



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED
Stock Code: 371

BEIJING
ENTERPRISES
WATER GROUP
LIMITED

Annual Report 2014

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Yongcheng (*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. Li Yongcheng (*Chairman*)
Mr. Zhang Gaobo
Mr. Guo Rui

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

STOCK CODE

371

WEBSITE

www.bewg.com.hk

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

Ernst & Young

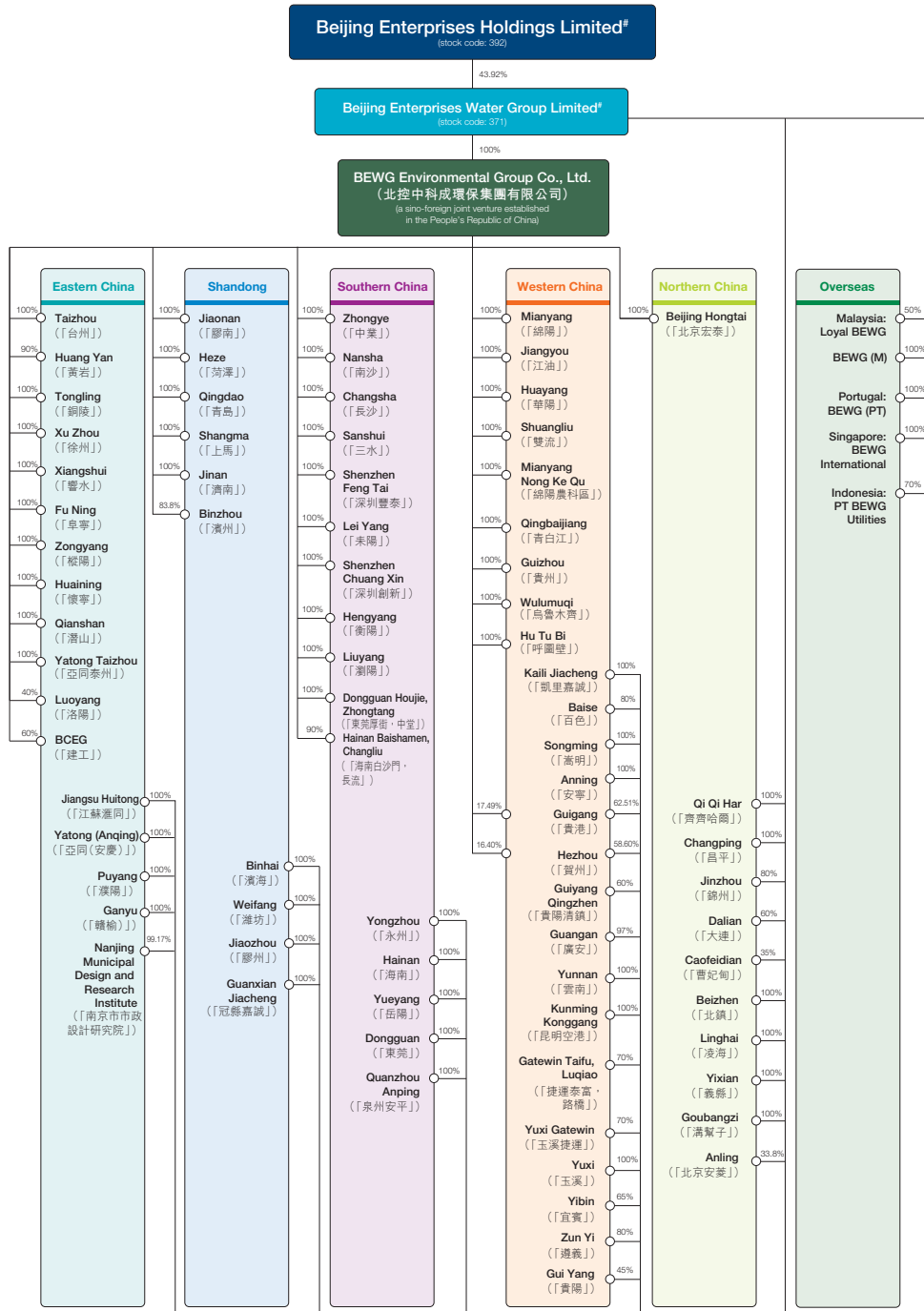
PRINCIPAL BANKERS

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

31 December 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



Li Yongcheng
Chairman

Dear Shareholders,

In 2014, the development of the water and environmental protection industry was stimulated by a stream of favourable factors brought by the New Normal of the national economy, and the market competition has intensified. Under such circumstance, Beijing Enterprises Water Group Limited (the “Company”, together with its subsidiaries, collectively referred to as the “Group” or “BEWG”) maintained its rapid growth by implementing various tasks in an orderly manner based on the work plans formulated at the beginning of 2014 and under the Group’s principles of corporate strategic and operational management.

BUSINESS REVIEW

For the year ended 31 December 2014, the Group recorded revenue from core businesses of HK\$8,925,942,000, representing a substantial rise of 39% over last year, and achieved profit attributable to shareholders of the Company of HK\$1,794,413,000, up by 65% over last year. Basic earnings per share for the year were HK20.76 cents. In recognition of the continuous support of the shareholders to the Company, the board of directors of the Company resolved to make a distribution of HK4.8 cents per share to the shareholders.

Taking into account market-driven factors and with the aim of maximising customers’ value, the Group had timely grasped market opportunities in 2014, and as a result, the water treatment service business has reached its new height. For the domestic market, the Group further penetrated into its existing regional markets and recorded an increase in total designed water capacity through the formation of joint ventures and setting respective goals for each of its regional markets for their own expansion. Such measures were proven effective as various provinces and municipals, especially Hebei and Ningxia, have seen breakthroughs in market expansion. In respect of the overseas market, the Group obtained a further increase in designed water capacity in Singapore, particularly for the Second Changi NEWater Plant project which is the first large-scale water treatment project in Singapore invested and constructed by a foreign enterprise. During the year ended 31 December 2014, the Group recorded a net increase in designed water capacity of 3,441,900 tonnes/day in aggregate.

CHAIRMAN'S STATEMENT

With respect to water environmental renovation investments, the Group consolidated both its internal and external resources so as to explore more water environmental renovation projects in regions such as Beijing, Luoyang and Southern China, starting from urban river renovation. The Group will build up its river renovation and water treatment project complex in the area of the Luo River by adhering to the development theme of “Cradle of the Chinese Civilisation”. It will also partake in the river renovation project of the Liangshui River in Beijing, which targets at attaining the goal of “三環碧水繞京城”. Aiming at consolidating river renovation with the traditional water business, the Group will co-ordinate the sewage treatment projects in Luoyang by way of investment, construction and operation. The implementation of the various water environment renovation projects represented a significant leap for the Group in the pursuit of its business goals in 2014 and laid the foundation for the future growth in its operating results in the next year.

CORPORATE MANAGEMENT AND CONTROL

In 2014, the Group streamlined its functional organisation, optimised its systems and procedures, and perfected its internal systems in accordance with its operational and management principles in order to enhance its management control and execution abilities. The Group continued its reforms by forming “super business regions” in Beijing and in Central China including Henan and Shaanxi, and the results have reached our expectations. On the other hand, the Group has set up oversea headquarters in Singapore. Upon completion of the overseas assets restructuring, there will be a foundation for the Group’s overseas expansion as a whole. The financial information system maintained by the Group was completely upgraded and a financial resource sharing center has been established in order to run a capital management model comprising both inflows and outflows. The Group has also strengthened its investment risk control for pre-investment assessment, in the course of making investment or for post-investment evaluation.

Through systematic preliminary reviews, industry researches, meetings and discussions, the Group formulated and evaluated its strategies for each business operating unit and identified specific business strategies and assurance systems for each unit. It has laid down the operating structure and overall strategic plans for each business operating unit, which is the development plan for the next five years. BEWG’s corporate culture is nurtured based on the mission to “protect vital water resources and create a green environment”, the vision of “delivering clean water in a sustainable manner while securing business growth” and the core value of “being responsible, being dedicated and being generous in sharing its success”.

DEVELOPMENT STRATEGY

In 2015, BEWG will persist in positioning itself strategically as a “leading professional integrated water environment service provider” and will pursue its professionalism based on its development strategies. The Group will grasp the opportunities brought by the rapid growth of the environmental protection industry by leveraging on its strategic planning, reform and innovation, as well as its corporate culture. As a result of the boosting development of its two core businesses, namely water treatment services and comprehensive water environmental renovation services, the Group could accelerate the formulation of the whole water environmental industry chain layout. The Group will explore new business models and seek new sources of growth in areas with advantageous resources, and will strengthen the implementation of its strategic management and control systems. With the strong support of capitals and technologies, the Group’s technological competitiveness is enhanced. An eco-industrial cluster comprising leading industrial partners for mutual cooperation is established by means of innovative external cooperation mechanism and high-end development. We will continue to execute the three major strategies of culture, talents and branding.

CHAIRMAN'S STATEMENT

The Group will put more efforts and resources to enhance its corporate governance. It will not only build a new framework for business development, but will also identify new target market values. By introducing changes to the market layout and strengthening new technologies, appropriate plans and measures will be formulated so as to prepare the Group for any future co-operation. Besides, the Group will speed up works in respect of the “establishment of a closed management system which can evolve itself to develop a virtuous cycle”.

FUTURE DEVELOPMENT

From a macro point of view, the central government in China puts great emphasis on the nurturing of an ecological culture to provide benefits to the water and environmental protection industry which is now being propelled forward by a stream of favourable factors brought by the New Normal. A five-in-one overall layout which integrates economic construction, political construction, cultural construction, social construction, and ecological culture will be created.

In the long run, a large-scale and centralised pollution treatment will lead to an increasing scale of the water and environmental protection industry. With strict law enforcement towards sewage treatment, it will bring along additional market demand for the industry. The increasing procurement of sewage treatment services by the government will speed up the restructuring and upgrade of the industry. The availability of different fund sources for environmental protection projects will provide impetus to the industry. The current development of the environmental protection industry in the country presents rare historical opportunity for development.

In summary, the opportunities would outweigh the challenges in the forthcoming year. We strongly believe that it will be a year of harvest and growth for BEWG in 2015.

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

Li Yongcheng
Chairman

Hong Kong, 30 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

The Group delivered strong results in year 2014. Profit for the year attributable to shareholders of the Company increased by 65% to HK\$1,794.4 million. Revenue increased by 39% to HK\$8,925.9 million as a result of increase in revenue contribution from water treatment services and construction services for BOT projects.

1. FINANCIAL HIGHLIGHTS

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	3,066.2	34%	64%	1,390.1	46%
– Joint ventures and associates				15.1	1%
				1,405.2	47%
Overseas					
– Subsidiaries	183.7	2%	13%	6.7	1%
	3,249.9	36%		1,411.9	48%
Water distribution services					
China					
– Subsidiaries	590.0	7%	59%	246.7	8%
– Joint ventures				86.7	3%
				333.4	11%
Overseas					
– Subsidiaries	222.6	2%	26%	38.4	1%
	812.6	9%		371.8	12%
Subtotal	4,062.5	45%		1,783.7	60%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
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% [§]	2,124.9	24%	16%	424.5	15%
– Interest income	–	–	–	158.0	5%
	2,124.9	24%	16%	582.5	20%
Construction of BOT water projects	2,457.8	28%	24%	485.9	16%
Subtotal	4,582.7	52%		1,068.4	36%
Technical services for the water environmental renovation	280.7	3%	70%	114.1	4%
Business results	8,925.9	100%		2,966.2	100%
Others[#]				(1,171.8)	
Total				1,794.4	

[#] Others included head office and other corporate income, net, of HK\$28.1 million, equity-settled share option expense of HK\$115.7 million and finance costs of HK\$1,084.2 million.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$58.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	2,030.2	32%	70%	981.8	47%
– Joint ventures				4.7	1%
				986.5	48%
Overseas					
– Subsidiaries	110.7	1%	16%	5.1	1%
	2,140.9	33%		991.6	49%
Water distribution services					
China					
– Subsidiaries	266.0	4%	66%	139.9	6%
– Joint ventures				74.4	4%
				214.3	10%
Overseas					
– Subsidiaries	117.7	2%	26%	17.9	1%
	383.7	6%		232.2	11%
Subtotal	2,524.6	39%		1,223.8	60%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
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% [§]	2,881.9	45%	23%	499.3	24%
– Interest income	–	–	–	177.9	9%
	2,881.9	45%	23%	677.2	33%
Construction of BOT water projects	882.4	14%	11%	68.0	3%
Subtotal	3,764.3	59%		745.2	36%
Technical services for the water environmental renovation	117.6	2%	85%	78.9	4%
Business results	6,406.5	100%		2,047.9	100%
Others[#]				(963.6)	
Total				1,084.3	

[#] Others included head office and other corporate expenses, net, of HK\$69.7 million, equity-settled share option expense of HK\$105.8 million and finance costs of HK\$788.1 million.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures of HK\$28.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2014 and 2013 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	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>	%
Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	3,066.2	2,030.2	1,036.0	51%	1,390.1	981.8	408.3	42%
– Joint ventures and associates					15.1	4.7	10.4	221%
<i>GP ratio</i>	64%	70%		(6)%	1,405.2	986.5	418.7	42%
Overseas								
– Subsidiaries	183.7	110.7	73.0	66%	6.7	5.1	1.6	31%
<i>GP ratio</i>	13%	16%		(3)%				
	3,249.9	2,140.9	1,109.0	52%	1,411.9	991.6	420.3	42%
Water distribution services								
China								
– Subsidiaries	590.0	266.0	324.0	122%	246.7	139.9	106.8	76%
– Joint ventures					86.7	74.4	12.3	17%
<i>GP ratio</i>	59%	66%		(7)%	333.4	214.3	119.1	56%
Overseas								
– Subsidiaries	222.6	117.7	104.9	89%	38.4	17.9	20.5	115%
<i>GP ratio</i>	26%	26%		–				
	812.6	383.7	428.9	112%	371.8	232.2	139.6	60%
Subtotal	4,062.5	2,524.6	1,537.9	61%	1,783.7	1,223.8	559.9	46%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2014 and 2013 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	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>	%
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%	2,124.9	2,881.9	(757.0)	(26)%	424.5	499.3	(74.8)	(15)%
– Interest income	–	–	–	–	158.0	177.9	(19.9)	(11)%
	2,124.9	2,881.9	(757.0)	(26)%	582.5	677.2	(94.7)	(14)%
<i>GP ratio</i>	16%	23%		(7)%				
Construction of BOT water projects	2,457.8	882.4	1,575.4	179%	485.9	68.0	417.9	615%
<i>GP ratio</i>	24%	11%		13%				
Subtotal	4,582.7	3,764.3	818.4	22%	1,068.4	745.2	323.2	43%
Technical services for the water environmental renovation	280.7	117.6	163.1	139%	114.1	78.9	35.2	45%
<i>GP ratio</i>	70%	85%		(15)%				
Business results	8,925.9	6,406.5	2,519.4	39%	2,966.2	2,047.9	918.3	45%
Others					(1,171.8)	(963.6)	(208.2)	(22)%
Total					1,794.4	1,084.3	710.1	65%

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 18 provinces, 2 autonomous region and 3 municipalities all across Mainland China.

2.1 Water treatment services

As at 31 December 2014, the Group enters into service concession arrangements for a total of 326 water plants including 250 sewage treatment plants, 69 water distribution plants, 6 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for this year was 4,651,900 tons including Build-Operate-Transfer ("BOT") projects of 1,944,200 tons, Transfer-Operate-Transfer ("TOT") projects of 283,500 tons, Design-Build-Own-Operate ("DBOO") project of 228,000 tons, Public-Private Partnership Project ("PPP") of 900,000 tons, entrustment operation projects of 510,200 tons, and 786,000 tons through mergers and acquisitions.

During the year, the Group disposed of 11 sewage treatment projects and 1 water supply project in Shandong and Guizhou with aggregate daily design capacity of 700,000 tons. The Group also signed a PPP contract for Luoyang City Sewage Treatment Projects with daily design capacity of 900,000 tons to replace the previous non-operating entrustment operation contract with daily design capacity of 510,000 tons in year 2011. As such, the net increase in total daily design capacity for this year was 3,441,900 tons.

As at 31 December 2014, total daily design capacity was 20,150,050 tons, representing an increase of 21% 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	7,523,950	418,000	3,420,000	–	11,361,950
Not yet start operation/ Not yet transfer	4,132,000	282,500	3,923,200	50,000	8,387,700
Subtotal	11,655,950	700,500	7,343,200	50,000	19,749,650
Overseas					
In operation	55,200	–	36,000	–	91,200
Not yet start operation/ Not yet transfer	–	228,000	81,200	–	309,200
Subtotal	55,200	228,000	117,200	–	400,400
Total	11,711,150	928,500	7,460,400	50,000	20,150,050
<i>(Number of water plants)</i>					
China					
In operation	173	4	26	–	203
Not yet start operation/ Not yet transfer	53	1	27	1	82
Subtotal	226	5	53	1	285
Overseas					
In operation	24	–	13	–	37
Not yet start operation/ Not yet transfer	–	1	3	–	4
Subtotal	24	1	16	–	41
Total	250	6	69	1	326

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	46	3,013,700	967.3	1,003.0	545.4
– Western China	40	1,482,000	511.4	562.5	295.6
– Shandong	23	1,027,000	318.8	471.8	165.6
– Eastern China	46	1,623,250	336.9	574.2	204.9
– Northern China	22	796,000	234.6	454.7	193.7
	177	7,941,950	2,369.0	3,066.2	1,405.2
Overseas	24	55,200	21.2	183.7	6.7
Subtotal	201	7,997,150	2,390.2	3,249.9	1,411.9
Water distribution services:					
Mainland China					
	26	3,420,000	589.3	590.0	333.4
Overseas	13	36,000	12.2	222.6	38.4
Subtotal	39	3,456,000	601.5	812.6	371.8
Total	240	11,453,150	2,991.7	4,062.5	1,783.7

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 31 December 2014, the Group had 173 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 7,523,950 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 6,825,763 tons and average daily treatment rate is 81%. The average daily processing volume is 6,825,763 tons and average daily treatment rate is 81%. The actual average contracted tariff charge of water treatment was approximately HK\$1.27 per ton for water plants. The actual aggregate processing volume for the year was 2,369.0 million tons, of which 2,212.3 million tons was contributed by subsidiaries that recorded a revenue of HK\$3,066.2 million for the year, and 156.7 million tons was contributed by joint ventures. Net profit attributable to shareholders of the Company was HK\$1,405.2 million, of which HK\$1,390.1 million was contributed by subsidiaries and HK\$15.1 million was contributed by joint ventures and associates. 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, Fujian Province, Shaanxi Province and Hainan Province. As at 31 December 2014, there were 46 sewage treatment plants with total daily design capacity of 3,013,700 tons, representing an increase of 258,700 tons per day or 9% as compared with last year. The actual aggregate processing volume for the year amounted to 967.3 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$1,003.0 million and HK\$545.4 million respectively during the year.

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)*

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2014, there were 40 sewage treatment plants with total daily design capacity of 1,482,000 tons, representing a decrease of 169,500 tons per day or 10% as compared with last year. Decrease in daily design capacity was mainly due to the disposal of sewage projects in Guizhou. The actual processing volume for the year was 511.4 million tons. The operating revenue of HK\$562.5 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK\$295.6 million.

Shandong

There were 23 plants in Shandong region. The total daily design capacity of Shandong region is 1,027,000 tons, representing an increase of 575,000 tons per day or 127% as compared with last year. The actual processing volume for the year was 318.8 million tons contributing operating revenue of HK\$471.8 million during the year. Profit attributable to shareholders of the Company was HK\$165.6 million.



Eastern China

There were 46 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 31 December 2014, the total daily design capacity of Eastern China had increased by 415,000 tons to 1,623,250 tons or 34% as compared with last year. The actual processing volume for the year amounted to 336.9 million tons and operating revenue was HK\$574.2 million during the year. Profit attributable to shareholders of the Company was HK\$204.9 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 234.6 million tons for the year. The operating revenue was HK\$454.7 million during the year. Profit attributable to shareholders of the Company was HK\$193.7 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)

2.1.1b Overseas:

As at 31 December 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 year is 21.2 million tons. Total revenue for the year was HK\$183.7 million. Profit attributable to shareholders of the Company was HK\$6.7 million.



2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2014, the Group had 26 water distribution plants in operation. Total daily design capacity in operation was 3,420,000 tons (31 December 2013: 2,750,000 tons). The plants were located in Guizhou Province, Fujian Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water distribution is approximately HK\$2.29 per ton. The aggregate actual processing volume is 589.3 million tons, of which 292.7 million tons was contributed by subsidiaries, which recorded revenue of HK\$590.0 million and 296.6 million tons was contributed by joint ventures. Imputed interest income of HK\$103.1 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\$333.4 million, of which profit of HK\$246.7 million was contributed by subsidiaries and a profit of HK\$86.7 million in aggregate was contributed by joint ventures.

2.1.2b Overseas:

As at 31 December 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 year is 12.2 million tons. Total revenue for the year was HK\$222.6 million. Profit attributable to shareholders of the Company was HK\$38.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had ten comprehensive renovation projects under construction during the year. The projects mainly located in Beijing Liangshuihe, Henan Luoyang, Foshan Gaoming, Hunan Zhuhui, Yunan Kunming, Yunan Yuxi and Malaysia Pantai. Last year, the Group had nine comprehensive renovation projects under construction which located in Guangxi Guigang, Guangxi Beihai, Yunan Kunming, Beijing, Guizhou Nanminghe and Malaysia Pantai.



Revenue from comprehensive renovation projects decreased by HK\$757.0 million from last year of HK\$2,881.9 million to HK\$2,124.9 million this year. Revenue decreased as several projects were completed and the construction work of new projects had just begun.

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\$158.0 million for this year (2013: HK\$177.9 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK\$94.7 million from last year of HK\$677.2 million to HK\$582.5 million this year. Profit attributable to shareholders of the Company decreased as several project were completed and the construction work of new projects has just begun.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

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

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 year, water plants under construction were mainly located in Beijing, Sichuan, Shandong, Yunnan, Liaoning, Guangxi, Jiangsu, Shanxi, Heilongjiang and Hunan provinces. Total revenue for construction of BOT water projects was HK\$2,457.8 million (2013: HK\$882.4 million) and profit attributable to shareholders of the Company was HK\$485.9 million (2013: HK\$68.0 million). The increase in contribution from BOT projects during this year was mainly due to the construction work performed for projects located in Beijing, Yunnan, Shandong and Hunan.

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\$280.7 million (2013: HK\$117.6 million), representing 3% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$114.1 million (2013: HK\$78.9 million).

The increase was mainly due to the contribution from 南京市市政設計研究院有限責任公司 (Nanjing Municipal Design and Research Institute Co., Ltd[^], "Nanjing Municipal Design and Research Institute"), which was acquired during this year.

[^] For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded revenue of HK\$8,925.9 million (2013: HK\$6,406.5 million). The increase was mainly due to the increase in revenue from water treatment and construction services. Increase in revenue from water treatment services was mainly due to revenue contribution from projects acquired in the last two years. Those projects contributed total revenue of approximately HK\$1,000.0 million. Increase in revenue from construction services was mainly due to increase in construction work for BOT project.

3.2 Cost of sales

Cost of sales for the year amounted to HK\$5,430.0 million, compared to last year of HK\$3,900.9 million. The increase was mainly due to the increase in construction costs and operating costs of water plants amounted to HK\$649.7 million and HK\$812.1 million respectively. Cost of sales mainly included construction costs of HK\$3,661.9 million and operating costs of water plants of HK\$1,683.5 million. The construction costs mainly consisted of subcontracting charges. The increase in construction costs was mainly due to the increase in construction works for BOT projects. The operating costs of water plants mainly included electricity charges of HK\$534.0 million, staff costs of HK\$313.6 million and major overhaul charges of HK\$60.5 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 year, gross profit margin maintained at 39%, which is same as last year.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was 64% (2013: 70%). The margin for last year was higher as there was a write-back of provision for major overhaul of HK\$170.7 million. Excluding this factor, the gross margin for last year would be 62%. Gross margin for sewage and reclaimed water treatment services in Overseas was 13% (2013: 16%).

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 59% (2013: 66%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was 50% (2013: 43%). The increase of gross margin for water distribution services was mainly due to higher profit margin achieved by newly acquired projects. Gross margin for water distribution services in Overseas was 26% (2013: 26%).

Gross margin for construction services for the water environmental renovation:

Gross margin for construction services for comprehensive renovation projects decreased from last year of 23% to 16% this year. Gross margin decreased as the major comprehensive renovation projects for this year has a relatively lower gross margin of around 16%. Last year, 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 year of 11% to 24% this year. 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 70% (2013: 85%). Gross margin decreased as the design services of Nanjing Municipal Design and Research Institute, a newly acquired company, has a lower gross margin.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$608.2 million during the year, compared to last year of HK\$199.7 million. The amount for this year mainly included sludge treatment income of HK\$63.7 million, government grants of HK\$56.5 million, gain on bargain purchase of subsidiaries of HK\$75.7 million, gain on disposal of interests in subsidiaries of HK\$100.9 million and foreign exchange gains, net of HK\$95.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.5 Administrative expenses

Administrative expenses for the year was HK\$1,065.8 million, compared to last year of HK\$774.6 million. The increase was mainly due to the increase in staff costs of HK\$179.7 million, depreciation expenses of HK\$23.6 million, and equity-settled share option expense of HK\$9.9 million. Staff costs and depreciation expenses increased as a result of the business expansion during this year. Excluded the equity-settled share option expense, the ratio of administrative expenses to total revenue slightly increased from 10.4% last year to 10.6% this year because cost synergy of newly acquired companies has not been reflected during this year.

3.6 Other operating expenses, net

Other operating expenses decreased from HK\$187.5 million last year to HK\$10.6 million this year. The decrease was mainly due to a reversal of impairment of other receivables and trade receivables in this year. Last year, the amount included foreign exchange losses, net of HK\$40.0 million. However, foreign exchange gains, net was recorded this year. Please refer to Note 3.4.

3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$694.8 million (2013: HK\$460.6 million) and interests on corporate bonds and notes payable of HK\$410.4 million (2013: HK\$328.0 million). The increase in finance costs was mainly due to the issuance of additional notes payable of RMB800 million on 8 November 2013 and drawdown of bank loan from Asian Development Bank in a principal of US\$405 million during the year. In addition, the borrowings of newly acquired business bears a relatively higher interest rate. Also, there was an increase in market interest rate as compared with last year.

3.8 Income tax

Income tax expense for the year included the current PRC income tax of HK\$338.1 million. The effective tax rate for the PRC operation was about 19% 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 year was HK\$213.2 million.

3.9 Property, plant and equipment

Property, plant and equipment increased by HK\$864.4 million which was mainly due to the acquisition of Nanjing Municipal Design and Research Institute and three new Build-Own-Operate (“BOO”) projects in Guigang, Dashatian and Anping.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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 Land held for sale

Land held for sale as at 31 December 2013 represented certain land use rights held under medium and long term leases and located in Liaoning Province and Sichuan Province. The balance decreased as the land located in Liaoning Province was sold during this year. The balance of HK\$79.7 million as at 31 December 2014 represented the cost of land located in Sichuan Province.

3.12 Receivables

The Group's total receivables of HK\$27,491.6 million (2013: HK\$20,364.8 million) included:

By accounting nature:

	2014			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	6,817.3	40.3	6,857.6	5,360.7	27.0	5,387.7
(ii) Receivables under service concession arrangements	15,639.6	1,600.6	17,240.2	11,779.1	1,106.9	12,886.0
(iii) Trade and bills receivables	798.8	2,595.0	3,393.8	53.1	2,038.0	2,091.1
Total	23,255.7	4,235.9	27,491.6	17,192.9	3,171.9	20,364.8

- (i) Amounts due from contract customers of HK\$6,857.6 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\$1,469.9 million (non-current portion increased by HK\$1,456.6 million and current portion increased by HK\$13.3 million), which was mainly due to the recognition of construction revenue for new projects in Luoyang, Foshan, Dao Xiang Lake and Liangshui River;

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.12 Receivables *(Continued)*

- (ii) Receivables under service concession arrangements of HK\$17,240.2 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\$4,354.2 million (non-current portion increased by HK\$3,860.5 million and current portion increased by HK\$493.7 million) was mainly due to the acquisition of Standard Water Group* which accounted for an increase in receivable balance of around HK\$2,595.0 million; and
- (iii) Trade and bills receivables of HK\$3,393.8 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. Increase in balance of HK\$1,302.7 million (non-current portion increased by HK\$745.7 million and current portion increased by HK\$557.0 million) was mainly due to the reclassification of receivables for Nanminghe project from amounts due from contract customers to trade and bills receivables.

By business nature:

	2014 <i>HK\$'M</i>	2013 <i>HK\$'M</i>
Water treatment services by BOT and TOT projects	21,673.5	15,142.9
Construction services of comprehensive renovation projects	5,432.4	4,868.5
Technical and consultancy services and other businesses	385.7	353.4
Total	27,491.6	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* were HK\$21,673.5 million (2013: HK\$15,142.9 million). Total receivables for the construction service of comprehensive renovation projects were HK\$5,432.4 million (2013: HK\$4,868.5 million). Total receivables for technical and consultancy services and other businesses were HK\$385.7 million (2013: HK\$353.4 million).

* 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)*

3.13 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. Decrease in balance was mainly due to the disposal of Jilin project during the year.

3.14 Investments in joint ventures

Investments in joint ventures increased by HK\$208.7 million, mainly due to the share of profits in joint ventures during the year.

3.15 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables decreased by HK\$332.8 million (non-current portion increased by HK\$681.2 million and current portion decreased by HK\$1,014.0 million), mainly due to the net effect of increase in amounts due from joint ventures by HK\$547.9 million and decrease in advances to subcontractors and suppliers by HK\$844.3 million. Decrease in advances to subcontractors and suppliers was mainly due to the settlement with the corresponding amounts due to subcontractors during the year. Increase in amounts due from joint ventures was mainly due to the disposal of partial equity interest in project companies. The related amounts due from subsidiaries were reclassified as amounts due from joint ventures this year.

3.16 Cash and cash equivalents

Cash and cash equivalents increased by HK\$577.8 million, mainly due to drawdown of bank loans during the year. Please refer to Note 3.18.

3.17 Other payables and accruals

Other payables and accruals decreased by HK\$1,230.7 million (non-current portion decreased by HK\$135.5 million and current portion decreased by HK\$1,095.2 million), mainly due to the decrease in amounts due to subcontractors by HK\$829.8 million as a result of settlement with the corresponding advances to subcontractors and suppliers during the year.

3.18 Bank and other borrowings

Bank and other borrowings increased by HK\$6,032.9 million (non-current portion increased by HK\$4,235.8 million and current portion increased by HK\$1,797.1 million). Increase was due to drawdown of a bank loan of US\$405 million from Asian Development Bank and refinance of corporate bonds with principal amount of RMB1,450 million by bank loans. Also, there was additional bank loans from the newly acquired companies.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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 year.

3.20 Trade and bills payables

The increase in trade and bills payables by HK\$808.5 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 year.

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 31 December 2014, the Group's cash and cash equivalents amounted to HK\$6,090.9 million (31 December 2013: HK\$5,513.0 million). For details of the currencies in which cash and cash equivalents are made, please refer to note 30(b) to the financial statements.

The Group's total borrowings amounted to HK\$23,490.4 million (31 December 2013: HK\$19,296.4 million) comprised bank and other borrowings of HK\$16,474.5 million (31 December 2013: HK\$10,441.6 million), finance lease payable of Nil (31 December 2013: HK\$13.3 million), note payable of HK\$2,523.6 million (31 December 2013: HK\$2,522.5 million) and corporate bonds of HK\$4,492.3 million (31 December 2013: HK\$6,319.0 million). For details of the currencies in which borrowings are made, please refer to the notes 34(a), 35 and 36 to the financial statements. 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 31 December 2014, the Group had banking facilities amounting to HK\$12.70 billion, of which HK\$858.0 million have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$19,088.7 million (31 December 2013: HK\$15,924.4 million). The increase was mainly due to the issuance of shares during the year. During the year, the Company issued 252,857,872 shares to Standard Water Ltd. for the acquisitions of Crystal Water Company Limited and China Water Holdings Pte. Ltd. For further details, please refer to the "Significant Investments and Acquisitions" section.

* *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)*

3.21 Liquidity and financial resources *(Continued)*

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 0.91 as at 31 December 2014 (31 December 2013: 0.87). The slight increase in the gearing ratio as at 31 December 2014 was mainly due to the increase in bank and other borrowings as detailed in section 3.18. 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 year, the Group's total capital expenditures were HK\$4,005.5 million (31 December 2013: HK\$4,087.9 million), of which HK\$640.0 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$2,019.0 million was spent on construction and acquisition of water plants and HK\$1,346.5 million represented the consideration for acquisition of equity interests in subsidiaries, joint ventures and an available for sale investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group employed 5,467 employees. Total staff cost for the year ended 31 December 2014 was HK\$1,045,944,000 (2013: HK\$607,798,000). 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. 18,586,000 share options were exercised and 3,050,000 share options were lapsed during the year ended 31 December 2014. No share option was cancelled during the year ended 31 December 2014. As at 31 December 2014, the Company had 378,364,000 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 4.37% of the Company's ordinary shares in issue as at 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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.

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.

- (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 part 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 year ended 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

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 31 December 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) mortgages over a land use right and certain buildings of the Group;
- (iii) guarantees given by the Company and/or its subsidiaries;
- (iv) pledges over certain of the Group's equity interests in subsidiaries; and/or
- (v) pledges over certain of the Group's bank balances.

Save as disclosed above, at 31 December 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Composition and Role

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Composition and Role *(Continued)*

According to the records maintained by the Company, the current Directors received the following training in respect of the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules on continuous professional development during the year ended 31 December 2014.

Directors	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attended Seminars/ Briefing	Read Materials	Attended Seminars/ Briefing
Executive Directors				
Mr. Zhang Honghai <i>(resigned on 29 October 2014)</i>	✓			
Mr. Li Yongcheng <i>(Chairman)</i> <i>(appointed on 29 October 2014)</i>	✓	✓		
Mr. E Meng <i>(Vice Chairman)</i>	✓	✓		
Mr. Jiang Xinhao	✓	✓		
Mr. Hu Xiaoyong <i>(Chief Executive Officer)</i>	✓	✓		
Mr. Zhou Min	✓	✓		
Mr. Li Haifeng	✓	✓		
Mr. Zhang Tiefu	✓	✓		
Ms. Qi Xiaohong	✓	✓		
Mr. Ke Jian	✓	✓		
Mr. Tung Woon Cheung Eric	✓	✓	✓	✓
Mr. Li Li <i>(appointed on 26 February 2014)</i>	✓	✓		
INEDs				
Mr. Shea Chun Lok Quadrant	✓	✓	✓	✓
Mr. Zhang Gaobo	✓	✓	✓	✓
Mr. Guo Rui	✓	✓		
Ms. Hang Shijun	✓	✓		
Mr. Wang Kaijun	✓	✓	✓	✓
Mr. Yu Ning	✓	✓	✓	✓

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held four Board meetings and a general meeting during the financial year ended 31 December 2014. Directors present in those Board meetings were either in person or through electronic means of communication. Attendance records of the Board meetings and general meeting for the year ended 31 December 2014 are set out below:

Name of Director	Number of Board meetings attended/held	Number of general meetings attended/held
Executive Directors:		
Mr. Zhang Honghai <i>(resigned on 29 October 2014)</i>	3/4	1/1
Mr. Li Yongcheng <i>(Chairman) (appointed on 29 October 2014)</i>	1/4	N/A
Mr. E Meng <i>(Vice Chairman)</i>	3/4	0/1
Mr. Jiang Xinhao	4/4	0/1
Mr. Hu Xiaoyong <i>(Chief Executive Director)</i>	3/4	0/1
Mr. Zhou Min	4/4	1/1
Mr. Li Haifeng	3/4	0/1
Mr. Zhang Tiefu	4/4	0/1
Ms. Qi Xiaohong	4/4	0/1
Mr. Ke Jian	3/4	0/1
Mr. Tung Woon Cheung Eric	4/4	1/1
Mr. Li Li <i>(appointed on 26 February 2014)</i>	3/4	0/1
Independent Non-executive Directors:		
Mr. Shea Chun Lok Quadrant	3/4	1/1
Mr. Zhang Gaobo	2/4	1/1
Mr. Guo Rui	3/4	0/1
Ms. Hang Shijun	3/4	0/1
Mr. Wang Kaijun	3/4	0/1
Mr. Yu Ning	3/4	0/1

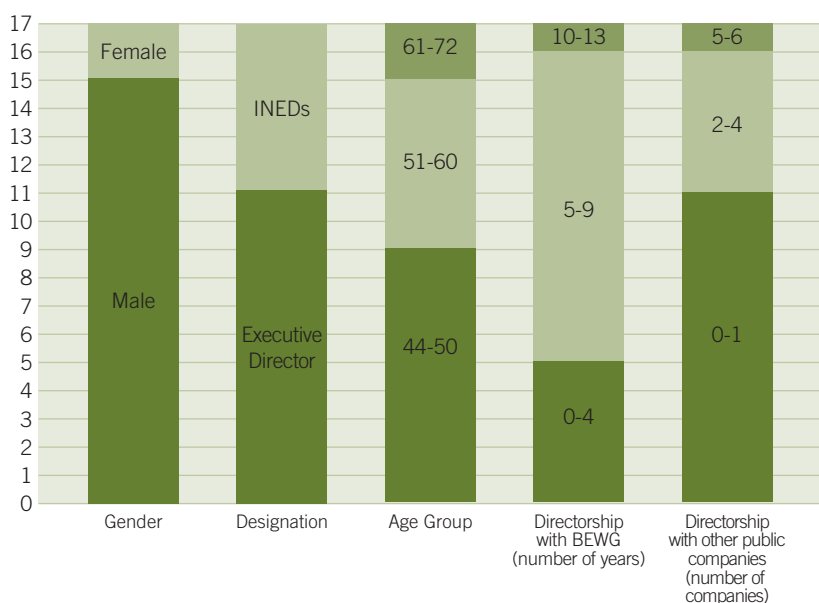
CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy formulated by the Company in accordance with the requirements of the Listing Rules with effect from 1 September 2013. It aims to set out the approach to achieve diversity on the Board. The Board endeavours to ensure that it has a balance of skills, experience and diversity of perspectives to the requirements of the Group's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

There are currently seventeen Directors with extensive experience and/or professional backgrounds to formulate and give direction of the Group's corporate strategy and business development. The composition, experience and balance of skills on the Board are regularly reviewed by a core of members with longstanding and deep knowledge of the Group alongside new Directors who bring fresh perspectives and diverse experiences to the Board. The process for the nomination of Directors is led by the Nomination Committee.

The name of the current Directors and their biographies (including their roles, function, terms of office, skills and experience) are set out in this annual report headed "Directors and Senior Management".



DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

The Company has arranged appropriate directors' and officers' liability insurance for its directors and officers covering the costs, losses, expenses and liabilities arising from the performance of their duties. The insurance policy covers legal action against its directors and officers to comply with the requirement of the CG Code. During the year, no claim was made against the directors and officers of the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the financial year ended 31 December 2014, the positions of the chairman and the chief executive officer of the Company were held separately. The chairman of the Company was Mr. Zhang Honghai which has been changed to Mr. Li Yongcheng and the change of chairman was effective from 29 October 2014. The chief executive officer of the Company is Mr. Hu Xiaoyong. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business. Their roles are clearly defined to ensure their respective independence. There is no relationship between the chairman and chief executive officer of the Board in respect of financial, business, family or other material/relevant relationship.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD COMMITTEES

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee

The Audit Committee is composed of three INEDs namely, Mr. Shea Chun Lok Quadrant (chairman of the Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time.

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

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

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

Summary of work done during the year: Reviewed the financial statements for the period from 1 January 2014 to 30 June 2014 and for the year ended 31 December 2014, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company, the internal control system and risk management and the Company's compliance with the CG Code and disclosure in the corporate governance report.

The Audit Committee held two meetings during the financial year ended 31 December 2014 with an attendance rate of 100%.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee

During the year, the Nomination Committee comprises one executive director namely, Mr. Zhang Honghai as the chairman and a member of the Nomination Committee up to 29 October 2014, Mr. Li Yongcheng as the chairman and a member of the Nomination Committee from 29 October 2014 since his appointment as the chairman of the Board, and two INEDs namely, Mr. Zhang Gaobo and Mr. Guo Rui.

All new appointments and re-appointments to the Board are subject to the approval of the Board. The Nomination Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time. The Nomination Committee is mainly responsible for formulating policy and making recommendations to the Board on nominations, appointment and re-appointment of Directors and board succession.

Summary of work done during the year: based on the policy of the Company on board diversity to review the size, structure and composition of the Board to complement the Group's corporate strategy, nominated candidates to fill the casual vacancy arising from the resigning chairman who also acted as executive director of the Company.

The Nomination Committee held one meeting during the financial year ended 31 December 2014. Details of attendance of each Nomination Committee member are as follows:

Name of Nomination Committee Member	Number of Nomination Committee meetings held during the year	Number of Nomination Committee meetings attended	Attendance Rate
Mr. Li Yongcheng (<i>appointed on 29 October 2014</i>)	1	0	0
Mr. Zhang Honghai (<i>former chairman</i>) (<i>ceased membership on 29 October 2014</i>)	1	0	0
Mr. Zhang Gaobo	1	1	100%
Mr. Guo Rui	1	1	100%

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee

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

The Remuneration Committee members performed their duties within written terms of reference formulated by the Company in accordance with the requirements of the Listing Rules from time to time. The Remuneration Committee adopted the operation model where it performs an advisory role to the Board and to make recommendations to the Board on the remuneration packages of Directors and senior management with the Board retaining the final authority to approve Directors' and senior management's remuneration. It is the Company's policy to offer remuneration packages which are competitive and sufficient to retain such individuals and no director is involved in decision of his own remuneration.

Summary of work done during the year: reviewed and recommended the grant of share options to an independent non-executive director of the Company; reviewed the remuneration policy and recommended the remuneration of the chairman and executive director of the Company; and approve the appointment of member of subcommittee arising from the casual vacancy arising from the resignation of former member of the subcommittee.

During the year, the Remuneration Committee held one meeting with an attendance rate of 100% and by way of two unanimous written resolutions during the financial year ended 31 December 2014.

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK\$9.8 million and for non-audit service assignments was approximately HK\$2.5 million, which represented agreed-upon procedures engagements such as for the Group's interim financial report, and financial accounting system advisory, tax advisory and compliance services. The Audit Committee had satisfied that the non-audit services in 2014 did not affect the independence of the external auditors.

INTERNAL CONTROLS

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

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS *(Continued)*

During the year ended 31 December 2014, the Board reviewed the operational and financial reports, budgets and business plans provided by the management. The Board has conducted a review of the effectiveness of the system of internal controls of the Company.

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

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2014, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on page 64 of the "Independent Auditors' Report" in this annual report.

SHAREHOLDERS' RIGHTS

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

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

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for directing shareholders' enquiries to the Board

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

Procedures for putting forward proposals at shareholders' meetings

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

1. A shareholder shall validly serve on the Company Secretary his/her written and signed notice of intention to propose a resolution at the AGM/SGM.
2. The foregoing documents shall be lodged at the Company's head office and principal place of business in Hong Kong at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
3. The period for lodgment of the foregoing notices required under the Bye-Laws shall commence on the day after the despatch of the notice of the AGM/SGM and end no later than 7 days prior to the date of the AGM/SGM and such period shall be at least 7 days.
4. If the foregoing notices shall be received less than 10 business days prior to the date of such AGM/SGM, the Company needs to consider the adjournment of such AGM/SGM in order to allow shareholders of the Company 14 days' notice (the notice period must include 10 business days) of the proposal.
5. The foregoing notice of intention to propose a resolution will be verified by the Company's branch share registrar in Hong Kong (the "Branch Share Registrar"). Upon confirmation from the Branch Share Registrar, the Company Secretary will present to the Board for their approval on the inclusion of the proposed resolutions in the AGM/SGM.

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Communication with shareholders

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

During the financial year ended 31 December 2014, the Company has proactively taken the following measures to ensure effective shareholders' communication and enhance our transparency:

1. maintained frequent contacts with institutional shareholders and potential investors through various channels such as meetings, telephone and emails;
2. updated regularly the Company's news and developments through the "Investor Relations" section of the Company's website; and
3. arranged on-site visits to the Group's projects for investors and research analysts.

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

Constitutional documents

There is no change on the constitutional documents of the Company since the amendments to the Bye-laws made on 22 March 2012. A consolidated version of the Memorandum of Association and Bye-Laws is available on both the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. In the opinion of the Board, the Company had complied with all code provisions set out in the CG Code during the financial year ended 31 December 2014 and up to the date of publication of this annual report.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Li Yongcheng (“Mr. Li”), aged 53, was appointed as the chairman and an executive director of the Company on 29 October 2014. Mr. Li is also the chairman of nomination committee of the Company. He is currently vice chairman and executive deputy general manager of Beijing Enterprises Group Company Limited and an executive director of Beijing Enterprises Holdings Limited (stock code:392). Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master’s degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd., and was vice president of Beijing Enterprises Holdings Limited (stock code:392). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations.

Mr. E Meng, aged 56, was appointed as an executive director of the Company in February 2008 and the vice chairman of the Company in April 2013. He serves as a vice general manager and the chief financial officer of Beijing Enterprises Group Company Limited. He is also an executive director and an executive vice president of Beijing Enterprises Holdings Limited (stock code: 392) and the chairman and an executive director of Beijing Development (Hong Kong) Limited (stock code: 154). Mr. E Meng also is an independent non-executive director of JLF Investment Company Limited (stock code: 472). Mr. E Meng graduated from China Science and Technology University with a master’s degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E Meng has extensive experience in economics, finance and enterprise management.

Mr. Jiang Xinhao (“Mr. Jiang”), aged 50, was appointed as an executive director of the Company in June 2008. Mr. Jiang also serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice president of Beijing Enterprises Holdings Limited (stock code: 392) and an executive director of Beijing Properties (Holdings) Limited (stock code: 925). Mr. Jiang graduated from Fudan University in 1987 with a bachelor’s degree in law, and then in 1992 with a master’s degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. He served as a policy analyst of the Chinese State Commission of Restructuring Economic System from 1987 to 1989. Mr. Jiang has many years of experience in economics, finance and corporate management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Hu Xiaoyong (“Mr. Hu”), aged 50, was appointed as an executive director and the chief executive officer of the Company in August 2008. He is also an executive director of Genvon Group Limited (stock code: 2389). Mr. Hu graduated with an EMBA from the Tsinghua University. He was the vice chairman of the China Environmental Service Industry Association (全國工商聯環境服務業商會).

Mr. Zhou Min (“Mr. Zhou”), aged 51, was appointed as an executive director of the Company in August 2008. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People’s Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now the chairman of BEWG Environmental Group Co., Ltd.

Mr. Li Haifeng, aged 44, was appointed as an executive director and a vice president of the Company in August 2008. He graduated with a bachelor’s degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). He is now the chairman of the Supervisory Committee of BEWG Environmental Group Co., Ltd., responsible for exploring business opportunities in water market in the PRC. He is currently the chairman and an executive director of Carry Wealth Holdings Limited (stock code: 643). During the period from April 2010 to April 2013, he was an independent non-executive director of Simsen International Corporation Limited (stock code: 993). Both Carry Wealth Holdings Limited and Simsen International Corporation Limited are listed on the Stock Exchange of Hong Kong Limited.

Mr. Zhang Tiefu, aged 52, was appointed as an executive director and a vice president of the Company in April 2009. He graduated from Jilin Industrial Institute with a bachelor’s degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) in 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and is concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management. He joined the Group in April 2009.

Ms. Qi Xiaohong (“Ms. Qi”), aged 47, was appointed as an executive director of the Company in May 2008 and a member of remuneration committee of the Company. Ms. Qi graduated from Capital Normal University with a bachelor’s degree in legal studies and subsequently obtained a master degree in economic management at Capital University of Economics and Business. She has worked for the Beijing Municipal Government for many years. She joined Beijing Enterprises Holdings Limited in 1997 and is now a vice president of Beijing Enterprises Holdings Limited (stock Code: 392), responsible for corporate administration and human resources management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Ke Jian (“Mr. Ke”), aged 46, was appointed as an executive director of the Company in June 2011 and is the vice president of Beijing Enterprises Holding Limited (Stock code: 392) and the vice chairman, chief executive officer and an executive director of Beijing Development (Hong Kong) Limited (stock code: 154). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor’s degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.

Mr. Tung Woon Cheung Eric (“Mr. Tung”), aged 44, was appointed as an executive director of the Company in August 2011. Mr. Tung is the chief financial officer and company secretary of the Company. Mr. Tung is also the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited (stock code: 392), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the company secretary of Biosino Bio-Technology and Science Incorporation* (stock code: 8247), a company listed on growth enterprise market of the Stock Exchange and an independent non-executive director of South China Financial Holdings Limited (stock code: 619) and GR Properties Limited (stock code: 108), both of which are listed on the main board of the Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor’s honours degree in administrative studies. He is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

Mr. Li Li, aged 49, was appointed as an executive director of the Company in February 2014, he is a Senior Engineer and qualified Senior Project Manager. Mr. Li Li joined the Company in October 2010 and is currently an executive vice president of the Company. Mr. Li Li graduated from Xian Jiaotong University in mechanical engineering and is currently undertaking PhD study in engineering at School of Environment, Tsinghua University. Prior to joining the Company, Mr. Li Li was a senior engineer, a technical quality director and vice president of the First Design & Research Institute. Mr. Li Li served as various key positions of 北京桑德環保集團有限公司 (Beijing Sound Environmental Group Company Limited*) from 2001 to 2010. He has extensive experience in investment, construction and operation in water industry.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant (“Mr. Shea”), aged 48, was appointed as an independent non-executive director of the Company in April 2002. He is also the chairman of audit committee of the Company. Mr. Shea graduated from Monash University of Australia with a bachelor’s degree in Business and later completed a postgraduate program of Public Finance (Taxation) and obtained a Master degree in Economics from Jinan University of China. He is also a fellow member of CPA Australia, a member of Chartered Institute of Management Accountants of United Kingdom, Institute of Singapore Chartered Accountant, Chartered Global Management Accountant and Hong Kong Institute of Certified Public Accountants. Mr. Shea is a Certified Tax Adviser of Hong Kong and China Tax Committee member of the Taxation Institute of Hong Kong and 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. Mr. Shea currently serves as chief financial officer of a main board listed company in Hong Kong. Mr. Shea has been working as a company secretary and qualified accountant in various Hong Kong main board listed companies for many years. He has substantial experience as a financial controller of listed companies.

Mr. Zhang Gaobo, aged 50, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of the Company. He obtained a bachelor’s degree in science from Henan University in 1985 and later graduated from Peking University with a master’s degree in Economics in 1988. From 1988 to 1991, he was a deputy chief of the policy division of the Hainan Provincial Government. From 1991 to 1993, he was the deputy chief of Financial Markets Administration Committee of PBOC Hainan Branch. From 1992 to 1994, he was the chairman of Hainan Stock Exchange Centre. Since 1993, he has been a founding partner and chief executive officer of Oriental Patron Financial Group and is responsible for its overall general management and business development. He is also an executive director and the chief executive officer of OP Financial Investments Limited (stock code: 1140), a company listed on the Stock Exchange of Hong Kong Limited and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange. Mr. Zhang has taken up the role to serve as the Secretary-General of the South-South Asia-Pacific Finance Centre, an NGO under the UN framework established for the promotion of South South Cooperation.

Mr. Guo Rui (“Mr. Guo”), aged 47, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Guo is the president of Paragon Investment Co. Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceuticals, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was a former senior consultant of Arthur Andersen LLC from 1999 to 2001. Mr. Guo holds a bachelor’s degree of computer science (or engineering) from Peking University and a master degree of computer engineering from Northwestern University, U.S.A.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Ms. Hang Shijun (“Ms. Hang”), aged 73, was appointed as an independent non-executive director of the Company in August 2008. She graduated from the Beijing Industrial University majored in Water Supply and Drainage in 1963 and then worked in Beijing Municipal Planning Authority (北京市規劃管理局) from 1963 to 1965. During the period from 1983 to 1985, Ms. Hang studied in department of environmental & sanitary engineering, graduate school of engineering (currently known as department of environmental engineering, graduate school of engineering) in Kyoto University in Japan. Ms. Hang has been working in the Beijing General Municipal Engineering Design & Research Institute Co., Ltd. (北京市市政工程設計研究總院有限公司) since 1966, served as various positions such as head of design department, chief engineer of design department and vice chief engineer of the institute, and is now the chief technology officer of its project center. Ms. Hang is an expert in sewage treatment, solid wastes treatment and disposal as well as recycled water (reused water) technology and project.

Mr. Wang Kaijun (“Mr. Wang”), aged 54, was appointed as an independent non-executive director of the Company in August 2008. Mr. Wang holds a Doctor degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang was previously appointed as the chief engineer of Beijing Municipal Environmental Protection Technology Research Centre (北京市環境保護科學研究院). He is now working as a professor in School of Environment, Tsinghua University (清華大學環境學院), a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Engineering Center for Technology Management and Evaluation. Mr. Wang has been engaged and experienced in the relevant research, development and industrialization of sewage pollution control technologies and the evaluation of policy-making over the years. Mr. Wang has unique and innovative opinions on the academic study and has made many achievements and demonstration cases on the hydrolysis-aerobic process theory, aerobic and anaerobic reactor theory and design, development and application of sewage sludge treatment and disposal technologies, planning and management of state environment protection administration system, etc. Mr. Wang also developed the research fields on municipal sewage hydrolysis-aerobic treatment process, high performance anaerobic reactors, sewage sludge treatment and disposal, livestock dejection treatment and rural environmental protection in mainland China.

Mr. Yu Ning (“Mr. Yu”), aged 61, was appointed as an independent non-executive director of the Company in December 2012. Mr. Yu is a qualified PRC lawyer. Mr. Yu graduated from the law department of Peking University with a bachelor degree in 1983 and obtained a master degree specialising in economic law from the law department of Peking University in 1996. Mr. Yu was a member of the Chinese People’s Political Consultative Conference. Mr. Yu was previously the president of All China Lawyers Association. Mr. Yu served as principal lawyer at Beijing Times Highland Law Firm, part-time professor at Peking University and mentor of master postgraduates at the Law School of Tsinghua University. He is an independent director of each of Bank of Beijing Co., Ltd. (Stock Code: 601169) and China CSSC Holdings Limited (Stock Code: 600150), and was an independent director of Sinolink Securities Co., Ltd. (Stock Code: 600109), all of which are listed on The Shanghai Stock Exchange. He is also an independent director of each of United Science and Technology Co., Ltd. (formerly known as United Mechanical and Electrical Co., Ltd.) (Stock Code: 000925) and BOE Technology Group Co., Ltd. * (Stock Code: 000725), both of which are listed on the Shenzhen Stock Exchange. Mr. Yu is also an independent non-executive director of Intime Retail (Group) Company Limited (formerly known as Intime Department Store (Group) Company Limited) (Stock Code: 1833), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company is an investment company and the holding company of the Group. The Group is principally engaged in construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC, Malaysia and the Republic of Singapore; provision of sewage and reclaimed water treatment services in the PRC and the Portuguese Republic; distribution and sale of piped water in the PRC and the Portuguese Republic; provision of technical and consultancy services that are related to sewage treatment and construction comprehensive renovation projects in the PRC; and the licensing of technical know-how that is related to sewage treatment in the PRC. Details of the principal activities of the principal subsidiaries are set out in note 20 to the financial statements.

RESULTS AND DISTRIBUTIONS

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 66 to 206. An interim distribution of HK3.0 cents per ordinary share was paid on 10 October 2014. The Board recommended to make final distribution of HK4.8 cents per ordinary share out of the contributed surplus of the Company to shareholders of the Company for their continuous supports to the Company. This recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The final distribution will be paid on or around 12 June 2015.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Tuesday, 19 May 2015 to Thursday, 21 May 2015 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Thursday, 21 May 2015, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Monday, 18 May 2015.

For Entitlement to Proposed Final Distribution

The register of members will be closed from Thursday, 28 May 2015 to Friday, 29 May 2015 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the Proposed Final Distribution, all properly completed transfer forms accompanied by the relevant share certificates 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, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 27 May 2015. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the Proposed Final Distribution will be paid on or around Friday, 12 June 2015.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2014, is set out on pages 207 to 208. This summary does not form part of the audited financial statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions of HK\$1,309,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group together accounted for 24% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 34% of the Group's total purchases for the year. Sales to the largest customer accounted for 8% of the Group's revenue and purchases from the largest supplier accounted for 12% of the Group's purchases.

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2014, the Company's reserves available for distribution to shareholders amounted to HK\$8,322,605,000.

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

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Zhang Honghai (*resigned on 29 October 2014*)

Mr. Li Yongcheng (*Chairman*) (*appointed on 29 October 2014*)

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 (*appointed on 26 February 2014*)

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Ms. Hang Shijun

Mr. Wang Kaijun

Mr. Yu Ning

In accordance with Bye-law 99(B), Mr. E Meng, Mr. Hu Xiaoyong, Mr. Li Haifeng, Mr. Tung Woon Cheung Eric, Mr. Wang Kaijun and Mr. Yu Ning shall retire by rotation from office as directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

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

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

REPORT OF THE DIRECTORS

BOARD CHANGES

Since the date of the Interim Report 2014 of the Company and up to the date of this annual report, there have been changes to the Board as follow:

Mr. Zhang Honghai resigned as the chairman and an executive director of the Company with effect from 29 October 2014.

Mr. Li Yongcheng was appointed as the chairman and an executive director of the Company with effect from 29 October 2014.

CHANGE IN DIRECTORS' INFORMATION

Change in information on Directors since the date of the Interim Report 2014 of the Company and up to the date of this annual report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Shea Chun Lok Quadrant is a Certified Tax Adviser of Hong Kong and China Tax Committee member of the Taxation Institute of Hong Kong and currently serves as chief financial officer of a main board listed company in Hong Kong.

Mr. Zhang Gaobo has taken up the role to serve as the Secretary-General of the South-South Asia-Pacific Finance Centre, an NGO under the UN framework established for the promotion of South South Cooperation.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and the senior management of the Company are set out on pages 42 to 46 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's directors' remuneration are set out on pages 121 to 123 of this annual report.

Further details of the Company's remuneration committee are set out in the corporate governance report on page 38 of this annual report.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS

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

As at 31 December 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 3)
Mr. Hu Xiaoyong	100,000	–	310,336,456 (Note 1)	–	310,436,456	3.565%
Mr. Zhou Min	300,000	–	307,646,110 (Note 2)	–	307,946,110	3.537%

Notes:

- 310,336,456 ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") as at 31 December 2014 are held by Stary Chance Investments Limited which is wholly and beneficially owned by Mr. Hu Xiaoyong, an executive director of the Company.
- 307,646,110 Shares as at 31 December 2014 are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, an executive director of the Company.
- The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2014 of 8,707,425,196 Shares.

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 31 December 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

The maximum number of unexercised share options currently permitted to be granted under the Scheme is 685,013,469, and representing 7.87% of issued Shares of the Company at the date of this annual report, being an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of the Company in issue at the date of passing the resolution which the Scheme was adopted. The maximum number of ordinary shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, 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 and 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 generally from 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.

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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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 ordinary shares of HK\$0.10 each in the share capital of the Company 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 2,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company under the Scheme.

Movements of the Share Options under the Scheme during the year ended 31 December 2014 are as follows:

Name/Category of Participants	Number of Share Options					As at 31 December 2014	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share 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				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name/Category of Participants	Number of Share Options					As at 31 December 2014	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$
	As at 1 January 2014	Granted	Exercised	Lapsed	Cancelled					
Li Haifeng	5,800,000	-	(1,800,000)	-	-	4,000,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	5.18 (Note 5)
	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	-	(1,800,000)	-	-	27,200,000				
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				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Name/Category of Participants	Number of Share Options					As at 31 December 2014	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$
	As at 1 January 2014	Granted	Exercised	Lapsed	Cancelled					
Shea Chun Lok Quadrant	400,000	-	(400,000)	-	-	-	24/4/2013	24/4/2014 – 23/4/2023	2.244	5.32 <i>(Note 5)</i>
	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	-	(400,000)	-	-	1,600,000				
Zhang Gaobo	400,000	-	(400,000)	-	-	-	24/4/2013	24/4/2014 – 23/4/2023	2.244	5.32 <i>(Note 5)</i>
	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	-	(400,000)	-	-	1,600,000				
Guo Rui	400,000	-	(400,000)	-	-	-	24/4/2013	24/4/2014 – 23/4/2023	2.244	5.44 <i>(Note 5)</i>
	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	-	(400,000)	-	-	1,600,000				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name/Category of Participants	Number of Share Options					As at 31 December 2014	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share 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 (Note 1)	-	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				
Sub-total	187,200,000	2,000,000	(3,000,000)	-	-	186,200,000				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Name/Category of Participants	Number of Share Options					As at 31 December 2014	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$
	As at 1 January 2014	Granted	Exercised	Lapsed	Cancelled					
Eligible Employees										
In aggregate <i>(Note 3)</i>	42,560,000	-	(15,586,000)	(3,050,000)	-	23,924,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	5.23 <i>(Note 6)</i>
	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	-
Sub-total	212,800,000	-	(15,586,000)	(3,050,000)	-	194,164,000				
Total	400,000,000	2,000,000	(18,586,000)	(3,050,000)	-	380,364,000				

Notes:

- The closing price of the shares of the Company immediately before the date of grant (i.e. 27 March 2014) during the year was HK\$4.82.
- 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".
- 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".
- Each participant was vested on 24 Apr 2014 for 20% of the share options granted and the remaining will be vested in four respective tranches on 24 April 2015, 24 April 2016, 24 April 2017 and 24 April 2018 each for 20% of the share options granted.
- These represented the closing prices of the Company's shares immediately before the dates of the share options exercised by the directors during the year.
- It represents the weighted average closing price of the Company's shares immediately before the dates of the share options exercised by the Eligible Employees during the year.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the year ended 31 December 2014.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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/lapsed 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” on pages 102 to 103 to this annual report.

The Directors have estimated the values of the Share Options using the Black-Scholes model which is a generally accepted method of valuing options. The measurement date used in the valuation calculations was the date on which the Share Options were granted. Further details of the valuation of the Share Options are disclosed in note 32 to the financial statements.

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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, none of the directors of the Company had interest in any business constituting competing business to the Group.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 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 (Note 2)
Beijing Enterprises Group Company Limited (Notes 1)	Interest of controlled corporation	3,824,367,831	43.92%
Beijing Enterprises Holdings Limited ("BEHL") (Notes 1)	Interest of controlled corporation	3,824,367,831	43.92%

REPORT OF THE DIRECTORS

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 40.11% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

2. The percentage represented the number of shares over the total issued shares of the Company as at 31 December 2014 of 8,707,425,196 shares.

Save as disclosed above, as at 31 December 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.

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

Redemption of CNY1,000,000,000 3.75% Bonds Due 2014

For the year ended 31 December 2014, the Company redeemed all the outstanding principal amount of CNY1,000,000,000 3.75% bonds due 2014 ("2014 Bonds") on the maturity date of the 2014 Bonds at the redemption price equal to 100% of the outstanding principal amount of the 2014 Bonds, which was CNY1,000 million, plus accrued interest.

Redemption of CNY450,000,000 3.75% Bonds Due 2014 (consolidated and formed a single series with the CNY1,000,000,000 3.75% bonds due 2014 issued on 30 June 2011)

For the year ended 31 December 2014, the Company redeemed all the outstanding principal amount of CNY450,000,000 3.75% bonds due 2014 ("Further 2014 Bonds") on the maturity date of the Further 2014 Bonds at the redemption price equal to 100% of the outstanding principal amount of the Further 2014 Bonds, which was CNY450 million, plus accrued interest.

Subsequently to the redemption of the respective 2014 Bonds and Further 2014 Bonds, they were cancelled and delisted from the official list of the Singapore Exchange Securities Trading Limited.

Save as the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2014.

REPORT OF THE DIRECTORS

EMOLUMENT POLICY

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

RELATED PARTY TRANSACTIONS

The Group entered into certain activities with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to the activities in the ordinary course of the Group's business and were negotiated on normal commercial terms and an arm's length basis. Certain transactions set out in note 50 to the financial statements are connected transactions as defined under the Listing Rules and were exempt and complied with the requirements of Chapter 14A of the Listing Rules. The disclosures required by Rule 14A.71 of the Listing Rules are provided in the paragraph headed "Connected Transactions" as identified below.

CONNECTED TRANSACTION

On 29 August 2014, the Company, Meishi International Investment Group Limited ("Meishi") and Mr. Wu Lizhong ("Mr. Wu") entered into the loan agreement ("Loan Agreement"), pursuant to which the Company agreed to grant to Meishi the loan in the amount of US\$158,973,408 (equivalent to approximately HK\$1,232,043,912), which shall be repayable with interests accrued on or before the first anniversary date of the Loan Agreement and is secured by the share pledges executed by Meishi and Mr. Wu together with personal guarantee provided by Mr. Wu. The interest rate is same as the benchmark 3-year interest rate for RMB loans of the People's Bank of China over the same period. The equity interest of 北控(大連)投資有限公司 (Bei Kong (Dalian) Investment Co., Ltd.*) ("Joint Venture") is held as to 60% by the Company and as to 40% by Meishi. Meishi, as a substantial shareholder of Joint Venture, and Mr. Wu, as the director and sole shareholder of Meishi, are therefore connected persons of the Company at the subsidiary level. The entering into of the Loan Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The purpose of the loan was to repay the outstanding amount with the accrued interest under the original loan agreement dated 24 June 2010, details of which can be found on the websites of the Company and the Stock Exchange.

* For identification purpose only

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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>
21 December 2012	Term loan facility with a bank	US\$100	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>
15 September 2014	Term loan facility with a bank	EUR55	September 2019	<i>Note 2</i>
17 September 2014	Term loan facility with a bank	EUR40	September 2019	<i>Note 2</i>
9 October 2014	Term loan facility with a bank	US\$120 US\$288	January 2024 October 2021	<i>Note 1</i> <i>Note 1</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.

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

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

CORPORATE GOVERNANCE

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. In the opinion of the board of directors of the Company, the Company had complied with all code provisions set out in the CG Code contained in Appendix 14 of the Listing Rules during the financial year ended 31 December 2014 and up to the date of publication of this annual report.

COMPLIANCE WITH THE MODEL CODE

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

AUDITORS

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

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2014 were approved by the board of directors on 30 March 2015.

On behalf of the Board

Li Yongcheng
CHAIRMAN

Hong Kong
30 March 2015

INDEPENDENT AUDITORS' REPORT



Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Beijing Enterprises Water Group Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 66 to 206, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2014

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
REVENUE	<i>6</i>	8,925,942	6,406,455
Cost of sales		(5,430,014)	(3,900,867)
Gross profit		3,495,928	2,505,588
Interest income	<i>6</i>	445,516	434,427
Other income and gains, net	<i>6</i>	608,156	199,727
Administrative expenses		(1,065,812)	(774,576)
Other operating expenses, net		(10,648)	(187,525)
PROFIT FROM OPERATING ACTIVITIES	<i>7</i>	3,473,140	2,177,641
Finance costs	<i>8</i>	(1,084,225)	(788,111)
Share of profits and losses of:			
Joint ventures	<i>21(e)</i>	256,230	84,515
Associates	<i>22(c)</i>	22,032	23,115
PROFIT BEFORE TAX		2,667,177	1,497,160
Income tax	<i>11</i>	(593,855)	(351,762)
PROFIT FOR THE YEAR		2,073,322	1,145,398
ATTRIBUTABLE TO:			
Shareholders of the Company	<i>12</i>	1,794,413	1,084,257
Non-controlling interests		278,909	61,141
		2,073,322	1,145,398
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	<i>14</i>		
– Basic		HK20.76 cents	HK13.98 cents
– Diluted		HK20.30 cents	HK13.98 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
PROFIT FOR THE YEAR	2,073,322	1,145,398
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Item to be reclassified to profit or loss in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	(180,298)	315,486
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive income/(loss) of a joint venture	(25,668)	11,636
– Fair value gain on revaluation of a portion of a building upon transfer to investment property, net of deferred tax of nil (2013: HK\$4,996,000)	–	14,989
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	(25,668)	26,625
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	(205,966)	342,111
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,867,356	1,487,509
ATTRIBUTABLE TO:		
Shareholders of the Company	1,588,495	1,351,534
Non-controlling interests	278,861	135,975
	1,867,356	1,487,509

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment	<i>15</i>	1,242,995	378,641
Investment property	<i>16</i>	55,821	52,152
Goodwill	<i>17</i>	2,524,701	2,512,862
Operating concessions	<i>18</i>	2,285,523	2,522,985
Other intangible assets	<i>19</i>	28,432	25,787
Investments in joint ventures	<i>21</i>	3,106,768	2,898,072
Investments in associates	<i>22</i>	2,292	126,700
Available-for-sale investments	<i>23</i>	126,363	3,039
Amounts due from contract customers	<i>26</i>	6,817,293	5,360,692
Receivables under service concession arrangements	<i>18</i>	15,639,617	11,779,143
Trade and bills receivables	<i>27</i>	798,829	53,090
Prepayments, deposits and other receivables	<i>28</i>	3,854,676	3,173,449
Deferred tax assets	<i>40</i>	79,469	87,818
Total non-current assets		36,562,779	28,974,430
Current assets:			
Land held for sale	<i>24</i>	79,747	1,091,317
Inventories	<i>25</i>	57,775	55,355
Amounts due from contract customers	<i>26</i>	40,317	26,970
Receivables under service concession arrangements	<i>18</i>	1,600,565	1,106,884
Trade and bills receivables	<i>27</i>	2,595,017	2,037,987
Prepayments, deposits and other receivables	<i>28</i>	4,309,629	5,323,645
Restricted cash and pledged deposits	<i>30</i>	304,126	57,047
Cash and cash equivalents	<i>30</i>	6,090,883	5,513,035
Total current assets		15,078,059	15,212,240
TOTAL ASSETS		51,640,838	44,186,670

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	<i>31</i>	870,743	843,598
Reserves	<i>33(a)(i)</i>	14,913,705	12,454,033
		15,784,448	13,297,631
Non-controlling interests		3,304,290	2,626,811
TOTAL EQUITY		19,088,738	15,924,442
Non-current liabilities:			
Other payables and accruals	<i>42</i>	340,404	475,919
Bank and other borrowings	<i>34</i>	12,529,842	8,294,065
Corporate bonds	<i>35</i>	4,492,307	4,486,411
Note payable	<i>36</i>	2,523,639	2,522,527
Finance lease payable	<i>37</i>	–	5,862
Provision for major overhauls	<i>38</i>	247,018	197,760
Deferred income	<i>39</i>	70,486	66,684
Deferred tax liabilities	<i>40</i>	929,578	562,172
Total non-current liabilities		21,133,274	16,611,400
Current liabilities:			
Trade and bills payables	<i>41</i>	3,563,928	2,755,396
Other payables and accruals	<i>42</i>	3,470,715	4,565,940
Income tax payables		439,527	342,038
Bank and other borrowings	<i>34</i>	3,944,656	2,147,521
Corporate bonds	<i>35</i>	–	1,832,540
Finance lease payable	<i>37</i>	–	7,393
Total current liabilities		11,418,826	11,650,828
TOTAL LIABILITIES		32,552,100	28,262,228
TOTAL EQUITY AND LIABILITIES		51,640,838	44,186,670

Li Yongcheng
Director

Hu Xiaoyong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Attributable to shareholders of the Company											Non-controlling interests	Total equity	
	Notes	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			Total
	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 year		-	-	-	-	-	-	-	-	-	1,084,257	1,084,257	61,141	1,145,398
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	240,652	-	-	240,652	74,834	315,486
Share of other comprehensive income of a joint venture		-	-	-	-	-	-	11,636	-	-	-	11,636	-	11,636
Fair value gain on revaluation of a portion of a building upon transfer to investment property		-	-	-	-	-	14,989	-	-	-	-	14,989	-	14,989
Total comprehensive income for the year		-	-	-	-	-	14,989	11,636	240,652	-	1,084,257	1,351,534	135,975	1,487,509
Equity-settled share option arrangements	32(a)	-	-	-	105,764	-	-	-	-	-	-	105,764	-	105,764
Share placements	31(b)	75,000	2,221,645	-	-	-	-	-	-	-	-	2,296,645	-	2,296,645
Acquisition of a receivable	31(a)(i)	60,660	939,803	-	-	-	-	-	-	-	-	1,000,463	-	1,000,463
Acquisition of subsidiaries	31(a)(ii), 44	17,021	413,344	-	-	-	-	-	-	-	-	430,365	587,928	1,018,293
Acquisition of a non-controlling interest		-	-	-	-	(7,391)	-	-	-	-	-	(7,391)	(266,082)	(273,473)
Disposal of subsidiaries	45	-	-	-	-	-	-	-	-	-	-	-	(123,567)	(123,567)
Deregistration of a subsidiary		-	-	-	-	-	-	-	-	-	-	-	(5,407)	(5,407)
Capital contributions from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	33,595	33,595
Share of reserves of joint ventures		-	-	-	-	(1,003)	-	-	-	-	-	(1,003)	-	(1,003)
Final 2012 cash distributions declared		-	-	(153,720)	-	-	-	-	-	-	-	(153,720)	-	(153,720)
Interim 2013 cash distributions declared	13	-	-	(192,150)	-	-	-	-	-	-	-	(192,150)	-	(192,150)
Transfer to reserves		-	-	-	-	-	-	-	-	125,873	(125,873)	-	-	-
At 31 December 2013		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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Attributable to shareholders of the Company											Non-controlling interests	Total equity	
	Notes	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			Total
	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 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 year		-	-	-	-	-	-	-	-	-	1,794,413	1,794,413	278,909	2,073,322
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(180,250)	-	-	(180,250)	(48)	(180,298)
Share of other comprehensive loss of a joint venture		-	-	-	-	-	-	(25,668)	-	-	-	(25,668)	-	(25,668)
Total comprehensive income for the year		-	-	-	-	-	-	(25,668)	(180,250)	-	1,794,413	1,588,495	278,861	1,867,356
Equity-settled share option arrangements	32(a)	-	-	-	115,706	-	-	-	-	-	-	115,706	-	115,706
Exercise of share options	31(a), 32	1,859	54,162	-	(14,448)	-	-	-	-	-	-	41,573	-	41,573
Transfer of share option reserve upon the forfeiture or lapse of share options	32	-	-	-	(1,494)	-	-	-	-	-	1,494	-	-	-
Acquisition of subsidiaries	31(c), 44	25,286	1,203,603	-	-	-	-	-	-	-	-	1,228,889	92,906	1,321,795
Acquisition of non-controlling interests		-	-	-	-	7,004	-	-	-	-	-	7,004	(15,283)	(8,279)
Disposal of subsidiaries	45	-	-	-	-	-	-	-	-	-	-	-	(2,553)	(2,553)
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	(9,650)	(9,650)
Capital contributions from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	333,198	333,198
Final 2013 cash distributions declared	13	-	-	(233,702)	-	-	-	-	-	-	-	(233,702)	-	(233,702)
Interim 2014 cash distributions declared	13	-	-	(261,148)	-	-	-	-	-	-	-	(261,148)	-	(261,148)
Transfer to reserves		-	-	-	-	-	-	-	-	114,381	(114,381)	-	-	-
At 31 December 2014		870,743	4,832,557*	4,383,625*	205,528*	(278,498)*	14,989*	(14,429)*	541,752*	490,692*	4,737,489*	15,784,448	3,304,290	19,088,738

* These reserve accounts comprise the consolidated reserves of HK\$14,913,705,000 (2013: HK\$12,454,033,000) in the consolidated statement of financial position

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	<i>Notes</i>	2014 HK\$'000	2013 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,667,177	1,497,160
Adjustments for:			
Bank interest income	6	(82,588)	(42,193)
Imputed interest income on trade and other receivables with extended credit periods	6	(173,674)	(110,840)
Interest income on loans to government authorities in Mainland China	6	(122,338)	(230,495)
Interest income from non-controlling equity holders of subsidiaries	6	(63,990)	(47,998)
Interest income on a loan to a joint venture	6	(2,926)	(2,901)
Fair value gain on investment property	6	(3,669)	(16,962)
Gains on bargain purchase of subsidiaries	6	(75,729)	(25,321)
Gains on disposal of interests in subsidiaries	6	(100,944)	(64,707)
Gains on disposal of joint ventures	6	–	(9,735)
Gain on disposal of items of property, plant and equipment, net	6	(414)	(62)
Depreciation	7	68,297	33,983
Amortisation of operating concessions	7	137,538	87,044
Amortisation of other intangible assets	7	3,124	1,226
Impairment of receivables under service concession arrangements, net	7	30,218	32,936
Impairment/(reversal of impairment) of trade and bills receivables, net	7	(13,775)	6,011
Impairment/(reversal of impairment) of other receivables, net	7	(30,925)	75,565
Impairment of an amount due from a contract customer	7	26,135	25,401
Provision for major overhauls	7	60,548	68,683
Write-back of provision for major overhauls arising from a change in accounting estimate	7	–	(172,345)
Equity-settled share option expense	32(a)	115,706	105,764
Finance costs	8	1,113,370	797,331
Share of profits and losses of joint ventures	21	(256,230)	(84,515)
Share of profits and losses of associates	22	(22,032)	(23,115)
Operating profit before working capital changes		3,272,879	1,899,915
Decrease in land held for sale		660,228	12,373
Increase in inventories		(3,521)	(4,740)
Increase in amounts due from contract customers		(1,085,567)	(2,536,564)
Increase in receivables under service concession arrangements		(959,567)	(917,551)
Decrease/(increase) in trade and bills receivables		(1,100,728)	714,355
Decrease/(increase) in prepayments, deposits and other receivables		(375,842)	73,446
Increase in trade and bills payables		368,916	690,539
Decrease in other payables and accruals		(193,342)	(690,631)
Utilisation of amounts of provision for major overhauls	38	(42,223)	–

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	<i>Notes</i>	2014 HK\$'000	2013 <i>HK\$'000</i>
Cash generated from/(used in) operations		541,233	(758,858)
Mainland China income tax paid		(245,743)	(153,880)
Malaysia corporate tax paid		(15,406)	(10,445)
Portugal corporate tax paid		(9,869)	(12,446)
Hong Kong profits tax paid		(6,250)	–
Net cash flows from/(used in) operating activities		263,965	(935,629)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	<i>15</i>	(634,312)	(41,898)
Purchases of operating concessions	<i>18</i>	(50,815)	(18,518)
Purchases of other intangible assets	<i>19</i>	(5,646)	(9,274)
Acquisition of subsidiaries	<i>44</i>	(906,692)	(2,105,663)
Disposal of subsidiaries	<i>45</i>	238,651	(92,790)
Investment deposits paid for the acquisition of subsidiaries		(260,511)	(489,496)
Proceeds from disposals of items of property, plant and equipment		2,052	6,972
Proceeds from disposals of other intangible assets		53	–
Proceeds from the disposal of a joint venture in prior year		229,696	–
Increase in investments in joint ventures		(48,950)	(63,291)
Increase in investments in associates		(3,742)	(2,532)
Acquisition of non-controlling interests		(8,279)	(53,383)
Acquisition of available-for-sale investments		(63,033)	–
Increase in a loan to a joint venture		(2,942)	(16,672)
Increase in time deposits with maturity of more than three months when acquired		(55,129)	(40,891)
Decrease/(increase) in restricted cash and pledged deposits		(247,079)	27,845
Interest received		82,588	42,193
Net cash flows used in investing activities		(1,734,090)	(2,857,398)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		333,198	33,595
Issue of a note payable		–	2,534,885
Repayment of a note payable		–	(1,513,948)
Issue of a corporate bond		–	3,856,556
Repayment of corporate bonds		(1,835,443)	–
New loans		7,548,170	1,994,374
Repayment of loans		(2,369,317)	(3,179,522)
Proceeds from exercise of share options		41,573	–
Proceeds from issue of new ordinary shares	<i>31(b)</i>	–	2,296,645
Capital element of finance lease rental payments		(13,255)	(6,764)
Interest paid		(1,105,247)	(788,556)
Interest element of finance lease rental payments		(743)	(1,077)
Distributions paid		(494,850)	(345,870)
Dividends paid to non-controlling equity holders		(9,650)	–
Decrease in bank deposits that require approval of a bank for any withdrawal in excess of a threshold	<i>30(c)</i>	101,283	544,683

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Net cash flows from financing activities		2,195,719	5,425,001
NET INCREASE IN CASH AND CASH EQUIVALENTS		725,594	1,631,974
Cash and cash equivalents at beginning of year		5,365,923	3,639,962
Effect of foreign exchange rate changes, net		(101,592)	93,987
CASH AND CASH EQUIVALENTS AT END OF YEAR		5,989,925	5,365,923
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	<i>30</i>	6,090,883	5,513,035
Less: Time deposits with maturity of more than three months when acquired		(100,958)	(45,829)
Less: Bank deposits that require approval of a bank for any withdrawal in excess of a threshold	<i>30(c)</i>	–	(101,283)
Cash and cash equivalents as stated in the consolidated statement of cash flows		5,989,925	5,365,923

STATEMENT OF FINANCIAL POSITION

31 December 2014

	<i>Notes</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment	<i>15</i>	1,035	589
Investments in subsidiaries	<i>20</i>	10,172,339	10,066,122
Investments in joint ventures	<i>21</i>	1,281,390	1,282,778
Prepayments, deposits and other receivables	<i>28</i>	1,303,833	1,570,295
Total non-current assets		12,758,597	12,919,784
Current assets:			
Trade and bills receivables	<i>27</i>	5,518	22,104
Prepayments, deposits and other receivables	<i>28</i>	12,236,286	7,588,294
Cash and cash equivalents	<i>30</i>	1,867,567	1,806,617
Total current assets		14,109,371	9,417,015
TOTAL ASSETS		26,867,968	22,336,799
EQUITY AND LIABILITIES			
Equity:			
Issued capital	<i>31</i>	870,743	843,598
Reserves	<i>33(b)</i>	8,528,133	7,993,378
TOTAL EQUITY		9,398,876	8,836,976
Non-current liabilities:			
Bank and other borrowings	<i>34</i>	6,169,574	3,631,253
Corporate bonds	<i>35</i>	631,072	629,855
Total non-current liabilities		6,800,646	4,261,108
Current liabilities:			
Trade payables	<i>41</i>	398	398
Other payables and accruals	<i>42</i>	8,681,408	7,250,701
Bank and other borrowings	<i>34</i>	1,986,640	155,076
Corporate bonds	<i>35</i>	–	1,832,540
Total current liabilities		10,668,446	9,238,715
TOTAL LIABILITIES		17,469,092	13,499,823
TOTAL EQUITY AND LIABILITIES		26,867,968	22,336,799

Li Yongcheng
Director

Hu Xiaoyong
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2014

1. CORPORATE INFORMATION

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

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

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in mainland (“Mainland China”) of the People’s Republic of China (the “PRC”), the Republic of Indonesia (“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

2. BASIS OF PRESENTATION

Despite that the Group had capital commitments of approximately HK\$9.1 billion (comprising the Group’s capital commitments and the Group’s share of joint ventures’ own capital commitments) in aggregate as at 31 December 2014 as detailed in note 49 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group’s profit forecast and cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

- (a) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group’s bankers;
- (b) Beijing Enterprises Holdings Limited (“BEHL”), a substantial beneficial owner of the Company, has the intention to maintain directly or indirectly an equity interest in the Company of not less than 40% in the foreseeable future;
- (c) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2014 with reference to the terms of respective agreements and the current status of the projects; and
- (d) the Company will consider equity financing when necessary.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.1 BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong. The financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention except for investment property which has been measured at fair value. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10,
HKFRS 12 and HKAS 27 (2011)

Amendments to HKAS 32

Amendments to HKAS 36

Amendments to HKAS 39

HK(IFRIC)-Int 21

Amendment to HKFRS 2 included in
Annual Improvements 2010-2012 Cycle

Amendment to HKFRS 3 included in
Annual Improvements 2010-2012 Cycle

Amendment to HKFRS 13 included in
Annual Improvements 2010-2012 Cycle

Amendment to HKFRS 1 included in
Annual Improvements 2011-2013 Cycle

Investment Entities

Offsetting Financial Assets and Financial Liabilities

Recoverable Amount Disclosures for Non-Financial Assets

Novation of Derivatives and Continuation of Hedge Accounting

Levies

Definition of Vesting Condition¹

*Accounting for Contingent Consideration in a Business
Combination¹*

Short-term Receivables and Payables

Meaning of Effective HKFRSs

¹ Effective from 1 July 2014

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

- (a) Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

- (b) The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group.
- (c) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.
- (d) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.
- (e) The HKFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

- (f) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.
- (g) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

3.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

Amendments to HKAS 1	<i>Disclosure Initiative</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ²
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
HKFRS 15	<i>Revenue from Contracts with Customers</i> ³
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ²
Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ²
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs ²

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

⁵ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(Continued)*

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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

- (a) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.
- (b) The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.
- (c) The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(Continued)*

- (d) HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.
- (e) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.
- (f) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 3.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments* clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries *(Continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any accumulated impairment losses.

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

The results of associates and joint ventures are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any accumulated impairment losses.

Related parties

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June (2013: 30 June). For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

Fair value measurement

The Group measures its investment property at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment and depreciation

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Investment property

Investment property is an interest in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment property *(Continued)*

Gains or losses arising from changes in the fair value of an investment property are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

When a property occupied by the Group as an owner-occupied property becomes an investment property, any difference between the carrying amount and the fair value of the property at the date of change in use is accounted for as follows:

- (a) any resulting decrease in the carrying amount of the property is recognised in profit or loss in the period the change in use takes place; or
- (b) any resulting increase in the carrying amount is credited to profit or loss, to the extent that the increase reverses a previous impairment loss for that property, or restores the carrying amount of the property to an amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the property in prior periods; and any remaining part of the increase in the carrying amount is credited directly to equity in the property revaluation reserve. On subsequent disposal of the property, the relevant portion of the property revaluation reserve realised is transferred to retained profits as a movement in reserves.

Leases

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements

Consideration given by the grantor

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

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

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

Construction or upgrade services

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

Operating services

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

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

Patents

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

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful lives of 5 to 10 years, as appropriate.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Research and development costs

All research costs are charged to profit or loss as incurred.

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

Subsequent measurement

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

(a) **Loans and receivables**

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

(b) **Available-for-sale investments**

Available-for-sale investments are non-derivative financial assets in unlisted equity investments that are designated as available for sale. After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment

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

(a) **Loans and receivables**

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(b) Available-for-sale investments

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

In the case of unlisted equity investments classified as available for sale investments measured at fair value, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Derecognition *(Continued)*

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

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

Financial liabilities (loans and borrowings)

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as loans and borrowings. All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

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

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

Derecognition

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial guarantee contracts

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

Offsetting of financial instruments

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

Land held for sale and inventories

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

Construction contracts

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

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

Contracts for services

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

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

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

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

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

Cash and cash equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

Government grants

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

- (a) from construction services, on the percentage-of-completion basis, as further explained in the accounting policy for “Construction contracts” above;
- (b) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for “Contracts for services” above;
- (c) from the sale of water and goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the water and goods sold;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) dividend income, when the equity holders’ right to receive payment has been established.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 32 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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.

Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Defined contribution plans

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

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

Defined benefit plan

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Percentage of completion of construction work and service contracts

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Classification between operating concessions and receivables under service concession arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, the expected future sewage and reclaimed water treatment volume of the relevant sewage and reclaimed water treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2014 were HK\$2,285,523,000 (2013: HK\$2,522,985,000) and HK\$17,240,182,000 (2013: HK\$12,886,027,000), respectively. Further details of which are set out in note 18 to the financial statements.

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

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

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

- (i) the peer firm must be in the field of the construction of infrastructure, majoring in sewage and reclaimed water treatment and seawater desalination facilities in the PRC; and
- (ii) information of the peer firm must be available and from a reliable source.

During the year, management of the Group reviewed the construction gross margin adopted by the Group and concluded that the construction gross margin used to estimate the construction service revenue should be revised to 24.6%, based on a market research performed by Beijing Northern Yashi Assets Appraisal Co., Ltd, independent professionally qualified valuers. The effect of the change in this estimate is to increase the consolidated profit after tax by approximately HK\$299,738,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Estimation of water consumption

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

The actual consumption could deviate from those estimates.

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

The Group has contractual obligations which it must fulfil as a condition of its licence and the obligations require the Group (a) to maintain the sewage and reclaimed water treatment and water distribution plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the sewage and reclaimed water treatment and water distribution plants over the service concession periods and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

During the year ended 31 December 2013, the Group's management reassessed the provision for major overhauls on the basis of management forecast of the expenditures incurred or to be incurred for major overhauls throughout the service concession periods, which is the aggregate amounts of the estimated replacement costs of the infrastructures and the estimated repair and maintenance expenditures throughout service concession periods to enable the Group to maintain the service concession infrastructures at a specified level of serviceability at the end of the service concession period. Management's forecast is prepared by internal experts with relevant technical operational experiences and with reference to historical operational data on major overhauls. Based on the results of the reassessment, a write-back of provision for major overhauls of RMB136,153,000 (equivalent to HK\$172,345,000) was credited to "Cost of sales" on the face of consolidated statement of profit or loss for the year ended 31 December 2013.

The carrying amount of the provision for major overhauls carried as a liability in the consolidated statement of financial position as at 31 December 2014 was HK\$247,018,000 (2013: HK\$197,760,000), further details of which are set out in note 38 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

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

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment, and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment, and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of property, plant and equipment, and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2014 were HK\$1,242,995,000 (2013: HK\$378,641,000) and HK\$2,313,955,000 (2013: HK\$2,548,772,000) in aggregate, respectively. Further details of which are set out in notes 15, 18 and 19 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the fair value less costs of disposal of the relevant business units to which the goodwill is allocated. Estimating the fair value less costs of disposal requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The total carrying amount of goodwill carried as assets in the consolidated statement of financial position as at 31 December 2014 was HK\$2,725,472,000 (2013: HK\$2,723,338,000) in aggregate, details of which are set out in notes 17 and 21 to the financial statements.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Impairment of receivables under service concession arrangements, amounts due from contract customers, trade and bills receivables, and other receivables

The policy for provision for impairment of receivables under service concession arrangements, amounts due from contract customers, trade and bills receivables, and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of receivables under service concession arrangements, amounts due from contract customers, trade and bills receivables, and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2014 were HK\$17,420,182,000 (2013: HK\$12,886,027,000), HK\$6,857,610,000 (2013: HK\$5,387,662,000), HK\$3,393,846,000 (2013: HK\$2,091,077,000) and HK\$8,112,863,000 (2013: HK\$8,452,123,000), respectively. Further details of which are set out in notes 18, 26, 27 and 28 to the financial statements.

Defined benefit plan

The present value of the retirement benefit obligation under the defined benefit plan of a joint venture depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligation. Key assumptions for the obligation are based in part on the current market conditions. The carrying amount of the obligation carried as a liability in the statement of financial position of the joint venture as at 31 December 2014 was HK\$355,337,000 (2013: HK\$268,889,000) and the Group's share of which, amounting to HK\$159,902,000 (2013: HK\$121,000,000), has been reflected in the Group's investments in joint ventures.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia, Indonesia and Republic of Singapore ("Singapore"). The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2014 was HK\$439,527,000 (2013: HK\$342,038,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Current tax and deferred tax *(Continued)*

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2014 were HK\$79,469,000 (2013: HK\$87,818,000) and HK\$929,578,000 (2013: HK\$562,172,000), respectively, details of which are set out in note 40 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

- (a) the sewage and reclaimed water treatment and construction services segment engages in the construction and operation of sewage and reclaimed water treatment plants, the construction of a seawater desalination plant, and the provision of construction services for comprehensive renovation projects;
- (b) the water distribution services segment engages in the distribution and sale of piped water and the provision of related services; and
- (c) the technical and consultancy services segment engages in the provision of consultancy services that are related to sewage treatment and construction services for comprehensive renovation projects, and the licensing of technical know-how that is related to sewage treatment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the year attributable to shareholders of the Company, which is a measure of adjusted profit for the year attributable to shareholders of the Company. The adjusted profit for the year attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on a loan to a joint venture, interest income from non-controlling equity holders of subsidiaries, gains on bargain purchase 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.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2014

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	7,832,555	812,641	280,746	8,925,942
Cost of sales	(4,938,051)	(407,304)	(84,659)	(5,430,014)
Gross profit	2,894,504	405,337	196,087	3,495,928
Segment results:				
The Group	3,033,483	322,118	156,897	3,512,498
Share of profits and losses of:				
Joint ventures	169,561	86,669	–	256,230
Associates	22,032	–	–	22,032
	3,225,076	408,787	156,897	3,790,760
Corporate and other unallocated income and expenses, net				(39,358)
Finance costs				(1,084,225)
Profit before tax				2,667,177
Income tax				(593,855)
Profit for the year				2,073,322
Profit/(loss) for the year attributable to shareholders of the Company:				
Operating segments	2,480,334	371,796	114,112	2,966,242
Corporate and other unallocated items				(1,171,829)
				1,794,413
Segment assets:				
Operating segments	39,398,162	5,988,679	1,165,848	46,552,689
Corporate and other unallocated items				5,088,149
				51,640,838

NOTES TO FINANCIAL STATEMENTS

31 December 2014

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2014 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Other segment information:				
Capital expenditure*				
– Operating segments	496,661	177,226	633	674,520
– Amount unallocated				16,253
				690,773
Depreciation				
– Operating segments	21,030	13,676	8,451	43,157
– Amount unallocated				25,140
				68,297
Amortisation of operating concessions	76,253	61,285	–	137,538
Amortisation of other intangible assets				
– Operating segments	520	-	897	1,417
– Amount unallocated				1,707
				3,124
Impairment/(reversal of impairment) of segment assets, net**	33,766	(3,715)	(18,398)	11,653
Provision for major overhauls	55,635	4,913	–	60,548

NOTES TO FINANCIAL STATEMENTS

31 December 2014

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2013

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	5,905,149	383,690	117,616	6,406,455
Cost of sales	(3,705,198)	(178,376)	(17,293)	(3,900,867)
Gross profit	2,199,951	205,314	100,323	2,505,588
Segment results:				
The Group	2,107,342	171,944	91,029	2,370,315
Share of profits and losses of:				
Joint ventures	10,084	74,431	–	84,515
Associates	23,115	–	–	23,115
	2,140,541	246,375	91,029	2,477,945
Corporate and other unallocated income and expenses, net				(192,674)
Finance costs				(788,111)
Profit before tax				1,497,160
Income tax				(351,762)
Profit for the year				1,145,398
Profit/(loss) for the year attributable to shareholders of the Company:				
Operating segments	1,736,805	232,164	78,936	2,047,905
Corporate and other unallocated items				(963,648)
				1,084,257
Segment assets:				
Operating segments	36,231,778	4,967,650	863,581	42,063,009
Corporate and other unallocated items				2,123,661
				44,186,670

NOTES TO FINANCIAL STATEMENTS

31 December 2014

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2013 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Other segment information:				
Capital expenditure*				
– Operating segments	19,366	24,877	46	44,289
– Amount unallocated				25,401
				69,690
Depreciation				
– Operating segments	13,024	4,715	2,004	19,743
– Amount unallocated				14,240
				33,983
Amortisation of operating concessions	83,710	3,334	–	87,044
Amortisation of other intangible assets				
– Operating segments	77	–	319	396
– Amount unallocated				830
				1,226
Impairment of segment assets, net**	136,882	2,358	673	139,913
Provision for major overhauls	68,345	338	–	68,683
Write-back of provision for major overhauls arising from a change in accounting estimate	(170,770)	(1,575)	–	(172,345)

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

** These amounts are recognised in the consolidated statement of profit or loss and included impairment/(reversal of impairment) against receivables under service concession arrangements, an amount due from a contract customer, trade and bills receivables and other receivables.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Revenue from external customers:		
Mainland China	7,676,405	5,405,040
Malaysia	709,815	668,571
Elsewhere	539,722	332,844
	8,925,942	6,406,455
Non-current assets:		
Mainland China	8,294,736	7,445,479
Portugal	874,539	1,031,204
Elsewhere	77,257	40,516
	9,246,532	8,517,199

The revenue information by geographical area is based on the locations of the customers; while the non-current assets information shown above is based on the locations of assets and excludes financial instruments and deferred tax assets.

Information about major customers

During the year ended 31 December 2013, the Group had transactions with two external customers of the sewage and reclaimed water treatment and construction services segment which contributed over 10% of the Group's total revenue for the year. During the year ended 31 December 2014, there was no single external customer which contributed over 10% of the Group's total revenue for the year. A summary of revenue from the major external customer is set out below:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Customer 1	N/A*	1,200,579
Customer 2	N/A*	666,239
	N/A	1,866,818

* The corresponding revenue of this customer is not disclosed as it did not contribute over 10% of the Group's total revenue for the current year.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Revenue		
Sewage and reclaimed water treatment services*	3,249,895	2,140,852
Construction services	4,582,660	3,764,297
Water distribution services*	812,641	383,690
Technical and consultancy services	280,746	117,616
	8,925,942	6,406,455

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interest income		
Bank interest income	82,588	42,193
Imputed interest income on trade and other receivables with extended credit periods	173,674	110,840
Interest income on loans to government authorities in Mainland China [⊖]	122,338	230,495
Interest income from non-controlling equity holders of subsidiaries [⊗]	63,990	47,998
Interest income on a loan to a joint venture [†]	2,926	2,901
	445,516	434,427
Other income		
Gross rental income [#]	3,938	7,528
Government grants [§]	56,539	13,293
Sludge treatment income	63,714	37,873
Pipeline installation income	17,532	1,587
Investment income from an available-for-sale investment	3,366	–
Others	22,819	17,095
	167,908	77,376
Gains, net		
Fair value gain on investment property <i>(note 16)</i>	3,669	16,962
Gains on bargain purchase of subsidiaries <i>(note 44)</i>	75,729	25,321
Gains on disposal of interests in subsidiaries <i>(note 45)</i>	100,944	64,707
Gains on disposal of joint ventures	–	9,735
Gain on disposal of land held for sale	164,253	5,564
Gain on disposal of items of property, plant and equipment	414	62
Foreign exchange differences, net	95,239	–
	440,248	122,351
Other income and gains, net	608,156	199,727

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

- * *Imputed interest income under service concession arrangements amounting to HK\$1,185,868,000 (2013: HK\$700,941,000) is included in the revenue derived from "Sewage and reclaimed water treatment services" and "Water distribution services" above.*

- δ *Apart from the interest income on the loans as detailed in note 28(a)(ii) of RMB96,647,000 (equivalent to HK\$122,338,000) (2013: RMB139,295,000 (equivalent to HK\$176,323,000)) in aggregate, interest income of RMB42,796,000 (equivalent to HK\$54,172,000) in aggregate was recognised during the year ended 31 December 2013 in respect of certain other loans (the "Other Loans") provided by the Group to certain government authorities in Yunnan Province and Liaoning Province, the PRC during the year ended 31 December 2012. The Other Loans and respective interest receivables were fully settled during the year ended 31 December 2013.*

- ⊗ *The interest income recognised during the year was derived from loans to non-controlling equity holders of subsidiaries, as further detailed in notes 29(i) and (ii) to the financial statements.*

- π *The interest income recognised during the year represented the interest income on a loan to Aqualyng-BEWG China Desalination Company Limited ("ABCD"), a joint venture of the Group, as further detailed in note 21(c) to the financial statements.*

- # *The Group leased a portion of its office premises and certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and reclaimed water treatment operations, to third parties under operating lease arrangements and accordingly, earned rental income therefrom for the year. Further details of the operating lease arrangements are set out in note 48(a) to the financial statements.*

- § *The government grants recognised during the year represented subsidies received from certain government authorities in respect of the fulfilment of certain specific duties by the Group under the relevant service concession agreements.*

NOTES TO FINANCIAL STATEMENTS

31 December 2014

7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2014 HK\$'000	2013 <i>HK\$'000</i>
Cost of sewage and reclaimed water treatment services rendered		1,199,906	609,249
Cost of construction services		3,661,892	3,012,239
Cost of water distribution services		346,019	175,042
Cost of technical and consultancy services rendered		84,659	17,293
Depreciation	<i>15</i>	68,297	33,983
Amortisation of operating concessions*	<i>18</i>	137,538	87,044
Amortisation of other intangible assets*	<i>19</i>	3,124	1,226
Minimum lease payments under operating leases:			
Land and buildings		17,477	10,508
Plant and machinery		1,920	905
Auditors' remuneration		9,800	9,300
Employee benefit expense (including directors' remuneration (note 9)):			
Salaries, allowances and benefits in kind		688,650	426,489
Equity-settled share option expense	<i>32(a)</i>	115,706	105,764
Pension scheme contributions		58,125	30,717
Welfare and other expenses		183,463	44,828
		1,045,944	607,798
Impairment of receivables under service concession arrangements, net	<i>18(b)</i>	30,218	32,936
Impairment of amount due from a contract customer	<i>26</i>	26,135	25,401
Impairment/(reversal of impairment) of trade and bills receivables, net	<i>27(c)</i>	(13,775)	6,011
Impairment/(reversal of impairment) of other receivables, net	<i>28(c)</i>	(30,925)	75,565
Provision for major overhauls	<i>38</i>	60,548	68,683
Write-back of provision for major overhauls arising from a change in accounting estimate	<i>38</i>	–	(172,345)
Foreign exchange differences, net		(95,239)	39,993
Rental income on investment property less direct operating expenses of HK\$395,000 (2013: HK\$600,000)		(4,130)	(4,191)

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

NOTES TO FINANCIAL STATEMENTS

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8. FINANCE COSTS

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	686,016	452,398
Interest on other loans	8,827	8,204
Interest on corporate bonds	253,596	226,820
Interest on notes payable	156,808	101,134
Interest on a finance lease	743	1,077
Total interest expense	1,105,990	789,633
Increase in discounted amounts of provision for major overhauls arising from the passage of time (<i>note 38</i>)	7,380	7,698
Total finance costs	1,113,370	797,331
Less: Interest included in cost of construction services	(29,145)	(9,220)
	1,084,225	788,111

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	1,930	3,220
Other emoluments:		
Salaries, allowances and benefits in kind	15,897	13,002
Equity-settled share option expense	56,386	56,348
Pension scheme contributions	51	45
	72,334	69,395
	74,264	72,615

NOTES TO FINANCIAL STATEMENTS

31 December 2014

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share option expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2014					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>) (<i>appointed on 29 October 2014</i>)	–	–	–	–	–
Mr. Zhang Honghai (<i>Chairman</i>) (<i>resigned on 29 October 2014</i>)	–	–	–	–	–
Mr. E Meng (<i>Vice Chairman</i>)	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong (<i>Chief Executive Officer</i>)	120	6,056	19,351	17	25,544
Mr. Zhou Min	120	3,374	16,933	17	20,444
Mr. Li Haifeng	120	2,733	8,224	17	11,094
Mr. Zhang Tiefu	120	1,773	–	–	1,893
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	2,721	–	2,841
Mr. Li Li (<i>appointed</i> <i>on 26 February 2014</i>)	100	1,961	5,211	–	7,272
	1,180	15,897	52,440	51	69,568
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	484	–	604
Mr. Zhang Gaobo	150	–	484	–	634
Mr. Guo Rui	120	–	484	–	604
Ms. Hang Shijun	120	–	605	–	725
Mr. Wang Kaijun	120	–	605	–	725
Mr. Yu Ning	120	–	1,284	–	1,404
	750	–	3,946	–	4,696
Total	1,930	15,897	56,386	51	74,264

NOTES TO FINANCIAL STATEMENTS

31 December 2014

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share option expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2013					
Executive directors:					
Mr. Zhang Honghai (<i>Chairman</i>)	130	–	–	–	130
Mr. E Meng (<i>Vice Chairman</i>)	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong (<i>Chief Executive Officer</i>)	415	4,100	18,032	15	22,562
Mr. Zhou Min	415	2,539	15,778	15	18,747
Mr. Li Haifeng	415	2,342	8,171	15	10,943
Mr. Zhang Tiefu	120	1,733	–	–	1,853
Mr. Hou Feng (<i>resigned on 3 September 2013</i>)	80	2,288	9,016	–	11,384
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	415	–	2,536	–	2,951
	2,470	13,002	53,533	45	69,050
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	563	–	683
Mr. Zhang Gaobo	150	–	563	–	713
Mr. Guo Rui	120	–	563	–	683
Ms. Hang Shijun	120	–	563	–	683
Mr. Wang Kaijun	120	–	563	–	683
Mr. Yu Ning	120	–	–	–	120
	750	–	2,815	–	3,565
Total	3,220	13,002	56,348	45	72,615

Notes:

- (a) Certain directors were granted share options in respect of their services to the Group, under the share option scheme of the Company during the years ended 31 December 2014 and 2013, details of which are set out in note 32 to the financial statements. The fair values of such options, which have been recognised in profit or loss over the vesting period, were determined at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.
- (b) Mr. Zhang Honghai and Mr. Li Yongcheng waived to receive directors' remuneration for the year ended 31 December 2014 amounting to HK\$119,000 and HK\$11,000 respectively. Save as the above, there was no arrangement under which a director waived or agreed to waive any remuneration during the year (2013: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2014 and 2013 were all directors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX

No provision for Hong Kong profits tax, Singapore corporate income tax and Indonesia corporate tax has been made for the year ended 31 December 2014 as the Group did not generate any assessable profits arising in Hong Kong, Singapore and Indonesia during the year (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 year 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.

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – PRC:		
Hong Kong	–	–
Mainland China	338,147	241,893
Current – Portugal	4,464	3,021
Current – Malaysia	15,406	10,445
Under/(Over)-provision in prior years	22,634	(13,178)
Deferred (<i>note 40</i>)	213,204	109,581
Total tax expense for the year	593,855	351,762

NOTES TO FINANCIAL STATEMENTS

31 December 2014

11. INCOME TAX *(Continued)*

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

Group – Year ended 31 December 2014

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(427,817)		3,094,994		2,667,177	
Tax expense/(credit) at the statutory tax rate	(59,657)	13.9	773,749	25.0	714,092	26.8
Lower tax rates of specific provinces or enacted by local authorities	–	–	(49,006)	(1.6)	(49,006)	(1.8)
Tax concession enjoyed	–	–	(102,318)	(3.3)	(102,318)	(3.8)
Adjustments in respect of current tax of previous periods	–	–	22,634	0.7	22,634	0.8
Profits and losses attributable to joint ventures and associates	(9,820)	2.3	(59,306)	(1.9)	(69,126)	(2.6)
Income not subject to tax	(30,040)	7.0	(21,336)	(0.7)	(51,376)	(1.9)
Expenses not deductible for tax	112,558	(26.3)	1,898	0.1	114,456	4.3
Effect of withholding tax at 5% on the distributable profit of a joint venture registered in the PRC	1,513	(0.3)	–	–	1,513	0.1
Tax losses utilised from previous periods	–	–	(4,532)	(0.1)	(4,532)	(0.2)
Tax losses not recognised as deferred tax assets	6,829	(1.6)	10,689	0.3	17,518	0.6
Tax expense at the Group's effective tax rate	21,383	(5.0)	572,472	18.5	593,855	22.3

NOTES TO FINANCIAL STATEMENTS

31 December 2014

11. INCOME TAX *(Continued)*

Group – Year ended 31 December 2013

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(489,381)		1,986,541		1,497,160	
Tax expense/(credit) at the statutory tax rate	(74,646)	15.3	496,635	25.0	421,989	28.2
Lower tax rates of specific provinces or enacted by local authorities	–	–	(77,618)	(3.9)	(77,618)	(5.2)
Tax concession enjoyed	–	–	(90,369)	(4.5)	(90,369)	(6.0)
Adjustments in respect of current tax of previous periods	–	–	(13,178)	(0.7)	(13,178)	(0.9)
Profits and losses attributable to joint ventures and associates	(7,105)	1.5	(20,582)	(1.0)	(27,687)	(1.9)
Income not subject to tax	(26,327)	5.4	(8,814)	(0.4)	(35,141)	(2.3)
Expenses not deductible for tax	117,763	(24.2)	46,649	2.3	164,412	10.9
Tax losses utilised from previous periods	–	–	(5,165)	(0.3)	(5,165)	(0.3)
Tax losses not recognised as deferred tax assets	3,781	(0.8)	10,738	0.5	14,519	1.0
Tax expense at the Group's effective tax rate	13,466	(2.8)	338,296	17.0	351,762	23.5

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

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2014 includes a loss of HK\$329,418,000 (2013: HK\$367,207,000), which has been dealt with in the financial statements of the Company (*note 33(b)*).

NOTES TO FINANCIAL STATEMENTS

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13. CASH DISTRIBUTIONS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Interim – HK3.0 cents (2013: HK2.5 cents) per ordinary share	261,148	192,150
Proposed final – HK4.8 cents (2013: HK2.7 cents) per ordinary share	417,989	233,702
	679,137	425,852

The amount of the proposed final cash distribution for the year ended 31 December 2014 is estimated based on the number of issued and fully paid ordinary shares of the Company of 8,708,099,196 as at the date of approval of these financial statements, which has taken into account the issuance of 674,000 new ordinary shares of the Company subsequent to the reporting period.

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

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2014 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 8,642,996,316 (2013: 7,755,621,562) ordinary shares in issue during the year.

The calculation of the diluted earnings per share amounts for the year ended 31 December 2014 is based on the profit for the year attributable to shareholders of the Company and the weighted average number of ordinary shares after adjustment for the effect of deemed exercise of all dilutive share options at the beginning of the year. No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2013 in respect of a dilution as the impact of the share options outstanding during that year had no diluting effect on the basic earnings per share amount presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

14. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY *(Continued)*

The calculation of the diluted earnings per share amount for the year ended 31 December 2014 is based on the following data:

	2014 <i>HK\$'000</i>
Earnings	
Profit for the year attributable to shareholders of the Company, used in the basic and diluted earnings per share calculation	1,794,413
	2014
Number of ordinary shares	
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	8,642,996,316
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	194,529,832
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	8,837,526,148

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15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK\$'000 <i>(note (a))</i>	Leasehold improvements HK\$'000	Machinery, and sewage and water pipelines HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Year ended 31 December 2014							
At 1 January 2014:							
Cost	214,991	41,915	116,764	107,430	94,867	1,612	577,579
Accumulated depreciation	(47,096)	(4,538)	(34,759)	(66,117)	(46,428)	–	(198,938)
Net carrying amount	167,895	37,377	82,005	41,313	48,439	1,612	378,641
Net carrying amount:							
At 1 January 2014	167,895	37,377	82,005	41,313	48,439	1,612	378,641
Acquisition of subsidiaries <i>(note 44)</i>	262,486	10,132	13,438	4,001	4,774	7,679	302,510
Additions	30,773	4,326	17,788	13,862	17,595	549,968	634,312
Depreciation provided during the year	(25,430)	(4,480)	(11,648)	(12,703)	(14,036)	–	(68,297)
Disposal of subsidiaries <i>(note 45)</i>	–	–	–	(632)	(68)	–	(700)
Disposals	–	–	(27)	(981)	(630)	–	(1,638)
Transfers and reclassifications	8,392	(3,998)	4,470	(3,732)	2,976	(8,108)	–
Exchange realignment	(86)	(29)	(226)	(990)	(480)	(22)	(1,833)
At 31 December 2014	444,030	43,328	105,800	40,138	58,570	551,129	1,242,995
At 31 December 2014:							
Cost	546,077	54,011	151,680	119,369	123,172	551,129	1,545,438
Accumulated depreciation	(102,047)	(10,683)	(45,880)	(79,231)	(64,602)	–	(302,443)
Net carrying amount	444,030	43,328	105,800	40,138	58,570	551,129	1,242,995

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Group *(Continued)*

	Land and buildings <i>HK\$'000</i> <i>(note (a))</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2013							
At 1 January 2013:							
Cost	266,610	44,152	208,258	48,644	62,256	17,323	647,243
Accumulated depreciation	(30,218)	(3,222)	(42,321)	(19,160)	(24,773)	–	(119,694)
Net carrying amount	236,392	40,930	165,937	29,484	37,483	17,323	527,549
Net carrying amount:							
At 1 January 2013	236,392	40,930	165,937	29,484	37,483	17,323	527,549
Acquisition of subsidiaries <i>(note 44)</i>	23,637	–	65,637	11,236	4,521	147	105,178
Additions	3,735	–	7,614	9,849	19,236	1,464	41,898
Fair value gain on revaluation upon transfer to investment property <i>(note (b))</i>	19,985	–	–	–	–	–	19,985
Transfer to investment property <i>(note and note 16)</i>	(34,321)	–	–	–	–	–	(34,321)
Depreciation provided during the year	(9,801)	(2,243)	(4,192)	(9,023)	(8,724)	–	(33,983)
Disposal of subsidiaries <i>(note 45)</i>	(78,255)	–	(152,342)	(1,023)	(2,612)	(17,761)	(251,993)
Disposals	–	(2,367)	(2,318)	(299)	(1,926)	–	(6,910)
Exchange realignment	6,523	1,057	1,669	1,089	461	439	11,238
At 31 December 2013	167,895	37,377	82,005	41,313	48,439	1,612	378,641
At 31 December 2012:							
Cost	214,991	41,915	116,764	107,430	94,867	1,612	577,579
Accumulated depreciation	(47,096)	(4,538)	(34,759)	(66,117)	(46,428)	–	(198,938)
Net carrying amount	167,895	37,377	82,005	41,313	48,439	1,612	378,641

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2014				
At 1 January 2014:				
Cost	946	217	490	1,653
Accumulated depreciation	(457)	(117)	(490)	(1,064)
Net carrying amount	489	100	–	589
Net carrying amount:				
At 1 January 2014	489	100	–	589
Additions	30	4	733	767
Depreciation provided during the year	(191)	(38)	(92)	(321)
At 31 December 2014	328	66	641	1,035
At 31 December 2014:				
Cost	976	221	1,223	2,420
Accumulated depreciation	(648)	(155)	(582)	(1,385)
Net carrying amount	328	66	641	1,035

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Company *(Continued)*

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2013				
At 1 January 2013:				
Cost	946	207	490	1,643
Accumulated depreciation	(268)	(77)	(490)	(835)
Net carrying amount	678	130	–	808
Net carrying amount:				
At 1 January 2013	678	130	–	808
Additions	–	10	–	10
Depreciation provided during the year	(189)	(40)	–	(229)
At 31 December 2013	489	100	–	589
At 31 December 2013:				
Cost	946	217	490	1,653
Accumulated depreciation	(457)	(117)	(490)	(1,064)
Net carrying amount	489	100	–	589

Notes:

- (a) At 31 December 2014, a land use right and certain buildings situated in Mainland China with a then aggregate net carrying amount of RMB103,425,000 (equivalent to HK\$130,918,000) were pledged to secure certain bank loans granted to the Group (*note 34(b)(vi)*).
- (b) A portion of a building of the Group was leased to an independent third party for rental income and hence was reclassified from property, plant and equipment to investment property during the year ended 31 December 2013. The difference of HK\$19,985,000 (before deferred tax charge of HK\$4,996,000) between the aggregate carrying amount of the property at the date of change in use of HK\$14,336,000 and its then fair value of HK\$34,321,000, which was valued by Asset Appraisal Limited, independent professionally qualified valuers, on the open market value basis, was credited directly to equity in the property revaluation reserve.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

16. INVESTMENT PROPERTY

	Group	
	2014	2013
	HK\$'000	HK\$'000
Carrying amount at 1 January	52,152	–
Transfer from property, plant and equipment (<i>note 15</i>)	–	34,321
Fair value gain on revaluation (<i>note 6</i>)	3,669	16,962
Exchange realignment	–	869
Carrying amount at 31 December	55,821	52,152

Notes:

- (a) The Group's investment property is a portion of an office building situated in Mainland China and is held under a long term lease.
- (b) The investment property is leased to a third party under an operating lease arrangement, further summary details of which are included in note 48(a) to the financial statements.
- (c) The Group's investment property was revalued on 31 December 2014 based on valuation performed by Beijing Northern Yashi Assets Appraisal Co., Ltd, independent professionally qualified valuers, at HK\$55,821,000. Each year, the Group's senior management decides to appoint which external valuers to be responsible for the external valuations of the Group's property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Each year, the Group's senior management has discussions with the valuers on the valuation assumptions and valuation results.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

16. INVESTMENT PROPERTY *(Continued)*

Notes: (Continued)

(c) *(Continued)*

Fair value hierarchy disclosure

The fair value of the Group's investment property was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation technique used and the key inputs to the valuation of investment property:

Valuation technique	Significant unobservable inputs	Range (weighted average)
Income capitalisation method	Daily estimated rental value (per s.q.m.)	RMB7.95 to RMB8.48
	Rent growth	3% every three years
	Discount rate	7%

Under the income capitalisation method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of the property. The periodic cash flow is estimated as gross income less operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment property. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

17. GOODWILL

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	2,512,862	1,762,151
Acquisition of subsidiaries (<i>note 44</i>)	182,104	744,812
Disposal of subsidiaries (<i>note 45</i>)	(170,247)	(1,793)
Exchange realignment	(18)	7,692
At 31 December	2,524,701	2,512,862

Impairment testing of goodwill

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

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sewage and reclaimed water treatment and construction services segment	1,924,659	2,088,228
Water distribution services segment	136,570	65,394
Technical and consultancy services segment	463,472	359,240
	2,524,701	2,512,862

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by Greater China Appraisal Limited, independent professionally qualified valuers, on fair value less costs of disposal estimations using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections for the first 10-year period is 10.99% (2013: ranged from 13.04% to 14.38%) for the business units of the sewage and reclaimed water treatment and construction services segment, and the water distribution services segment, and 10.99% (2013: 13.04%) for the business unit of the technical and consultancy services segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 3% (2013: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2014 (2013: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in fair value less costs of disposal estimations

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

- Budgeted turnover
 - in respect of the revenue from the sewage and reclaimed water treatment and construction services segment and the water distribution services segment, the budgeted turnover is based on the projected sewage and reclaimed water treatment and water distribution volume, and the latest sewage and reclaimed water treatment and water selling prices up to the date of valuation.
 - in respect of the revenue from the technical and consultancy services segment, the budgeted turnover is based on the expected growth rate of the market.
- Budgeted gross margins
 - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the six months ended 30 June for the same year, increased for expected efficiency improvements.
- Discount rates
 - The discount rates used are after tax and reflect specific risks of respective segments.
- Business environment
 - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Portugal and Malaysia.
 - Under the service concession arrangements, the Group has been granted with priority for renewal of operating rights of its sewage and reclaimed water treatment and water distribution plants. Given its historical performance record and its long-established relationship with the grantors, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of sewage and reclaimed water treatment and water distribution plants shall be renewed upon expiry, and therefore the sizes of the operations of the sewage and reclaimed water treatment and water distribution operations are expected to remain constant perpetually which enables the Group to generate income perpetually.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS

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

At 31 December 2014, the Group had 244, 8, 49 and 1 service concession arrangements on sewage treatment, reclaimed water treatment, water distribution and seawater desalination, respectively, with various governmental authorities in Mainland China and Portugal and a summary of the major terms of principal service concession arrangements are set out as follows:

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries:							
1.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT on sewage treatment	100,000	30 years from 2002 to 2032
2.	長沙中科成污水淨化有限公司	長沙市金霞污水處理廠	Changsha, Hunan Province, the PRC	長沙市公用事業管理局	TOT on sewage treatment	180,000	20 years from 2004 to 2024
3.	廣州中業污水處理有限公司	廣州市花都区新華污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州市花都区市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033
4.	深圳北控創新投資有限公司	深圳市龍崗區橫嶺污水處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
5.	深圳北控豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028
6.	成都青白江中科成污水淨化有限公司	成都市青白江區污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府	TOT on sewage treatment	100,000	25 years from 2009 to 2034
7.	齊齊哈爾市北控污水淨化有限公司	齊齊哈爾市富拉爾基區污水處理廠	Qi Qi Har, Heilongjiang Province, the PRC	齊齊哈爾市環境保護局	BOT on sewage treatment	100,000	28 years from 2012 to 2040
8.	錦州市北控水務有限公司	錦州市一期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	TOT on sewage treatment	100,000	30 years from 2009 to 2039
9.	錦州市北控水務有限公司	錦州市二期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on sewage treatment	100,000	30 years from 2011 to 2040
10.	錦州市小凌河北控水務有限公司	錦州市三期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市人民政府	TOT on sewage treatment	100,000	30 years (Not yet started)
11.	錦州市北控水務有限公司	錦州市再生水項目	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on reclaimed water treatment	180,000	30 years from 2010 to 2040
12.	玉溪北控城投水質淨化有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2010 to 2041
13.	廣西貴港北控水務有限公司	貴港市城西污水處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
14.	廣西貴港北控水務有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038
15.	Zunyi BEWG Co., Ltd.	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水有限責任公司	BOT on water distribution	100,000	25 years from 2010 to 2035

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
16.	衡陽市海朗水務有限公司	衡陽市珠暉自來水制水廠	Hengyang, Hunan Province, the PRC	衡陽市建設局	BOT on water distribution	200,000	30 years (Not yet started)
17.	廣安北控廣和水務有限公司	廣安新橋園區供水廠(一期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years (Not yet started)
18.	廣安北控廣和水務有限公司	廣安新橋園區供水廠(二期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years (Not yet started)
19.	昆明空港北控城投水質淨化有限公司	昆明空港經濟區污水處理廠(二期)	Kunming, Yunnan Province, the PRC	昆明市人民政府	BOT on sewage treatment	130,000	20 years (Not yet started)
20.	成都北控蜀都投資有限公司	成都合作污水處理廠	Chengdu, Sichuan Province, the PRC	成都市郫縣水務局	TOT on sewage treatment	100,000	25 years from 2012 to 2037
21.	北京稻香水質淨化有限公司	海澱區稻香湖再生水廠項目	Beijing Haidian, the PRC	北京市海澱區水務局	BOT on reclaimed water treatment	160,000	30 years (Not yet started)
22.	東莞市石排偉通水務有限公司	東莞市南畚朗污水處理廠	Dongguan, Guangdong Province, the PRC	東莞華態園管理委員會	BOT on sewage treatment	200,000	25 years from 2009 to 2034
23.	東莞市德高水務有限公司	東莞市橫瀝東坑合建污水處理廠	Dongguan, Guangdong Province, the PRC	高埗鎮人民政府	BOT on sewage treatment	120,000	25 years from 2008 to 2033
24.	北控水務集團(海南)有限公司	白沙門污水處理廠	Haikou, Hainan Province, the PRC	海口市水務局	BOT on sewage treatment	200,000	25 years from 2010 to 2035
25.	德清達闊制水有限公司	德清縣乾元淨水廠項目	Deqing, Zhejiang Province, the PRC	德清縣建設局	BOT on water distribution	100,000	30 years from 2007 to 2032
26.	北控(鞍山)水務有限公司	鞍山市永寧污水處理廠項目	Anshan, Liaoning Province, the PRC	鞍山市環境保護局	BOT on sewage treatment	100,000	30 years (Not yet started)
Joint ventures:							
27.	Aqualyng Caofeidian Seawater Desalination Co. Ltd. ("ACSD")	曹妃甸海水淡化廠	Caofeidian, Hebei Province, the PRC	曹妃甸工業區管委會	BOT on seawater desalination	50,000	30 years (Not yet started)
28.	Guiyang BEWG Co. Ltd. ("Guiyang BEWG")	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the Facilities and related land, which are generally registered under the names of the relevant companies in the Group, during the Service Concession Periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. At 31 December 2014, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

At 31 December 2014, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with a then aggregate net carrying amount of HK\$9,388,473,000 (2013: HK\$7,182,730,000) were pledged to secure certain bank loans granted to the Group (*note 34(b)(i)*).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

		Group	
	<i>Notes</i>	2014	2013
		HK\$'000	HK\$'000
At 1 January:			
Cost		2,853,747	1,211,134
Accumulated amortisation		(330,762)	(237,777)
Net carrying amount		2,522,985	973,357
Net carrying amount:			
At 1 January		2,522,985	973,357
Acquisition of subsidiaries	44	356,080	1,602,048
Additions		50,815	18,518
Amortisation provided during the year		(137,538)	(87,044)
Disposal of subsidiaries	45	(387,295)	(11,664)
Exchange realignment		(119,524)	27,770
At 31 December		2,285,523	2,522,985
At 31 December:			
Cost		2,730,011	2,853,747
Accumulated amortisation		(444,488)	(330,762)
Net carrying amount		2,285,523	2,522,985

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	Group	
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Receivables under service concession arrangements	17,274,280	12,911,369
Impairment <i>(note (b))</i>	(34,098)	(25,342)
	17,240,182	12,886,027
Portion classified as current assets	(1,600,565)	(1,106,884)
Non-current portion	15,639,617	11,779,143

Notes:

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

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

	Group	
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Billed:		
Within 3 months	615,957	517,938
4 to 6 months	211,904	143,144
7 to 12 months	169,100	115,892
Over 1 year	122,591	89,404
	1,119,552	866,378
Unbilled:		
Current portion	481,013	240,506
Non-current portion	15,639,617	11,779,143
	16,120,630	12,019,649
Total	17,240,182	12,886,027

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

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

	Group	
	2014	2013
	HK\$'000	HK\$'000
At 1 January	25,342	10,975
Acquisition of subsidiaries <i>(note 44(b))</i>	20,036	15
Impairment during the year recognised in profit or loss, net <i>(note 7)</i>	30,218	32,936
Amount written off as uncollectible	–	(18,854)
Disposal of subsidiaries	(41,498)	(8)
Exchange realignment	–	278
At 31 December	34,098	25,342

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2014 was a provision for individually impaired receivables of HK\$10,521,000 (2013: HK\$18,434,000) with an aggregate carrying amount before provision of HK\$92,407,000 (2013: HK\$65,606,000). The individually impaired receivables relate to customers that were in delinquency in principal payments.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2014 and 2013 also included the provision made against the remaining balances of the receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

18. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

(b) (Continued)

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

	Group 2014 HK\$'000	2013 HK\$'000
Neither past due nor impaired	263,403	193,549
Less than 1 month past due	243,441	221,544
1 to 3 months past due	275,839	200,172
4 to 6 months past due	115,843	125,104
7 months to 1 year past due	128,952	59,480
Over 1 year past due	92,074	66,529
	1,119,552	866,378

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

(c) Included in the receivables under service concession arrangements of the Group as at 31 December 2014 is an amount due from BEHL of RMB954,145,000 (equivalent to HK\$1,207,778,000) (2013: RMB872,735,000 (equivalent to HK\$1,104,728,000)). 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 RMB81,410,000 (equivalent to HK\$103,050,000) (2013: RMB82,369,000 (equivalent to HK\$104,264,000)), which was measured at amortised cost using the effective interest rate method, was recognised in "Revenue" on the face of the consolidated statement of profit or loss during the year. Further details of the transaction are set out in the Company's circular and announcement dated 30 November 2012 and 5 February 2013, respectively.

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31 December 2014

19. OTHER INTANGIBLE ASSETS

Group

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2014			
At 1 January 2014:			
Cost	788	30,372	31,160
Accumulated amortisation	(623)	(4,750)	(5,373)
Net carrying amount	165	25,622	25,787
Net carrying amount:			
At 1 January 2014	165	25,622	25,787
Acquisition of subsidiaries (<i>note 44</i>)	–	176	176
Additions	–	5,646	5,646
Amortisation provided during the year	(57)	(3,067)	(3,124)
Disposal	–	(53)	(53)
Exchange realignment	–	–	–
At 31 December 2014	108	28,324	28,432
At 31 December 2014:			
Cost	788	36,041	36,829
Accumulated amortisation	(680)	(7,717)	(8,397)
Net carrying amount	108	28,324	28,432

NOTES TO FINANCIAL STATEMENTS

31 December 2014

19. OTHER INTANGIBLE ASSETS *(Continued)*

Group *(Continued)*

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2013			
At 1 January 2013:			
Cost	603	20,777	21,380
Accumulated amortisation	(603)	(3,482)	(4,085)
Net carrying amount	–	17,295	17,295
Net carrying amount:			
At 1 January 2013	–	17,295	17,295
Acquisition of subsidiaries <i>(note 44)</i>	–	279	279
Additions	170	9,104	9,274
Amortisation provided during the year	(5)	(1,221)	(1,226)
Disposal of subsidiaries <i>(note 45)</i>	–	(273)	(273)
Exchange realignment	–	438	438
At 31 December 2013	165	25,622	25,787
At 31 December 2013:			
Cost	788	30,372	31,160
Accumulated amortisation	(623)	(4,750)	(5,373)
Net carrying amount	165	25,622	25,787

NOTES TO FINANCIAL STATEMENTS

31 December 2014

20. INTERESTS IN SUBSIDIARIES

	<i>Notes</i>	Company 2014 HK\$'000	2013 HK\$'000
Investments in subsidiaries, included in non-current assets:			
Unlisted shares or investments, at cost		5,398,282	5,257,960
Due from subsidiaries	<i>(b)</i>	4,774,057	4,808,162
		10,172,339	10,066,122
Due from subsidiaries, included in current assets	<i>(b), 28</i>	12,130,945	7,494,006
Due to subsidiaries, included in current liabilities	<i>(b), 42</i>	(8,620,739)	(7,215,979)
Total interests in subsidiaries		13,682,545	10,344,149

Notes:

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

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
深圳北控創新投資有限公司	PRC/Mainland China	RMB300,000,000	–	100	Sewage treatment
深圳北控豐泰投資有限公司	PRC/Mainland China	RMB70,000,000	–	100	Sewage treatment
綿陽中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
長沙中科成污水淨化有限公司	PRC/Mainland China	RMB50,000,000	–	100	Sewage treatment
廣州中業污水處理有限公司	PRC/Mainland China	RMB85,000,000	–	100	Sewage treatment
江油中科成污水淨化有限公司	PRC/Mainland China	RMB8,000,000	–	100	Sewage treatment
成都雙流中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島中科成污水淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
廣州中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2014

20. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(a) (Continued)

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
台州市路橋中科成污水淨化有限公司	PRC/Mainland China	RMB55,500,000	–	100	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/Mainland China	RMB27,600,000	–	100	Sewage treatment
荷澤中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
濟南中科成水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
彭州中科成污水淨化有限公司	PRC/Mainland China	RMB28,000,000	–	100	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/Mainland China	RMB76,000,000	–	100	Sewage treatment
永州市北控污水淨化有限公司 ²	PRC/Mainland China	HK\$85,630,000	100	100	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB20,000,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控城投水質淨化有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment
北控水務集團(海南)有限公司	PRC/Mainland China	RMB100,000,000	–	90	Sewage treatment
東莞市石排偉通水務有限公司	PRC/Mainland China	RMB83,350,000	–	100	Sewage treatment
百色中環水業有限公司 ²	PRC/Mainland China	HK\$20,000,000	–	80	Sewage treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment
錦州市北控水務有限公司	PRC/Mainland China	RMB127,178,541	80	80	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB55,302,635	–	80	Sewage treatment and water distribution
Be Water, S.A.	Portugal/Portuguese Republic	€11,987,000	–	100	Sewage treatment and water distribution

NOTES TO FINANCIAL STATEMENTS

31 December 2014

20. INTERESTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(a) (Continued)

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
成都北控蜀都投資有限公司 ("Beikong Shudu")	PRC/Mainland China	RMB852,750,000	–	68.5	Construction services and sewage treatment
北京建工環境發展有限責任公司 ("BCEG Environmental")	PRC/Mainland China	RMB300,000,000	–	60	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	RM50,000,000	–	100	Construction services
Kunming Gatewin Environmental Protection Engineering Co., Ltd. ²	PRC/Mainland China	RMB680,000,000	–	70	Construction services
Kunming Gatewin Road & Bridge Co., Ltd. ²	PRC/Mainland China	RMB1,200,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司 ^{2 2}	PRC/Mainland China	RMB111,275,020	–	100	Construction services
北京北控淨都水環境治理有限公司 ^{2 2}	PRC/Mainland China	RMB150,000,000	–	100	Construction services
佛山北控水環境開發有限公司 ^{2 2}	PRC/Mainland China	RMB100,000,000	–	100	Construction services
簡陽鴻琛建設工程有限公司 ^{2 2}	PRC/Mainland China	RMB10,000,000	–	60	Construction services
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	–	83.8	Water distribution
Zunyi BEWG Co., Ltd.	PRC/Mainland China	RMB50,236,000	80	89	Water distribution
德清達閘制水有限公司 ²	PRC/Mainland China	US\$11,960,000	–	100	Water distribution
BEWGI-UE NEWATER (S) PTE LTD ²	Singapore	SGD10	–	80	Water distribution

NOTES TO FINANCIAL STATEMENTS

31 December 2014

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
泉州安平供水有限公司 [□]	PRC/Mainland China	US\$6,600,000	–	100	Water distribution
廣西貴港北控水務環保有限公司	PRC/Mainland China	RMB50,000,000	–	100	Waste-to-energy treatment
BEWG Environmental Group Co., Ltd	PRC/Mainland China	RMB417,969,071	–	100	Consultancy services and investment holding
南京市市政設計研究院有限責任公司 ("Nanjing MDRI") [♠]	PRC/Mainland China	RMB7,958,880	–	99.172	Consultancy services
北控(大連)投資有限公司 ("Beikong Dalian") [□]	PRC/Mainland China	US\$353,630,000	60	60	Investment holding
China International Construction Investment Holding (Hong Kong) Limited ("CICI")	British Virgin Islands/ Hong Kong	US\$166,667	–	70	Investment holding
北控水務(中國)投資有限公司 [□]	PRC/Mainland China	US\$100,000,000	100	100	Investment holding
雲南北控城投水務有限公司	PRC/Mainland China	RMB400,000,000	–	100	Investment holding
上海北控亞同水務投資有限公司	PRC/Mainland China	RMB100,000,000	–	100	Investment holding

[□] *These entities are registered as wholly-foreign-owned enterprises under PRC Law*

[♠] *Acquired/incorporated during the year*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

- (b) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the following:
- (i) an amount of €98,005,000 (equivalent to HK\$919,267,000) (2013: €919,650,000 (equivalent to HK\$1,019,399,000)) due from Orgo Investments S.a.r.l., a wholly-owned subsidiary of the Company, which bears interest at 4.625% per annum and is repayable in June 2018; and
 - (ii) an amount of US\$53,610,000 (equivalent to HK\$415,681,000) (2013: US\$53,610,000 (equivalent to HK\$415,681,000)) due to BEWG (M) Sdn Bhd, a wholly-owned subsidiary of the Company, which bears interest at the rate of 3.6% plus the 3-month LIBOR rate per annum and is repayable on demand.

In the opinion of the directors, the amounts advanced to subsidiaries included in the investments in subsidiaries above are considered as the Group's investments in the subsidiaries.

- (c) Material non-wholly owned subsidiaries disclosures

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2014	2013
Percentage of equity interest held by non-controlling interests:		
Beikong Dalian and its subsidiaries ("Beikong Dalian Group")	40%	40%
CICI and its subsidiaries ("CICI Group")	30%	30%
Beikong Shudu	31.5%	31.5%
BCEG Environmental and its subsidiaries ("BCEG Group")	40%	40%
	2014	2013
	HK\$'000	HK\$'000
Profit/(loss) for the year allocated to non-controlling interests:		
Beikong Dalian Group	103,556	(48,548)
CICI Group	30,019	58,485
Beikong Shudu	10,782	26,414
BCEG Group	52,512	3,991
Accumulated balances of non-controlling interests at the reporting dates:		
Beikong Dalian Group	1,268,465	1,164,350
CICI Group	278,226	249,368
Beikong Shudu	418,672	407,890
BCEG Group	544,472	296,797

NOTES TO FINANCIAL STATEMENTS

31 December 2014

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

(c) Material non-wholly owned subsidiaries disclosures *(Continued)*

The following table illustrates the summarised financial information of the above groups of subsidiaries:

	Beikong Dalian Group		CICI Group		Beikong Shudu		BCEG Group	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	329,500	139,337	319,893	684,635	29,510	49,122	628,220	108,109
Interest income	39,469	58,006	124,125	166,896	31,099	83,679	1,986	–
Total expenses	(110,079)	(318,713)	(343,955)	(656,580)	(26,380)	(48,946)	(498,927)	(98,131)
Profit/(loss) for the year	258,890	(121,370)	100,063	194,951	34,229	83,855	131,279	9,978
Total comprehensive income/(loss) for the year	258,890	(47,148)	100,063	268,671	34,229	113,755	131,279	9,978
Current assets	9,427,575	10,498,061	6,360,606	6,247,298	630,895	165,293	744,334	988,486
Non-current assets	1,057,268	1,127,369	451,449	568,085	745,356	1,228,077	2,190,178	1,818,405
Current liabilities	(7,132,165)	(8,035,765)	(5,882,325)	(5,982,557)	(28,137)	(76,159)	(924,668)	(1,531,817)
Non-current liabilities	(181,515)	(678,789)	(2,311)	(1,599)	(18,996)	(22,323)	(648,665)	(533,082)
Net cash flows from/(used in):								
Operating activities	968,818	(649,703)	(412,319)	491,512	459,899	(8,110)	123,198	44,465
Investing activities	(1,516,987)	(90,128)	9,181	7,872	(18,644)	(46)	2,080	(459)
Financing activities	661,905	974	215,060	(154,657)	(46,219)	16,892	(201,405)	(81,089)
Net increase/(decrease) in cash and cash equivalents	113,736	(738,857)	(188,078)	344,727	395,036	8,736	(76,127)	(37,083)

* No dividend was declared by the above four material non-wholly-owned subsidiaries during the years ended 31 December 2014 and 2013.

** The amounts disclosed above are before any inter-company eliminations.

NOTES TO FINANCIAL STATEMENTS

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21. INTERESTS IN JOINT VENTURES

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Investments in joint ventures, included in non-current assets:					
Unlisted shares or investments, at cost		–	–	1,281,390	1,282,778
Share of net assets		2,846,412	2,630,953	–	–
Goodwill on acquisition	(b)	200,771	210,476	–	–
		3,047,183	2,841,429	1,281,390	1,282,778
Loans to a joint venture	(c)	59,585	56,643	–	–
		3,106,768	2,898,072	1,281,390	1,282,778
Due from joint ventures, included in current assets	(d), 28	654,334	106,475	91,037	62,148
Due to joint ventures, included in current liabilities	(d), 42	(125,485)	(226,087)	–	–
Total interests in joint ventures		3,635,617	2,778,460	1,372,427	1,344,926

NOTES TO FINANCIAL STATEMENTS

31 December 2014

21. INTERESTS IN JOINT VENTURES *(Continued)*

Notes:

(a) Particulars of the Group's principal joint ventures are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
Guiyang BEWG [#]	PRC/Mainland China	RMB1,456,162,145	45	45	45	Water distribution
洛陽北控水務集團有限公司 ("Luoyang BEWG")	PRC/Mainland China	RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services
Beijing Anling Water Technology Company Limited ("Anling Water")	PRC/Mainland China	US\$79,500,000	33.8	33.8	33.8	Water distribution
北控曹妃甸水務投資 有限公司 [#]	PRC/Mainland China	RMB500,000,000	70	70 [@]	70	Investment holding
四川三岔湖北控海天投資 有限公司	PRC/Mainland China	RMB160,000,000	50	50	50	Sewage treatment and water distribution
ABCD	Hong Kong	HK\$1,000,000	51	51 [@]	51	Investment holding
Henan Kaikong Water Business Co., Ltd. ("Henan Kaikong")	PRC/Mainland China	RMB100,000,000	60	60 [@]	60	Reclaimed water treatment and water distribution
Yibin Beijing Enterprises Water Limited	PRC/Mainland China	RMB75,563,400	65	65 [@]	65	Sewage treatment
北京北控海創科技有限公司	PRC/Mainland China	RMB70,000,000	71.4	71.4 [@]	71.4	Seawater desalination
濟源北控水務有限公司 [◇]	PRC/Mainland China	RMB39,730,000	49	49	49	Water distribution

[#] *Directly held by the Company*

[◇] *Incorporated during the year*

[@] *In the opinion of the directors, notwithstanding that the Group has over 50% voting power in these joint ventures, the Group only has joint control over these joint ventures, having considered that the Group has contractually agreed the sharing of control over certain key financial and operating activities of these joint ventures with the other joint venture partners.*

NOTES TO FINANCIAL STATEMENTS

31 December 2014

21. INTERESTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

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

(b) The movement of the amount of the goodwill included in the investments in joint ventures during the year is as follows:

	Group 2014 HK\$'000	2013 HK\$'000
Cost and net carrying amount:		
At 1 January	210,476	209,730
Disposal of a joint venture	(9,705)	–
Exchange realignment	–	746
At 31 December	200,771	210,476

During the year, 25.5% of the Group's effective equity interest in a joint venture (which was 50% owned by ABCD and is conducting the construction and operation of a seawater desalination plant in Tangshan City, Hebei Province, the PRC) was disposed of by the Group to a then joint venture partner for a consideration of RMB92,902,000 (equivalent to HK\$117,597,000). As a result of the disposal, the goodwill of HK\$9,705,000 in relation to the Group's acquisition of the 25% effective equity interest in the joint venture in 2010 was derecognised. The gain on disposal of the 25% effective equity interest in the joint venture amounted to HK\$31,858,000 and was recognised in profit or loss of ABCD, of which 51% of the gain amounting to HK\$16,248,000 was shared by the Group and recognised in "Share of profits and losses of joint ventures" on the face of the consolidated statement of profit or loss.

(c) The loans to a joint venture as at 31 December 2014 are loans with principal amounts of RMB34,780,000 (equivalent to HK\$42,938,000, the "RMB Loan") and US\$100,000 (equivalent to HK\$776,000, the "US\$ Loan") advanced to ABCD to finance its investment in a 50% equity interest in ACSD, a joint venture of ABCD established in the PRC for the construction and operation of a seawater desalination plant in Tangshan City, Hebei Province, the PRC. The RMB Loan bears interest at the PRC 5-year or above bank loan rate and is repayable in 2030 while the US\$ Loan is unsecured, interest-free and repayable on demand. In the opinion of the directors, the loans are considered as investments in ABCD. Interest income of RMB2,312,000 (equivalent to HK\$2,926,000) (2013: RMB2,292,000 (equivalent to HK\$2,901,000)) was recognised in profit or loss during the year ended 31 December 2014 in respect of the RMB Loan.

(d) The amounts due from/to joint ventures included in current assets and current liabilities of the Group and the Company as at 31 December 2014 are unsecured, interest-free and have no fixed terms of repayment. The Group's trade and bills payable balance with a joint venture is disclosed in note 41 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

21. INTERESTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(e) Material joint ventures disclosures

In the opinion of the directors, the material joint ventures of the Group accounted for using the equity method include the following three entities:

- (i) Anling Water, which is engaged in the water distribution operation on a BOT basis in Mainland China;
- (ii) Luoyang BEWG, which is engaged in water distribution, reclaimed water treatment and heating operations in Mainland China; and
- (iii) Guiyang BEWG, which is engaged in water distribution operations in Mainland China.

The following tables illustrate the summarised financial information of the above three material joint ventures, adjusted for any differences in accounting policies and reconciled to their carrying amounts in the financial statements:

	Anling Water		Luoyang BEWG		Guiyang BEWG	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and cash equivalents	48,177	67,061	880,653	709,733	170,846	162,625
Other current assets	151,651	97,342	710,446	736,939	515,026	606,387
Current assets	199,828	164,403	1,591,099	1,446,672	685,872	769,012
Operating concessions	–	–	874,513	827,295	1,938,641	2,012,341
Other non-current assets	1,249,190	583,920	104,102	26,553	1,193,669	870,775
Non-current assets	1,249,190	583,920	978,615	853,848	3,132,310	2,883,116
Financial liabilities, excluding trade and other payables	–	–	–	–	(707,121)	(762,866)
Other current liabilities	(79,436)	(17,661)	(470,736)	(439,581)	(1,085,550)	(890,737)
Current liabilities	(79,436)	(17,661)	(470,736)	(439,581)	(1,792,671)	(1,653,603)
Non-current financial liabilities, excluding trade and other payables and provisions	(516,151)	(107,917)	(13,438)	(16,423)	–	–
Other non-current liabilities	(83,687)	–	(441,459)	(327,436)	(409,896)	(317,677)
Non-current liabilities	(599,838)	(107,917)	(454,897)	(343,859)	(409,896)	(317,677)
Net assets	769,744	622,745	1,644,081	1,517,080	1,615,615	1,680,848
Reconciliation to the Group's interests in the joint ventures:						
Proportion of the Group's ownership	67%*	67%*	40%	40%	45%	45%
Group's share of net assets of the joint venture, excluding goodwill	515,729	417,239	657,633	606,832	727,026	756,382
Goodwill on acquisition	–	–	29,126	29,126	150,586	150,586
Carrying amount of the investment	515,729	417,239	686,759	635,958	877,612	906,968

* Anling Water was held as to 67% by a 50.5% owned subsidiary of the Group and accordingly the Group held a 33.8% effective equity interest in Anling Water.

NOTES TO FINANCIAL STATEMENTS

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21. INTERESTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(e) Material joint ventures disclosures *(Continued)*

	Anling Water		Luoyang BEWG		Guiyang BEWG	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Revenue	914,142	–	1,007,364	944,266	744,601	554,675
Interest income	–	–	–	–	–	–
Depreciation and amortisation	(539)	(223)	(33,201)	(32,598)	(157,265)	(154,473)
Interest expenses	–	–	(18,978)	(9,508)	(36,191)	(38,430)
Income tax	(83,688)	–	(42,182)	(31,025)	(32,733)	(23,526)
Profit/(loss) for the year	146,999	(5,759)	127,001	91,711	59,067	78,522
Other comprehensive income/(loss) for the year	–	–	–	–	(57,040)	25,858
Total comprehensive income/(loss) for the year	146,999	(5,759)	127,001	91,711	2,027	104,380
Share of the joint ventures' profit/(loss) for the year	98,490	(3,859)	50,801	36,685	26,580	35,335
Share of the joint ventures' other comprehensive income/(loss) for the year	–	–	–	–	(25,668)	11,636

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2014 HK\$'000	2013 HK\$'000
Share of the joint ventures' profits and losses and total comprehensive income for the year	80,359	16,354
Aggregate carrying amount of the Group's investments in the joint ventures	1,026,668	937,907

22. INTERESTS IN ASSOCIATES

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Investments in associates, included in non-current assets:					
Share of net assets	(c)	2,292	126,700	–	–
Due from associates, included in current assets	(b), 28	78	1,740	–	14
Due to associates, included in current liabilities	(b), 42	–	(1,488)	–	–
Total interests in associates		2,370	126,952	–	14

NOTES TO FINANCIAL STATEMENTS

31 December 2014

22. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

- (a) Particulars of the Group's associate, which was an unlisted entity indirectly held by the Company, are as follows:

Company name	Place of incorporation/ registration and operation	Issued capital/ paid-up capital	Percentage of			
			Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
北京北控水源投資 有限責任公司	PRC/Mainland China	RMB11,000,000	18 [†]	40	18	Investment holding

[†] *This entity is accounted for as an associate by virtue of the Group's significant influence over it.*

- (b) The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

- (c) Summarised financial information of associates

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2014 HK\$'000	2013 HK\$'000
Share of the associates' comprehensive income or loss		
Share of the associates' profit for the year	22,032	23,115
Share of the associates' other comprehensive income	–	2,100
Share of the associates' total comprehensive income	22,032	25,215
Share of the associates' assets and liabilities		
Non-current assets	1,186	403,987
Current assets	1,303	71,859
Non-current liabilities	(169)	(151,615)
Current liabilities	(28)	(197,531)
Aggregate carrying amount of the Group's investments in associates	2,292	126,700

On 2 July 2014, Rich Peace Holdings Ltd ("Rich Peace"), a then wholly-owned subsidiary of the Company which holds a 40% equity interest in Beijing Enterprises Water Environmental Investment Limited ("BEWEI", a then material associate of the Group with share of net assets of HK\$124,169,000 recognised in the Group's consolidated financial statements as at 31 December 2013) was disposed of by the Group to an independent third party for a consideration of HK\$151,608,000. As a result of the transaction, a gain on disposal of the subsidiary of HK\$2,193,000 was recognised in the Group's consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

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23. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investments in:		
Mainland China, at cost (<i>note</i>)	61,811	3,039
Republic of China (Taiwan), at fair value	64,552	–
Total available-for-sale investments	126,363	3,039

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

24. LAND HELD FOR SALE

		Group	
		2014	2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Land use rights located in:			
Sichuan Province, the PRC	<i>(a)</i>	79,747	79,747
Liaoning Province, the PRC	<i>(b)</i>	–	1,011,570
Total land held for sale		79,747	1,091,317

Notes:

- (a) These land use rights were held under long term leases covering a total land area of approximately 11,409 square metres (2013: 11,409 square metres). The Group intends to hold these land use rights for trading and hence they are classified as land held for sale.
- (b) These land use rights, which were held under medium term leases covering a total land area of approximately 3,517,291 square metres as at 31 December 2013, were sold by the Group during the year.

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25. INVENTORIES

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	51,207	50,323
Low value consumables	6,568	5,032
	57,775	55,355

26. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred plus recognised profits less recognised losses to date	6,909,146	5,413,063
Impairment (<i>note</i>)	(51,536)	(25,401)
	6,857,610	5,387,662
Portion classified as current assets	(40,317)	(26,970)
Non-current portion	6,817,293	5,360,692

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

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	25,401	–
Impairment during the year recognised in profit or loss (<i>note 7</i>)	26,135	25,401
At 31 December	51,536	25,401

The above provision was made against an amount due from a contract customer of RMB378,817,000 (equivalent to HK\$479,516,000) (2013: RMB378,817,000 (equivalent to HK\$479,516,000)), for which the contract customer was delinquent in paying the principal payment. The Group does not hold any collateral or other credit enhancement over the balance.

NOTES TO FINANCIAL STATEMENTS

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27. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Trade and bills receivables	3,412,101	2,123,275	5,518	22,104
Impairment (<i>note (c)</i>)	(18,255)	(32,198)	–	–
	3,393,846	2,091,077	5,518	22,104
Portion classified as current assets	(2,595,017)	(2,037,987)	(5,518)	(22,104)
	798,829	53,090	–	–

Notes:

- (a) The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the 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 8.10% to 12.98% (2013: 5.85% to 8.65%), trade and bills receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

27. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(a) *(Continued)*

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

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Billed:				
Within 3 months	177,068	294,270	–	170
4 to 6 months	17,199	30,533	–	–
7 to 12 months	76,068	114,248	–	–
Over 1 year	1,780,032	1,545,995	5,518	21,934
Balance with extended credit period	51,673	53,059	–	–
	2,102,040	2,038,105	5,518	22,104
Unbilled*	1,291,806	52,972	–	–
	3,393,846	2,091,077	5,518	22,104

* *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 service agreements entered into between the Group and the contract customers.*

(b) Included in the trade and bills receivables of the Group as at 31 December 2014 are (i) an aggregate amount of HK\$6,095,000 (2013: HK\$3,028,000) due from 北京北控環保工程技術有限公司 (“BE Environmental”), a substantial shareholder of the Company and a wholly-owned subsidiary of BEHL, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (ii) an amount of HK\$2,362,000 (2013: HK\$2,362,000) due from ACSO, arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies were unsecured, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

27. TRADE AND BILLS RECEIVABLES (Continued)

Notes: (Continued)

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

	Group	
	2014 HK\$'000	2013 HK\$'000
At 1 January	32,198	28,317
Acquisition of subsidiaries	(168)	3,893
Impairment/(reversal of impairment) during the year recognised in profit or loss, net (note 7)	(13,775)	6,011
Disposal of subsidiaries	–	(6,740)
Exchange realignment	–	717
At 31 December	18,255	32,198

The above provision for impairment of trade and bills receivables was made after an impairment assessment of the Group's trade and bills receivables collectively. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Neither past due nor impaired	146,081	245,115	–	170
Less than 1 month past due	8,444	10,005	–	–
1 to 3 months past due	89,406	97,623	–	–
4 to 6 months past due	70,051	11,647	–	–
7 months to 1 year past due	19,021	127,720	–	–
Over 1 year past due	1,769,037	1,545,995	5,518	21,934
	2,102,040	2,038,105	5,518	22,104

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

27. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

Save as the below, the Group does not hold any material collateral or other credit enhancements over trade and bills receivable balances:

- (i) a customer of the construction service for a comprehensive renovation project has pledged the future receivables from its comprehensive renovation services on certain government reserve land owned by a government authority in Mainland China in an aggregate amount of RMB2,486,000,000 (equivalent to HK\$3,146,835,000) to secure the trade and bills receivables due by it. As at 31 December 2014, the trade and bills receivables owed by this customer amounted to RMB605,953,000 (equivalent to HK\$767,029,000) (2013: RMB565,806,000 (equivalent to HK\$716,210,000)); and
- (ii) pursuant to a supplemental agreement entered into between a customer of the construction service for a comprehensive renovation project and the Group on 15 March 2013, the trade and bills receivables owed by this customer amounted to RMB984,199,000 (equivalent to HK\$1,245,822,000) were secured by the future proceeds from the disposals of certain of its land use rights in Mainland China with an aggregate amount of not less than RMB1,135,584,000 (equivalent to HK\$1,437,448,000).

NOTES TO FINANCIAL STATEMENTS

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Prepayments		51,442	44,971	–	–
Deposits and other debtors	(a)	4,217,363	4,320,878	14,304	363,803
Advances to subcontractors and suppliers	(b)	1,928,508	2,772,812	–	–
Due from subsidiaries	20(b)	–	–	12,130,945	7,494,006
Due from joint ventures	21(d)	654,334	106,475	91,037	62,148
Due from associates	22(b)	78	1,740	–	14
Due from related parties	29	1,366,385	1,333,124	1,303,833	1,238,618
		8,218,110	8,580,000	13,540,119	9,158,589
Impairment	(c)	(53,805)	(82,906)	–	–
		8,164,305	8,497,094	13,540,119	9,158,589
Portion classified as current assets		(4,309,629)	(5,323,645)	(12,236,286)	(7,588,294)
Non-current portion		3,854,676	3,173,449	1,303,833	1,570,295

Notes:

(a) The Group's deposits and other debtors as at 31 December 2014 included, inter alia, the following:

- (i) an instalment deposit of RMB422,031,000 (equivalent to HK\$534,216,000) (2013: RMB422,031,000 (equivalent to HK\$534,216,000)) paid by the Group to a government authority in Mainland China in relation to the Group's acquisition of certain land use rights in Liaoning Province, the PRC. The balance is classified as a non-current asset.
- (ii) loans and related interest receivables of RMB743,018,000 (equivalent to HK\$940,529,000) (2013: RMB1,720,238,000 (equivalent to HK\$2,177,516,000)) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. The loans provide the Group with returns ranging from 6% to 30% per annum on the loan principals.

Except for loans and corresponding interest receivables of RMB70,017,000 (equivalent to HK\$88,629,000) (2013: RMB730,673,000 (equivalent to HK\$924,903,000)) in aggregate that are repayable within a year after the reporting period and are classified as current assets, the remaining balances of RMB673,001,000 (equivalent to HK\$851,900,000) (2013: RMB989,565,000 (equivalent to HK\$1,252,613,000)) in aggregate are classified as non-current assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Notes: (Continued)

(a) *(Continued)*

(ii) *(Continued)*

Included in the amounts classified as non-current assets was an aggregate amount of RMB597,052,000 (equivalent to HK\$755,762,000) (2013: RMB989,565,000 (equivalent to HK\$1,252,613,000)), the repayment of which are dependent on (1) the sale of the corresponding land use rights of the comprehensive renovation projects by relevant government authorities; and (2) the sale of the 31.5% equity interest in Beikong Shudu held by two government authorities, which remain uncertain as at the end of the reporting period. In the opinion of the directors, the repayments of these loans and related interest receivables are not expected to be completed by 2015.

On the other hand, included in total loans and related interest receivables as at 31 December 2014 and 2013 were an aggregate balance of RMB597,052,000 (equivalent to HK\$755,762,000) and RMB1,320,238,000 (equivalent to HK\$1,671,187,000) respectively, which are secured by:

- (1) a pledge over the borrower's future receivable of the corresponding comprehensive renovation projects;
- (2) proceeds from the disposals of certain land use rights owned by relevant government authorities in Mainland China; or
- (3) proceed from the disposal of the 31.5% equity interest in Beikong Shudu held by two government authorities in Mainland China.

In respect of these loans and receivables, interest income of RMB96,647,000 (equivalent to HK\$122,338,000) (2013: RMB139,295,000 (equivalent to HK\$176,323,000)) in aggregate was recognised in the consolidated statement of profit or loss as "Interest income" during the year.

- (iii) investment deposits of RMB230,798,000 (equivalent to HK\$292,149,000) (2013: RMB339,156,000 (equivalent to HK\$429,311,000)) in aggregate paid to independent third parties in connection with the Group's acquisition of the controlling equity interests in certain sewage and reclaimed water treatment and water distribution operations in the PRC. The balances are classified as non-current assets.
- (iv) investment deposits of RMB310,529,000 (equivalent to HK\$393,075,000) (2013: RMB97,454,000 (equivalent to HK\$123,359,000)) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment and water distribution operations under TOT basis. The balances are classified as non-current assets.
- (v) pursuant to a BOT agreement entered into between the Group and a local government in the PRC on 20 January 2014, a reclaimed water treatment operation under BOT basis was awarded by the local government to the Group. An amount of RMB220,000,000 (equivalent to HK\$278,481,000) was paid to the local government during the year to support its site dismantlement funding of the reclaimed water treatment facilities. The balance will be recovered through the future operating receipts of the reclaimed water treatment operation and accordingly it is classified as a non-current asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Notes: (Continued)

(a) *(Continued)*

(vi) included in the amortised costs of outstanding cash consideration at end of year of HK\$689,066,000 (2013: HK\$10,257,000) in relation to disposal of subsidiaries during the year, HK\$485,975,000 and HK\$203,091,000 were classified as other receivables and amounts due from joint ventures. Amongst which, other receivables of HK\$30,996,000 in aggregate were classified as non-current assets according to the payment terms stipulated in respective sales and purchase agreements. Further details of the disposal of subsidiaries are set out in note 45 to the financial statements.

(vii) consideration receivable amounting to RMB341,730,000 (equivalent to HK\$432,570,000) for the disposal of a piece of land held for sale. The balance was classified as a current asset according to the payment terms.

(b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of RMB994,672,000 (equivalent to HK\$1,259,078,000) (2013: RMB1,848,205,000 (equivalent to HK\$2,339,500,000)) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation projects entered into between the Group and government authorities in the PRC. The constructions of these projects were delayed and the subcontractors returned an aggregate amount of RMB871,264,000 (equivalent to HK\$1,102,866,000) (2013: RMB1,577,517,000 (equivalent to HK\$1,996,857,000)) of these advance payments to the other subsidiaries of the Group. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position *(note 42(b)(i))*.

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

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	82,906	7,880
Acquisition of subsidiaries <i>(note 44(b))</i>	2,077	–
Impairment/(reversal of impairment) during the year recognised in profit or loss, net <i>(note 7)</i>	(30,925)	75,565
Disposal of subsidiaries	(253)	(766)
Exchange realignment	–	227
At 31 December	53,805	82,906

Included in the provision for impairment of other receivables as at 31 December 2014 was a full provision on a performance bond of RMB40,000,000 (equivalent to HK\$50,633,000) paid to a government agent in the PRC (2013: certain advances to a subcontractor as detailed in note 28(b) of RMB58,897,000 (equivalent to HK\$74,553,000)) in aggregate). The individually impaired receivables relate to debtors that were in delinquency in principal payments.

Apart from the foregoing, the above provision for impairment of other receivables as at 31 December 2014 and 2013 also included the provision made against the remaining balances of the receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

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29. BALANCES WITH RELATED PARTIES

The balances with related parties are unsecured, interest-free and have no fixed terms of repayment, except for the following:

- (i) an amount of US\$155,812,000 (equivalent to HK\$1,208,135,000) (2013: US\$148,171,000 (equivalent to HK\$1,148,886,000)) due from a non-controlling equity holder of a 60% owned subsidiary of the Group, which, pursuant to relevant loan agreements entered into between the Group and the non-controlling equity holder, bears interest at the rate of the PRC 1-3 year bank loan rate per annum on the net loan amount, is repayable on 29 August 2015 unless agreed by the Company to extend the maturity date of the loan on the same terms for a further period of not more than 3 years, and secured by the 40% equity interest in the subsidiary held by the non-controlling equity holder. Net interest income of HK\$58,024,000 (2013: HK\$48,543,000) was recognised by the Group during the year;
- (ii) pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, CICI (a 70% owned subsidiary of the Group) and the non-controlling equity holders of CICI, the non-controlling equity holders shall pay interest to the Company at the benchmark 1-year interest rate for Renminbi loans as promulgated by 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 CICI. Net interest income of HK\$5,966,000 was recognised by the Group during the year; and
- (iii) amounts of RMB156,000,000 in aggregate (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 RMB4,899,000 (equivalent to HK\$6,201,000) (2013: RMB1,694,000 (equivalent to HK\$2,144,000)) were recognised in profit or loss during the year in respect of the loans. During the year ended 31 December 2014, the loans were transferred to the paid-up capital of the subsidiary as the consideration for a capital contribution from the non-controlling equity holder, and accordingly, the repayment obligation of the loans was discharged.

The balances with related companies of the Group included in receivables under service concession arrangements, trade and bills receivables, other receivables, trade and bills payables and other payables are disclosed in notes 18(c), 27(b), 28, 41 and 42 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

30. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Cash and bank balances other than time deposits	3,880,473	3,570,751	178,004	208,205
Time deposits	2,514,536	1,999,331	1,689,563	1,598,412
Total cash and bank balances	6,395,009	5,570,082	1,867,567	1,806,617
Less: Restricted cash and pledged deposits (<i>note (a)</i>)	(304,126)	(57,047)	–	–
Cash and cash equivalents	6,090,883	5,513,035	1,867,567	1,806,617

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2014 included the following:

- (i) bank deposits of RM91,073,000 (equivalent to HK\$201,873,000) and RMB66,954,000 (equivalent to HK\$84,752,000) (2013: RMB37,550,000 (equivalent to HK\$47,532,000)) which could only be applied on construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and
- (ii) bank deposits of RMB13,826,000 (equivalent to HK\$17,501,000) (2013: RMB1,928,000 (equivalent to HK\$2,440,000)) pledged to banks to secure certain banking facilities granted to the Group (*note 34(b)(iv)*).

In addition, as at 31 December 2013, bank deposits of RMB5,589,000 (equivalent to HK\$7,075,000) were pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance of the duties by the Group under certain service concession agreements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

30. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

(Continued)

Notes: (Continued)

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

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
HK\$	132,332	731,720	59,603	425,683
RMB	5,073,662	3,391,583	1,162,476	1,366,498
US\$	640,499	854,362	618,915	14,108
RM	515,454	503,892	–	–
EUR	26,612	88,275	26,573	328
SGD	6,215	–	–	–
TWD	235	249	–	–
KRW	–	1	–	–
	6,395,009	5,570,082	1,867,567	1,806,617

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

- (c) As at 31 December 2013, two bank balances in an aggregate amount of HK\$101,283,000 (2012: HK\$645,966,000) were designated as a charge for the repayment of a bank loan in a principal amount of US\$100,000,000 (equivalent to HK\$776,403,000), and any fund withdrawals of over US\$6,500,000 from these bank accounts shall be subject to approval by the bank.
- (d) The Group's bank balances are deposited with creditworthy banks with no recent history of defaults.

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31. SHARE CAPITAL

Shares

	2014 HK\$'000	2013 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
Issued and fully paid:		
8,707,425,196 (2013: 8,435,981,324) ordinary shares of HK\$0.10 each	870,743	843,598

A summary of the movements in the Company's issued share capital during the years ended 31 December 2014 and 2013 is as follows:

	Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
	<i>Notes</i>			
At 1 January 2013	6,909,170,486	690,917	–	690,917
Acquisition of the Future Income	<i>(a)(i)</i> 606,600,538	60,660	939,803	1,000,463
Acquisition of subsidiaries	<i>(a)(ii)</i> 170,210,300	17,021	413,344	430,365
Share placements	<i>(b)</i> 750,000,000	75,000	2,221,645	2,296,645
At 31 December 2013 and 1 January 2014	8,435,981,324	843,598	3,574,792	4,418,390
Acquisition of subsidiaries	<i>(c)</i> 252,857,872	25,286	1,203,603	1,228,889
Exercise of share options	<i>(d)</i> 18,586,000	1,859	54,162	56,021
At 31 December 2014	8,707,425,196	870,743	4,832,557	5,703,300

NOTES TO FINANCIAL STATEMENTS

31 December 2014

31. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes:

(a) The Group completed the acquisition of the Future Income from BEHL and certain subsidiaries from subsidiaries of BEHL during the year ended 31 December 2013 as follows:

- (i) as detailed in note 18(c) to the financial statements, the Group acquired the Future Income in February 2013 at a consideration of HK\$982,693,000, which was satisfied by way of the issuance of 606,600,538 new ordinary shares of the Company to BE Environmental at HK\$1.62 per share. The fair value of these ordinary shares, determined by reference to the fair value of the Future Income which was measured at amortised cost using the effective interest rate method, amounted to HK\$1,000,463,000 and was used to account for the acquisition transaction; and
- (ii) in February and May 2013, the Group acquired (1) 90% equity interest in two sewage treatment operations under BOT basis in Hainan Province, the PRC; (2) a 100% equity interest in a water distribution operation under BOT basis in Shandong Province, and (3) a 100% equity interest in an investment holding company which holds a 33.8% equity interest in Anling Water, a joint venture engaged in a water distribution operation under BOT basis in Beijing City, the PRC, for an aggregate consideration of HK\$275,741,000, satisfied by way of the issuance of 170,210,300 new ordinary shares of the Company to BE Environmental at HK\$1.62 per share. The fair value of these ordinary shares, determined by reference to the closing quoted market prices of the Company's ordinary shares on the Stock Exchange at respective acquisition dates, amounted to HK\$430,365,000 in aggregate and was used to account for the acquisition transactions.

Further details of the transactions are set out in the Company's circular dated 30 November 2012 and announcements dated 5 February 2013 and 24 May 2013.

(b) The Company completed the following share placements during the year ended 31 December 2013:

- (i) pursuant to a subscription agreement entered into between the Company and a company beneficially owned by a strategic investment fund of the government of Malaysia (the "Subscriber") on 26 September 2013, 400,000,000 new ordinary shares of the Company were allotted and issued at a price of HK\$2.95 per share to the Subscriber for a total net cash consideration of HK\$1,180,000,000. Further details of the share placement are set out in the Company's announcement dated 26 September 2013; and
- (ii) pursuant to a placing and subscription agreement and a subscription letter entered into between the Company, BE Environmental and a placing agent on 17 October 2013, 350,000,000 new ordinary shares of the Company were allotted and issued at a price of HK\$3.21 per share for a total net proceeds of HK\$1,116,645,000 to BE Environmental, which sold the same number of the Company's ordinary shares BE Environmental owns to certain institutional investors at the same price under a top-up placing arrangement. Further details of the share placement are set out in the Company's announcements dated 17 October 2013 and 18 October 2013.

(c) Pursuant to a sale and purchase agreement dated 6 September 2013, a supplemental agreement dated 27 January 2014 and a settlement agreement dated 20 August 2014 entered into between the Company and Standard Water Ltd. ("SWL"), a third party independent to the Group, the Group acquired 100% equity interests in 36 sewage treatment and water distribution operations (the "SWL Operations") in Mainland China from SWL on 19 February 2014 for an aggregate consideration of RMB648,672,000 (equivalent to HK\$821,104,000), satisfied by way of (1) cash payment of RMB85,356,000 (equivalent to HK\$108,045,000); and (2) issuance of 252,857,872 new ordinary shares of the Company to SWL at HK\$2.82 per share. The fair value of the consideration shares, determined by reference to the closing quoted market prices of the Company's ordinary shares on the Stock Exchange at acquisition date, amounted to HK\$1,228,889,000 in aggregate and was used to account for the acquisition transaction.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

31. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes: *(Continued)*

- (d) The subscription rights attaching to 18,586,000 share options were exercised at a subscription price of HK\$2.244 per ordinary share during the year, resulting in the issue of 18,586,000 ordinary shares of the Company for a total cash consideration of HK\$41,573,000. At the time when the share options were exercised, the fair values of these share options in an aggregate amount of HK\$14,448,000 previously recognised in the share option reserve were transferred to the share premium account. Further details of the share options are set out in note 32 to the financial statements.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, and other employees of the Group. The Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of passing the resolution for adoption of the Scheme. The maximum number of 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 a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's 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 offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and 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.

NOTES TO FINANCIAL STATEMENTS

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32. SHARE OPTION SCHEME *(Continued)*

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's ordinary shares of HK\$0.10. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The share options are non-transferrable and will lapse when expired or the grantee ceases to be an employee of the Group pursuant to the terms of the Scheme.

The movements in share options outstanding under the Scheme during the year are as follows:

	2014		2013	
	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>
At 1 January	2.350	400,000	–	–
Granted during the year	5.180	2,000	2.350	400,000
Forfeited or lapsed during the year	2.244	(3,050)	–	–
Exercised during the year	2.244	(18,586)	–	–
At 31 December	2.259	380,364	2.350	400,000

NOTES TO FINANCIAL STATEMENTS

31 December 2014

32. SHARE OPTION SCHEME *(Continued)*

The exercise price and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2014	Exercise price*	Exercise periods
Number of options '000	HK\$ per share	
60,804	2.244	24-4-2014 to 23-4-2023
79,390	2.244	24-4-2015 to 23-4-2023
79,390	2.244	24-4-2016 to 23-4-2023
79,390	2.244	24-4-2017 to 23-4-2023
79,390	2.244	24-4-2018 to 23-4-2023
400	5.180	24-4-2014 to 27-3-2024
400	5.180	24-4-2015 to 27-3-2024
400	5.180	24-4-2016 to 27-3-2024
400	5.180	24-4-2017 to 27-3-2024
400	5.180	24-4-2018 to 27-3-2024
380,364		
2013	Exercise price*	Exercise periods
Number of options '000	HK\$ per share	
80,000	2.244	24-4-2014 to 23-4-2023
80,000	2.244	24-4-2015 to 23-4-2023
80,000	2.244	24-4-2016 to 23-4-2023
80,000	2.244	24-4-2017 to 23-4-2023
80,000	2.244	24-4-2018 to 23-4-2023
400,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

32. SHARE OPTION SCHEME *(Continued)*

Notes:

- (a) The fair values of the share options granted during the years ended 31 December 2014 and 2013 were HK\$4,287,000 (HK\$2.14 each) and HK\$357,276,000 (HK\$0.89 each), respectively, of which HK\$115,706,000 (2013: HK\$105,764,000) in aggregate was recognised as share option expense in profit or loss during the year ended 31 December 2014.

The fair value of equity-settled share options granted during the year 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:

	2014	2013
Dividend yield (%)	1.32	2.13
Expected volatility (%)	41.33	42.97
Historical volatility (%)	41.33	42.97
Risk-free interest rate (%)	2.25	0.85
Life of options (year)	10.00	10.00
Weighted average share price (HK\$ per share)	5.03	2.35
Exit rates of the grantees of the options granted under the Scheme	3.70%	3.73% – 5.56%

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 rates of the grantees of the options granted under the Scheme were determined based on the historical data.

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

- (b) At the end of the reporting period, the Company had 380,364,000 share options outstanding under the Scheme which represented approximately 4.37% of the Company's shares in issue as at 31 December 2014 and the date of approval of these financial statements. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 380,364,000 additional ordinary shares of the Company and additional share capital of HK\$38,036,000 and share premium of HK\$1,165,737,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2014 and the fair values of the unvested share options).

33. RESERVES

(a) Group

- (i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (ii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.
- (iii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2014 were distributable in the form of cash dividends.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

33. RESERVES (Continued)

(b) Company

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2013		–	5,285,604	–	(259,705)	5,025,899
Loss for the year and total comprehensive loss for the year	12	–	–	–	(367,207)	(367,207)
Equity-settled share option arrangements	32(a)	–	–	105,764	–	105,764
Acquisition of the Future Income	31(a)(i)	939,803	–	–	–	939,803
Acquisition of subsidiaries	31(a)(ii)	413,344	–	–	–	413,344
Share placements	31(b)	2,221,645	–	–	–	2,221,645
Final 2012 cash distributions declared		–	(153,720)	–	–	(153,720)
Interim 2013 cash distributions declared	13	–	(192,150)	–	–	(192,150)
At 31 December 2013 and 1 January 2014		3,574,792	4,939,734	105,764	(626,912)	7,993,378
Loss for the year and total comprehensive loss for the year	12	–	–	–	(329,418)	(329,418)
Exercise of share options	31(d)	54,162	–	(14,448)	–	39,714
Equity-settled share option arrangements	32(a)	–	–	115,706	–	115,706
Transfer of share option reserve upon the forfeiture or lapse of share options	32	–	–	(1,494)	1,494	–
Acquisition of subsidiaries	31(c)	1,203,603	–	–	–	1,203,603
Final 2013 cash distributions declared	13	–	(233,702)	–	–	(233,702)
Interim 2014 cash distributions declared	13	–	(261,148)	–	–	(261,148)
At 31 December 2014		4,832,557	4,444,884	205,528	(954,836)	8,528,133

Note:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

34. BANK AND OTHER BORROWINGS

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Bank loans:				
Secured	7,787,177	6,024,529	–	–
Unsecured	8,182,138	4,278,038	8,156,214	3,786,329
	15,969,315	10,302,567	8,156,214	3,786,329
Other loans, unsecured	505,183	139,019	–	–
Total bank and other borrowings	16,474,498	10,441,586	8,156,214	3,786,329
Analysed into:				
Bank loans repayable:				
Within one year	3,503,741	2,092,621	1,986,640	155,076
In the second year	3,516,405	2,830,766	2,189,438	1,450,183
In the third to fifth years, inclusive	6,329,481	4,227,373	2,558,274	2,181,070
Beyond five years	2,619,688	1,151,807	1,421,862	–
	15,969,315	10,302,567	8,156,214	3,786,329
Other loans repayable:				
Within one year	440,915	54,900	–	–
In the second year	39,088	21,750	–	–
In the third to fifth years, inclusive	24,029	55,184	–	–
Beyond five years	1,151	7,185	–	–
	505,183	139,019	–	–
Total bank and other borrowings	16,474,498	10,441,586	8,156,214	3,786,329
Portion classified as current liabilities	(3,944,656)	(2,147,521)	(1,986,640)	(155,076)
Non-current portion	12,529,842	8,294,065	6,169,574	3,631,253

NOTES TO FINANCIAL STATEMENTS

31 December 2014

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
HK\$	2,908,366	2,428,743	2,818,492	2,428,743
RMB	8,759,012	7,021,380	1,202,510	1,202,510
US\$	3,919,573	990,894	3,247,665	155,076
EUR	887,547	569	887,547	–
	16,474,498	10,441,586	8,156,214	3,786,329

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

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) in a then aggregate net carrying amount of HK\$9,388,473,000 (2013: HK\$7,182,730,000) as at 31 December 2014, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors (*note 18*);
- (ii) guarantees given by the Company and/or its subsidiaries;
- (iii) pledges over certain of the Group's equity interests in subsidiaries;
- (iv) pledges over certain of the Group's bank balances of RMB13,826,000 (equivalent to HK\$17,501,000) (2013: RMB1,928,000 (equivalent to HK\$2,440,000)) in aggregate (*note 30(a)(ii)*);
- (v) a charge over two bank balances in an aggregate amount of HK\$101,283,000 for the repayment of a bank loan in a principal amount of US\$100,000,000 (equivalent to HK\$776,403,000) (*note 30(c)*) as at 31 December 2013; and
- (vi) mortgages over a land use right and certain buildings in Mainland China in a then aggregate net carrying amount of RMB103,425,000 (equivalent to HK\$130,918,000) as at 31 December 2014 (*note 15(a)*).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

- (c) The Group's bank and other borrowings bear interest at floating rates, except for the following:
- (i) bank and other loans in an aggregate principal amount of RMB2,579,170,000 (equivalent to HK\$3,264,750,000) (2013: RMB1,286,908,000 (equivalent to HK\$1,628,997,000)) bearing interests at fixed rates ranging from 4% to 6.46% (2013: 5% to 6%) per annum; and
 - (ii) two interest-free government loans in an aggregate principal amount of RMB10,829,000 (equivalent to HK\$13,708,000) (2013: RMB10,829,000 (equivalent to HK\$13,708,000)).
- (d) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK\$10,379,050,000 (2013: HK\$4,660,821,000) as at 31 December 2014 include covenants imposing specific performance obligations on BEHL, a substantial beneficial owner of the Company, among which are the following events which would constitute an event of default on the loan facilities:
- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35%, where applicable, of the issued share capital of the Company; and/or
 - (ii) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

35. CORPORATE BONDS

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Unsecured corporate bonds, repayable:				
Within one year	–	1,832,540	–	1,832,540
In the second year	631,072	–	631,072	–
In the third to fifth years, inclusive	3,861,235	4,486,411	–	629,855
Total corporate bonds	4,492,307	6,318,951	631,072	2,462,395
Portion classified as current liabilities	–	(1,832,540)	–	(1,832,540)
Non-current portion	4,492,307	4,486,411	631,072	629,855

Corporate bonds of the Group and Company as at 31 December 2014 and 2013 comprised:

- (i) corporate bonds with an aggregate principal amount of RMB1,450,000,000 (the “Bonds”) issued by the Company to certain institutional investors on 30 June 2011 pursuant to the subscription agreement dated 24 June 2011, of which (a) RMB1,000,000,000 bore interest at the rate of 3.75% per annum and was settled during the year by due date of 30 June 2014; and (b) RMB450,000,000 is due on 30 June 2016 and bears interest at the rate of 5% per annum;
- (ii) corporate bonds with an aggregate principal amount of RMB500,000,000 (the “Further Bonds”) issued by the Company to certain institutional investors on 11 October 2011 pursuant to the subscription agreement dated 30 September 2011, of which (a) RMB450,000,000 bore interest at the rate of 3.75% per annum and was settled during the year by due date of 30 June 2014; and (b) RMB50,000,000 is due on 30 June 2016 and bears interest at the rate of 5% per annum; and
- (iii) corporate bonds with an aggregate principal amount of US\$500,000,000 (the “US\$ Bonds”) issued by a wholly-owned subsidiary of the Company to certain institutional investors on 6 May 2013 pursuant to the subscription agreement dated 26 April 2013, which are due on 6 May 2018, bear interest at the rate of 4.625% per annum and are guaranteed by the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

35. CORPORATE BONDS *(Continued)*

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

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to, directly or indirectly, supervise the Company or be the single largest shareholder of the Company;
- (iii) if the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors; and/or
- (iv) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

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

Further details of the Bonds, the Further Bonds and the US\$ Bonds are set out in the Company's announcements dated 28 June 2011, 7 October 2011 and 26 April 2013, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

36. NOTE PAYABLE

Note payable of the Group as at 31 December 2014 and 2013 is denominated in RMB, unsecured and is wholly repayable beyond five years. The note payable is guaranteed by the Company, bears interest at the rate of 6.15% per annum and would be due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement.

The note payable includes covenants imposing specific performance obligations on BEHL, among which are the following events which would constitute an event of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to supervise the Company;
- (iii) if BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company;
- (iv) if the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors; and/or
- (v) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

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

Further details of the note payable are set out in the Company's announcement dated 8 November 2013.

NOTES TO FINANCIAL STATEMENTS

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37. FINANCE LEASE PAYABLE

The Group leases certain equipment for its sewage treatment service business under a finance lease arrangement. The lease is classified as a finance lease and had a remaining lease term of two years as at 31 December 2013. The finance lease payable was early repaid during the year.

The total future minimum lease payments under the finance lease and its present values were as follows:

Group	Minimum lease payments 2014 <i>HK\$'000</i>	Minimum lease payments 2013 <i>HK\$'000</i>	Present value of minimum lease payments 2014 <i>HK\$'000</i>	Present value of minimum lease payments 2013 <i>HK\$'000</i>
Amounts payable:				
Within one year	–	8,069	–	7,393
In the second year	–	6,052	–	5,862
Total minimum finance lease payments	–	14,121	–	13,255
Future finance charges	–	(866)		
Total net finance lease payable	–	13,255		
Portion classified as current liabilities	–	(7,393)		
Non-current portion	–	5,862		

NOTES TO FINANCIAL STATEMENTS

31 December 2014

38. PROVISION FOR MAJOR OVERHAULS

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

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

		Group	
	<i>Notes</i>	2014	2013
		HK\$'000	HK\$'000
At 1 January		197,760	221,643
Acquisition of subsidiaries	44	39,088	67,017
Additional provision	7	60,548	68,683
Increase in discounted amounts arising from the passage of time	8	7,380	7,698
Amount utilised during the year		(42,223)	–
Write-back of provision arising from a change in accounting estimate	4, 7	–	(172,345)
Disposal of subsidiaries	45	(15,535)	(634)
Exchange realignment		–	5,698
At 31 December		247,018	197,760

NOTES TO FINANCIAL STATEMENTS

31 December 2014

39. DEFERRED INCOME

Deferred income of the Group mainly represented (i) government subsidies of RMB30,836,000 (equivalent to HK\$39,033,000) (2013: RMB32,298,000 (equivalent to HK\$40,884,000)) in aggregate in respect of the Group's construction of various facilities in Jiangsu Province, the PRC and (ii) subsidies of RMB20,382,000 (equivalent to HK\$25,800,000) (2013: RMB20,382,000 (equivalent to HK\$25,800,000)) received from fresh water customers in respect of the Group's construction of a sewage treatment facility in Guangxi Province, the PRC. These subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

40. DEFERRED TAX

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

	Group	
	2014	2013
	HK\$'000	HK\$'000
Deferred tax assets	79,469	87,818
Deferred tax liabilities	(929,578)	(562,172)
	(850,109)	(474,354)

NOTES TO FINANCIAL STATEMENTS

31 December 2014

40. DEFERRED TAX *(Continued)*

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

Group

	Notes	Attributable to						Net deferred tax assets/ (liabilities) HK\$'000
		Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Impairment provision HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Revaluation of properties HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	
At 1 January 2013		(7,026)	4,459	55,333	(314,778)	–	3,692	(258,320)
Acquisition of subsidiaries	44	(118,010)	5	16,335	–	–	–	(101,670)
Net deferred tax credited/(charged) to profit or loss	11	(1,247)	369	(24,251)	(80,211)	(4,241)	–	(109,581)
Deferred tax charged to equity		–	–	–	–	(4,996)	–	(4,996)
Disposal of subsidiaries	45	4,629	(2,072)	(158)	4,185	–	–	6,584
Exchange realignment		(765)	302	2,141	(7,957)	(126)	34	(6,371)
At 31 December 2013 and 1 January 2014		(122,419)	3,063	49,400	(398,761)	(9,363)	3,726	(474,354)
Acquisition of subsidiaries	44	(132,027)	4,053	–	–	–	–	(127,974)
Net deferred tax credited/(charged) to profit or loss	11	(570)	11,540	16,430	(239,687)	(917)	–	(213,204)
Disposal of subsidiaries	45	(34,159)	(1,513)	(742)	4,624	–	–	(31,790)
Exchange realignment		(2,567)	–	257	(477)	–	–	(2,787)
At 31 December 2014		(291,742)	17,143	65,345	(634,301)	(10,280)	3,726	(850,109)

Notes:

- (a) At 31 December 2014, deferred tax assets have not been recognised in respect of unused tax losses of HK\$223,122,000 (2013: HK\$139,240,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK\$119,802,000 (2013: HK\$95,176,000) will expire in one to five years.
- (b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$2,857,107,000 (2013: HK\$1,255,758,000) as at 31 December 2014.

NOTES TO FINANCIAL STATEMENTS

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41. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within 3 months	758,432	240,638	–	–
4 to 6 months	698,993	684,000	–	–
7 months to 1 year	243,421	243,758	–	–
1 to 2 years	554,964	566,122	–	–
2 to 3 years	459,658	72,052	–	–
Over 3 years	175,083	137,902	398	398
Balance with extended credit period	673,377	810,924	–	–
	3,563,928	2,755,396	398	398

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.

Included in the trade and bills payables of the Group as at 31 December 2014 is an amount of HK\$114,999,000 (2013: HK\$60,148,000) due to a joint venture of the Group, arising from the trading of construction materials and equipment carried out in the ordinary course of business of the Group. Purchase costs of HK\$154,978,000 (2013: HK\$129,966,000) in aggregate, which were charged at rates mutually-agreed between both parties, were recognised in “Cost of sales” on the face of the consolidated statement of profit or loss during the year.

NOTES TO FINANCIAL STATEMENTS

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42. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Accruals		380,767	263,228	54,860	34,711
Other liabilities	(a)	889,521	1,062,681	5,809	11
Receipts in advance		556,787	734,426	–	–
Due to subcontractors	(b)	1,445,792	2,275,591	–	–
Due to subsidiaries	20(b)	–	–	8,620,739	7,215,979
Due to joint ventures	21(d)	125,485	226,087	–	–
Due to associates	22(b)	–	1,488	–	–
Due to related parties	29	348,006	410,750	–	–
Other taxes payables	43	64,761	67,608	–	–
		3,811,119	5,041,859	8,681,408	7,250,701
Portion classified as current liabilities		(3,470,715)	(4,565,940)	(8,681,408)	(7,250,701)
Non-current portion		340,404	475,919	–	–

Notes:

- (a) The Group's other liabilities as at 31 December 2014 included, inter alia, the following:
- (i) outstanding considerations in an aggregate amount equivalent to HK\$226,950,000 (2013: HK\$147,762,000) payable to various governmental authorities in Portugal and Mainland China for the transfers of sewage treatment and water distribution facilities to the Group under TOT basis; and
 - (ii) outstanding considerations in an aggregate amount of RMB124,594,000 (equivalent to HK\$157,714,000) (2013: RMB299,266,000 (equivalent to HK\$378,818,000)) payable to various independent third parties for the acquisition of subsidiaries, among which balances of HK\$33,701,000 (2013: HK\$333,350,000) were attributable to the acquisitions completed during the year, as further detailed in note 44 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

42. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: (Continued)

- (b) The amounts due to subcontractors of the Group as at 31 December 2014 included the following:
- (i) refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of RMB871,264,000 (equivalent to HK\$1,102,866,000) (2013: RMB1,577,517,000 (equivalent to HK\$1,996,857,000)), as further detailed in note 28(b) to the financial statements; and
 - (ii) performance bonds of RMB215,200,000 (equivalent to HK\$272,405,000) (2013: RMB220,200,000 (equivalent to HK\$278,734,000)) in aggregate received from various subcontractors of the construction services for comprehensive renovation projects in Yunnan Province and Liaoning Province, the PRC. The balances are fully repayable upon the completion of the final inspection by relevant government authorities which, in the opinion of the directors, will be in 2015.
- (c) Other payables are non-interest-bearing and have an average term of three months.

43. OTHER TAXES PAYABLES

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Business tax	34,630	43,769
Value-added tax	3,737	4,365
Others	26,394	19,474
	64,761	67,608

NOTES TO FINANCIAL STATEMENTS

31 December 2014

44. BUSINESS COMBINATIONS

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

	Notes	2014				2013	
		SWL Operations HK\$'000 (note (a)(i))	2nd Salcon Group* HK\$'000 (note (a)(ii))	Nanjing MDRI HK\$'000 (note (a)(iii))	Others HK\$'000	Total HK\$'000	Total HK\$'000
Property, plant and equipment	15	4,205	889	180,459	116,957	302,510	105,178
Operating concessions	18	22,273	252,731	–	81,076	356,080	1,602,048
Other intangible assets	19	12	–	164	–	176	279
Investments in joint ventures		–	–	–	–	–	463,153
Available-for-sale investments		–	–	63	4,937	5,000	–
Amounts due from contract customers		228,253	65	–	182,247	410,565	12,156
Receivables under service concession arrangements		2,591,900	558,505	–	411,918	3,562,323	4,084,630
Deferred tax assets	40	116	7,723	–	178	8,017	24,466
Inventories		2,848	1,595	–	2,818	7,261	29,025
Trade receivables		3,070	–	5,132	–	8,202	172,904
Prepayments, deposits and other receivables		12,704	2,266	10,975	7,962	33,907	129,471
Cash and cash equivalents		96,174	34,891	12,980	78,457	222,502	396,368
Trade payables		(377,731)	(39,006)	(2,090)	(24,702)	(443,529)	(127,578)
Other payables and accruals		(599,754)	(12,085)	(33,377)	(192,149)	(837,365)	(940,381)
Income tax payables		(5,269)	(2,732)	(1,114)	(1,972)	(11,087)	(17,269)
Bank and other borrowings		(490,119)	(321,252)	(18,870)	(131,691)	(961,932)	(2,205,825)
Provision for major overhauls	38	(28,783)	(4,669)	–	(5,636)	(39,088)	(67,017)
Deferred income		–	–	–	–	–	(41,162)
Deferred tax liabilities	40	(53,236)	(20,382)	(30,310)	(32,063)	(135,991)	(126,136)
Total identifiable net assets at fair value		1,406,663	458,539	124,012	498,337	2,487,551	3,494,310
Non-controlling interests		–	(44,102)	(1,027)	(47,777)	(92,906)	(587,928)
Goodwill on acquisition	17	–	–	104,232	77,872	182,104	744,812
Gains on bargain purchase	6	(69,729)	(2,411)	–	(3,589)	(75,729)	(25,321)
		1,336,934	412,026	227,217	524,843	2,501,020	3,625,873

* As defined in note 44(a)(ii) below.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

44. BUSINESS COMBINATIONS *(Continued)*

	2014					2013
	SWL Operations HK\$'000 <i>(note (a)(i))</i>	2nd Salcon Group* HK\$'000 <i>(note (a)(ii))</i>	Nanjing MDRI HK\$'000 <i>(note (a)(iii))</i>	Others HK\$'000	Total HK\$'000	Total HK\$'000
Satisfied by:						
Cash	108,045	412,026	227,217	524,843	1,272,131	3,132,723
Capital contribution to acquirees in the form of cash	-	-	-	-	-	62,785
Allotment of new ordinary shares of the Company as consideration <i>(notes 31(a)(ii) and 31(c))</i>	1,228,889	-	-	-	1,228,889	430,365
	1,336,934	412,026	227,217	524,843	2,501,020	3,625,873
Revenue for the year since acquisition [#]	498,943	146,075	111,353	98,876	855,247	652,539
Profit for the year since acquisition	158,324	17,938	16,586	32,286	225,134	138,313

[#] Revenue for the year since acquisition comprises turnover, interest income and other income and gains, net.

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

	2014					2013
	SWL Operations HK\$'000 <i>(note (a)(i))</i>	2nd Salcon Group* HK\$'000 <i>(note (a)(ii))</i>	Nanjing MDRI HK\$'000 <i>(note (a)(iii))</i>	Others HK\$'000	Total HK\$'000	Total HK\$'000
Cash consideration	(108,045)	(412,026)	(227,217)	(524,843)	(1,272,131)	(3,132,723)
Cash injected by the Group as capital contribution	-	-	-	-	-	(62,785)
Cash and cash equivalents acquired	96,174	34,891	12,980	78,457	222,502	396,368
Amortised costs of outstanding cash consideration at end of year	7,595	12,180	-	13,926	33,701	333,350
Investment deposits paid in prior periods	32,632	47,179	-	29,425	109,236	360,127
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	28,356	(317,776)	(214,237)	(403,035)	(906,692)	(2,105,663)

NOTES TO FINANCIAL STATEMENTS

31 December 2014

44. BUSINESS COMBINATIONS *(Continued)*

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK\$2,140,072,000 (2013: HK\$1,179,924,000) and the Group's revenue (comprising turnover, interest income and other income and gains, net) would have been HK\$10,064,780,000 (2013: HK\$7,689,312,000).

Notes:

- (a) Business combinations during the year ended 31 December 2014 included, inter alia, the following transactions:
- (i) on 19 February 2014, the Group completed the acquisition of the SWL Operations, further details of which are set out in note 31(c) to the financial statements;
 - (ii) in February 2014, the Group completed the acquisition of certain sewage treatment and water distribution operations (the "2nd Salcon Group") in Fujian Province and Shandong Province, the PRC, for an aggregate cash consideration of RMB325,500,000 (equivalent to approximately HK\$412,026,000). Further details of the acquisition are set out in the Company's announcement dated 12 September 2013; and
 - (iii) in April 2014, the Group completed the acquisition of the 99.172% equity interest in Nanjing MDRI, a company engaged in consultancy business located in Jiangsu Province, the PRC, for an aggregate cash consideration of RMB179,501,000 (equivalent to HK\$227,217,000).
- (b) The fair values of the amounts due from contract customers, receivables under service concession arrangements, trade receivables and deposits and other receivables as at the respective dates of acquisitions amounted to HK\$410,565,000, HK\$3,562,323,000, HK\$8,202,000 and HK\$33,907,000 respectively. The gross contractual amounts of these receivables were HK\$410,565,000, HK\$3,209,566,000, HK\$8,034,000 and HK\$35,984,000 respectively, of which receivables under service concession arrangements, and deposits and other receivables of HK\$20,036,000 and HK\$2,077,000 respectively are expected to be uncollectible.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

45. DISPOSAL OF SUBSIDIARIES

	<i>Notes</i>	2014 HK\$'000 <i>(notes (a), (b), (c))</i>	2013 HK\$'000
Net assets disposed of:			
Property, plant and equipment	<i>15</i>	700	251,993
Goodwill	<i>17</i>	170,247	1,793
Operating concessions	<i>18</i>	387,295	11,664
Other intangible assets	<i>19</i>	–	273
Investment in associates		150,182	1,914
Available-for-sale investments		–	4,235
Amounts due from contract customers		49	–
Receivables under service concession arrangements		120,606	109,110
Deferred tax assets	<i>40</i>	36,324	54
Land held for sale		346,768	–
Inventories		8,362	9,634
Trade receivables		–	17,880
Prepayments, deposits and other receivables		444,935	59,597
Cash and cash equivalents		324	226,645
Trade payables		(3,913)	(30,547)
Other payables and accruals		(744,017)	(81,509)
Income tax payables		(16,981)	–
Bank and other borrowings		(50,633)	(115,885)
Provision for major overhauls	<i>38</i>	(15,535)	(634)
Deferred income		–	(57,030)
Deferred tax liabilities	<i>40</i>	(4,534)	(6,638)
Non-controlling interests		(2,553)	(123,567)
		827,626	278,982
Exchange fluctuation reserve realised		(71)	(3,373)
Elimination of unrealised gains on disposal of subsidiaries	<i>(b)</i>	46,261	–
Gains on disposal of interests in subsidiaries	<i>6</i>	100,944	64,707
		974,760	340,316
Satisfied by:			
Cash		928,041	144,112
Set-off of current accounts	<i>(c)</i>	46,719	196,204
		974,760	340,316

NOTES TO FINANCIAL STATEMENTS

31 December 2014

45. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Cash consideration	928,041	144,112
Cash and bank balances disposed of	(324)	(226,645)
Amortised costs of outstanding cash consideration at end of year	(689,066)	(10,257)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	238,651	(92,790)

The Group completed the following disposal of subsidiaries during the year ended 31 December 2014:

- (a) in July 2014, the Group completed the disposal of Rich Peace, further details of which are set out in note 22(c) to the financial statements;
- (b) in December 2014, the Group disposed of 95% equity interests in three of the Group's then subsidiaries which hold certain of the Group's land held for sale in Liaoning Province, the PRC, to a 50% owned joint venture established on 30 December 2014 by the Group with an independent third party for an aggregate consideration of HK\$203,091,000. Gains on disposal of these subsidiaries of HK\$56,950,000 (after elimination of unrealised profits of HK\$46,261,000) were resulted, which were recognised in "Other income and gains, net" on the face of the consolidated statement of profit or loss; and
- (c) the Group completed the disposals of (i) a 99.67% equity interest in a waste-to-energy operation located in Jilin City, Liaoning Province, the PRC in September 2014; and (ii) a 100% equity interest in a sewage treatment operation located in Zhanhua Area, Binzhou City, Shandong Province, the PRC in December 2014, for an aggregate consideration of HK\$620,061,000 to independent third parties. Pursuant to the relevant sale and purchase agreements, part of the consideration of HK\$46,719,000 in aggregate were settled by way of offsetting the current accounts between the Group, the independent third parties and the subsidiaries disposed of.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

46. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Save as disclosed above and the transactions detailed in notes 31(a), 31(c), 32(a) and 45(c) to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2014 and 2013.

47. CONTINGENT LIABILITIES

Group

At 31 December 2014, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK\$108,972,000) (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 31 December 2014, the Group did not have any significant contingent liabilities.

Company

Save as disclosed in notes 35 and 36 to the financial statements, corporate guarantees of RMB1,810,086,000 (equivalent to HK\$2,291,248,000) and RM279,778,000 (equivalent to HK\$620,156,000) (2013: RMB523,575,000 (equivalent to HK\$662,753,000) and RM328,428,000 (equivalent to HK\$776,404,000)) were given by the Company as at 31 December 2014 to banks in connection with bank loans of an even total amount granted to certain subsidiaries of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

48. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a portion of its office buildings and certain buildings for which the Group was granted the rights to use pursuant to service concession arrangements under operating lease arrangements, with the leases negotiated for terms ranging from 5 to 10.5 years (2013: 2 to 10.5 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

At 31 December 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	4,926	7,050
In the second to fifth years, inclusive	17,849	18,378
After five years	11,044	15,583
	33,819	41,011

At 31 December 2014, the Company did not have any operating lease arrangements as lessor (2013: Nil).

(b) As lessee

The Group leases a piece of land and certain office properties under operating lease arrangements with the leases negotiated for terms ranging from 10 months to 46 years (2013: 1 to 46 years).

At 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	21,467	11,510
In the second to fifth years, inclusive	28,945	18,347
After five years	70,018	71,725
	120,430	101,582

At 31 December 2014, the Company did not have any operating lease commitments as lessee (2013: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2014

49. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 48(b) above, the Group and the Company had the following capital commitments at the end of the reporting period:

Group

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
New service concession arrangements on a TOT basis:		
Authorised, but not contracted for	58,998	118,302
Contracted, but not provided for	233,535	281,830
	292,533	400,132
New service concession arrangements on a BOT basis:		
Authorised, but not contracted for	439,235	170,401
Contracted, but not provided for	5,696,617	4,650,094
	6,135,852	4,820,495
New service concession arrangements on a Build-Own-Operate basis:		
Contracted, but not provided for	792,190	856,197
Capital contribution to joint ventures:		
Contracted, but not provided for	111,906	33,499
Acquisition of subsidiaries:		
Contracted, but not provided for	982,250	2,139,049
Total capital commitments	8,314,731	8,249,372

NOTES TO FINANCIAL STATEMENTS

31 December 2014

49. CAPITAL COMMITMENTS *(Continued)*

Group *(Continued)*

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

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Authorised, but not contracted for	557,189	560,285
Contracted, but not provided for	249,417	885,550
	806,606	1,445,835

Company

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Contracted, but not provided for:		
Capital contribution to a joint venture	10,640	11,347
Acquisition of subsidiaries	148,101	1,986,050
Total capital commitments	158,741	1,997,397

NOTES TO FINANCIAL STATEMENTS

31 December 2014

50. RELATED PARTY DISCLOSURES

- (a) During the year, the Group engaged a joint venture of the Group to provide sewage treatment engineering services for the Malaysia Project at a service fee of RM50,490,000 (equivalent to HK\$119,669,000) (2013: RM12,221,000 (equivalent to HK\$30,093,000)) which was charged at a rate mutually agreed between both parties.

Save as disclosed above and the transactions and balances detailed in notes 18(c), 21(c), 21(d), 22(b), 24(b), 27(b), 28, 29, 31(a), 31(b)(ii), 34(d), 35, 36, 41, 42 and 45(b) to the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2014 and 2013.

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

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

(c) **Compensation of key management personnel of the Group**

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Short term employee benefits	17,827	16,222
Equity-settled share option expense	56,386	56,348
Pension scheme contributions	51	45
Total compensation paid to key management personnel	74,264	72,615

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Interest rate risk *(Continued)*

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

	Within 1 year or on demand <i>HK\$'000</i>	More than 1 year but less than 2 years <i>HK\$'000</i>	More than 2 years but less than 3 years <i>HK\$'000</i>	More than 3 years but less than 4 years <i>HK\$'000</i>	More than 4 years but less than 5 years <i>HK\$'000</i>	More than 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>	Effective interest rate %
31 December 2014								
Floating rate:								
Restricted cash and pledged deposits	239,062	-	-	-	-	-	239,062	1.45
Bank balances and time deposits	3,637,707	-	-	-	-	-	3,637,707	0.33
Bank and other borrowings	2,699,894	3,528,835	1,235,534	1,184,215	1,924,825	2,620,839	13,194,142	4.11
Fixed rate:								
Restricted cash and pledged deposits	65,064	-	-	-	-	-	65,064	3.07
Bank balances and time deposits	2,449,472	-	-	-	-	-	2,449,472	2.56
Bank and other borrowings	1,231,054	26,658	1,934,496	74,440	-	-	3,266,648	4.44
Corporate bonds	-	631,072	-	3,861,235	-	-	4,492,307	4.68
Note payable	-	-	-	-	-	2,523,639	2,523,639	6.15
31 December 2013								
Floating rate:								
Restricted cash and pledged deposits	57,047	-	-	-	-	-	57,047	0.35
Bank balances and time deposits	3,509,276	-	-	-	-	-	3,509,276	0.41
Bank and other borrowings	1,871,794	1,629,761	3,189,072	475,927	473,335	1,158,992	8,798,881	4.95
Finance lease payable	7,393	5,862	-	-	-	-	13,255	5.62
Fixed rate:								
Bank balances and time deposits	1,999,331	-	-	-	-	-	1,999,331	1.52
Bank and other borrowings	275,727	1,222,755	20,245	20,245	103,733	-	1,642,705	5.12
Corporate bonds	1,832,540	-	629,855	-	3,856,556	-	6,318,951	4.41
Note payable	-	-	-	-	-	2,522,527	2,522,527	6.15

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Interest rate risk *(Continued)*

At 31 December 2014, it is estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, a finance lease payable, and cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2014 by approximately HK\$72,750,000 (2013: increase/decrease the Group's profit before tax by approximately HK\$43,191,000).

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

Foreign currency risk

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

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

	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
31 December 2014		
If Hong Kong dollar weakens against RMB by 5%	148,536	661,594
If Hong Kong dollar strengthens against RMB by 5%	(148,536)	(661,594)
31 December 2013		
If Hong Kong dollar weakens against RMB by 5%	99,327	565,156
If Hong Kong dollar strengthens against RMB by 5%	(99,327)	(565,156)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Credit risk

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

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

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

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK\$9.1 billion (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) in aggregate as at 31 December 2014 as detailed in note 49 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds, a note payable and a finance lease payable, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2014. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Liquidity risk *(Continued)*

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

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2014								
Bank borrowings	–	4,083,604	3,948,831	3,460,661	1,454,426	2,061,216	2,674,122	17,682,860
Other borrowings	6,329	448,836	41,109	10,582	9,315	6,279	1,176	523,626
Corporate bonds	–	210,135	825,431	178,582	3,923,643	–	–	5,137,791
Note payable	–	155,204	155,204	155,204	155,204	155,204	2,968,840	3,744,860
Trade and bills payables	–	3,563,928	–	–	–	–	–	3,563,928
Other liabilities	125,485	2,551,696	233,595	28,441	40,512	18,993	18,863	3,017,585
Due to related parties	348,006	–	–	–	–	–	–	348,006
	479,820	11,013,403	5,204,170	3,833,470	5,583,100	2,241,692	5,663,001	34,018,656

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2013								
Bank borrowings	–	2,548,229	3,156,979	3,372,263	614,734	662,301	1,189,654	11,544,160
Other borrowings	6,329	52,696	24,710	39,219	10,588	9,319	7,405	150,266
Corporate bonds	–	2,076,759	209,859	831,840	178,366	3,918,888	–	7,215,712
Note payable	–	155,135	155,135	155,135	155,135	155,135	3,122,667	3,898,342
Finance lease payable	–	8,069	6,052	–	–	–	–	14,121
Trade and bills payables	–	2,755,396	–	–	–	–	–	2,755,396
Other liabilities	227,575	3,596,779	327,016	76,271	15,783	18,993	37,856	4,300,273
Due to related parties	410,750	–	–	–	–	–	–	410,750
	644,654	11,193,063	3,879,751	4,474,728	974,606	4,764,636	4,357,582	30,289,020

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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

Fair values

In the opinion of the directors, (1) the carrying amount of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values; and (2) the carrying amounts of other non-current financial assets and liabilities are not significantly different to their respective fair values. As a result, the Group's exposure to fair value risk in respect of its financial instruments is minimal and no disclosure of the fair values of these financial instruments is made.

Capital management

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

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

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, a note payable and a finance lease payable (as shown in the statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2014 and 2013 were as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Net debt	17,399,561	13,783,284
Total equity	19,088,738	15,924,442
Gearing ratio	91%	87%

52. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the unlisted equity investments being classified as available-for-sale investments as disclosed in note 23 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2014 and 2013 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

53. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2015.

FIVE YEAR FINANCIAL SUMMARY

31 December 2014

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2013, is set out below:

RESULTS

	Year ended 31 December				
	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue	6,348,060	2,654,454	3,727,379	6,406,455	8,925,942
Operating profit	694,291	840,049	1,037,191	1,389,530	2,388,915
Share of profits and losses of:					
Joint ventures	824	20,798	56,011	84,515	256,230
Associates	–	–	(1,409)	23,115	22,032
Profit before tax	695,115	860,847	1,091,793	1,497,160	2,667,177
Income tax	(130,950)	(169,861)	(224,643)	(351,762)	(593,855)
Profit for the year	564,165	690,986	867,150	1,145,398	2,073,322
ATTRIBUTABLE TO:					
Shareholders of the Company	512,512	600,736	750,474	1,084,257	1,794,413
Non-controlling interests	51,653	90,250	116,676	61,141	278,909
	564,165	690,986	867,150	1,145,398	2,073,322

FIVE YEAR FINANCIAL SUMMARY

31 December 2014

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Total assets	17,224,829	24,749,742	31,289,880	44,186,670	51,640,838
Total liabilities	(12,156,875)	(15,038,861)	(20,558,387)	(28,262,228)	(32,552,100)
NET ASSETS	5,067,954	9,710,881	10,731,493	15,924,442	19,088,738
Equity attributable to shareholders of the Company	3,892,860	8,081,989	8,467,124	13,297,631	15,784,448
Non-controlling interests	1,175,094	1,628,892	2,264,369	2,626,811	3,304,290
TOTAL EQUITY	5,067,954	9,710,881	10,731,493	15,924,442	19,088,738



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED
Stock Code: 371