improve the portfolio of the water environment comprehensive renovation business to ensure the steady growth of both core businesses. At the same time, we will proactively nurture those investments in the emerging businesses of seawater desalination, industrial wastewater, sludge and solid waste treatment, technology business as well as small-town sewage treatment and membrane materials, with an aim to form a complete industrial layout by such diversification within the water environmental protection industry.

CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT

From a macro point of view, although the recovery of the global economy keeps on growing, there are signs that the slowdown in the macro-economic growth in China is worsening, and the potential of the external economic recovery to power export demand in China remains to be gauged. It is pointed out from the most recent key macro-economic indicators that there is an increasingly downward pressure on the economy in the short run. Enterprises were facing difficulties in terms of availability and rising costs of capital. However, by the same token, enterprises with strong financial strength and abundant funding sources are provided an opportunity to cooperate and invest in projects with local government.

Down to the industry environment and under the long-term macro-economic environment, it will be highly favorable to the water industry and environmental protection industry in the future. With the governmental support and tightening requirements on pollution control in China, the policies on traditional water industry are quickly refining and consistently advantageous to the industry. Being a core part of the energy-saving and environmental protection sectors, the water industry is capturing the attention of the capital market due to the strategic support of the government in China. As market competition intensifies, the water industry has entered a stage of mergers, acquisitions and consolidation. Superior enterprises within the industry will be able to seek and grasp the opportunities to rapidly obtain market share.

In the second half of 2014, the Group will continue to uphold the business philosophy of “identifying authority, divisional approval, having own responsibility, enhancing coordination, and evaluating performance” so as to further streamline its top level management structure and enhance overall corporate management system and organisational structure. The Group will accelerate the implementation of strategic planning initiatives, persist to promote corporate culture through institutional reform and innovative model as our strategy, thereby keep on perfecting the functions of each operating unit as well as optimise the management of the business so as to accelerate development for the sustainable growth in the Group's business.

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

Zhang Honghai

Chairman

28 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

The Group maintained a steady growth in the first half of year 2014. Profit for the period attributable to shareholders of the Company increased by 39% to HK\$714.0 million. Revenue increased by 38% to HK\$3,815.5 million as a result of increase in revenue contribution from water treatment services.

1. FINANCIAL HIGHLIGHTS

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,482.9	39%	65%	656.8	49%
– Joint ventures and associates				3.6	1%
				660.4	50%
Overseas					
– Subsidiaries	88.3	2%	15%	1.5	1%
	1,571.2	41%		661.9	51%
Water distribution services					
China					
– Subsidiaries	255.8	7%	58%	98.8	8%
– Joint ventures				25.6	2%
				124.4	10%
Overseas					
– Subsidiaries	104.5	3%	29%	17.0	1%
	360.3	10%		141.4	11%
Subtotal	1,931.5	51%		803.3	62%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

	Revenue		GP ratio		Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%	
2. Construction services for the water environmental renovation						
Construction services for comprehensive renovation projects						
– Project with completion rate under 10%	–	–	–	–	–	–
– Project with completion rate more than 10% [§]	417.6	11%	19%	141.2	11%	
– Interest income	–	–	–	72.1	5%	
	417.6	11%	19%	213.3	16%	
Construction of BOT water projects	1,364.7	36%	20%	230.7	17%	
Subtotal	1,782.3	47%		444.0	33%	
3. Technical services for the water environmental renovation						
	101.7	2%	85%	67.0	5%	
Business results	3,815.5	100%		1,314.3	100%	
Others[#]				(600.3)		
Total				714.0		

[#] Others included head office and other corporate expense, net, of HK\$23.9 million, equity-settled share option expense of HK\$57.6 million and finance costs of HK\$518.8 million.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$35.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
– Subsidiaries	849.6	31%	64%	412.5	43%
– Joint ventures				1.2	1%
				413.7	44%
Water distribution services					
– Subsidiaries	118.2	4%	75%	76.4	8%
– Joint ventures				(4.9)	(1%)
				71.5	7%
Subtotal	967.8	35%		485.2	51%
2. Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Project with completion rate under 10%	22.4	1%	–	–	–
– Project with completion rate more than 10% [§]	1,315.0	48%	28%	309.8	33%
– Interest income	–	–	–	82.9	9%
	1,337.4	49%	28%	392.7	42%
Construction of BOT water projects	401.1	14%	11%	31.0	3%
Subtotal	1,738.5	63%		423.7	45%
3. Technical services for the water environmental renovation	57.4	2%	86%	39.6	4%
Business results	2,763.7	100%		948.5	100%
Others[#]				(434.2)	
Total				514.3	

[#] Others included head office and other corporate expenses, net, of HK\$65.9 million, equity-settled share option expense of HK\$25.9 million and finance costs of HK\$342.4 million.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures of HK\$0.9 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the six months ended 30 June 2014 and 2013 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June		Increase/(Decrease)		For the six months ended 30 June		Increase/(Decrease)	
	2014 HK\$'M	2013 HK\$'M	HK\$'M	%	2014 HK\$'M	2013 HK\$'M	HK\$'M	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	1,482.9	849.6	633.3	75%	656.8	412.5	244.3	59%
– Joint ventures and associates					3.6	1.2	2.4	200%
<i>GP ratio</i>	65%	64%		1%	660.4	413.7	246.7	60%
Overseas								
– Subsidiaries	88.3	–	88.3	100%	1.5	–	1.5	100%
<i>GP ratio</i>	15%	–		15%				
	1,571.2	849.6	721.6	85%	661.9	413.7	248.2	60%
Water distribution services								
China								
– Subsidiaries	255.8	118.2	137.6	116%	98.8	76.4	22.4	29%
– Joint ventures					25.6	(4.9)	30.5	622%
<i>GP ratio</i>	58%	75%		(17%)	124.4	71.5	52.9	74%
Overseas								
– Subsidiaries	104.5	–	104.5	100%	17.0	–	17.0	100%
<i>GP ratio</i>	29%	–		29%				
	360.3	118.2	242.1	205%	141.4	71.5	69.9	98%
Subtotal	1,931.5	967.8	963.7	100%	803.3	485.2	318.1	66%

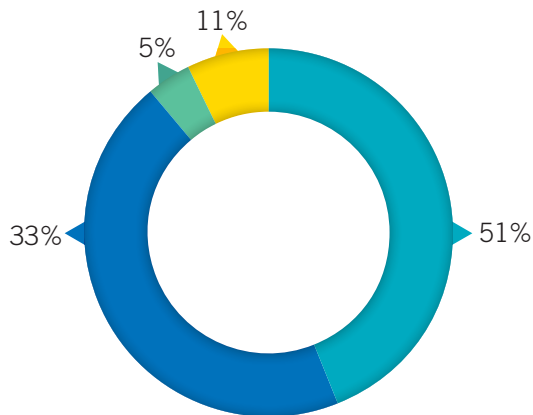
MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June				For the six months ended 30 June			
	2014 <i>HK\$'M</i>	2013 <i>HK\$'M</i>	Increase/(Decrease) <i>HK\$'M</i>	%	2014 <i>HK\$'M</i>	2013 <i>HK\$'M</i>	Increase/(Decrease) <i>HK\$'M</i>	%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Project with completion rate under 10%	–	22.4	(22.4)	(100%)	–	–	–	–
– Project with completion rate more than 10%	417.6	1,315.0	(897.4)	(68%)	141.2	309.8	(168.6)	(54%)
– Interest income	–	–	–	–	72.1	82.9	(10.8)	(13%)
	417.6	1,337.4	(919.8)	(69%)	213.3	392.7	(179.4)	(46%)
<i>GP ratio</i>	19%	28%		(9%)				
Construction of BOT water projects	1,364.7	401.1	963.6	240%	230.7	31.0	199.7	644%
<i>GP ratio</i>	20%	11%		9%				
Subtotal	1,782.3	1,738.5	43.8	3%	444.0	423.7	20.3	5%
3. Technical services for the water environmental renovation	101.7	57.4	44.3	77%	67.0	39.6	27.4	69%
<i>GP ratio</i>	85%	86%		(1%)				
Business results	3,815.5	2,763.7	1,051.8	38%	1,314.3	948.5	365.8	39%
Others					(600.3)	(434.2)	(166.1)	38%
Total					714.0	514.3	199.7	39%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*



Profit attributable to shareholders of the Company (Six months ended 30 June 2014)

- Sewage and reclaimed water treatment services
- Construction services for the water environmental renovation
- Technical services for the water environmental renovation
- Water distribution services

2. BUSINESS REVIEW

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 19 provinces, 1 autonomous region and 2 municipalities all across Mainland China.

2.1 Water treatment services

As at 30 June 2014, the Group enters into service concession arrangements for a total of 301 water plants including 234 sewage treatment plants, 61 water distribution plants, 5 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for this period was 1,487,900 tons including Build-Operate-Transfer ("BOT") projects of 1,074,200 tons, Transfer-Operate-Transfer ("TOT") projects of 40,000 tons, entrustment operation projects of 217,700 tons, and 156,000 tons through mergers and acquisitions.

During the period, the Group disposed of two sewage treatment projects in Shandong with aggregate daily capacity of 40,000 tons. The net increase in total daily design capacity for this period was 1,447,900 tons.

As at 30 June 2014, total daily design capacity was 18,156,050 tons, representing an increase of 9% as compared with the capacity of 16,708,150 tons as at 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
China					
In operation	7,643,450	418,000	3,470,000	–	11,531,450
Not yet start operation/ Not yet transfer	2,961,500	272,500	3,168,200	50,000	6,452,200
Subtotal	10,604,950	690,500	6,638,200	50,000	17,983,650
Overseas					
In operation	55,200	–	36,000	–	91,200
Not yet start operation/ Not yet transfer	–	–	81,200	–	81,200
Subtotal	55,200	–	117,200	–	172,400
Total	10,660,150	690,500	6,755,400	50,000	18,156,050
<i>(Number of water plants)</i>					
China					
In operation	167	4	26	–	197
Not yet start operation/ Not yet transfer	43	1	19	1	64
Subtotal	210	5	45	1	261
Overseas					
In operation	24	–	13	–	37
Not yet start operation/ Not yet transfer	–	–	3	–	3
Subtotal	24	–	16	–	40
Total	234	5	61	1	301

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

	Number of plants	Design capacity <i>(Tons/Day)</i>	Actual processing volume during the period <i>(Tons (M))</i>	Revenue <i>(HK\$'M)</i>	Profit attributable to shareholders of the Company <i>(HK\$'M)</i>
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	45	2,988,700	463.0	501.9	274.2
– Western China	39	1,831,500	263.3	240.8	106.3
– Shandong	23	977,000	148.9	216.5	70.5
– Eastern China	42	1,468,250	157.9	278.3	102.2
– Northern China	22	796,000	116.5	245.4	107.2
	171	8,061,450	1,149.6	1,482.9	660.4
Overseas	24	55,200	9.6	88.3	1.5
Subtotal	195	8,116,650	1,159.2	1,571.2	661.9
Water distribution services:					
Mainland China	26	3,470,000	263.2	255.8	124.4
Overseas	13	36,000	5.6	104.5	17.0
Subtotal	39	3,506,000	268.8	360.3	141.4
Total	234	11,622,650	1,428.0	1,931.5	803.3

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services

2.1.1a Mainland China:

As at 30 June 2014, the Group had 167 sewage treatment plants and 4 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 7,643,450 tons (31 December 2013: 6,259,750 tons) and 418,000 tons (31 December 2013: 418,000 tons) respectively. The average daily processing volume is 6,380,423 tons and average daily treatment rate is 79%. The actual average contracted tariff charge of water treatment was approximately HK\$1.22 per ton for water plants. The actual aggregate processing volume for the period was 1,149.6 million tons, of which 1,037.4 million tons was contributed by subsidiaries recorded a revenue of HK\$1,482.9 million for the period, and 112.2 million tons was contributed by joint ventures. Net profit attributable to shareholders of the Company was HK\$660.4 million, of which HK\$656.8 million was contributed by subsidiaries and HK\$3.6 million was contributed by joint ventures. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. As at 30 June 2014, there were 45 sewage treatment plants with total daily design capacity of 2,988,700 tons, representing an increase of 233,700 tons per day or 8% as compared with last year. The actual aggregate processing volume for the period amounted to 463.0 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$501.9 million and HK\$274.2 million respectively during the period.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2014, there were 39 sewage treatment plants with total daily design capacity of 1,831,500 tons, representing an increase of 180,000 tons per day or 11% as compared with last year. The actual processing volume for the period was 263.3 million tons. The operating revenue of HK\$240.8 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$106.3 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)*

2.1.1a Mainland China: *(Continued)*

Shandong

There were 23 plants in Shandong region. The total daily design capacity of Shandong region is 977,000 tons, representing an increase of 525,000 tons per day or 116% as compared with last year. The actual processing volume for the period was 148.9 million tons contributing operating revenue of HK\$216.5 million during the period. Profit attributable to shareholders of the Company was HK\$70.5 million.

Eastern China

There were 42 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 30 June 2014, the total daily design capacity of Eastern China had increased by 260,000 tons to 1,468,250 tons or 22% as compared with last year. The actual processing volume for the period amounted to 157.9 million tons and operating revenue was HK\$278.3 million during the period. Profit attributable to shareholders of the Company was HK\$102.2 million.

Northern China

Currently, the Group has 22 plants under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 185,000 tons to 796,000 tons or 30% as compared with last year. The projects achieved actual processing volume of 116.5 million tons for the period. The operating revenue was HK\$245.4 million during the period. Profit attributable to shareholders of the Company was HK\$107.2 million.

2.1.1b Overseas:

As at 30 June 2014, the Group had 24 sewage treatment plants in Portugal. Total daily design sewage treatment capacity in operation was 55,200 tons. The actual processing volume for the period is 9.6 million tons. Total revenue for the period was HK\$88.3 million. Profit attributable to shareholders of the Company was HK\$1.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 30 June 2014, the Group had 26 water distribution plants in operation. Total daily design capacity in operation was 3,470,000 tons (31 December 2013: 2,750,000 tons). The plants were located in Guizhou Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water distribution is approximately HK\$2.26 per ton. The aggregate actual processing volume is 263.2 million tons, of which 110.3 million tons was contributed by subsidiaries, which recorded revenue of HK\$255.8 million and 152.9 million tons was contributed by joint ventures. Imputed interest income of HK\$51.1 million was recognised for the receivables under service concession arrangement of Plant No. 9 in Beijing. Profit attributable to shareholders of the Company was HK\$124.4 million, of which profit of HK\$98.8 million was contributed by subsidiaries and a profit of HK\$25.6 million in aggregate was contributed by joint ventures.

2.1.2b Overseas:

As at 30 June 2014, the Group had 13 water distribution plants in Portugal. Total daily design water distribution capacity in operation was 36,000 tons. The actual processing volume for the period is 5.6 million tons. Total revenue for the period was HK\$104.5 million. Profit attributable to shareholders of the Company was HK\$17.0 million.

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had four comprehensive renovation projects under construction during the period. The projects located in Guangxi Guigang, Hunan Zhuhui, Kunming Yuxi, and Malaysia Pantai. Last period, the Group had six comprehensive renovation projects under construction which located in Guangxi Guigang, Guangxi Beihai, Chengdu Tuojianghe, Chengdu Pixian, Guizhou Nanminghe and Malaysia Pantai.

Revenue from comprehensive renovation projects decreased by HK\$919.8 million from last period of HK\$1,337.4 million to HK\$417.6 million this period. The decrease was mainly due to the completion of several projects.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

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

2.2.1 Construction services for comprehensive renovation projects *(Continued)*

According to the construction contracts, the Group charges 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 from water environmental renovation projects attributable to shareholders of the Company was HK\$72.1 million for this period (Six months ended 30 June 2013: HK\$82.9 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK\$179.4 million from last period of HK\$392.7 million to HK\$213.3 million this period. The decrease was mainly due to the completion of several projects.

2.2.2 Construction of BOT water projects

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

During the period, 50 water plants were under construction. These water plants were mainly located in Beijing, Sichuan, Shandong, Yunnan, Liaoning, Guangxi, Jiangsu, Shanxi, and Hunan provinces. Total revenue for construction of BOT water projects was HK\$1,364.7 million (Six months ended 30 June 2013: HK\$401.1 million) and profit attributable to shareholders of the Company was HK\$230.7 million (Six months ended 30 June 2013: HK\$31.0 million). The increase in contribution from BOT projects during this period was mainly due to the construction work performed for Liangshui River, Beijing. As at 30 June 2014, the total daily design capacity of these water plants in the construction stage was 4,534,400 tons, most of these projects are expected to commence operation in coming year.

2.3 Technical services for the water environmental renovation

The Group has couples of qualification in engineering for consulting and design of water treatment plants. As an integrated water system solution provider, 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.

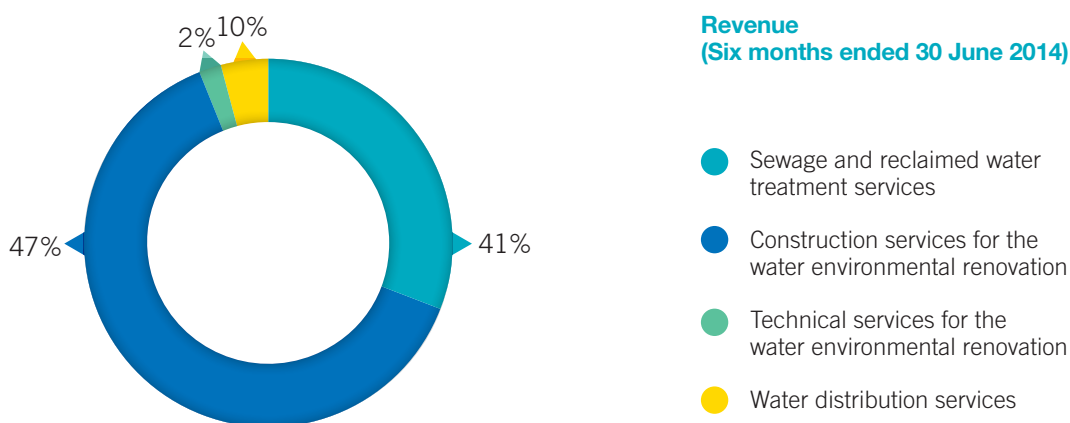
Revenue from the provision of technical services was HK\$101.7 million, representing 2% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$67.0 million (Six months ended 30 June 2013: HK\$39.6 million).

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS

3.1 Revenue

During the period, the Group recorded revenue of HK\$3,815.5 million (Six months ended 30 June 2013: HK\$2,763.7 million). The increase was mainly due to the increase in revenue from water treatment services. Increase in revenue from water treatment services was mainly due to revenue contribution from projects acquired in the second half of Year 2013. Those projects contributed total revenue of HK\$762.2 million.



3.2 Cost of sales

Cost of sales for the period amounted to HK\$2,219.8 million, compared to last period of HK\$1,659.2 million. The increase was mainly due to the increase in operating costs of water plants amounted to HK\$441.6 million. Cost of sales mainly included construction costs of HK\$1,424.8 million and operating costs of water plants of HK\$779.4 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK\$269.5 million, staff costs of HK\$79.8 million and major overhaul charges of HK\$25.3 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were 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 arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the period, gross profit margin increased from 40% to 42%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was relatively stable and maintained at 65% (last period: 64%). Gross margin for sewage and reclaimed water treatment services in Overseas was 15%. The Group acquired Portugal business during the second half of last year. As such, there was no contribution from Overseas last period.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin *(Continued)*

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 58% (last period: 75%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was relatively stable and maintained at 48% (last period: 49%). Gross margin for water distribution services in Overseas was 29%. The Group acquired Portugal business during the second half of last year. As such, there was no contribution from Overseas last period.

Gross margin for construction services for the water environmental renovation:

Gross margin for construction services for comprehensive renovation projects decreased from last period of 28% to 19% this period. Decrease was mainly due to the major comprehensive renovation project for this period was Yunnan Yuxi which has a relatively lower gross margin of 18%. Last period, the major comprehensive renovation project was Nanminghe projects which has a higher gross margin of 34%.

Gross margin for construction of BOT water projects increased from last period of 11% to 20% this period. Gross margin increased as there was a change in valuation parameters to reflect the fair value of construction services more accurately.

Gross margin for technical services for the water environmental renovation:

Gross margin for the technical services for the water environmental renovation was 85% (last period: 86%).

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$138.3 million during the period, compared to last period of HK\$77.1 million. The amount for this period mainly included sludge treatment income of HK\$33.0 million, government grants of HK\$31.6 million and foreign exchange gains, net of HK\$48.1 million.

3.5 Administrative expenses

Administrative expenses for the period were HK\$479.3 million, compared to last period of HK\$269.7 million. The increase was mainly due to the increase in staff costs of HK\$90.0 million, business development expenses of HK\$11.3 million, and equity-settled share option expense of HK\$31.7 million. Staff costs and business development expenses increased as a result of the business expansion during this period. Excluded the equity-settled share option expense, the ratio of administrative expenses to total revenue slightly increased from 9.8% last period to 11.7% this period because cost synergy of newly acquired companies has not been reflected during this period.

3.6 Other operating expenses, net

Other operating expenses decreased from HK\$49.1 million last period to HK\$7.7 million this period. Last period, the amount included foreign exchange losses, net of HK\$45.5 million. However, foreign exchange gains, net were recorded this period. Please refer to Note 3.4 above.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$305.6 million (Six months ended 30 June 2013: HK\$221.7 million) and interests on corporate bonds and notes payable of HK\$221.8 million (Six months ended 30 June 2013: HK\$126.3 million). The increase in finance costs was mainly due to the issuance of additional note payable of RMB800 million on 8 November 2013 and a corporate bond denominated in US\$ in a principal of US\$500 million on 6 May 2013. In addition, the borrowings of newly acquired business bear a relatively higher interest rate. Also, there was an increase in market interest rate as compared with last period.

3.8 Income tax

Income tax expense for the period included the current PRC income tax of HK\$100.1 million. The effective tax rate for the PRC operation was about 15% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the period was HK\$79.6 million.

3.9 Property, plant and equipment

Property, plant and equipment increased by HK\$61.2 million which was mainly due to the acquisition of 南京市政設計院 (Nanjing Municipal Research Institute[^]). Nanjing Municipal Research Institute was acquired during the period and its property, plant and equipment was consolidated into the Group.

3.10 Investment property

Investment property represents a portion of a building located in Beijing which the Group held to earn rental income. The investment property is stated at fair value.

3.11 Goodwill

Increase in goodwill of HK\$736.9 million was mainly due to acquisition of Standard Water Group* and Nanjing Municipal Design Research Institute.

[^] For identification purpose only

* Standard Water Group owns 36 water projects in the PRC with total daily design capacity of 1,521,000 tons. For further details of the acquisition transactions, please refer to the "Significant Investments and Acquisitions" section.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.12 Receivables

The Group's total receivables of HK\$25,890.0 million (31 December 2013: HK\$20,364.8 million) included:

By accounting nature:

	30 June 2014			31 December 2013		
	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	7,090.8	33.5	7,124.3	5,360.7	27.0	5,387.7
(ii) Receivables under service concession arrangements	14,870.6	1,782.9	16,653.5	11,779.1	1,106.9	12,886.0
(iii) Trade and bills receivables	51.0	2,061.2	2,112.2	53.1	2,038.0	2,091.1
Total	22,012.4	3,877.6	25,890.0	17,192.9	3,171.9	20,364.8

- (i) Amounts due from contract customers of HK\$7,124.3 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK\$1,736.6 million (non-current portion increased by HK\$1,730.1 million and current portion increased by HK\$6.5 million), which was mainly due to the recognition of construction revenue for new projects in Dao Xiang Lake and Liangshui River;
- (ii) Receivables under service concession arrangements of HK\$16,653.5 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects in operation. The increase in balance by HK\$3,767.5 million (non-current portion increased by HK\$3,091.5 million and current portion increased by HK\$676.0 million) was mainly due to the acquisition of Standard Water Group which accounted for an increase in receivable balance of around HK\$2,742.1 million; and
- (iii) Trade and bills receivables of HK\$2,112.2 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance increased by HK\$21.1 million (non-current portion decreased by HK\$2.1 million and current portion increased by HK\$23.2 million).

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.12 Receivables *(Continued)*

By business nature:

	30 June 2014 HK\$'M	31 December 2013 HK\$'M
Water treatment services by BOT and TOT projects	20,531.1	15,142.9
Construction services of comprehensive renovation projects	4,938.3	4,868.5
Technical and consultancy services and other businesses	420.6	353.4
Total	25,890.0	20,364.8

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\$20,531.1 million (31 December 2013: HK\$15,142.9 million). Total receivables for the construction service of comprehensive renovation projects were HK\$4,938.3 million (31 December 2013: HK\$4,868.5 million). Total receivables for technical and consultancy services and other businesses were HK\$420.6 million (31 December 2013: HK\$353.4 million).

3.13 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is a non-guarantee receipt 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.

3.14 Investments in joint ventures

Investments in joint ventures increased by HK\$36.8 million, mainly due to the share of profits in joint ventures during the period.

3.15 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables decreased by HK\$939.7 million (non-current portion decreased by HK\$526.9 million and current portion decreased by HK\$412.8 million), mainly due to the decrease in construction prepayments and deposits for merger and acquisitions.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.16 Cash and cash equivalents

Cash and cash equivalents decreased by HK\$721.2 million, mainly due to consideration paid for the acquisition of Salcon Group* and Standard Water Group.

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 six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Net cash flows used in operating activities per unaudited interim financial statements	(65,819)	(661,687)
Net cash flows used in BOT projects	1,637,900	408,517
Net cash flows used in/(from) TOT projects	(7,256)	572,501
Net cash flows used in/(from) comprehensive renovation projects	(897,924)	151,353
Net cash flows from operating activities per management	666,901	470,684
Net cash flows used in investing activities per unaudited interim financial statements	(1,036,989)	(1,501,750)
Net cash flows used in BOT projects	(1,637,900)	(408,517)
Net cash flows from/(used in) TOT projects	7,256	(572,501)
Net cash flows from/(used in) comprehensive renovation projects	897,924	(151,353)
Net cash flows used in investing activities per management	(1,769,709)	(2,634,121)
Net cash flows from financing activities per unaudited interim financial statements	518,531	3,351,586
Net increase/(decrease) in cash and cash equivalents per unaudited interim financial statements	(584,277)	1,188,149

* Salcon Group owns 9 water projects in the PRC with total daily design capacity of 1,245,000 tons. For further details of the acquisition transactions, please refer to the "Significant Investments and Acquisitions" section.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.17 Other payables and accruals

Other payables and accruals increased by HK\$578.3 million (non-current portion increased by HK\$30.1 million and current portion increased by HK\$548.2 million), mainly due to the acquisition of Standard Water Group.

3.18 Bank and other borrowings

Bank and other borrowings increased by HK\$3,744.4 million (non-current portion increased by HK\$1,774.2 million and current portion increased by HK\$1,970.2 million). Increase was due to drawdown of a bank loan of US\$120 million from Asian Development Bank and refinance of corporate bonds with principal amount of RMB1,450 million by bank loans.

3.19 Corporate bonds and notes payable

The decrease in corporate bonds was mainly due to the repayment of corporate bonds with principal amount of RMB1,450 million during the period.

3.20 Trade and bills payables

The increase in trade and bills payables by HK\$716.5 million was mainly due to increase in trade payables to subcontractors as a result of increase in subcontracting charges for new water environmental renovation projects and the acquisition of Salcon Group and Standard Water Group during the period.

3.21 Liquidity and financial resources

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are mainly in Hong Kong dollars, RMB and US\$. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars, RMB and US\$.

As at 30 June 2014, the Group's cash and cash equivalents amounted to HK\$4,791.8 million (31 December 2013: HK\$5,513.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.21 Liquidity and financial resources *(Continued)*

The Group's total borrowings amounted to HK\$21,166.2 million (31 December 2013: HK\$19,296.4 million) comprised bank and other borrowings of HK\$14,185.9 million (31 December 2013: HK\$10,441.6 million), finance lease payable of HK\$9.5 million (31 December 2013: HK\$13.3 million), notes payable of HK\$2,491.5 million (31 December 2013: HK\$2,522.5 million) and corporate bonds of HK\$4,479.3 million (31 December 2013: HK\$6,319.0 million). The Group's borrowings are mainly in Hong Kong dollars, RMB and US\$. All the corporate bonds and notes payable bear interest at fixed rates. Over 80% of bank and other borrowings bear interest at floating rates.

As at 30 June 2014, the Group had banking facilities amounting to HK\$8.94 billion, of which HK\$0.81 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$17,520.9 million (31 December 2013: HK\$15,924.4 million). The increase was mainly due to the issuance of shares during the period. During the period, the Company issued 219,634,335 shares to Standard Water Ltd. for the acquisition of Crystal Water Company Limited and China Water Holdings Pte. Ltd. For further details, please refer to the "Significant Investments and Acquisitions" section.

The gearing ratio as defined as sum of bank and other borrowings, finance lease payable, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 0.93 as at 30 June 2014 (31 December 2013: 0.87). The increase in the gearing ratio as at 30 June 2014 was mainly due to the increase in bank and other borrowings as detailed in section 3.18 above. The corresponding proceeds were mainly utilised for the acquisition of various water projects in the PRC and refinance of corporate bonds with principal amount of RMB1,450 million.

3.22 Capital expenditures

During the period, the Group's total capital expenditures were HK\$2,376.7 million (Six months ended 30 June 2013: HK\$2,003.2 million), of which HK\$4.9 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$1,188.8 million was spent on construction and acquisition of water plants and HK\$1,183.0 million represented the consideration for acquisition of equity interests in subsidiaries and joint ventures. The increase was mainly due to the increase in capital expenditure on the acquisition of equity interests in subsidiaries.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group employed 4,917 employees. Total staff cost for the six months ended 30 June 2014 was HK\$326.2 million (Six months ended 30 June 2013: HK\$176.4 million). 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. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted an independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. No share option was exercised, forfeited or lapsed during the six months ended 30 June 2014. As at 30 June 2014, the Company had 400,000,000 share options outstanding which were granted on 24 April 2013 and 2,000,000 share options outstanding which were granted on 28 March 2014. The total outstanding share options represented approximately 4.64% of the Company's ordinary shares in issue as at 30 June 2014.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

- (a) Pursuant to a sale and purchase agreement (the "Sale and Purchase Agreement") entered into between the Company, Standard Water Ltd. (the "Vendor"), Crystal Water Company Limited ("Crystal Water") and China Water Holdings Pte. Ltd. ("China Water Holdings") (collectively the "Parties") dated 6 September 2013, the Company agreed to acquire the entire equity interests in Crystal Water and China Water Holdings (jointly the "Standard Water Group") from the Vendor at a consideration of RMB1,350,000,000 (equivalent to approximately HK\$1,697,760,000) in aggregate, subject to adjustments as stipulated in the Sale and Purchase Agreement.

On 27 January 2014, the Parties entered into a supplemental agreement (the "Supplemental Agreement") to, among other things, (1) reduce the consideration to RMB1,250,485,000 (equivalent to approximately HK\$1,589,742,000); (2) revise the payment terms of the consideration; and (3) set out certain ancillary matters.

Pursuant to a settlement agreement dated 20 August 2014 entered into between the Parties (the "Settlement Agreement"), the Vendor agreed to pay to the Company (i) the final consideration payment amount of US\$3,300,000 (equivalent to approximately HK\$25,575,000); and (ii) other amount of HK\$159,373,000 (the "Other Amount"), as full and final discharge of the Vendor's obligations under the Sale and Purchase Agreement and the Supplemental Agreement. In the event that the Stock Exchange does not grant the listing approval to the Company for the issuance of 33,223,537 ordinary shares of the Company (the "Remaining Consideration Shares") to the Vendor, the Company shall pay the Vendor the Other Amount that has previously been received by the Company, but the Vendor shall not be entitled to receive the Remaining Consideration Shares from the Company. Upon fulfilment of the Vendor's obligations under the Settlement Agreement as set out in items (i) and (ii) above, the Parties shall irrevocably and unconditionally release and discharge each other from all remaining obligations and liabilities under the Sale and Purchase Agreement and Supplemental Agreement.

Further details of the acquisition transactions are set out in the Company's announcements dated 6 September 2013, 27 January 2014, 20 August 2014 and 22 August 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS AND ACQUISITIONS *(Continued)*

- (b) On 12 September 2013, the Company, Salcon Berhad and Salcon Water (Asia) Limited (jointly the “Salcon Vendors”) entered into a sale and purchase agreement (the “First Agreement”) pursuant to which the Company has conditionally agreed to acquire, and the Salcon Vendors have conditionally agreed to sell the entire shareholding interest of Salcon Fujian (HK) Limited, Salcon Zhejiang (HK) Limited, Salcon Linyi (HK) Limited and Salcon Shandong (HK) Limited (jointly the “Salcon Group”) at an initial consideration of RMB648,000,000 (equivalent to approximately HK\$814,924,800), subject to adjustments and upon and subject to the terms and conditions of the First Agreement. On the same day, the Company and Salcon Berhad also entered into a sale and purchase agreement (the “Second Agreement”) pursuant to which the Company has conditionally agreed to acquire, and Salcon Berhad has conditionally agreed to sell, the entire shareholding interest of Salcon Darco Environmental Pte. Ltd. and Salcon Jiangsu (HK) Limited (jointly the “Salcon Group”) at an initial consideration of RMB307,000,000 (equivalent to approximately HK\$386,083,200), subject to adjustments and upon and subject to the terms and conditions of the Second Agreement. The transactions under the Second Agreement were completed in December 2013 and consideration was agreed at RMB321,069,000 (equivalent to approximately HK\$406,417,000). As at the date of this report, certain parts of the transactions under the First Agreement have not been completed.

Further details of the acquisition transactions are set out in the Company’s announcement dated 12 September 2013.

Save as disclosed above, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies during the six months ended 30 June 2014.

CHARGES ON THE GROUP’S ASSETS

The secured bank and other borrowings, the corporate bonds, the notes payable and a finance lease payable of the Group as at 30 June 2014 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) guarantees given by the Company and/or its subsidiaries;
- (iii) pledges over certain of the Group’s equity interests in subsidiaries; and/or
- (iv) pledges over certain of the Group’s bank balances.

Save as disclosed above, at 30 June 2014, 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 transactions denominated and settled in RMB. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
REVENUE	3	3,815,507	2,763,692
Cost of sales		(2,219,828)	(1,659,209)
Gross profit		1,595,679	1,104,483
Interest income		175,783	172,001
Other income and gains, net		138,335	77,054
Administrative expenses		(479,260)	(269,735)
Other operating expenses, net		(7,700)	(49,139)
PROFIT FROM OPERATING ACTIVITIES	4	1,422,837	1,034,664
Finance costs	5	(518,781)	(342,407)
Share of profits and losses of:			
Joint ventures		62,590	(2,853)
Associates		20,938	(2,244)
PROFIT BEFORE TAX		987,584	687,160
Income tax	6	(190,681)	(156,829)
PROFIT FOR THE PERIOD		796,903	530,331
ATTRIBUTABLE TO:			
Shareholders of the Company		714,006	514,300
Non-controlling interests		82,897	16,031
		796,903	530,331
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic		HK8.31 cents	HK6.89 cents
– Diluted		HK8.14 cents	HK6.89 cents

Details of the cash distributions declared out of contributed surplus account for the period are disclosed in note 7.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	796,903	530,331
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	(212,486)	155,330
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive income of a joint venture	5,745	3,376
– Fair value gain on revaluation of a portion of a building upon transfer to investment property, net of deferred tax of nil (Six months ended 30 June 2013 : HK\$5,397,000)	–	16,191
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	5,745	19,567
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX	(206,741)	174,897
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	590,162	705,228
ATTRIBUTABLE TO:		
Shareholders of the Company	552,596	650,927
Non-controlling interests	37,566	54,301
	590,162	705,228

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

		30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS			
Non-current assets:			
Property, plant and equipment		439,801	378,641
Investment property		51,500	52,152
Goodwill		3,249,797	2,512,862
Operating concessions		2,531,717	2,522,985
Other intangible assets		24,616	25,787
Investments in joint ventures		2,934,841	2,898,072
Investments in associates		151,285	126,700
Available-for-sale investments		125,527	3,039
Amounts due from contract customers		7,090,767	5,360,692
Receivables under service concession arrangements	<i>9</i>	14,870,587	11,779,143
Trade and bills receivables	<i>10</i>	50,970	53,090
Prepayments, deposits and other receivables	<i>11</i>	2,646,575	3,173,449
Deferred tax assets		110,954	87,818
Total non-current assets		34,278,937	28,974,430
Current assets:			
Land held for sale		1,077,675	1,091,317
Inventories		75,941	55,355
Amounts due from contract customers		33,508	26,970
Receivables under service concession arrangements	<i>9</i>	1,782,868	1,106,884
Trade and bills receivables	<i>10</i>	2,061,172	2,037,987
Prepayments, deposits and other receivables	<i>11</i>	4,910,823	5,323,645
Restricted cash and pledged deposits		145,476	57,047
Cash and cash equivalents		4,791,792	5,513,035
Total current assets		14,879,255	15,212,240
TOTAL ASSETS		49,158,192	44,186,670

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2014

	<i>Notes</i>	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	12	865,562	843,598
Reserves		13,875,856	12,454,033
		14,741,418	13,297,631
Non-controlling interests		2,779,453	2,626,811
TOTAL EQUITY		17,520,871	15,924,442
Non-current liabilities:			
Other payables and accruals	14	505,971	475,919
Bank and other borrowings		10,068,236	8,294,065
Corporate bonds		4,479,324	4,486,411
Notes payable		2,491,540	2,522,527
Finance lease payable		1,961	5,862
Provision for major overhauls		277,059	197,760
Deferred income		61,051	66,684
Deferred tax liabilities		733,846	562,172
Total non-current liabilities		18,618,988	16,611,400
Current liabilities:			
Trade and bills payables	13	3,471,899	2,755,396
Other payables and accruals	14	5,114,178	4,565,940
Income tax payables		307,023	342,038
Bank and other borrowings		4,117,696	2,147,521
Corporate bonds		-	1,832,540
Finance lease payable		7,537	7,393
Total current liabilities		13,018,333	11,650,828
TOTAL LIABILITIES		31,637,321	28,262,228
TOTAL EQUITY AND LIABILITIES		49,158,192	44,186,670

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to shareholders of the Company													
	Issued capital (Unaudited) HK\$'000	Share		Share option reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Property revaluation reserve (Unaudited) HK\$'000	Defined benefit plan reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Distributions declared (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
		premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000											
At 1 January 2014	843,598	3,574,792	4,878,475	105,764	(285,502)	14,989	11,239	722,002	376,311	3,055,963	-	13,297,631	2,626,811	15,924,442
Profit for the period	-	-	-	-	-	-	-	-	-	714,006	-	714,006	82,897	796,903
Other comprehensive income/(loss) for the period:														
- Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(167,155)	-	-	-	(167,155)	(45,331)	(212,486)
- Share of other comprehensive income of a joint venture	-	-	-	-	-	-	5,745	-	-	-	-	5,745	-	5,745
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	5,745	(167,155)	-	714,006	-	552,596	37,566	590,162
Equity-settled share option arrangements	-	-	-	57,593	-	-	-	-	-	-	-	57,593	-	57,593
Acquisition of subsidiaries	21,964	1,045,336	-	-	-	-	-	-	-	-	-	1,067,300	55,471	1,122,771
Acquisition of a non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(15,407)	(15,407)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	75,012	75,012
Final 2013 cash distributions	-	-	(233,702)	-	-	-	-	-	-	-	-	(233,702)	-	(233,702)
Interim 2014 cash distributions	-	-	(259,962)	-	-	-	-	-	-	-	259,962	-	-	-
Transfer between reserves	-	-	-	-	-	-	-	-	39,416	(39,416)	-	-	-	-
At 30 June 2014	865,562	4,620,128*	4,384,811*	163,357*	(285,502)*	14,989*	16,984*	554,847*	415,727*	3,730,553*	259,962*	14,741,418	2,779,453	17,520,871

* These reserve accounts comprise the consolidated reserves of HK\$13,875,856,000 (unaudited) (31 December 2013: HK\$12,454,033,000) in the condensed consolidated statement of financial position as at 30 June 2014.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2014

	Attributable to shareholders of the Company													Non-controlling interests	Total
	Issued capital	Share premium account	Contributed surplus	Share option reserve	Capital reserve	Property revaluation reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Distributions declared	Total			
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2013	690,917	-	5,224,345	-	(277,108)	-	(397)	481,350	250,438	2,097,579	-	8,467,124	2,264,369	10,731,493	
Profit for the period	-	-	-	-	-	-	-	-	-	514,300	-	514,300	16,031	530,331	
Other comprehensive income for the period:															
- Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	117,060	-	-	-	117,060	38,270	155,330	
- Share of other comprehensive income of a joint venture	-	-	-	-	-	-	3,376	-	-	-	-	3,376	-	3,376	
- Fair value gain on revaluation of a portion of a building upon transfer to investment properties	-	-	-	-	-	16,191	-	-	-	-	-	16,191	-	16,191	
Total comprehensive income for the period	-	-	-	-	-	16,191	3,376	117,060	-	514,300	-	650,927	54,301	705,228	
Equity-settled share option arrangements	-	-	-	25,933	-	-	-	-	-	-	-	25,933	-	25,933	
Acquisition of a receivable and subsidiaries	77,681	1,394,815	-	-	-	-	-	-	-	-	-	1,472,496	105,840	1,578,336	
Share of reserves of a joint venture	-	-	-	-	(9)	-	-	-	-	-	-	(9)	-	(9)	
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(123,567)	(123,567)	
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	7,595	7,595	
Final 2012 cash distributions	-	-	(153,720)	-	-	-	-	-	-	-	-	(153,720)	-	(153,720)	
Interim 2013 cash distributions	-	-	(192,150)	-	-	-	-	-	-	-	192,150	-	-	-	
Transfer between reserves	-	-	-	-	-	-	-	-	24,809	(24,809)	-	-	-	-	
At 30 June 2013	768,598	1,394,815	4,878,475	25,933	(277,117)	16,191	2,979	598,410	275,247	2,587,070	192,150	10,462,751	2,308,538	12,771,289	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash flows used in operating activities	(65,819)	(661,687)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries	(895,403)	(1,516,743)
Investment deposits paid for the acquisition of subsidiaries	(185,046)	–
Receipt in advance for the disposal of an associate	151,608	–
Other investing cash flows, net	(108,148)	14,993
Net cash flows used in investing activities	(1,036,989)	(1,501,750)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of a corporate bond	–	3,856,556
Repayment of corporate bonds	(1,812,500)	–
New loans	3,809,806	740,686
Repayment of loans	(889,952)	(1,405,956)
Interest paid	(527,462)	(347,988)
Distributions paid	(233,702)	(153,720)
Other financing cash flows, net	172,341	662,008
Net cash flows from financing activities	518,531	3,351,586
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	5,365,923	3,639,962
Effect of foreign exchange rate changes, net	(15,865)	48,287
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,765,781	4,876,398
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	4,202,552	4,603,128
Time deposits	734,716	370,666
Less: Restricted cash and pledged deposits	(145,476)	(95,778)
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	4,791,792	4,878,016
Less: Time deposits with maturity of more than three months when acquired	(26,011)	(1,618)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	4,765,781	4,876,398

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2014, the Group was involved in the following principal activities:

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

1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The accounting policies and basis of preparation adopted in the preparation of these unaudited interim financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2013 except for the changes in accounting policies made thereafter in adopting the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, which became effective for the first time for the current period’s financial statements, as further detailed in note 1.3 below.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> – <i>Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

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

The Group has not early adopted any accounting standard, interpretation or amendment that has been issued but not yet effective.

2. 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.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the period attributable to shareholders of the Company, which is a measure of adjusted profit for the period attributable to shareholders of the Company. The adjusted profit for the period attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on a loan to a joint venture, interest income from non-controlling equity holders of subsidiaries, gains on disposal of subsidiaries and joint ventures, fair value gain on investment property, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2014

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000	Water distribution services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	3,353,503	360,281	101,723	3,815,507
Cost of sales	(2,022,950)	(181,233)	(15,645)	(2,219,828)
Gross profit	1,330,553	179,048	86,078	1,595,679
Segment results:				
The Group	1,300,138	130,327	67,309	1,497,774
Share of profits and losses of:				
Joint ventures	36,945	25,645	–	62,590
Associates	20,938	–	–	20,938
	1,358,021	155,972	67,309	1,581,302
Corporate and other unallocated income and expenses, net				(74,937)
Finance costs				(518,781)
Profit before tax				987,584
Income tax				(190,681)
Profit for the period				796,903
Profit/(loss) for the period attributable to shareholders of the Company:				
Operating segments	1,105,950	141,372	67,008	1,314,330
Corporate and other unallocated items				(600,324)
				714,006

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2013

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000	Water distribution services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	2,588,164	118,152	57,376	2,763,692
Cost of sales	(1,622,090)	(29,086)	(8,033)	(1,659,209)
Gross profit	966,074	89,066	49,343	1,104,483
Segment results:				
The Group	1,022,093	80,469	40,386	1,142,948
Share of profits and losses of:				
Joint ventures	2,080	(4,933)	–	(2,853)
Associates	(2,244)	–	–	(2,244)
	1,021,929	75,536	40,386	1,137,851
Corporate and other unallocated income and expenses, net				(108,284)
Finance costs				(342,407)
Profit before tax				687,160
Income tax				(156,829)
Profit for the period				530,331
Profit/(loss) for the period attributable to shareholders of the Company:				
Operating segments	837,505	71,424	39,569	948,498
Corporate and other unallocated items				(434,198)
				514,300

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

2. OPERATING SEGMENT INFORMATION *(Continued)*

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

30 June 2014

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water distribution services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment assets	39,458,415	6,438,103	1,148,784	47,045,302
Corporate and other unallocated items				2,112,890
Total assets				49,158,192

31 December 2013

	Sewage and reclaimed water treatment and construction services (Audited) <i>HK\$'000</i>	Water distribution services (Audited) <i>HK\$'000</i>	Technical and consultancy services (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets	36,231,778	4,967,650	863,581	42,063,009
Corporate and other unallocated items				2,123,661
Total assets				44,186,670

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

2. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	For the six months ended 30 June 2014 HK\$'000
Revenue from external customers:	
Mainland China	3,263,398
Malaysia	298,900
Elsewhere	253,209
	3,815,507

The revenue information is based on the locations of the customers.

Geographical information for the six months ended 30 June 2013 is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

Information about major customers

During the six months ended 30 June 2014, the Group had a transaction with one (Six months ended 30 June 2013: 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 period. A summary of revenue from the major external customer is set out below:

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer 1	N/A*	1,039,563
Customer 2	443,239	N/A*

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

3. REVENUE

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

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

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sewage and reclaimed water treatment services*	1,571,198	849,628
Construction services	1,782,305	1,738,536
Water distribution services*	360,281	118,152
Technical and consultancy services	101,723	57,376
	3,815,507	2,763,692

* Imputed interest income under service concession arrangements amounting to HK\$495,485,000 (Six months ended 30 June 2013: HK\$308,785,000) is included in the revenue derived from "Sewage and reclaimed water treatment services" and "Water distribution services" above.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Cost of sewage and reclaimed water treatment services rendered	566,521	291,301
Cost of construction services	1,424,758	1,313,303
Cost of water distribution services	152,197	21,135
Cost of technical and consultancy services rendered	15,645	8,033
Depreciation	19,902	13,616
Amortisation of operating concessions*	60,707	25,437
Amortisation of other intangible assets*	1,634	827

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest on bank loans and other loans wholly repayable within five years	305,319	215,478
Interest on other loans	316	6,178
Interest on corporate bonds	145,088	80,286
Interest on notes payable	76,739	46,046
Interest on a finance lease	363	595
Total interest expense	527,825	348,583
Increase in discounted amounts of provision for major overhauls arising from the passage of time	4,520	3,485
Total finance costs	532,345	352,068
Less: Interest included in cost of construction services	(13,564)	(9,661)
	518,781	342,407

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

6. INCOME TAX

No provision for Hong Kong profits tax and Indonesia corporate tax has been made for the six months ended 30 June 2014 as the Group did not generate any assessable profits arising in Hong Kong and Indonesia during the period (Six months ended 30 June 2013: Nil).

The income tax provisions in respect of operations in Mainland China, Portugal and Malaysia are calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, a number of the Company's subsidiaries enjoy income tax exemptions and reductions, by reasons that (1) these companies are engaged in the operations of sewage and reclaimed water treatment; and/or (2) they have operations in the Western region of Mainland China that are qualified for a 15% concessionary corporate income tax rate for a prescribed period of time pursuant to the "Circular of the State Council on Policies and Measures Concerning the Large-scale Development of China's Western Regions" (Guo Fa [2000] No. 33) issued by the State Council of Mainland China.

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – PRC:		
Hong Kong	–	–
Mainland China	100,077	121,488
Current – Malaysia	6,711	–
Current – Portugal	316	–
Under-provision in prior periods	3,966	6,248
Deferred	79,611	29,093
Total tax expense for the period	190,681	156,829

7. INTERIM DISTRIBUTION

On 28 August 2014, the Board declared an interim cash distribution of HK3.0 cents per share (Six months ended 30 June 2013: HK2.5 cents) totalling approximately HK\$259,962,000 (Six months ended 30 June 2013: HK\$192,150,000).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the six months ended 30 June 2014 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 8,596,156,640 (Six months ended 30 June 2013: 7,465,090,092) ordinary shares in issue during the period.

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2014 is based on the profit for the period attributable to shareholders of the Company and the weighted average number of ordinary shares after adjustment for the effect of deemed exercise of all share options at the beginning of the period.

No adjustment has been made to the basic earnings per share amounts presented for six months ended 30 June 2013 in respect of a dilution as the impact of the share options outstanding during that period had no diluting effect on the basic earnings per share amount presented.

The calculation of the diluted earnings per share amounts for the six months ended 30 June 2014 is based on the following data:

	For the six months ended 30 June 2014 HK\$'000 (Unaudited)
<hr/>	
Earnings	
Profit for the period attributable to shareholders of the Company, used in the basic earnings per share calculation	714,006
<hr/>	
	For the six months ended 30 June 2014 (Unaudited)
<hr/>	
Number of ordinary shares	
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	8,596,156,640
Effect of dilution on weighted average number of ordinary shares – Share options	179,587,455
<hr/>	
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	8,775,744,095
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Billed:		
Within 3 months	657,355	517,938
4 to 6 months	294,439	143,144
7 to 12 months	271,770	115,892
Over 1 year	81,298	89,404
	1,304,862	866,378
Unbilled:		
Current portion	478,006	240,506
Non-current portion	14,870,587	11,779,143
	15,348,593	12,019,649
Total	16,653,455	12,886,027

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

10. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services under Build-Own-Operate basis, 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 8.65%, trade and bills receivables are non-interest-bearing.

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Billed:		
Within 3 months	199,401	294,270
4 to 6 months	42,234	30,533
7 to 12 months	149,613	114,248
Over 1 year	1,623,122	1,545,995
Balance with extended credit period	50,970	53,059
	2,065,340	2,038,105
Unbilled*	46,802	52,972
	2,112,142	2,091,077
Portion classified as current assets	(2,061,172)	(2,037,987)
Non-current portion	50,970	53,090

* The unbilled balance was attributable to certain construction services rendered under contracts for comprehensive renovation projects which will be billed in accordance with the repayment terms stipulated in relevant construction services agreements entered into between the Group and the contract customers.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Prepayments	74,756	44,971
Deposits and other debtors	3,465,503	4,320,878
Advances to subcontractors and suppliers	2,675,100	2,772,812
Due from joint ventures	70,096	106,475
Due from associates	2,075	1,740
Due from related parties	1,293,268	1,333,124
	7,580,798	8,580,000
Impairment	(23,400)	(82,906)
	7,557,398	8,497,094
Portion classified as current assets	(4,910,823)	(5,323,645)
	2,646,575	3,173,449

12. SHARE CAPITAL

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
<i>Authorised:</i>		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
<i>Issued and fully paid:</i>		
8,655,615,659 (31 December 2013: 8,435,981,324) ordinary shares of HK\$0.10 each	865,562	843,598

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

12. SHARE CAPITAL *(Continued)*

A summary of the movements in the Company's issued share capital during the six months ended 30 June 2014 is as follows:

	Number of ordinary shares in issue (Unaudited)	Issued capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2014	8,435,981,324	843,598	3,574,792	4,418,390
Acquisition of subsidiaries <i>(note)</i>	219,634,335	21,964	1,045,336	1,067,300
At 30 June 2014	8,655,615,659	865,562	4,620,128	5,485,690

Note: During the six months ended 30 June 2014, the Group completed the acquisition of certain of its subsidiaries. Further details of the acquisition are set out in section "Significant Investments and Acquisitions" of "Management Discussion and Analysis".

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

13. 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:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Within 3 months	486,695	240,638
4 to 6 months	253,645	684,000
7 months to 1 year	677,162	243,758
1 to 2 years	798,355	566,122
2 to 3 years	332,849	72,052
Over 3 years	276,148	137,902
Balance with extended credit period	647,045	810,924
	3,471,899	2,755,396

Apart from certain trade and bills payables relating to certain construction services 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

14. OTHER PAYABLES AND ACCRUALS

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Accruals	202,051	263,228
Other liabilities	1,508,361	1,062,681
Receipts in advance	985,377	734,426
Due to subcontractors	2,104,109	2,275,591
Due to joint ventures	263,153	226,087
Due to associates	6,876	1,488
Due to related parties	473,682	410,750
Other taxes payables	76,540	67,608
	5,620,149	5,041,859
Portion classified as current liabilities	(5,114,178)	(4,565,940)
	505,971	475,919

15. CONTINGENT LIABILITIES

At 30 June 2014, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK\$118,603,000) (31 December 2013: RM49,162,000 (equivalent to HK\$116,219,000)) 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 30 June 2014, the Group did not have any significant contingent liabilities.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

16. CAPITAL COMMITMENTS

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

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
<hr/>		
New service concession arrangements on a TOT basis:		
Authorised, but not contracted for	116,823	118,302
Contracted, but not provided for	208,298	281,830
	325,121	400,132
<hr/>		
New service concession arrangements on a BOT basis:		
Authorised, but not contracted for	829,669	170,401
Contracted, but not provided for	5,084,217	4,650,094
	5,913,886	4,820,495
<hr/>		
New service concession arrangements on a Build-Own-Operate basis:		
Contracted, but not provided for	907,293	856,197
<hr/>		
Capital contribution to joint ventures:		
Contracted, but not provided for	33,455	33,499
<hr/>		
Acquisition of subsidiaries:		
Contracted, but not provided for	244,630	2,139,049
<hr/>		
Total capital commitments	7,424,385	8,249,372

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

16. CAPITAL COMMITMENTS *(Continued)*

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Authorised, but not contracted for	553,282	560,285
Contracted, but not provided for	779,045	885,550
	1,332,327	1,445,835

17. EVENT AFTER THE REPORTING PERIOD

Pursuant to a sale and purchase agreement dated 6 September 2013 (the "Sale and Purchase Agreement") entered into between the Company, Standard Water Ltd. (the "Vendor"), Crystal Water Company Limited ("Crystal Water") and China Water Holdings Pte. Ltd. ("China Water Holdings") (collectively the "Parties"), the Company agreed to acquire the entire equity interests in Crystal Water and China Water Holdings from the Vendor at a consideration of RMB1,350,000,000 (equivalent to approximately HK\$1,697,760,000) in aggregate, subject to adjustments as stipulated in the Sale and Purchase Agreement.

On 27 January 2014, the Parties entered into a supplemental agreement (the "Supplemental Agreement") to, among other things, (1) reduce the consideration to RMB1,250,485,000 (equivalent to approximately HK\$1,589,742,000); (2) revise the payment terms of the consideration; and (3) set out certain ancillary matters.

Pursuant to a settlement agreement dated 20 August 2014 (the "Settlement Agreement") entered into between the Parties, the Vendor agreed to pay to the Company (i) the final consideration payment amount of US\$3,300,000 (equivalent to approximately HK\$25,575,000); and (ii) other amount of HK\$159,373,000 (the "Other Amount"), as full and final discharge of the Vendor's obligations under the Sale and Purchase Agreement and the Supplemental Agreement. In the event that the Stock Exchange does not grant the listing approval to the Company for the issuance of 33,223,537 ordinary shares of the Company (the "Remaining Consideration Shares") to the Vendor, the Company shall pay the Vendor the Other Amount that has previously been received by the Company, but the Vendor shall not be entitled to receive the Remaining Consideration Shares from the Company. Upon fulfilment of the Vendor's obligations under the Settlement Agreement as set out in items (i) and (ii) above, the Parties shall irrevocably and unconditionally release and discharge each other from all remaining obligations and liabilities under the Sale and Purchase Agreement and Supplemental Agreement.

Further details are set out in the Company's announcements dated 6 September 2013, 27 January 2014, 20 August 2014 and 22 August 2014.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

18. RELATED PARTY DISCLOSURES

- (a) The Group had the following material transactions during the six months ended 30 June 2014 and outstanding interest-bearing balances with related parties as at 30 June 2014:
- (i) an amount of HK\$1,150,426,000 (31 December 2013: HK\$1,148,886,000) due from a non-controlling equity holder of a 60% owned subsidiary of the Group. Pursuant to loan agreements entered into between the Company and the non-controlling equity holder, the loan bears interest at the benchmark 1-3 year interest rate for Renminbi loans of the People's Bank of China over the same period and secured by the 40% equity interest in the subsidiary held by the non-controlling equity holder and the 100% equity interest of the non-controlling equity holder;
 - (ii) amounts of RMB208,854,000 in aggregate (equivalent to HK\$261,068,000) (31 December 2013: RMB156,000,000 (equivalent to HK\$197,468,000)) due to a non-controlling equity holder of a subsidiary of the Group, which bear interests at rates ranging from 6% to 6.6% per annum and are repayable in 2014. Interest expenses of RMB5,214,000 (equivalent to HK\$6,518,000) (Six months ended 30 June 2013: Nil) was recognised in profit or loss during the period in respect of the loan;
 - (iii) pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, the 70% owned subsidiary and the non-controlling equity holders of the 70% owned subsidiary, the non-controlling equity holders shall pay interest to the Company at the benchmark 1-year interest rate for Renminbi loans of the People's Bank of China over the same period in respect of an interest-free loan of RMB716,428,000 provided by the Company to the 70% owned subsidiary. As a result, net interest income of HK\$4,554,000 derived from the non-controlling equity holders was recognised during the six months ended 30 June 2014;
 - (iv) amounts of RMB34,780,000 (equivalent to HK\$43,475,000, the "RMB Loan") (31 December 2013: RMB34,780,000 (equivalent to HK\$42,938,000)) and US\$100,000 (equivalent to HK\$776,000, the "US\$ Loan") (31 December 2013: US\$100,000 (equivalent to HK\$776,000)) advanced to Aqualyng BEWG China Desalination Company Limited ("ABCD"), a joint venture of the Group. The RMB Loan bears interest at the benchmark 5-year or above interest rate for Renminbi loans of the People's Bank of China over the same period 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 RMB1,160,000 (equivalent to HK\$1,450,000) (Six months ended 30 June 2013: RMB1,121,000 (equivalent to HK\$1,419,000)) was recognised in profit or loss during the six months ended 30 June 2014 in respect of the RMB Loan; and

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

18. RELATED PARTY DISCLOSURES *(Continued)*

(a) The Group had the following material transactions during the six months ended 30 June 2014 and outstanding interest-bearing balances with related parties as at 30 June 2014: *(Continued)*

(v) Included in the receivables under service concession arrangements of the Group as at 30 June 2014 is an amount due from Beijing Enterprises Holdings Limited (“BEHL”) of RMB913,440,000 (equivalent to HK\$1,155,852,000) (31 December 2013: RMB872,735,000 (equivalent to HK\$1,104,727,000)). In February 2013, the Group acquired from BEHL the estimated future net cash income (after deducting all state and local taxes in Mainland China 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 (the “Future Income”). Imputed interest income of RMB40,705,000 (equivalent to HK\$51,125,000), which was measured at amortised cost using the effective interest rate method, was recognised in “Revenue” on the face of the condensed consolidated statement of profit or loss during the period. Further details of the transaction are set out in the Company’s circular and announcement dated 30 November 2012 and 5 February 2013, respectively.

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “Other SOEs”). During the period, the Group 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 a material related party transaction that requires separate disclosure.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

18. RELATED PARTY DISCLOSURES *(Continued)*

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>
Short term employee benefits	9,914	7,708
Equity-settled share option expense	30,576	–
Pension scheme contributions	23	23
Total compensation paid to key management personnel	40,513	7,731

19. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2014 amounted to HK\$1,860,922,000 (unaudited) (31 December 2013: HK\$3,561,412,000) and HK\$36,139,859,000 (unaudited) (31 December 2013: HK\$32,535,842,000), respectively.

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS

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

As at 30 June 2014, 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	–	618,012,566 (Note 1)	–	618,112,566	7.141%
Mr. Zhou Min	300,000	–	618,012,566 (Note 1)	–	618,312,566	7.143%

Notes:

- Messrs. Hu Xiaoyong and Zhou Min, both being executive directors of the Company, as at 30 June 2014 are interested in Tenson Investment Limited ("Tenson") as to 50.20% and 49.80%, respectively. Tenson holds 618,012,566 ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares"). The Company noted from the website of the Stock Exchange that Beijing Enterprises Holdings Limited ("BEHL") and Tenson entered into a share charge agreement on 29 May 2012. As at 30 June 2014 Tenson had charged 100,000,000 Shares ("Mortgaged Shares") beneficially owned by Tenson in favour of BEHL as security for the provision of guarantee entered into by BEHL in favour of DBS Bank Ltd., Hong Kong Branch ("DBS") in respect of a loan facility granted to Tenson by DBS ("Guarantee").
- The percentage represented the number of Shares over the total issued Shares of the Company as at 30 June 2014 of 8,655,615,659 Shares.

Long positions in share options of the Company

The interests of the Directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

Save as disclosed above, as at 30 June 2014, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS *(Continued)*

Directors' Rights to Acquire Shares

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

Directors' Interests in Contracts of Significance

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

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2014, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of Shareholders	Capacity in which Shares were held	Long position in the Shares	Approximate percentage of the Company's issued share capital <i>(Note 5)</i>
Beijing Enterprises Group Company Limited <i>(Notes 1, 2 & 3)</i>	Interest of controlled corporation	3,824,367,831	44.184%
	Security Interest	100,000,000	1.155%
BEHL <i>(Notes 1, 2 & 3)</i>	Interest of controlled corporation	3,824,367,831	44.184%
	Security Interest	100,000,000	1.155%
Tenson <i>(Notes 2 & 4)</i>	Beneficial owner	618,012,566	7.140%

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS *(Continued)*

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

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

Notes:

1. Beijing Enterprises Group Company Limited is deemed to be interested in 3,824,367,831 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")	3,824,367,831
BEHL	3,824,367,831
Beijing Enterprises Group (BVI) Company Limited	3,824,367,831
Beijing Enterprises Group Company Limited	3,824,367,831

BE Environmental beneficially holds 3,824,367,831 Shares of the Company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 39.66% 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 BEHL and Tenson entered into a share charge agreement on 29 May 2012. As at 30 June 2014, Tenson had charged 100,000,000 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 3,824,367,831 Shares as described in Note 1 above; and (ii) 100,000,000 Mortgaged Shares as described in Note 2 above. Beijing Enterprises Group Company Limited is deemed to be interested in 100,000,000 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 50.20% by Mr. Hu Xiaoyong and as to approximately 49.80% by Mr. Zhou Min as at 30 June 2014, both being executive directors of the Company.
5. The percentage represented the number of Shares over the total issued shares of the Company as at 30 June 2014 of 8,655,615,659 Shares.

Save as disclosed above, as at 30 June 2014, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME

On 28 June 2011, a new share option scheme (the “Scheme”) is adopted by the shareholders at the special general meeting of the Company and terminated the old share option scheme adopted by the Company on 20 March 2002. The 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 and representing 7.91% of the issued Shares of the Company at the date of this report. 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, chief executive or substantial shareholder 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 exercise period of the share options commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options.

The subscription price payable on exercise of share options is determinable by the Directors, 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 grant 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 grant; 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 granted must be taken up within 28 days from the date of offer. An aggregate of HK\$1 is payable by each eligible grantee on acceptance of the offer.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME *(Continued)*

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 pursuant to the terms of the Scheme.

On 24 April 2013, the Company has granted certain eligible participants (the "Grantees") 400,000,000 share options (the "Share Options") to subscribe for an aggregate of 400,000,000 Shares under the Scheme. On 28 March 2014, the Company has granted Mr. Yu Ning, an independent non-executive director of the Company, 2,000,000 share options to subscribe for an aggregate of 2,000,000 Shares under the Scheme.

Movements of the Share Options under the Scheme during the six months ended 30 June 2014 are as follows:

Name/ Category of Participants	Number of Share Options					As at 30 June 2014	Grant Date	Exercisable Period	Exercise Price HK\$
	As at 1 January 2014	Granted	Exercised	Lapsed	Cancelled				
Directors									
Hu Xiaoyong	12,800,000	-	-	-	-	12,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	12,800,000	-	-	-	-	12,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	12,800,000	-	-	-	-	12,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	12,800,000	-	-	-	-	12,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	12,800,000	-	-	-	-	12,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	64,000,000	-	-	-	-	64,000,000			
Zhou Min	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	56,000,000	-	-	-	-	56,000,000			
Li Haifeng	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	29,000,000	-	-	-	-	29,000,000			

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME *(Continued)*

Name/ Category of Participants	Number of Share Options					As at 30 June 2014	Grant Date	Exercisable Period	Exercise Price HK\$
	As at 1 January 2014	Granted	Exercised	Lapsed	Cancelled				
Tung Woon Cheung Eric	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	9,000,000	-	-	-	-	9,000,000			
Li Li (appointed on 26 February 2014) (Note 2)	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	19,200,000	-	-	-	-	19,200,000			
Shea Chun Lok Quadrant	400,000	-	-	-	-	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	2,000,000	-	-	-	-	2,000,000			
Zhang Gaobo	400,000	-	-	-	-	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	2,000,000	-	-	-	-	2,000,000			
Guo Rui	400,000	-	-	-	-	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	2,000,000	-	-	-	-	2,000,000			

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME *(Continued)*

Name/ Category of Participants	Number of Share Options					As at 30 June 2014	Grant Date	Exercisable Period	Exercise Price HK\$
	As at 1 January 2014	Granted	Exercised	Lapsed	Cancelled				
Hang Shijun	400,000	-	-	-	-	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	2,000,000	-	-	-	-	2,000,000			
Wang Kaijun	400,000	-	-	-	-	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	2,000,000	-	-	-	-	2,000,000			
Yu Ning	-	400,000	-	-	-	400,000	28/3/2014	24/4/2014 – 27/3/2024	5.180
	-	400,000	-	-	-	400,000	28/3/2014	24/4/2015 – 27/3/2024	5.180
	-	400,000	-	-	-	400,000	28/3/2014	24/4/2016 – 27/3/2024	5.180
	-	400,000	-	-	-	400,000	28/3/2014	24/4/2017 – 27/3/2024	5.180
	-	400,000	-	-	-	400,000	28/3/2014	24/4/2018 – 27/3/2024	5.180
	-	2,000,000	-	-	-	2,000,000			(Note 1)
Sub-total	187,200,000	2,000,000	-	-	-	189,200,000			
Eligible Employees									
In aggregate <i>(Note 3)</i>	42,560,000	-	-	-	-	42,560,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	42,560,000	-	-	-	-	42,560,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	42,560,000	-	-	-	-	42,560,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	42,560,000	-	-	-	-	42,560,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	42,560,000	-	-	-	-	42,560,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	212,800,000	-	-	-	-	212,800,000			
Sub-total	212,800,000	-	-	-	-	212,800,000			
Total	400,000,000	2,000,000	-	-	-	402,000,000			

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME *(Continued)*

Note:

1. The closing price of the Shares of the Company immediately before the date of grant (i.e. 27 March 2014) was HK\$4.82
2. Mr. Li Li was appointed as an executive director of the Company on 26 February 2014, and thereby the options granted to Mr. Li Li were re-classified from the category of "Eligible Employees" to the category of "Directors".
3. Mr. Hou Feng resigned as an executive director of the Company on 3 September 2013. In this respect, the options granted to Mr. Hou Feng were re-classified from the category of "Directors" to the category of "Eligible Employees".

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the six months ended 30 June 2014.

The Company recognised the fair value of the share options, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per Share over the nominal value of the Shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves. For further details, please refer to the "Summary of Significant Accounting Policies" in the Annual Report 2013.

The fair value of the share options granted during the six months ended 30 June 2014 and the year ended 31 December 2013 was HK\$4,287,000 (HK\$2.14 each) and HK\$357,276,000 (HK\$0.89 each) respectively, of which HK\$57,593,000 in aggregate was recognised as share option expense in profit or loss during the six months ended 30 June 2014.

The fair value of equity-settled share options granted during the period was estimated as at the date of grant, using Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

30 June 2014

Dividend yield (%)	1.32
Expected volatility (%)	41.33
Historical volatility (%)	41.33
Risk-free interest rate (%)	2.25
Life of options (year)	10.00
Weighted average share price (HK\$ per share)	5.03
Exit rate of the grantee of the options granted under the Scheme	3.70

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME *(Continued)*

The life of the options is the time to maturity of the options granted under the Scheme. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The exit rate of the grantee of the options granted under the Scheme was determined based on the historical data.

No other feature of the options granted was incorporated into the measurement of fair value.

The values of Share Options calculated using the Black-Scholes model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

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

Changes in information of directors since the date of the Annual Report 2013 of the Company up to the date of this report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Mr. Zhang Honghai, the chairman and an executive director of the Company, ceased to be a vice chairman and an executive director of Beijing Enterprises Holdings Limited (stock code: 392), a company listed on the main board of the Stock Exchange of Hong Kong Limited.

Mr. Ke Jian, an executive director of the Company, was appointed on 28 August 2014 as the chief executive officer of Beijing Development (Hong Kong) Limited (stock code: 154), a company listed on the main board of the Stock Exchange of Hong Kong Limited.

Mr. Shea Chun Lok Quadrant, an independent non-executive director of the Company, has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers Serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau.

Directors' updated biographies are available on the Company's website.

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

DISCLOSEABLE INFORMATION

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

As at the date of this report, details of the agreements (the “Agreement(s)”) with covenants relating to specific performance of the controlling shareholder which constitute disclosure obligation pursuant to Rules 13.18 and 13.21 of the Listing Rules are as follows:

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount (million)	Final Maturity	Specific performance obligations
28 March 2011	Term loan facility with a syndicate of banks	HK\$1,300	March 2016	<i>Note 1</i>
18 April 2011	Term loan facility with a syndicate of banks	HK\$700	March 2016	<i>Note 1</i>
24 June 2011	Subscription agreement for issuance of bonds	RMB450	June 2016	<i>Note 2</i>
8 September 2011	Term loan facility with a bank	HK\$250	September 2015	<i>Note 1</i>
30 September 2011	Subscription agreement for issuance of bonds	RMB50	June 2016	<i>Note 2</i>
1 March 2012	Term loan facility with a bank	RMB950	March 2015	<i>Note 1</i>
21 December 2012	Term loan facility with a bank	US\$175	December 2017	<i>Note 1</i>
26 April 2013	Subscription agreement for issuance of bonds	US\$500	May 2018	<i>Note 2</i>
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	<i>Note 2</i>
23 June 2014	Term loan facilities with four banks	RMB1,500	June 2017	<i>Note 2</i>

Notes:

- 1 BEHL owns, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company.
- 2 (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.

DISCLOSEABLE INFORMATION

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.

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

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

INTERIM DISTRIBUTION

The directors of the Company have resolved to pay interim distribution of HK3.0 cents per ordinary share out of the contributed surplus of the Company, payable on or around 10 October 2014 to shareholders of the Company whose names appear on the register of members of the Company on Thursday, 25 September 2014 for their continuous supports to the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 23 September 2014 to Thursday, 25 September 2014 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for entitlement to the interim distribution, all properly completed transfers forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 22 September 2014.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

During the six months ended 30 June 2014, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors of the Company, the Company confirms that during the six months ended 30 June 2014, all directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by directors of the Company.

AUDIT COMMITTEE

The audit committee of the Company (“Audit Committee”) comprises three independent non-executive directors of the Company, namely Mr. Shea Chun Lok Quadrant (the chairman of the Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The unaudited interim results for the six months ended 30 June 2014 have been reviewed and approved by the Audit Committee. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

INTERNAL CONTROLS

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