



# 2016

INTERIM REPORT



北控水務集團有限公司  
BEIJING ENTERPRISES WATER GROUP LIMITED  
Stock Code: 371

BEIJING ENTERPRISES WATER  
GROUP LIMITED





## **CONTENTS**

2	<b>Corporate Information</b>
3	<b>Group Structure</b>
4	<b>Chairman's Statement</b>
7	<b>Management Discussion And Analysis</b>
29	<b>Condensed Consolidated Statement Of Profit Or Loss</b>
30	<b>Condensed Consolidated Statement Of Comprehensive Income</b>
31	<b>Condensed Consolidated Statement Of Financial Position</b>
33	<b>Condensed Consolidated Statement Of Changes In Equity</b>
35	<b>Condensed Consolidated Statement Of Cash Flows</b>
37	<b>Notes To Condensed Consolidated Financial Statements</b>
58	<b>Discloseable Information</b>
71	<b>Corporate Governance</b>

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Li Yongcheng (*Chairman*)  
Mr. E Meng (*Vice Chairman*)  
Mr. Jiang Xinhao  
Mr. Zhou Min (*Chief Executive Officer*)  
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

## AUDIT COMMITTEE

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

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

## REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 6706-07  
67th Floor  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2105 0800  
Fax: (852) 2796 9972

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
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

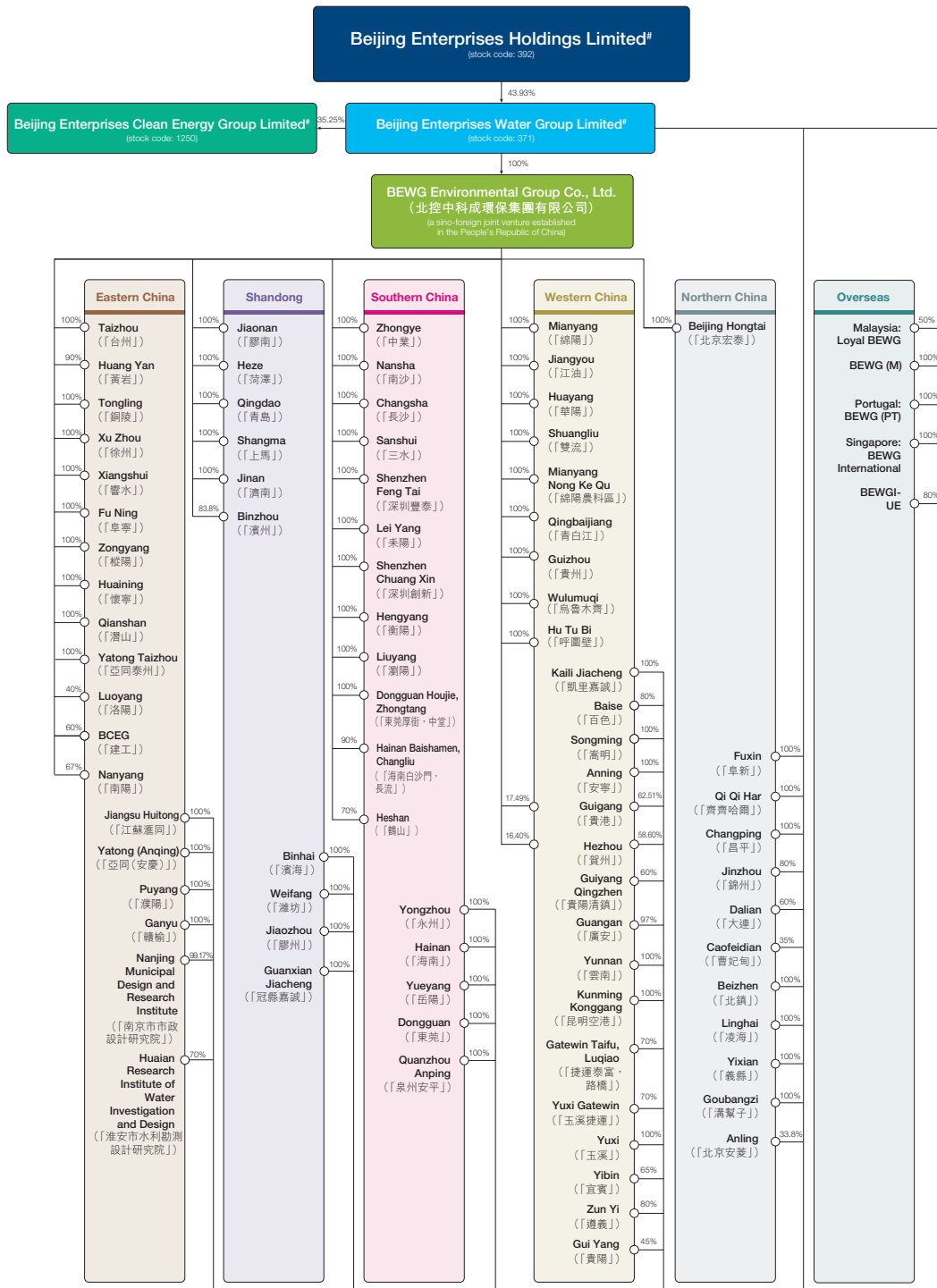
In Hong Kong:  
Agricultural Bank of China Ltd., Hong Kong Branch  
Asian Development Bank  
Bank of China (Hong Kong) Limited  
China Development Bank Corporation, Hong Kong Branch  
DBS Bank Ltd., Hong Kong Branch  
Mizuho Corporate Bank Ltd., Hong Kong Branch  
International Finance Corporation

In Mainland China:

Agricultural Bank of China Limited  
Bank of Beijing Co., Limited  
Bank of China Limited  
Bank of Communications Co., Limited  
Bank of Jiangsu Co., Limited  
China Construction Bank Corporation  
Industrial and Commercial Bank of China Limited

# GROUP STRUCTURE

30 June 2016



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

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

# CHAIRMAN'S STATEMENT

## Dear Shareholders,

In the first half of 2016, despite the growing uncertainty in the world economy and relatively large downward pressure on the domestic economy, the government of China managed to promote economic development by keeping the direction of its macro-economic policy stable and focusing on the supply-side structural reform. Following the implementation of various environmental policies which will unleash the potential demand of the environmental protection industry, there is now more room for market development. Under such background, Beijing Enterprises Water Group Limited (the "Company", together with its subsidiaries collectively referred to as the "Group" or "BEWG") pursued its yearly business goals and carried out its work tasks. Its efforts to expand business and explore innovative business models have delivered a satisfactory growth in operating results.

## PERFORMANCE REVIEW

For the six months ended 30 June 2016, the Group recorded a revenue of HK\$7,851.6 million, which grew by 36% year-on-year. Profit attributable to shareholders of the Company amounted to HK\$1,573.9 million, which increased by 36% year-on-year. Basic earnings per share for the period was HK18.08 cents. In recognition of the continuous support of the shareholders, the board of directors of the Company (the "Board") resolved to make an interim distribution of HK5.9 cents per share to the shareholders.

In the first half of 2016, BEWG continued its approach of speeding up the growth of its two core businesses, namely urban water services and water environment renovation, by pouring additional resources to PPP projects, so as to create synergy between the two operations. Strategic co-operation and project agreements in respect of projects in Yunnan, Hunan, Shaanxi, Guangdong, Guangxi and Guizhou were entered into respectively. It achieved the half-year growth targets with respect to the urban water service business, and the water environmental renovation business was enhanced in an attempt to provide comprehensive services and introduce performance assessment. The Group's total daily design capacity was 24,938,050 tons as at 30 June 2016.

As to the new businesses, the Group signed a strategic co-operation framework agreement with Beijing Enterprises Clean Energy Group Limited (stock code: 1250), an associate of the Company, for the construction and operation of distributed photovoltaic power stations at BEWG's water plants, and this will bring mutual benefits to both parties. In addition, 北控環境投資(中國)有限公司 Beijing Enterprises Environmental Investment (China) Limited\* has contracted for and operated various private environmental and hygiene projects and sped up the implementation of every project. Meanwhile, on the technological front, the technology committee played a vital role in the Group's achievements and has integrated the technology and resources of 南京市市政設計研究院有限責任公司 Nanjing Municipal Design and Research Institute Co., Ltd.\* and 淮安市水利勘測設計研究院有限公司 Huaian Research institute of Water Investigation and Design Co. Limited\*.

The Group has been actively exploring innovative business models comprising financial-industrial integration. In collaboration with financial institutions including 上海星景股權投資管理有限公司 Shanghai Xingjing Capital Investment Co. Ltd.\* under Fosun Group, it sought to leverage the advantages of third parties in terms of their regional networks, sources of financing and fund management capabilities. Different innovative financing alternatives were also employed to obtain additional working capital.

\* For identification purpose only

# CHAIRMAN'S STATEMENT

## PERFORMANCE REVIEW *(Continued)*

Furthermore, the Group strived to build business affiliations which formed an ecosystem featuring comprehensive industry chain and stepped up the planning of the strategic mix of its segments, especially the membrane business. It has also co-operated with light-asset companies in various ways.

During the first half of 2016, the Group not only focused on business growth, but also paid considerable attention to its potential industry risks. The overall economic environment faces increasing complexity as the downward pressure on the domestic economy has mounted and the global economy has seen more uncertainties. On the other hand, market development was hindered in an increasingly competitive atmosphere with more and more low-cost rivals. Other issues which the Group needs to tackle include the improvement of the PPP model framework and the more stringent environmental policies promulgated by the government of China.

## CORPORATE MANAGEMENT AND CONTROL

Aiming at establishing regional divisions which entails comprehensive operations and support, the Group has been pushing ahead with its reform. Further to the four regional divisions set up last year, it formed the segment of western China to facilitate business expansion in the region. The Shandong regional segment and the central China integrated segment were merged into the Shandong-Henan regional segment. In response to the national strategy for the unified development of Beijing, Tianjin and Hebei, the Group set up the Beijing-Tianjin-Hebei segment earlier this year to further promote business development in this region. Such move has proven successful with remarkable growth in existing businesses and impressive results in market expansion.

In order to maintain its competitive edge, BEWG has invested considerable resources into its human resource system which allows strategic human resource management to be employed. The corporate culture is adequately communicated to all staff so that they can recognise and acknowledge, and hence thoroughly apply and execute the corporate values. Efforts have also been made to build up the brand image of BEWG so as to increase its influence on the market. This year, for the first time, the Group appeared on the Fortune China 500 list of listed Chinese corporations.

## SUSTAINABLE DEVELOPMENT

In the second half of 2016, the Group will continue its established development approach of pursuing healthy growth, stepping up corporate reform and facilitating mutually beneficial co-operation. To exploit the opportunities brought by the PPP model and the market trends about black-and-malodorous water body treatment and sponge city, it will continue to enlarge the synergy created by the core businesses of urban water services and water environment renovation by consolidating its regional resources. Business growth will also be achieved by exploring integrated and multi-sector projects which focus on urban development and is based on a development model comprising financial-industrial integration.

With respect to the new businesses, while the overseas operations will put its geographical focus on Southeast Asia, the domestic strategy will focus on the seawater desalination project in Beijing, the nationwide layout of the environmental businesses, a breakthrough in membrane technology and industrial wastewater treatment, a boost in design capacity and the development of the clean energy business.

# CHAIRMAN'S STATEMENT

## SUSTAINABLE DEVELOPMENT *(Continued)*

The Group will further promote its internal reform and facilitate the comprehensive development of its regional division. It will bring technology into full play with a focus on the research and development of core technologies and the integration of technological resources. To strive for a sustainable development, we will strictly monitor the risks and will speed up the establishment of the financial management, corporate culture and brand promotion.

BEWG acknowledges the critical importance of a close relationship with the staff, clients and partners for its sustainable development. It will continue to promote a strong corporate culture where staff can develop a stronger sense of cohesion. On the other hand, it will closely monitor the needs of clients, including those in the public sector, so as to offer effective, integrated and multi-sector solutions in a timely manner. The Group will co-operate with light-asset companies in the areas of equity, technology and market development, with a view to establishing an ecosystem featuring a comprehensive industry chain.

## FUTURE DEVELOPMENT

The full implementation of the concept of green development highlighted in China's 13th Five-Year Plan has created unprecedented development opportunities for the environmental industry. It is expected that the investments in the environmental sector and the water treatment sector for the period covered by the 13th Five-Year Plan will grow exponentially as compared to that in the 12th Five-Year Plan period, and environmental investment in 2016 will exceed RMB1 trillion for the first time.

In the meantime, the escalating number of new entrants, many of which are large conglomerates, to the environmental industry has led to a more fierce competition. Moving away from the traditional focus on securing a particular water project, enterprises are vying for a better integration of their industry chains and greater diversification in their environmental businesses and this will give rise to the technological advancement.

In the second half of 2016, by working towards the objectives which focus on pursuing healthy growth, stepping up corporate reform and promoting external co-operation, BEWG will focus its attention on areas such as exploring innovative business models comprising financial-industrial integration, perfecting the business mix and building business affiliations, as well as strengthening internal control and enhancing management capabilities in terms of human resources, corporate culture and brand building, so as to achieve yearly business goals and lay a solid groundwork for the Group's strategic planning for the next five years.

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

**Li Yongcheng**

*Chairman*

30 August 2016



# MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the period attributable to shareholders of the Company increased by 36% to HK\$1,573.9 million. Revenue increased by 36% to HK\$7,851.6 million as a result of increase in revenue contribution from construction services for comprehensive renovation projects and BOT projects.

## 1. FINANCIAL HIGHLIGHTS

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>1. Water treatment services</b>					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,566.4	20%	60%	797.6	37%
– Joint ventures and associates				8.9	0%
				806.5	37%
Overseas					
– Subsidiaries	68.9	1%	14%	2.8	0%
	1,635.3	21%		809.3	37%
Water distribution services					
China					
– Subsidiaries	504.2	6%	53%	172.9	8%
– Joint ventures and associates				78.7	4%
				251.6	12%
Overseas					
– Subsidiaries	94.0	1%	28%	18.7	1%
	598.2	7%		270.3	13%
Subtotal	2,233.5	28%		1,079.6	50%

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% <sup>§</sup>	1,799.8	23%	24%	368.0	17%
– Interest income	–	–	–	32.6	1%
	1,799.8	23%	24%	400.6	18%
Construction of BOT water projects					
– China	3,081.8	39%	24%	525.3	24%
– Overseas	355.8	5%	5%*	26.2	1%
	3,437.6	44%	23%	551.5	25%
Subtotal	5,237.4	67%		952.1	43%
<b>3. Technical services and sale of machineries for the water environmental renovation</b>	380.7	5%	65%	147.7	7%
<b>Business results</b>	7,851.6	100%		2,179.4	100%
<b>Fair value gain on derivative financial instruments</b>				203.5	
<b>Others<sup>#</sup></b>				(809.0)	
<b>Total</b>				1,573.9	

<sup>#</sup> Others included head office and other corporate expense, net, of HK\$189.2 million, share of profit of an associate of HK\$20.0 million, equity-settled share option expense of HK\$20.1 million and finance costs of HK\$619.7 million.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$7.6 million.

\* This represents BOT construction gross profit margin for a reclaimed water project in Singapore. The Group is responsible for overall management of the construction services. The design and construction works are carried out by the project partner. As such, the gross profit margin for this project is lower than those in China.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>1. Water treatment services</b>					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,733.8	30%	67%	835.5	50%
– Joint ventures and associates				11.1	1%
				846.6	51%
Overseas					
– Subsidiaries	76.1	1%	14%	1.2	0%
	1,809.9	31%		847.8	51%
Water distribution services					
China					
– Subsidiaries	307.0	5%	60%	140.4	9%
– Joint ventures and associates				21.5	1%
				161.9	10%
Overseas					
– Subsidiaries	86.8	2%	29%	14.3	1%
	393.8	7%		176.2	11%
Subtotal	2,203.7	38%		1,024.0	62%

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% <sup>§</sup>	912.3	16%	17%	126.9	8%
– Interest income	–	–	–	90.1	5%
	912.3	16%	17%	217.0	13%
Construction of BOT water projects	2,406.9	42%	24%	326.7	20%
Subtotal	3,319.2	58%		543.7	33%
<b>3. Technical services and sales of machineries for the water environmental renovation</b>					
	240.8	4%	58%	94.1	5%
<b>Business results</b>	5,763.7	100%		1,661.8	100%
<b>Fair value gain on derivative financial instruments</b>				115.2	
<b>Others<sup>#</sup></b>				(616.6)	
<b>Total</b>				1,160.4	

<sup>#</sup> Others included head office and other corporate expense, net, of HK\$29.6 million, equity-settled share option expense of HK\$34.5 million and finance costs of HK\$552.5 million.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$4.9 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the six months ended 30 June 2016 and 2015 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June		Increase/(Decrease)		For the six months ended 30 June		Increase/(Decrease)	
	2016 HK\$'M	2015 HK\$'M	HK\$'M	%	2016 HK\$'M	2015 HK\$'M	HK\$'M	%
<b>1. Water treatment services</b>								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	1,566.4	1,733.8	(167.4)	(10%)	797.6	835.5	(37.9)	(5%)
– Joint ventures and associates					8.9	11.1	(2.2)	(20%)
<i>GP ratio</i>	60%	67%		(7%)	806.5	846.6	(40.1)	(5%)
Overseas								
– Subsidiaries	68.9	76.1	(7.2)	(9%)	2.8	1.2	1.6	133%
<i>GP ratio</i>	14%	14%		–				
	1,635.3	1,809.9	(174.6)	(10%)	809.3	847.8	(38.5)	(5%)
Water distribution services								
China								
– Subsidiaries	504.2	307.0	197.2	64%	172.9	140.4	32.5	23%
– Joint ventures and associates					78.7	21.5	57.2	266%
<i>GP ratio</i>	53%	60%		(7%)	251.6	161.9	89.7	55%
Overseas								
– Subsidiaries	94.0	86.8	7.2	8%	18.7	14.3	4.4	31%
<i>GP ratio</i>	28%	29%		(1%)				
	598.2	393.8	204.4	52%	270.3	176.2	94.1	53%
Subtotal	2,233.5	2,203.7	29.8	1%	1,079.6	1,024.0	55.6	5%

# MANAGEMENT DISCUSSION AND ANALYSIS

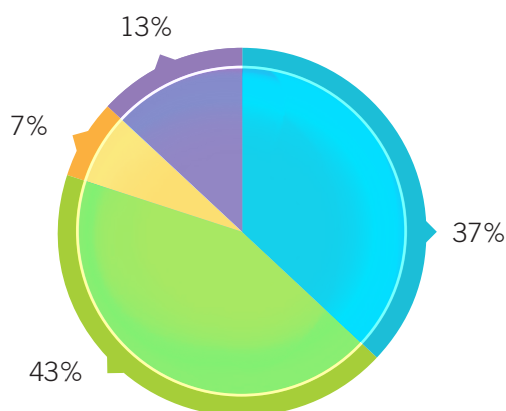
## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the six months ended 30 June 2016 and 2015 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June		Increase/(Decrease)		For the six months ended 30 June		Increase/(Decrease)	
	2016 HK\$'M	2015 HK\$'M	HK\$'M	%	2016 HK\$'M	2015 HK\$'M	HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	<b>1,799.8</b>	912.3	887.5	97%	<b>368.0</b>	126.9	241.1	190%
– Interest income	<b>–</b>	–	–	–	<b>32.6</b>	90.1	(57.5)	(64%)
	<b>1,799.8</b>	912.3	887.5	97%	<b>400.6</b>	217.0	183.6	85%
<i>GP ratio</i>	<b>24%</b>	17%		7%				
Construction of BOT water projects								
– China	<b>3,081.8</b>	2,406.9	674.9	28%	<b>525.3</b>	326.7	198.6	61%
– Overseas	<b>355.8</b>	–	355.8	N/A	<b>26.2</b>	–	26.2	N/A
	<b>3,437.6</b>	2,406.9	1,030.7	43%	<b>551.5</b>	326.7	224.8	69%
<i>GP ratio</i>	<b>23%</b>	24%		(1%)				
Subtotal	<b>5,237.4</b>	3,319.2	1,918.2	58%	<b>952.1</b>	543.7	408.4	75%
<b>3. Technical services and sale of machineries for the water environmental renovation</b>	<b>380.7</b>	240.8	139.9	58%	<b>147.7</b>	94.1	53.6	57%
<i>GP ratio</i>	<b>65%</b>	58%		7%				
<b>Business results</b>	<b>7,851.6</b>	5,763.7	2,087.9	36%	<b>2,179.4</b>	1,661.8	517.6	31%
Fair value gain on derivative financial instruments					<b>203.5</b>	115.2	88.3	77%
Others					<b>(809.0)</b>	(616.6)	(192.4)	(31%)
<b>Total</b>					<b>1,573.9</b>	1,160.4	413.5	36%

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*



**Profit attributable to shareholders of the Company  
(Six months ended 30 June 2016)**

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

## 2. BUSINESS REVIEW

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 19 provinces, 2 autonomous regions and 4 municipalities all across Mainland China.

### 2.1 Water treatment services

As at 30 June 2016, the Group entered into service concession arrangements for a total of 391 water plants including 282 sewage treatment plants, 100 water distribution plants, 8 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for this period was 1,873,000 tons including Build-Operate-Transfer ("BOT") projects of 97,000 tons, Transfer-Operate-Transfer ("TOT") projects of 175,000 tons, Public-Private Partnership Project ("PPP") of 1,351,000 tons, entrustment operation projects of 40,000 tons, and 210,000 tons through mergers and acquisitions.

During the period, the Group completed the entrusted operation of sewage treatment projects with aggregate daily design capacity of 347,200 tons. As such, the net increase in daily design capacity of this period was 1,525,800 tons. As at 30 June 2016, total daily design capacity was 24,938,050 tons.

\* On 29 July 2016, the Group decided to terminate the acquisition of Golden State Water Group Corporation after careful consideration of all the circumstances such as the volatility of the capital market. Projects relating to the transaction with aggregate daily design capacity of 1,211,000 tons were excluded in the total daily design capacity as at 30 June 2016. Further details of the termination are set out in the Company's announcement dated 29 July 2016.

# 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>					
<b>China</b>					
In operation	8,899,750	497,200	5,090,400	–	14,487,350
Not yet commenced operation/ Not yet transferred	3,896,000	312,500	5,873,000	50,000	10,131,500
Subtotal	12,795,750	809,700	10,963,400	50,000	24,618,850
<b>Overseas</b>					
In operation	55,200	–	36,000	–	91,200
Not yet commenced operation/ Not yet transferred	–	228,000	–	–	228,000
Subtotal	55,200	228,000	36,000	–	319,200
Total	12,850,950	1,037,700	10,999,400	50,000	24,938,050
<i>(Number of water plants)</i>					
<b>China</b>					
In operation	193	5	46	–	244
Not yet commenced operation/ Not yet transferred	65	2	41	1	109
Subtotal	258	7	87	1	353
<b>Overseas</b>					
In operation	24	–	13	–	37
Not yet commenced operation/ Not yet transferred	–	1	–	–	1
Subtotal	24	1	13	–	38
Total	282	8	100	1	391



# 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>
<b>Sewage and reclaimed water treatment services:</b>					
Mainland China:					
– Southern China	38	2,991,200	523.7	432.6	301.8
– Western China	47	1,607,500	234.5	333.9	161.0
– Shandong	29	1,249,000	167.0	209.4	112.2
– Eastern China	49	2,303,250	318.2	352.9	126.8
– Northern China	35	1,246,000	169.2	237.6	104.7
	198	9,396,950	1,412.6	1,566.4	806.5
Overseas	24	55,200	11.6	68.9	2.8
Subtotal	222	9,452,150	1,424.2	1,635.3	809.3
<b>Water distribution services:</b>					
Mainland China	46	5,090,400	470.2	504.2	251.6
Overseas	13	36,000	5.6	94.0	18.7
Subtotal	59	5,126,400	475.8	598.2	270.3
Total	281	14,578,550	1,900.0	2,233.5	1,079.6

\* Excluded entrustment operation contracts

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

#### 2.1.1 Sewage and reclaimed water treatment services

##### 2.1.1a Mainland China

As at 30 June 2016, the Group had 193 sewage treatment plants and 5 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 8,899,750 tons (31 December 2015: 8,467,450 tons) and 497,200 tons (31 December 2015: 497,200 tons) respectively. The average daily processing volume is 7,780,208 tons and average daily treatment rate is 84%. The actual average contracted tariff charge of water treatment was approximately RMB1.05 per ton (31 December 2015: RMB1.03 per ton) for water plants. The actual aggregate processing volume for the period was 1,412.6 million tons, of which 1,376.6 million tons was contributed by subsidiaries and 36.0 million tons was contributed by joint ventures. Total revenue for the period was HK\$1,566.4 million. Net profit attributable to shareholders of the Company was HK\$806.5 million, of which HK\$797.6 million was contributed by subsidiaries and HK\$8.9 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 and Shaanxi Province. As at 30 June 2016, there were 38 sewage treatment plants with total daily design capacity of 2,991,200 tons, representing a decrease of 86,700 tons or 3% as compared with last year. The actual aggregate processing volume for the period amounted to 523.7 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$432.6 million and HK\$301.8 million respectively during the period.

##### Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2016, there were 47 sewage treatment plants with total daily design capacity of 1,607,500 tons, representing an increase of 42,000 tons per day or 3% as compared with last year. The actual processing volume for the period was 234.5 million tons. The operating revenue of HK\$333.9 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$161.0 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

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

##### 2.1.1a Mainland China *(Continued)*

###### Shandong

There were 29 plants in Shandong region. The total daily design capacity of Shandong region is 1,249,000 tons, representing an increase of 57,000 tons per day or 5% as compared with last year. The actual processing volume for the period was 167.0 million tons contributing operating revenue of HK\$209.4 million during the period. Profit attributable to shareholders of the Company was HK\$112.2 million.

###### Eastern China

There were 49 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 30 June 2016, the total daily design capacity of Eastern China had increased by 280,000 tons to 2,303,250 tons or 14% as compared with last year. The actual processing volume for the period amounted to 318.2 million tons and operating revenue was HK\$352.9 million during the period. Profit attributable to shareholders of the Company was HK\$126.8 million.

###### Northern China

Currently, the Group has 35 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 140,000 tons to 1,246,000 tons or 13% as compared with last year. The projects achieved actual processing volume of 169.2 million tons for the period. The operating revenue was HK\$237.6 million during the period. Profit attributable to shareholders of the Company was HK\$104.7 million.

##### 2.1.1b Overseas:

As at 30 June 2016, the Group had 24 sewage treatment plants in Portugal. Total daily design sewage treatment capacity in operation was 55,200 tons. The actual processing volume for the period is 11.6 million tons. Total revenue for the period was HK\$68.9 million. Profit attributable to shareholders of the Company was HK\$2.8 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

#### 2.1.2 Water distribution services

##### 2.1.2a Mainland China:

As at 30 June 2016, the Group had 46 water distribution plants in operation. Total daily design capacity in operation was 5,090,400 tons (31 December 2015: 3,961,000 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water distribution is approximately RMB1.80 per ton (31 December 2015: RMB1.78 per ton). The aggregate actual processing volume is 470.2 million tons, of which 277.1 million tons was contributed by subsidiaries, which recorded revenue of HK\$504.2 million and 193.1 million tons was contributed by joint ventures. Imputed interest income of HK\$32.6 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\$251.6 million, of which profit of HK\$172.9 million was contributed by subsidiaries and a profit of HK\$78.7 million in aggregate was contributed by joint ventures and associates.

##### 2.1.2b Overseas:

As at 30 June 2016, the Group had 13 water distribution plants in Portugal. Total daily design water distribution capacity in operation was 36,000 tons. The actual processing volume for the period is 5.6 million tons. Total revenue for the period was HK\$94.0 million. Profit attributable to shareholders of the Company was HK\$18.7 million.

### 2.2 Construction services for the water environmental renovation

#### 2.2.1 Construction services for comprehensive renovation projects

The Group had 14 comprehensive renovation projects under construction during the period. The projects mainly located in Beijing Liangshuihe, Beijing Xiaotaihouhe, Henan Luoyang, Foshan Gaoming, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining and Malaysia Pantai. Last period, the Group had 12 comprehensive renovation projects under construction in Beijing Liangshuihe, Henan Luoyang, Foshan Gaoming, Hunan Zhuhui, Yunnan Kunming, Yunnan Yuxi and Malaysia Pantai.

Revenue from comprehensive renovation projects increased by HK\$887.5 million from last period of HK\$912.3 million to HK\$1,799.8 million this period. Revenue increased was mainly due to the new commencement of construction work for Sichuan Suining and Beijing Xiaotaihouhe Projects and increase in contribution work for Beijing Liangshuihe and Henan Luoyang Projects.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

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

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to time of the receipt of the trade receivables. Interest income from water environmental renovation projects attributable to shareholders of the Company was HK\$32.6 million for this period (six months ended 30 June 2015: HK\$90.1 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK\$183.6 million from last period of HK\$217.0 million to HK\$400.6 million this period.

#### 2.2.2 Construction of BOT water projects

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

During the period, water plants under construction were mainly located in Beijing, Shandong, Jiangsu, Xinjiang and Henan provinces and Singapore. Total revenue for construction of BOT water projects was HK\$3,437.6 million (six months ended 30 June 2015: HK\$2,406.9 million) and profit attributable to shareholders of the Company was HK\$551.5 million (six months ended 30 June 2015: HK\$326.7 million). The increase in contribution from BOT projects during this period was mainly due to the construction work performed for projects located in Xinjiang, Jiangsu, Henan and Singapore.

### 2.3 Technical services and sales of machineries 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 and sales of machineries was HK\$380.7 million (six months ended 30 June 2015: HK\$240.8 million), representing 5% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$147.7 million (six months ended 30 June 2015: HK\$94.1 million).

Increase in revenue was mainly due to the contribution from provision of technical services by 淮安市水利勘测设计研究院有限公司 (Huaian Research Institute of Water Investigation and Design Co. Limited<sup>^</sup>) which was acquired during the period.

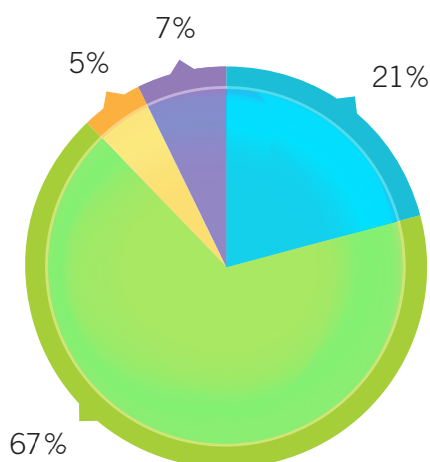
<sup>^</sup> For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS

### 3.1 Revenue

During the period, the Group recorded revenue of HK\$7,851.6 million (six months ended 30 June 2015: HK\$5,763.7 million). The increase was mainly due to the increase in revenue from construction services. Increase in revenue from construction services was mainly due to increase in construction work for comprehensive renovation projects and BOT projects in Beijing, Henan, Shandong and Singapore.



**Revenue**  
(Six months ended 30 June 2016)

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

### 3.2 Cost of sales

Cost of sales for the period amounted to HK\$5,150.0 million, compared to last period of HK\$3,507.0 million. The increase was mainly due to the increase in construction costs and operating costs of water plants amounted to HK\$1,456.5 million and HK\$152.0 million respectively. Cost of sales mainly included construction costs of HK\$4,032.3 million and operating costs of water plants of HK\$982.7 million. The construction costs mainly consisted of subcontracting charges. The increase in construction costs was mainly due to the increase in construction works for comprehensive renovation projects and BOT projects. The operating costs of water plants, mainly included electricity charges of HK\$291.9 million, staff costs of HK\$230.9 million and major overhaul charges of HK\$36.3 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.3 Gross profit margin

During the period, gross profit margin slightly decreased from last period of 39% to 34%.

#### *Gross margin for sewage and reclaimed water treatment services:*

Gross margin for sewage and reclaimed water treatment services in Mainland China decreased to 60% (last period: 67%). The decrease in gross margin was mainly due to the value-added tax ("VAT") imposed on the sewage and reclaimed water treatment business which is started in the second half of last year. The Group is entitled to refund 70% of the net VAT paid for the sewage treatment services and 50% of the net VAT paid for the reclaimed water services. The VAT refund is recognised in other income and gains, net. Gross margin for sewage and reclaimed water treatment services in Overseas maintained 14%.

#### *Gross margin for water distribution services:*

Gross margin for water distribution services in Mainland China was 53% (last period: 60%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services decreased to 50% (last period: 53%). The slight decrease of gross margin for water distribution services was mainly due to lower profit margin achieved by newly acquired projects. Gross margin for water distribution services in Overseas was 28% (last period: 29%).

#### *Gross margin for construction services for comprehensive renovation projects:*

Gross margin for construction services for comprehensive renovation projects increased from last period of 17% to 24% this period. Gross margin increased as the major comprehensive renovation projects (i.e. projects in Beijing and Henan Luoyang) for this period have a relatively higher average gross margin.

#### *Gross margin for construction of BOT water projects:*

Gross margin for construction of BOT water projects in China maintained at 24% this period.

Gross margin for construction of BOT water projects in Overseas was 5%. This represents BOT construction gross profit margin for a reclaimed water project in Singapore. The Group is responsible for overall management of the construction services. The design and construction works are carried out by the project partner. As such, the gross margin for this project is lower than those in China.

#### *Gross margin for technical services and sales of machineries for the water environmental renovation:*

Gross margin for the technical services and sales of machineries for the water environmental renovation was 65% (last period: 58%). Gross margin increased as revenue contribution from the sales of machineries, which has a lower gross margin, decreased during this period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$371.5 million during the period, compared to last period of HK\$150.5 million. The amount for this period mainly included sludge treatment income of HK\$69.8 million, government grants and subsidies of HK\$68.9 million and VAT refund of HK\$152.3 million.

### 3.5 Fair value gain on derivative financial instruments

On 9 December 2014, the Group entered into a subscription agreement with Beijing Enterprises Clean Energy Group Limited (the “BE Clean Energy”). The Group shall subscribe 17,721,519,000 shares at subscription price of HK\$0.079. The total consideration is approximately HK\$1.4 billion, which shall be paid in five tranches within two years. After the completion of all the subscriptions and upon conversion of the preference shares into ordinary shares of BE Clean Energy, the Group shall hold equity interest of 34.95% in BE Clean Energy. The first tranche and second tranche of subscriptions with aggregate number of shares of 8,860,759,500 was completed during the year 2015. The third tranche of subscription with total number of shares of 3,544,303,800 was completed during the period. 3,544,303,800 preference shares were converted into ordinary shares during the period.

According to the accounting policy, the remaining two tranches of subscriptions with total number of shares of 5,316,455,700 are treated as forward contracts to subscribe the shares of BE Clean Energy. The Group shall recognise the forward contracts as derivative financial instruments with net changes recognised in the consolidated statement of profit or loss of the Group. During the period, the Group recognised a fair value gain of HK\$203.5 million on the forward contracts.

The fair value gain or loss on the forward contracts is non-cash in nature. It does not have any impact on the cashflow of the Group. After the subscription of shares, the forward contracts shall no longer exist. The fair value of the derivative financial instruments previously recognised shall be treated as investment cost of the associate and it will no longer be subjected to fair value revaluation.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.6 Administrative expenses

Administrative expenses for the period increased to HK\$591.6 million, compared to last period of HK\$480.2 million. The increase was mainly due to the increase in staff cost of HK\$90.4 million as a result of business expansion during the period. Excluded the equity-settled share option expense, the ratio of administrative expenses to total revenue decreased from 7.7% of last period to 7.3%.

### 3.7 Other operating expenses, net

Other operating expenses increased from HK\$9.5 million to HK\$79.4 million in this period. The increase was mainly due to the increase in the cost of sludge treatment and exchange loss during the period.

### 3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$468.7 million (six months ended 30 June 2015: HK\$391.8 million) and interests on corporate bonds and notes payable of HK\$198.4 million (six months ended 30 June 2015: HK\$189.5 million). The increase in finance costs was mainly due to increase in bank and other borrowings of HK\$3,334.7 million and increase in corporate bonds of HK\$1,740.4 million during this period.

### 3.9 Income tax expense

Income tax expense for the period included the current PRC income tax of HK\$232.7 million. The effective tax rate for the PRC operation was about 17% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the period was HK\$212.9 million.

### 3.10 Property, plant and equipment

Property, plant and equipment increased by HK\$2,418.8 million which was mainly due to the addition of a new office building and acquisition of Build-Own-Operate (“BOO”) projects in Sichuan and Henan in current period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.11 Receivables

The Group's total receivables of HK\$40,994.4 million (31 December 2015: HK\$35,122.6 million) included:

By accounting nature:

	30 June 2016			31 December 2015		
	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	14,745.2	2,199.7	16,944.9	11,495.7	1,311.6	12,807.3
(ii) Receivables under service concession arrangements	18,301.2	2,056.3	20,357.5	16,977.7	1,712.9	18,690.6
(iii) Trade receivables	624.7	3,067.3	3,692.0	665.4	2,959.3	3,624.7
<b>Total</b>	<b>33,671.1</b>	<b>7,323.3</b>	<b>40,994.4</b>	<b>29,138.8</b>	<b>5,983.8</b>	<b>35,122.6</b>

- (i) Amounts due from contract customers of HK\$16,944.9 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\$4,137.6 million (non-current portion increased by HK\$3,249.5 million and current portion increased by HK\$888.1 million), which was mainly due to the recognition of construction revenue for projects in Henan, Xinjiang, Beijing and Jiangsu.
- (ii) Receivables under service concession arrangements of HK\$20,357.5 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The increase in balance by HK\$1,666.9 million (non-current portion increased by HK\$1,323.5 million and current portion increased by HK\$343.4 million) was mainly due to the commencement of operation of BOT and TOT projects which accounted for an increase in receivable balance of HK\$1,380 million; and
- (iii) Trade receivables of HK\$3,692.0 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance increased by HK\$67.3 million (non-current portion decreased by HK\$40.7 million and current portion increased by HK\$108.0 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.11 Receivables *(Continued)*

By business nature:

	<b>30 June 2016 HK\$'M</b>	31 December 2015 HK\$'M
Water treatment services by BOT and TOT projects	<b>33,885.1</b>	29,046.0
Construction services of comprehensive renovation projects	<b>6,488.6</b>	5,508.5
Technical and consultancy services and other businesses	<b>620.7</b>	568.1
<b>Total</b>	<b>40,994.4</b>	35,122.6

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\$33,885.1 million (31 December 2015: HK\$29,046.0 million). Total receivables for the construction service of comprehensive renovation projects were HK\$6,488.6 million (31 December 2015: HK\$5,508.5 million). Total receivables for technical and consultancy services and other businesses were HK\$620.7 million (31 December 2015: HK\$568.1 million).

### 3.12 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is a non-guarantee receipt right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The balance arises from BOT and TOT projects in operation.

### 3.13 Investments in joint ventures

Investments in joint ventures increased by HK\$26.8 million, mainly due to the share of profit in joint ventures during the period.

### 3.14 Investments in associates

Investments in associates increased by HK\$496.8 million, mainly due to the subscriptions of preference share of BE Clean Energy during the period.

### 3.15 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables decreased by HK\$1,827.5 million (non-current portion decreased by HK\$2,118.0 million and current portion increased by HK\$290.5 million), mainly due to the reallocation of the deposit for purchasing a new office building to property, plant and equipments.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.16 Cash and cash equivalents

Cash and cash equivalents decreased by HK\$833.6 million, mainly due to acquisition and construction of various water projects in PRC.

### 3.17 Other payables and accruals

Other payables and accruals decreased by HK\$366.4 million (non-current portion increased by HK\$72.1 million and current portion decreased by HK\$438.5 million), mainly due to the decrease in receipts in advance by HK\$595.2 million and increase in amount due to subcontractors by HK\$207.3 million during the period.

### 3.18 Bank and other borrowings

Bank and other borrowings increased by HK\$3,334.7 million (non-current portion increased by HK\$2,819.1 million and current portion increased by HK\$515.6 million). Increase in bank and other borrowings was mainly utilised for acquisition and construction of various water projects in the PRC.

### 3.19 Corporate bonds and notes payable

The increase was mainly due to the issuance of a corporate bond with principal amount of RMB2,000 million during the period. The increase was partially offset by a repayment of a corporate bond with principal amount of RMB500 million during the period.

### 3.20 Trade payables

The increase in trade payables by HK\$1,343.4 million was mainly due to increase in trade payables to subcontractors for construction services of BOT projects during the period.

### 3.21 Liquidity and financial resources

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

As at 30 June 2016, the Group's cash and cash equivalents amounted to HK\$5,540.2 million (31 December 2015: HK\$6,373.8 million).

The Group's total borrowings amounted to HK\$36,066.2 million (31 December 2015: HK\$31,047.6 million) comprised bank and other borrowings of HK\$26,471.1 million (31 December 2015: HK\$23,136.4 million), finance lease payables of HK\$105.4 million (31 December 2015: HK\$114.9 million), notes payable of HK\$3,044.4 million (31 December 2015: HK\$3,091.4 million) and corporate bonds of HK\$6,445.3 million (31 December 2015: HK\$4,704.9 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 80% of bank and other borrowings bear interest at floating rates.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.21 Liquidity and financial resources *(Continued)*

As at 30 June 2016, the Group had banking facilities amounting to HK\$25.6 billion, of which HK\$7,348.3 million have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$21,109.8 million (31 December 2015: HK\$20,290.4 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.45 as at 30 June 2016 (31 December 2015: 1.22). The increase in the gearing ratio as at 30 June 2016 was mainly due to the increase in bank and other borrowings and corporate bonds. The corresponding proceeds were mainly utilised for the acquisition and construction of various water projects in the PRC.

### 3.22 Capital expenditures

During the period, the Group's total capital expenditures were HK\$5,277.8 million (six months ended 30 June 2015: HK\$2,950.2 million), of which HK\$251.0 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$3,570.3 million was spent on construction and acquisition of water plants and HK\$1,456.5 million represented the consideration for acquisition of equity interests in associates, subsidiaries, joint ventures and available-for-sale investments.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group employed 9,952 employees. Total staff cost for the six months ended 30 June 2016 was HK\$598,231,000 (six months ended 30 June 2015: HK\$517,438,000). 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. 1,600,000 share options were exercised, no share option was lapsed or cancelled during the six months ended 30 June 2016. As at 30 June 2016, the Company had 356,080,000 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 4.11% of the Company's ordinary shares in issue as at 30 June 2016.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the six months ended 30 June 2016, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

## CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 30 June 2016 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 the Group's equity interests in certain subsidiaries; and/or
- (v) pledges over certain of the Group's bank balances.

Save as disclosed above, at 30 June 2016, 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 its transactions denominated and settled in RMB. Fluctuations of exchanges rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidation accounts. If RMB appreciates/depreciates against Hong Kong dollar, the Group would record a(n) increase/decrease in the Group's net asset value. Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
REVENUE	3	<b>7,851,562</b>	5,763,655
Cost of sales		<b>(5,150,034)</b>	(3,506,988)
Gross profit		<b>2,701,528</b>	2,256,667
Interest income		<b>84,139</b>	197,879
Other income and gains, net		<b>371,506</b>	150,537
Administrative expenses		<b>(591,575)</b>	(480,198)
Other operating expenses, net		<b>(79,377)</b>	(9,454)
PROFIT FROM OPERATING ACTIVITIES	4	<b>2,486,221</b>	2,115,431
Fair value gain on derivative financial instruments		<b>203,480</b>	115,239
Finance costs	5	<b>(619,693)</b>	(552,506)
Share of profits and losses of:			
Joint ventures		<b>109,922</b>	58,794
Associates		<b>24,335</b>	16
PROFIT BEFORE TAX		<b>2,204,265</b>	1,736,974
Income tax expense	6	<b>(453,067)</b>	(351,749)
PROFIT FOR THE PERIOD		<b>1,751,198</b>	1,385,225
ATTRIBUTABLE TO:			
Shareholders of the Company		<b>1,573,915</b>	1,160,373
Non-controlling interests		<b>177,283</b>	224,852
		<b>1,751,198</b>	1,385,225
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic		<b>HK18.08 cents</b>	HK13.32 cents
– Diluted		<b>HK17.73 cents</b>	HK13.01 cents

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

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	<b>1,751,198</b>	1,385,225
OTHER COMPREHENSIVE LOSS		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	<b>(615,769)</b>	(22,328)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive loss of a joint venture	<b>(16,718)</b>	(12,834)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF INCOME TAX	<b>(632,487)</b>	(35,162)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<b>1,118,711</b>	1,350,063
ATTRIBUTABLE TO:		
Shareholders of the Company	<b>1,052,180</b>	1,115,295
Non-controlling interests	<b>66,531</b>	234,768
	<b>1,118,711</b>	1,350,063



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	<i>Notes</i>	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment	9	<b>3,798,552</b>	1,379,801
Goodwill		<b>3,074,919</b>	2,967,365
Operating concessions		<b>2,496,232</b>	2,421,012
Other intangible assets		<b>45,802</b>	37,290
Investments in joint ventures		<b>3,590,188</b>	3,563,399
Investments in associates		<b>1,399,525</b>	902,774
Derivative financial instruments	11	–	42,404
Available-for-sale investments		<b>696,471</b>	153,664
Amounts due from contract customers		<b>14,745,232</b>	11,495,709
Receivables under service concession arrangements	10	<b>18,301,169</b>	16,977,664
Trade receivables	12	<b>624,660</b>	665,352
Prepayments, deposits and other receivables	13	<b>3,491,943</b>	5,609,924
Deferred tax assets		<b>111,676</b>	122,388
<b>Total non-current assets</b>		<b>52,376,369</b>	46,338,746
Current assets:			
Non-current assets held for sale		<b>219,211</b>	226,647
Inventories		<b>288,390</b>	99,083
Amounts due from contract customers		<b>2,199,674</b>	1,311,629
Receivables under service concession arrangements	10	<b>2,056,325</b>	1,712,947
Trade receivables	12	<b>3,067,307</b>	2,959,325
Prepayments, deposits and other receivables	13	<b>5,323,680</b>	5,033,177
Derivative financial instruments	11	<b>315,377</b>	167,174
Restricted cash and pledged deposits		<b>150,066</b>	269,189
Cash and cash equivalents		<b>5,540,239</b>	6,373,831
<b>Total current assets</b>		<b>19,160,269</b>	18,153,002
<b>TOTAL ASSETS</b>		<b>71,536,638</b>	64,491,748

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	<i>Notes</i>	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the Company</b>			
Issued capital	14	<b>870,525</b>	872,295
Reserves		<b>15,863,086</b>	15,311,538
		<b>16,733,611</b>	16,183,833
<b>Non-controlling interests</b>		<b>4,376,216</b>	4,106,582
<b>TOTAL EQUITY</b>		<b>21,109,827</b>	20,290,415
<b>Non-current liabilities:</b>			
Other payables and accruals	15	<b>487,277</b>	415,215
Bank and other borrowings		<b>19,940,242</b>	17,121,178
Corporate bonds		<b>6,445,308</b>	4,105,212
Notes payable		<b>3,044,383</b>	3,091,413
Finance lease payables		<b>47,025</b>	51,814
Provision for major overhauls		<b>216,431</b>	205,489
Deferred income		<b>130,687</b>	117,564
Deferred tax liabilities		<b>1,497,647</b>	1,320,597
<b>Total non-current liabilities</b>		<b>31,809,000</b>	26,428,482
<b>Current liabilities:</b>			
Trade payables	16	<b>7,129,719</b>	5,786,331
Other payables and accruals	15	<b>4,379,223</b>	4,817,755
Income tax payables		<b>519,657</b>	490,816
Bank and other borrowings		<b>6,530,839</b>	6,015,190
Corporate bonds		<b>–</b>	599,674
Finance lease payables		<b>58,373</b>	63,085
<b>Total current liabilities</b>		<b>18,617,811</b>	17,772,851
<b>TOTAL LIABILITIES</b>		<b>50,426,811</b>	44,201,333
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>71,536,638</b>	64,491,748

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to shareholders of the Company												
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Property revaluation reserve (Unaudited) HK\$'000	Defined benefit plan reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2016	872,295	4,878,170	3,581,759	258,791	(231,487)	14,989	(49,536)	(827,735)	719,718	6,966,869	16,183,833	4,106,582	20,290,415
Profit for the period	-	-	-	-	-	-	-	-	-	1,573,915	1,573,915	177,283	1,751,198
Other comprehensive loss for the period:													
- Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(505,017)	-	-	(505,017)	(110,752)	(615,769)
- Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	(16,718)	-	-	-	(16,718)	-	(16,718)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(16,718)	(505,017)	-	1,573,915	1,052,180	66,531	1,118,711
Equity-settled share option arrangements	-	-	-	20,067	-	-	-	-	-	-	20,067	-	20,067
Shares repurchased and cancelled (note 14)	(1,930)	(80,181)	-	-	-	-	-	-	-	-	(82,111)	-	(82,111)
Exercise of share options (note 14)	160	4,749	-	(1,319)	-	-	-	-	-	-	3,590	-	3,590
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	126,522	126,522
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	(13,477)	(13,477)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	90,058	90,058
Final 2015 cash distributions	-	-	(443,948)	-	-	-	-	-	-	-	(443,948)	-	(443,948)
Transfer to reserves	-	-	-	-	-	-	-	-	96,556	(96,556)	-	-	-
At 30 June 2016	870,525	4,802,738*	3,137,811*	277,539*	(231,487)*	14,989*	(66,254)*	(1,332,752)*	816,274*	8,444,228*	16,733,611	4,376,216	21,109,827

\* These reserve accounts comprise the consolidated reserves of HK\$15,863,086,000 (unaudited) (31 December 2015: HK\$15,311,538,000) in the condensed consolidated statement of financial position as at 30 June 2016.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to shareholders of the Company													
	Issued capital (Unaudited) HK\$'000	Share		Share option reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Property revaluation reserve (Unaudited) HK\$'000	Defined benefit plan reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Distributions declared (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
		premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000											
At 1 January 2015	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
Profit for the period	-	-	-	-	-	-	-	-	-	1,160,373	-	1,160,373	224,852	1,385,225
Other comprehensive income/(loss) for the period:														
- Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(32,244)	-	-	-	(32,244)	9,916	(22,328)
- Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	(12,834)	-	-	-	-	(12,834)	-	(12,834)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(12,834)	(32,244)	-	1,160,373	-	1,115,295	234,768	1,350,063
Equity-settled share option arrangements	-	-	-	34,479	-	-	-	-	-	-	-	34,479	-	34,479
Exercise of share options	734	21,348	-	(5,618)	-	-	-	-	-	-	-	16,464	-	16,464
Transfer of share option reserve upon the forfeiture or lapse of share options	-	-	-	(1,918)	-	-	-	-	-	1,918	-	-	-	-
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	(11,051)	(11,051)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	276,210	276,210
Final 2014 cash distributions	-	-	(418,248)	-	-	-	-	-	-	-	-	(418,248)	-	(418,248)
Interim 2015 cash distributions	-	-	(383,522)	-	-	-	-	-	-	-	383,522	-	-	-
Transfer to reserves	-	-	-	-	-	-	-	-	59,357	(59,357)	-	-	-	-
At 30 June 2015	871,477	4,853,905*	3,581,855*	232,471*	(278,498)*	14,989*	(27,263)*	509,508*	550,049*	5,840,423*	383,522*	16,532,438	3,804,217	20,336,655

\* These reserve accounts comprise the consolidated reserves of HK\$15,660,961,000 (unaudited) (31 December 2014: HK\$14,913,705,000) in the condensed consolidated statement of financial position as at 30 June 2015.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash used in operations	(3,058,691)	(1,881,544)
Mainland China corporate income tax paid	(184,283)	(151,682)
Overseas taxes paid	(15,417)	(8,866)
Net cash flows used in operating activities	(3,258,391)	(2,042,092)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	(234,013)	(167,962)
Acquisition of subsidiaries	(285,443)	–
Acquisition of associates	(316,307)	(420,000)
Acquisition of an available-for-sale investment	(545,223)	–
Increase in investments in a joint venture	(4,238)	(362,025)
Investment deposits paid for the acquisition of subsidiaries	–	(428,914)
Deposits paid for the purchase of an item of property, plant and equipment	–	(1,681,035)
Other investing cash flows, net	54,509	175,258
Net cash flows used in investing activities	(1,330,715)	(2,884,678)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares repurchased	(82,111)	–
Issue of a note payable	–	696,834
Issue of a corporate bond	2,338,824	–
Repayment of corporate bonds	(593,350)	–
New loans	8,604,384	7,389,956
Repayment of loans	(5,382,937)	(3,882,958)
Interest paid	(663,271)	(581,365)
Distributions paid	(443,948)	(418,248)
Other financing cash flows, net	70,430	281,623
Net cash flows from financing activities	3,848,021	3,485,842
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(741,085)</b>	<b>(1,440,928)</b>
Cash and cash equivalents at beginning of period	6,365,698	5,989,925
Effect of foreign exchange rate changes, net	(93,168)	(101,648)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>5,531,445</b>	<b>4,447,349</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances:		
Placed in banks	4,367,172	3,316,321
Placed in a financial institution	495,812	607,816
Time deposits:		
Placed in banks	827,321	904,113
Less: Restricted cash and pledged deposits	(150,066)	(266,543)
<hr/>		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	5,540,239	4,561,707
Less: Time deposits with maturity of more than three months when acquired	(8,794)	(114,358)
<hr/>		
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	5,531,445	4,447,349
<hr/>		

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2016, the Group was involved in the following principal activities:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in mainland (“Mainland China”) of the People’s Republic of China (the “PRC”), the Republic of Singapore (“Singapore”) 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 and sales of machineries related to sewage treatment and construction services for comprehensive renovation projects in Mainland China
- licensing of technical know-how related to sewage treatment in Mainland China

## 1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2015 except for the changes in accounting policies made thereafter in adopting the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, which became effective for the first time for the current period’s financial statements, as further detailed in note 1.3 below.

The interim condensed consolidated financial statements have not been audited, but has been reviewed by the Company’s Audit Committee.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

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

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

## 2. OPERATING SEGMENT INFORMATION

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

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



# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

For the six months ended 30 June 2016

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000	Water distribution services (Unaudited) HK\$'000	Technical and consultancy services and sales of machineries (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	6,872,651	598,231	380,680	7,851,562
Cost of sales	(4,713,180)	(301,807)	(135,047)	(5,150,034)
Gross profit	2,159,471	296,424	245,633	2,701,528
Segment results:				
The Group	2,245,165	230,648	212,472	2,688,285
Share of profits and losses of:				
Joint ventures	31,226	78,696	–	109,922
Associates	–	–	4,330	4,330
	2,276,391	309,344	216,802	2,802,537
Fair value gain on derivative financial instruments				203,480
Corporate and other unallocated income and expenses, net				(202,064)
Share of profit of an associate				20,005
Finance costs				(619,693)
Profit before tax				2,204,265
Income tax				(453,067)
Profit for the period				1,751,198
Profit/(loss) for the period attributable to shareholders of the Company:				
Operating segments	1,761,409	270,248	147,717	2,179,374
Fair value gain on derivative financial instruments				203,480
Corporate and other unallocated items				(808,939)
				1,573,915

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

For the six months ended 30 June 2015

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water distribution services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services and sales of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	5,129,061	393,780	240,814	5,763,655
Cost of sales	(3,220,635)	(185,878)	(100,475)	(3,506,988)
Gross profit	1,908,426	207,902	140,339	2,256,667
Segment results:				
The Group	1,902,881	180,111	100,679	2,183,671
Share of profits and losses of:				
Joint ventures	37,288	21,506	–	58,794
Associates	–	16	–	16
	1,940,169	201,633	100,679	2,242,481
Fair value gain on derivative financial instruments				115,239
Corporate and other unallocated income and expenses, net				(68,240)
Finance costs				(552,506)
Profit before tax				1,736,974
Income tax				(351,749)
Profit for the period				1,385,225
Profit/(loss) for the period attributable to shareholders of the Company:				
Operating segments	1,391,444	176,195	94,112	1,661,751
Fair value gain on derivative financial instruments				115,239
Corporate and other unallocated items				(616,617)
				1,160,373

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

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

### 30 June 2016

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water distribution services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services and sales of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment assets	51,086,870	8,585,111	3,177,647	62,849,628
Corporate and other unallocated items				8,687,010
Total assets				71,536,638

### 31 December 2015

	Sewage and reclaimed water treatment and construction services (Audited) <i>HK\$'000</i>	Water distribution services (Audited) <i>HK\$'000</i>	Technical and consultancy services and sales of machineries (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets	47,973,512	7,267,167	2,228,201	57,468,880
Corporate and other unallocated items				7,022,868
Total assets				64,491,748

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

### Geographical information

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue from external customers:		
Mainland China	7,215,691	5,363,891
Elsewhere	635,871	399,764
	<b>7,851,562</b>	5,763,655

The above revenue information by geographical area is based on the locations of the customers.

### Information about major customers

During the period ended 30 June 2016, the Group had no transaction with any single (six months ended 30 June 2015: Nil) external customer which contributed over 10% of the Group's total revenue for the period.

## 3. REVENUE

Revenue represents: (1) revenue attributable to construction contracts and service contracts relating to sewage and reclaimed water treatment, net of value-added tax and government surcharges; (2) revenue attributable to other construction contracts, net of value-added 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) revenue attributable to technical and consultancy services contracts and sales of machineries, net of value-added tax and government surcharges; and (5) the imputed interest income on service concession arrangements.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 3. REVENUE *(Continued)*

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Sewage and reclaimed water treatment services	1,635,262	1,809,861
Construction services	5,237,389	3,319,200
Water distribution services	598,231	393,780
Technical and consultancy services and sales of machineries	380,680	240,814
	<b>7,851,562</b>	5,763,655

Imputed interest income under service concession arrangements amounting to HK\$687,569,000 (Six months ended 30 June 2015: HK\$536,267,000) is included in the above revenue.

## 4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Cost of sewage and reclaimed water treatment services rendered	645,734	610,015
Cost of construction services	4,032,265	2,575,811
Cost of water distribution services	271,308	156,844
Cost of technical and consultancy services rendered and machineries sold	135,047	100,475
Depreciation	68,302	40,395
Amortisation of operating concessions*	65,680	63,843
Amortisation of other intangible assets*	2,426	2,227

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Interest on bank and other loans	468,681	391,829
Interest on corporate bonds	104,856	108,261
Interest on notes payable	93,510	81,275
Interest on finance leases	2,452	–
Total interest expense	669,499	581,365
Increase in discounted amounts of provision for major overhauls arising from the passage of time	5,570	4,654
Total finance costs	675,069	586,019
Less: Interest included in cost of construction services	(55,376)	(33,513)
	619,693	552,506

## 6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2016 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2015: Nil).

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 6. INCOME TAX EXPENSE *(Continued)*

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current – Mainland China	232,682	156,313
Current – Elsewhere	7,295	8,848
Underprovision in prior periods	164	5,452
Deferred	212,926	181,136
Total tax expense for the period	453,067	351,749

## 7. INTERIM DISTRIBUTION

On 30 August 2016, the Board declared an interim cash distribution of HK5.9 cents per share (Six months ended 30 June 2015: HK4.4 cents) totalling approximately HK\$513,610,000 (Six months ended 30 June 2015: HK\$383,619,000).

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

The calculation of basic earnings per share amount for the six months ended 30 June 2016 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 8,706,460,800 (Six months ended 30 June 2015: 8,710,481,870) ordinary shares in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the weighted number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

(Continued)

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

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
<b>Earnings</b>		
Profit for the period attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	<b>1,573,915</b>	1,160,373

	For the six months ended 30 June	
	2016 (Unaudited)	2015 (Unaudited)
<b>Number of ordinary shares</b>		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	<b>8,706,460,800</b>	8,710,481,870
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	<b>172,792,055</b>	209,431,564
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<b>8,879,252,855</b>	8,919,913,434

## 9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's additions of property, plant and equipment amounted to HK\$1,862,169,000 (Six months ended 30 June 2015: HK\$167,962,000). There were disposals and/or write-off of property, plant and equipment with an aggregate carrying amount of HK\$2,931,000 (Six months ended 30 June 2015: Nil) during the six months ended 30 June 2016.



# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Billed:		
Within 3 months	<b>871,182</b>	662,753
4 to 6 months	<b>304,191</b>	211,827
7 to 12 months	<b>263,497</b>	221,404
Over 1 year	<b>178,424</b>	160,781
	<b>1,617,294</b>	1,256,765
Unbilled:		
Current portion	<b>439,031</b>	456,182
Non-current portion	<b>18,301,169</b>	16,977,664
	<b>18,740,200</b>	17,433,846
Total	<b>20,357,494</b>	18,690,611

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
<b>Assets</b>		
Forward contracts	<b>315,377</b>	209,578
Portion classified as current assets	<b>(315,377)</b>	(167,174)
Non-current portion	–	42,404

The forward contracts, as at 30 June 2016, were related to the subscription of the remaining 5,316,455,700 (31 December 2015: 8,860,759,500) convertible preference shares in Beijing Enterprises Clean Energy Group Limited (“BE Clean Energy”) between November 2016 and May 2017 (31 December 2015: between May 2016 and May 2017) for a total cash consideration of HK\$420 million (31 December 2015: HK\$700 million).

The fair value of the forward contracts was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The valuation technique adopted by the Group is Black-Scholes model with Binomial Tree method and key inputs to the valuation on forward contracts are adjusted equity value and stock volatility of comparable companies. Generally, a change in the assumption made for the adjusted equity value is an opposite change in the stock volatility.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 11. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The following tables demonstrate the sensitivity of the Group's profit before tax to a reasonably possible change in the effect of the adjusted equity value and stock volatility of comparable companies, respectively.

	Increase/ (decrease) in basis points	Effect on profit before tax <i>HK\$'000</i>
<b>30 June 2016 (Unaudited)</b>		
Adjusted equity value	100	7,272
Adjusted equity value	(100)	(7,272)
<b>31 December 2015 (Audited)</b>		
Adjusted equity value	100	10,295
Adjusted equity value	(100)	(10,295)
Stock volatility	100	(125)
Stock volatility	(100)	125
Stock volatility	100	(130)
Stock volatility	(100)	130

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 12. TRADE RECEIVABLES

The Group's trade 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 sales of machineries. 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 will 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 receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 6.18% to 12.98% (31 December 2015: 6.85% to 12.98%), other trade receivables are non-interest-bearing.

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Billed:		
Within 3 months	<b>494,403</b>	674,939
4 to 6 months	<b>84,379</b>	61,879
7 to 12 months	<b>164,808</b>	52,169
Over 1 year	<b>2,022,996</b>	2,017,310
Balance with extended credit period	<b>48,025</b>	49,005
	<b>2,814,611</b>	2,855,302
Unbilled*	<b>877,356</b>	769,375
	<b>3,691,967</b>	3,624,677
Portion classified as current assets	<b>(3,067,307)</b>	(2,959,325)
Non-current portion	<b>624,660</b>	665,352

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Prepayments	53,941	52,042
Deposits and other debtors	5,130,560	7,101,476
Advances to subcontractors and suppliers	1,750,894	1,946,270
Due from joint ventures	291,842	236,136
Due from associates	198,561	116
Due from related parties	1,503,421	1,451,490
	<b>8,929,219</b>	10,787,530
Impairment	<b>(113,596)</b>	(144,429)
	<b>8,815,623</b>	10,643,101
Portion classified as current assets	<b>(5,323,680)</b>	(5,033,177)
	<b>3,491,943</b>	5,609,924

## 14. SHARE CAPITAL

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
<i>Issued and fully paid:</i>		
8,705,253,196 (31 December 2015: 8,722,949,196) ordinary shares of HK\$0.10 each	<b>870,525</b>	872,295

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 14. SHARE CAPITAL *(Continued)*

A summary of the movements in the Company's issued share capital during the six months ended 30 June 2016 is as follows:

	Notes	Number of ordinary shares in issue (Unaudited)	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 January 2016		8,722,949,196	872,295	4,878,170	5,750,465
Shares repurchased and cancelled	(a)	(19,296,000)	(1,930)	(80,181)	(82,111)
Exercise of share options	(b)	1,600,000	160	4,749	4,909
At 30 June 2016		8,705,253,196	870,525	4,802,738	5,673,263

Notes:

- (a) During the period, the Company purchased its own ordinary shares of 19,296,000 on the Stock Exchange at a total consideration of HK\$81,797,000 (before expense). The purchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value of approximately HK\$1,930,000. The premium paid on the purchase of the shares of HK\$80,181,000, including transaction costs, has been charged to the share premium of the Company.
- (b) During the period, the subscription rights attaching to 1,600,000 share options were exercised at the subscription price of HK\$2.244 per share, resulting in the issue of 1,600,000 shares of HK\$0.1 each for a total consideration, before expenses, of HK\$3,590,000. An amount of HK\$1,319,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

## 15. OTHER PAYABLES AND ACCRUALS

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Accruals	276,913	413,485
Other liabilities	1,419,719	1,247,128
Receipts in advance	783,577	1,378,743
Due to subcontractors	1,342,072	1,134,785
Due to joint ventures	466,242	560,388
Due to associates	2,937	171
Due to related parties	454,003	350,863
Other taxes payables	121,037	147,407
	<b>4,866,500</b>	5,232,970
Portion classified as current liabilities	<b>(4,379,223)</b>	(4,817,755)
Non-current portion	<b>487,277</b>	415,215

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 16. TRADE PAYABLES

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Within 3 months	<b>3,061,372</b>	2,129,973
4 to 6 months	<b>1,447,897</b>	870,743
7 months to 1 year	<b>906,628</b>	420,418
1 to 2 years	<b>540,874</b>	1,296,471
2 to 3 years	<b>585,019</b>	341,849
Over 3 years	<b>249,755</b>	197,788
Balance with extended credit period	<b>338,174</b>	529,089
	<b>7,129,719</b>	5,786,331

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

## 17. CONTINGENT LIABILITIES

At 30 June 2016, a corporate guarantee at a maximum amount of MYR49,162,000 (equivalent to HK\$95,065,000) (31 December 2015: MYR49,162,000 (equivalent to HK\$88,909,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and effects until 27 January 2019. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011.

Save as disclosed above, at 30 June 2016, the Group did not have any significant contingent liabilities.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 18. CAPITAL COMMITMENTS

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Contracted, but not provided for		
New service concession arrangements on:		
TOT basis	<b>412,935</b>	280,919
BOT basis	<b>6,186,099</b>	6,227,582
Build-Own-Operate basis	<b>696,397</b>	643,895
Capital contribution to joint ventures	<b>94,118</b>	96,038
Acquisition of subsidiaries	<b>96,254</b>	118,821
Acquisition of further interest in an associate	<b>420,000</b>	700,000
	<b>7,905,803</b>	8,067,255

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Contracted, but not provided for	<b>90,764</b>	105,618

Save as disclosed above, at 30 June 2016, the Group did not have any significant commitments.



# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 19. RELATED PARTY DISCLOSURES

- (a) The Group had the following material transactions during the six months ended 30 June 2016 and outstanding interest-bearing balances with related parties as at 30 June 2016:
- (i) An amount of HK\$1,279,462,000 (31 December 2015: HK\$1,274,467,000) 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, is secured by the 40% equity interest in the subsidiary held by the non-controlling equity holder;
  - (ii) Pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, the 70% owned subsidiary and the non-controlling equity holders of the 70% owned subsidiary, the non-controlling equity holders shall pay interest to the Company at the benchmark 1-year interest rate for Renminbi loans as promulgated by the People's Bank of China over the same period in respect of intercompany advances provided by the Company to the 70% owned subsidiary. As a result, interest income of HK\$2,167,000 was recognised by the Group during the six months ended 30 June 2016 (Six months ended 30 June 2015: HK\$2,686,000);
  - (iii) Loans with principal amounts of RMB34,780,000 (equivalent to HK\$40,918,000, the "RMB Loan") and US\$100,000 (equivalent to HK\$776,000, the "US\$ Loan") are advanced to Aqualyng-BEWG China Desalination Company Limited ("ABCD"), a joint venture of the Group. The RMB Loan is unsecured and repayable in 2030 while the US\$ Loan is unsecured and repayable on demand. In the opinion of the directors, the loans are considered as investments in ABCD. No interest income was recognised in profit or loss during the six months ended 30 June 2016 in respect of the loans (Six months ended 30 June 2015: HK\$1,296,000);
  - (iv) Included in the amounts due from joint ventures of the Group as at 30 June 2016 was an advance to a joint venture of US\$26,390,000 (equivalent to HK\$205,270,000) (31 December 2015: Nil). The amount is unsecured, bearing floating interest rate ranging from 3.42% to 3.45% per annum, and repayable on demand;

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

(a) The Group had the following material transactions during the six months ended 30 June 2016 and outstanding interest-bearing balances with related parties as at 30 June 2016: *(Continued)*

(v) Included in the receivables under service concession arrangements of the Group as at 30 June 2016 was an amount due from Beijing Enterprises Holdings Limited (“BEHL”), a substantial beneficial owner of the Company, of HK\$1,012,179,000 (31 December 2015: HK\$999,915,000). 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 HK\$32,646,000 (Six months ended 30 June 2015: HK\$43,534,000), which was measured at amortised cost using the effective interest rate method, was recognised in “Revenue” on the face of the condensed consolidated statement of profit or loss during the period. Further details of the transaction are set out in the Company’s circular and announcement dated 30 November 2012 and 5 February 2013, respectively;

(vi) Pursuant to a deposit services master agreement (the “Deposit Agreement”) and a supplemental agreement to Deposit Agreement (the “Supplemental Agreement”) entered into between the Company and Beijing Enterprises Group Finance Co., Ltd. (“BG Finance”) on 31 March 2015 and 22 December 2015, respectively, the Group may, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time. BG Finance is a non-wholly-owned subsidiary of Beijing Enterprises Group Company Limited (“BEGCL”) and an associate of BEHL and acts as a platform for members of BEGCL and BEHL for the provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

The term of the Deposit Agreement and the Supplemental Agreement shall commence on the date of the Deposit Agreement and continue up to and including 31 December 2017. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the term of the Deposit Agreement and the Supplemental Agreement shall not exceed HK\$2,350,000,000. Further details of the Deposit Agreement and the Supplemental Agreement are set out in the Company’s announcements dated 31 March 2015 and 22 December 2015, respectively.

The deposits placed by the Group with BG Finance as at the end of the reporting period amounted to HK\$495,812,000 (31 December 2015: HK\$775,888,000). Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK\$134,118,000 (31 December 2015: HK\$1,103,241,000) and bear interest at floating rates ranging from 4.75% to 4.90% per annum. The related interest income and interest expenses recognised in profit or loss during the period were not significant to the Group; and

(vii) An amount due to a joint venture of US\$26,390,000 (equivalent to HK\$205,270,000) (31 December 2015: Nil) is unsecured, non-interest bearing and repayable on demand.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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

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

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

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Short-term employee benefits	12,320	11,781
Equity-settled share option expenses	11,098	17,754
Pension scheme contributions	62	36
Total compensation paid to key management personnel	23,480	29,571

## 20. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2016 amounted to HK\$542,458,000 (unaudited) (31 December 2015: HK\$380,151,000) and HK\$52,918,827,000 (unaudited) (31 December 2015: HK\$46,718,897,000), respectively.

## 21. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved and authorised for issue by the Board on 30 August 2016.

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS

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

As at 30 June 2016, 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:

#### (i) Long positions in the shares and/or underlying shares of the Company

Name of Directors	Number of ordinary shares				Total	Approximate percentage of the Company's issued share capital (Note 2)
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Zhou Min	400,000	-	307,676,110 (Note 1)	-	308,076,110	3.5390%
Mr. Li Haifeng	80,000	-	-	-	80,000	0.0009%
Mr. Li Li	10,000	-	-	-	10,000	0.0001%

#### (ii) Long positions in the shares and/or underlying shares of the associated corporation

Associated Corporation	Directors	Number of ordinary shares				Number of underlying shares held (Note 6)	Total	Approximate percentage of the associated corporation's issued share capital (Note 5)
		Personal interests	Family interests	Corporate interests	Other interest			
Beijing Enterprises Clean Energy Group Limited ("BECEG")	Mr. Zhou Min	-	-	475,014,040	-	1,121,061,910	1,596,075,950 (Note 3)	4.3789%
	Mr. Li Haifeng	-	-	334,726,590	-	925,088,490	1,259,815,080 (Note 4)	3.4563%

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

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

*(Continued)*

Notes:

1. 307,676,110 ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") as at 30 June 2016 are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
2. The percentage represented the number of Shares over the total issued Shares of the Company as at 30 June 2016 of 8,705,253,196 Shares.
3. This represented the aggregate number of ordinary shares of BECEG of HK\$0.001 each ("BECEG Ordinary Shares") and underlying shares ("Underlying Shares") held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
4. This represented the aggregate number of BECEG Ordinary Shares and Underlying Shares held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
5. The percentage represented the aggregate number of BECEG Ordinary Shares and Underlying Shares over the total issued shares of BECEG as at 30 June 2016 of 36,449,536,470 shares.
6. The number of Underlying Shares held includes convertible preference shares held by shareholders of BECEG and convertible preference shares to be subscribed by certain shareholders of BECEG under a subscription agreement dated 9 December 2014.

#### *(iii) Long positions in share options of the Company*

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

Save as disclosed above, as at 30 June 2016, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

### Directors' Rights to Acquire Shares

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

### Directors' Interests in Contracts of Significance

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

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

As at 30 June 2016, 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 positions in the Shares and/or underlying Shares of the Company*

Name of Shareholders	Capacity in which Shares were held	Long position in the Shares	Approximate percentage of the Company's issued share capital <i>(Note 5)</i>
Beijing Enterprises Group Company Limited ("BEGCL") <i>(Notes 1 &amp; 2 &amp; 3)</i>	Interest of controlled corporation	3,827,377,831	43.97%
	Interest of controlled corporation	300,001,592	3.45%
Beijing Enterprises Holdings Limited ("BEHL") <i>(Notes 1 &amp; 2 &amp; 4)</i>	Interest of controlled corporation	3,824,367,831	43.93%
	Interest of controlled corporation	300,001,592	3.45%

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

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

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

Notes:

1. BEGCL is deemed to be interested in 3,827,377,831 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 ("BE Group (BVI)")	3,827,377,831
BEGCL	3,827,377,831

BE Environmental beneficially holds 3,824,367,831 Shares (representing approximately 43.93%) in the share capital of the Company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 41.06% by BE Group (BVI). BE Group (BVI) directly holds 3,010,000 Shares in the share capital of the Company and is held as to 100% by BEGCL.

2. The Company and BEHL entered into a sale and purchase agreement dated 9 December 2015 whereby the Company has conditionally agreed to allot and issue 300,001,592 Shares to BEHL or BEHL nominee(s) at completion of the acquisition of entire interest in Golden State Water Group Corporation, which was terminated on 29 July 2016.
3. The long positions held by BEGCL include: (i) the 3,827,377,831 Shares as described in note 1 above; and (ii) 300,001,592 Shares as described in note 2 above; BEGCL is deemed to be interested in 300,001,592 Shares as its indirect holding of shares of BEHL as described in note 1 above as at 30 June 2016.
4. The long positions held by BEHL include: (i) the 3,824,367,831 Shares as described in note 1 above; and (ii) 300,001,592 Shares as described in note 2 above as at 30 June 2016.
5. The percentage represented the number of Shares over the total issued shares of the Company as at 30 June 2016 of 8,705,253,196 Shares.

Save as disclosed above, as at 30 June 2016, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME

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

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

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary Shares of the Company in issue 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 of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options.

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



# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

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.

During the six months ended 30 June 2016, no option was granted under the Scheme, the movements in the share options of the Company during the period are set out as follows:

Name/ Category of Participants	Number of Share Options					As at 30 June 2016	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$
	As at 1 January 2016	Granted	Exercised	Lapsed	Cancelled					
<b>Directors</b>										
Zhou Min	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	56,000,000	-	-	-	-	56,000,000				
Li Haifeng	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	25,000,000	-	-	-	-	25,000,000				
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				

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

Name/ Category of Participants	Number of Share Options					As at 30 June 2016	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$
	As at 1 January 2016	Granted	Exercised	Lapsed	Cancelled					
Li Li	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	19,200,000	-	-	-	-	19,200,000				
Shea Chun Lok Quadrant	400,000	-	(400,000)	-	-	-	24/4/2013	24/4/2016 – 23/4/2023	2.244	4.53 <i>(Note 1)</i>
	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	-
	1,200,000	-	(400,000)	-	-	800,000				
Zhang Gaobo	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	-
	1,200,000	-	-	-	-	1,200,000				
Guo Rui	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	-
	1,600,000	-	-	-	-	1,600,000				
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				

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

Name/ Category of Participants	Number of Share Options					As at 30 June 2016	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$
	As at 1 January 2016	Granted	Exercised	Lapsed	Cancelled					
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				
<b>Sub-total</b>	117,200,000	-	(400,000)	-	-	116,800,000				
<b>Former Director</b>										
Yu Ning <i>(Note 2)</i>	2,000,000	-	-	-	-	2,000,000	28/3/2014	1/6/2016 – 31/5/2017 <i>(Note 2)</i>	5.18	-
<b>Eligible Employees</b>										
In aggregate <i>(Note 3)</i>	29,350,000	-	(600,000)	-	-	28,750,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	4.55 <i>(Note 4)</i>
	50,600,000	-	(600,000)	-	-	50,000,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	4.43 <i>(Note 4)</i>
	53,510,000	-	-	-	-	53,510,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	53,510,000	-	-	-	-	53,510,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	53,510,000	-	-	-	-	53,510,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
<b>Sub-total</b>	240,480,000	-	(1,200,000)	-	-	239,280,000				
<b>Total</b>	359,680,000	-	(1,600,000)	-	-	358,080,000				

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

### Notes:

1. It represented the closing price of the Shares immediately before the date of the share options exercised by the director during the period.
2. The share option granted to a deceased director of the Company (being fully vested following his passed away on 1 June 2016) remains exercisable from 1 June 2016 to 31 May 2017.
3. Mr. Hu Xiaoyong resigned as an executive director and the chief executive officer of the Company and was appointed as the honorary chairman of the Company on 30 March 2016. In this respect, the options granted to Mr. Hu Xiaoyong were re-classified from the category of “Directors” to the category of “Eligible Employees”.
4. It represented the closing price of the Shares immediately before the dates of the share options exercised by Eligible Employees during the period.
5. Each participant was vested on 24 April 2014, 24 April 2015 and 24 April 2016 each for 20% of the share options granted and the remaining will be vested in two respective tranches on 24 April 2017 and 24 April 2018 each for 20% of the share options granted.

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the six months ended 30 June 2016.

As at 30 June 2016, there were total 358,080,000 share options outstanding under the Scheme, representing approximately 4.11% of the ordinary Shares in issue. As at the date of this interim report, there were total 358,080,000 share options outstanding under the Scheme, representing approximately 4.11% of the ordinary Shares in issue.

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” in the 2015 annual report of the Company (the “Annual Report 2015”).

# DISCLOSEABLE INFORMATION

## BOARD CHANGES AND CHANGE IN INFORMATION OF DIRECTOR UNDER RULE 13.51B(1) OF THE LISTING RULES

During the period under review:

- Mr. Hu Xiaoyong resigned as an executive director and the chief executive officer of the Company and was appointed as the honorary chairman of the Company on 30 March 2016;
- Mr. Zhou Min, an executive director of the Company, was appointed as an executive director and the chief executive officer of the Company on 30 March 2016;
- Mr. Li Li, an executive director of the Company, was appointed as an executive director and the chief operating officer of the Company on 30 March 2016; and
- Mr. Yu Ning, an independent non-executive director of the Company, passed away on 1 June 2016.

Change in information of director since the date of the Annual Report 2015 up to the date of this report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Jiang Xinhao, an executive director of the Company, was ceased to be an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925), a company listed on the main board of the Stock Exchange.

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

Save as disclosed above, since the issue date of the Annual Report 2015, there has been no change in the Board, and there has been no change in directors' information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# DISCLOSEABLE INFORMATION

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount (million)	Final Maturity	Specific performance obligations
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>
29 April 2015	Term loan facility with a bank	US\$150	April 2020	<i>Note 2</i>
8 May 2015	Note purchase agreement with an institutional investor	HK\$700	May 2020	<i>Note 2</i>
19 June 2015	Term loan facility with a bank	HK\$1,550	June 2018	<i>Note 1</i>
27 November 2015	Term loan facility with a bank	HK\$3,000	November 2020	<i>Note 3</i>
18 December 2015	Term loan facility with an international financial institution	US\$253.5 US\$34.9	January 2021 December 2025	<i>Note 1</i> <i>Note 1</i>
28 December 2015	Term loan facilities with three banks	HK\$1,760	December 2020	<i>Note 3</i>

# DISCLOSEABLE INFORMATION

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

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.
- 3 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; (iv) BEGCL does not or ceases to own, directly or indirectly, at least 40% of the beneficial shareholding carrying at least 40% of the voting rights in BEHL, free from any security; (v) BEGCL is not or ceases to be the, direct or indirect, single largest shareholder of BEHL or does not or ceases to supervise BEHL; and/or (vi) BEGCL is not or ceases to be effectively wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality\* (北京市人民政府國有資產監督管理委員會).

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

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

### Repurchase of Ordinary Shares of the Company

The Company repurchased a total of 19,296,000 ordinary Shares of the Company on the Stock Exchange for the six months ended 30 June 2016 at an aggregate consideration of HK\$81,797,000 (before expense). All the repurchased shares were subsequently cancelled by the Company. Details of repurchase of such ordinary shares were as follows:

Month/year	Number of ordinary shares repurchased	Price per Share		Aggregate consideration paid (HK\$)
		Highest	Lowest	
January 2016	19,296,000	4.57	3.77	81,797,000

\* For identification purposes only

# DISCLOSEABLE INFORMATION

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

### **Redemption of CNY450,000,000 5.00% Bonds Due 2016**

During the six months ended 30 June 2016, the Company redeemed all the outstanding principal amount of CNY450,000,000 5.00% bonds due 2016 (the "2016 Bonds") on the maturity date of the 2016 Bonds at the redemption price equal to 100% of the outstanding principal amount of the 2016 Bonds, which was CNY450 million plus accrued interest.

### **Redemption of CNY50,000,000 5.00% Bonds Due 2016 (consolidated and formed a single series with the CNY450,000,000 5.00% bonds due 2016 issued on 30 June 2011)**

During the six months ended 30 June 2016, the Company redeemed all the outstanding principal amount of CNY50,000,000 5.00% bonds due 2016 (the "Further 2016 Bonds") on the maturity date of the Further 2016 Bonds at the redemption price equal to 100% of the outstanding principal amount of the Further 2016 Bonds, which was CNY50 million plus accrued interest.

Subsequent to the redemption of the respective 2016 Bonds and Further 2016 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 six months ended 30 June 2016.

## **INTERIM DISTRIBUTION**

The directors of the Company have resolved to pay interim distribution of HK5.9 cents per ordinary Share out of the contributed surplus of the Company, payable on or around 14 October 2016 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 30 September 2016 for their continuous supports to the Company.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from Wednesday, 28 September 2016 to Friday, 30 September 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim distribution, all properly completed transfers forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 27 September 2016.



# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE

During the six months ended 30 June 2016, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors of the Company, the Company confirms that during the six months ended 30 June 2016, all directors of the Company complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by directors of the Company.

## AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive directors of the Company, namely Mr. Shea Chun Lok Quadrant (the chairman of the Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure, risk management and internal controls of the Company. The unaudited interim results for the six months ended 30 June 2016 have been reviewed and approved by the Audit Committee. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that may be exposed to the Group and ensuring that the Group maintains sound and effective risk management and internal control systems. The Board had delegated such responsibility to the Audit Committee which shall oversee management in designing, implementing and monitoring the risk management and internal control systems.

The Audit Committee, on behalf of the Board, reviews and monitors the effectiveness of the Group’s risk management and internal control systems in accordance with the Company’s policies and practices and receives reports on the effectiveness of these systems periodically.

# CORPORATE GOVERNANCE

## **RISK MANAGEMENT AND INTERNAL CONTROL** *(Continued)*

The Group has a risk management center and supervision and audit center in place which report to the management of the Company and the Audit Committee. The risk management center has set up a risk management mechanism towards the corporate objectives in terms of identifying, controlling, ensuring and managing the risks faced by the Group. In particular, the Group applies for strict guidelines and procedures that control over the operating units for every investment which are targeted at mitigating risks in terms of exposure and external impacts and ensures the processes in which risks are managed are fit for purpose. On the other hand, supervision and audit center carries out an independent review of key business processes and controls in accordance with its normal procedures. Their recommendations and remedial measures will be taken to rectify the deficiencies accordingly. The Company from time to time handles inside information in accordance with the procedures and guidelines, updates the internal control system when there are changes to business environment or regulatory guidelines; and follows up with various departments and business segments to ensure the timely implementation of the recommendations.

The Board believes that there is an adequacy of resources in terms of staff qualifications and experience, training programmes and budget of the Group's internal audit function.

The Board considers that the Group's enhanced risk management and internal control systems were effective and adequate for the six months ended 30 June 2016. No significant areas of concern that may affect the financial, operational and compliance control functions of the Group have been identified.