



2016

ANNUAL REPORT



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

BEIJING ENTERPRISES WATER
GROUP LIMITED

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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 (Resigned as
Independent Non-executive Director on 30 March 2017)
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

REGISTERED OFFICE

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Bermuda

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Wanchai
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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

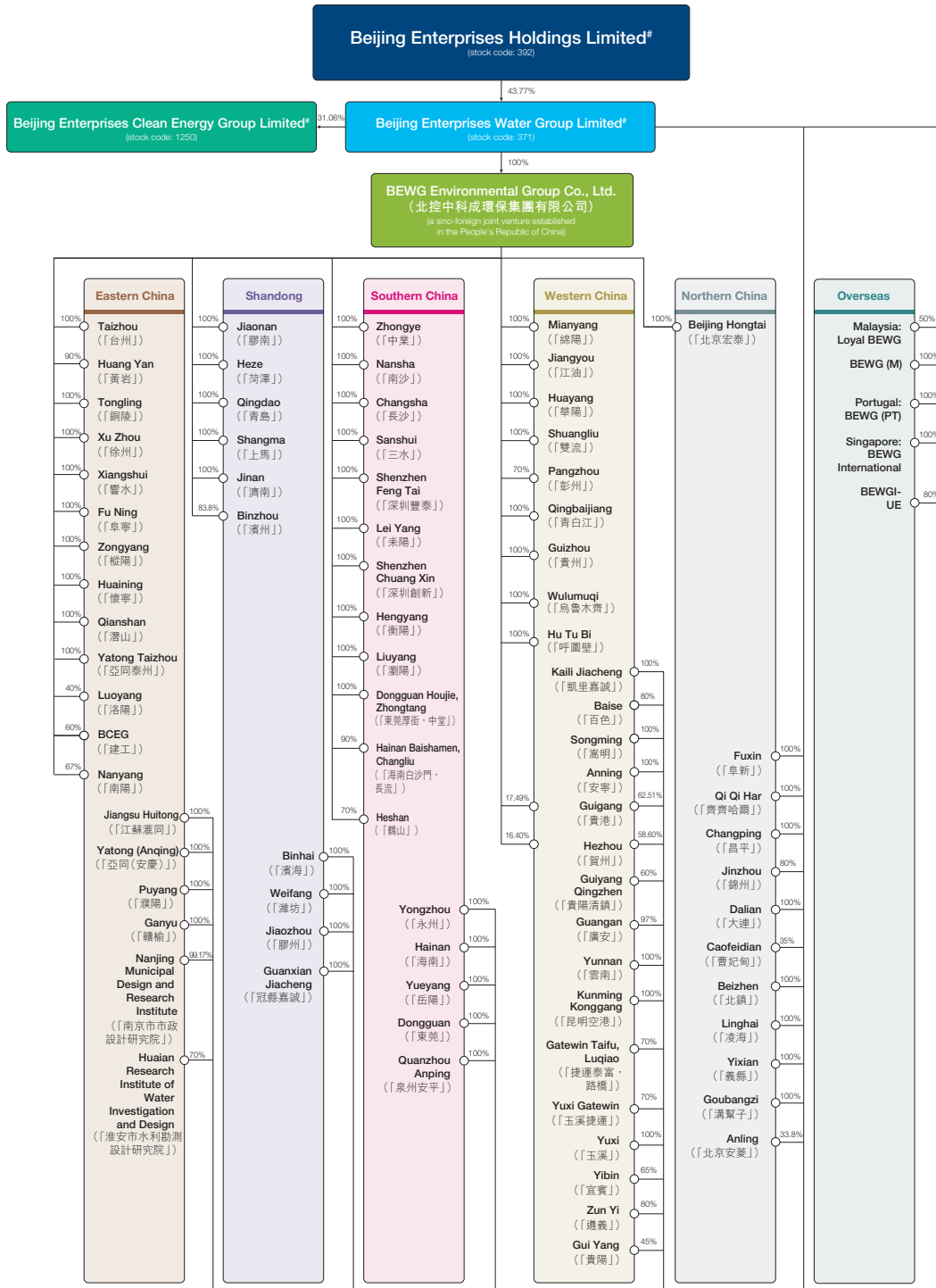
PRINCIPAL BANKERS

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

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

31 December 2016



[#] 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,

The world economy continued to experience sluggish growth in 2016 with greater volatility and uncertainties in the global economic and financial environment. In the face of complicated internal and external economic situations, China took an agile approach in adapting to the new circumstances and led the economy development into the New Normal, thereby ensuring the reasonable growth of the economy. With the successful implementation of the concept of green development and the vigorous promotion of the public-private partnership (PPP) model, growth momentum in the environmental sector has been exponential. 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 explore innovative business models, set up BEWG’s own ecological system and drive the growth of both its core businesses and emerging businesses have delivered a satisfactory growth in operating results.

PERFORMANCE REVIEW

For the year ended 31 December 2016, the Group recorded a revenue of HK\$17,354.8 million, which grew by 29% year-on-year. Profit attributable to shareholders of the Company amounted to HK\$3,227.0 million, which increased by 31% year-on-year. Basic earnings per share for the year was HK37.04 cents. In recognition of the continuous support of the shareholders, the board of directors of the Company (the “Board”) resolved to make a final distribution of HK6.0 cents per share to the shareholders.

In 2016, the government promulgated a series of major policies, including environmental inspection, centralisation of environmental enforcement and the introduction of the River Chief System, to better regulate environmental compliance and its effectiveness. Meanwhile, the boom in the PPP model in the environmental sector has continued to drive the water service and environmental protection industry to become stronger. With such favourable conditions, BEWG continued to expand and strengthen its two core businesses, namely urban water services and water environment renovation by establishing the whole industry chain of the urban water service and water environment renovation businesses. We also endeavoured to explore innovative business models and develop new ways of co-operation which allowed greater flexibility in partnering with external parties. In respect of urban water services, the growth in the Group’s daily treatment capacity maintained a rapid pace. For the water environment renovation business, BEWG emphasised urban investment and focused on combined PPP projects, and was awarded, and entered into contracts for, a number of major tenders, including a PPP construction project for water environmental renovation in Tongzhou, the sub-city centre of Beijing. The Group’s total daily design capacity was 27,168,044 tons as at 31 December 2016.

CHAIRMAN'S STATEMENT

As to the new businesses, the Group's environmental and hygiene segment has been rapidly expanding its national layout with an increased number of private projects awarded in the year. The Group further integrated the advantageous resources from external sources for the membrane business so as to lay a solid groundwork for the expansion of the industrial water service market. Beijing Enterprises Clean Energy Group Limited (stock code: 1250), an associate of the Company, has been rapidly expanding its business coverage across the country, and the integration of distributed power stations and sewage treatment plants has been effective. The Group's design capacity was on the rise and the operating performance, and the progress of management system establishment 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* were satisfactory. In respect of the overseas business, the Group reacted actively to China's One Belt, One Road initiative, and the major projects in Pantai, Malaysia and Changi, Singapore were completed and well-received by the market.

For the ways of financing, the Group has been actively exploring the model of financial-industrial integration and has established an asset management platform. It has set up a fund management company with a third-party institution to promote industry development with new financing methods. The performance of financial innovation was outstanding with the issuance of a series of green bonds and cum-rights medium-term notes in the domestic bond market, thereby setting an exemplary role model for the innovation of green bond financing.

While maintaining fast business growth, the Group was swift to respond to the challenges in the industry in 2016. Stiffening competition, which is characterised by the rising number of successful bids at unreasonably low prices, has called for more regulations and higher degree of professionalism. On the other hand, the wider application of the PPP model, which will led to more bulk orders with greater complexity, requires all-round investment, an effective operation and solid capital and technological strength, thus posing difficulties for industry players without comprehensive operations to meet complicated market needs.

To be well-prepared for the new development of the environmental sector and the resulting challenges, the Group has determined its strategic direction as an ecological enterprise. Internally, it aims to transform itself into an ecological enterprise; and externally, it is setting up BEWG's own ecological system. Co-operations are to be carried out in a flexible and diversified manner in order to build business affiliations which formed an ecosystem featuring integrated industry chain and to facilitate the growth of the whole industry. In achieving these goals, the Group has strived to increase co-operations with different parts in the industry chain with a view to paving the way for cross-sector integration.

* for identification purpose only

CHAIRMAN'S STATEMENT

CORPORATE MANAGEMENT AND CONTROL

Reforms on management and organisational structure have been carried out according to the strategic goals of the Thirteenth Five-Year Strategic Objectives and the direction of becoming an ecological enterprise. The organisational structure of the Group's headquarters now comprises four divisions, namely operation, support, management and supervision. Since the beginning of 2016, new regional divisions, namely Beijing-Tianjin-Hebei, Shandong-Henan and Western China, have been formed to nurture their own comprehensive operations and support.

The Group has set up a system covering all aspects of risk management, enhanced information management and its effectiveness in business support as well as strengthened capital management and financial analysis. Human resources functions have also been reinforced by establishing talent development programmes so as to demonstrate corporate culture. Efforts have also been made to increase the Group's influence on the market. This year, for the first time, the Group appeared on the Fortune China 500 list.

SUSTAINABLE DEVELOPMENT

In 2017, BEWG will strictly adhere to the Group's Thirteenth Five-Year Strategic Objectives and work towards an ecological enterprise by setting up BEWG's own ecological system. The Company will also endeavour to grasp the huge opportunities in the PPP segment and secure more water environment projects.

As to the core businesses, the Group will foster the restructuring of its investment system and enhance the investment team for the water environment business with a focus on certain major cities. It will also innovate the investment model by making better use of the PPP business model and actively applying the innovative approach of financial-industrial integration. Moreover, regional reform will be furthered with an aim to boost the strength and promote better integration of the regional network which now covers the central, eastern, western, southern and northern part of China.

As to the emerging businesses, the Group aims to maintain the rapid growth of the environmental and hygiene business, achieve breakthrough in the development of the membrane and industrial wastewater treatment business. It also establishes a strategic layout for the clean energy business mainly featuring photovoltaic power with a number of other clean energy as a supplement, and enhances the integrated strength of the design business. In addition, the Group will continue to conduct the preliminary preparation of the seawater desalination project in Beijing in respect of the seawater desalination business, while the overseas business will be further expanded in order to achieve breakthrough in terms of business volume.

In respect of technological research and development, the dual-centre approach, which comprises a technological research and development centre and a research institute for water environment, will be improved so as to boost the overall technological capability that helps to reinforce the brand of BEWG as a technological leader.

The Group will also ensure the proper implementation of its various functions by tightening risk control, enhancing capital management, promoting financing innovation and increasing capabilities in terms of informatisation, human resources, corporate culture, branding and public relations as well as health, safety and environment (HSE) management.

CHAIRMAN'S STATEMENT

To ensure the effective implementation of its ecological strategies, BEWG will take a dual approach in 2017. On the internal front, a resources platform and a sharing system are in place to encourage innovation, and restructuring is supported with open corporate culture and management system. Externally, the mode of co-operation will be changed from a simple contractual relationship to a cross-industry co-operative value network, which enables a sustainable relationship and an open and mutually beneficial co-operation, thereby creating a dynamic and decentralised community of interest.

BEWG is fully aware of the importance of its staff, customers and joint venture partners to its sustainable and stable growth. The Group strives in concert with its staff and works closely with its joint venture partners in order to deliver quality services to its customers, with an ultimate aim to enabling a sustainable development of the Company.

FUTURE DEVELOPMENT

In light of the national strategy of promoting ecological civilisation, the government has been expanding the scope of environmental inspection, and environmental appraisal has become more comprehensive instead of focusing on any particular indicator. These developments have brought tremendous impetus to the growth of the environmental sector. In addition, against a backdrop of severe ecological crisis and the restructuring of the macro-economy, the environmental industry is expected to become a main pillar of economic growth given its power to improve the environment and attract substantial social capital.

On the other hand, the extensive promotion of the PPP model not only offers huge opportunities for the environmental industry, but also helps to reform the industry by better regulating and nurturing the professionalism of its development. In such circumstances, companies with their established platforms and integrated operations will be in a better position to tap the development potential.

In 2017, BEWG will strictly adhere to the Group's Thirteenth Five-Year Strategic Objectives and make its best efforts in developing into a leading ecological enterprise with a whole new operating concept. Meanwhile, the Company will endeavour to grasp the huge opportunities, deepen internal reform and build up its strength so as to achieve yearly business goals and lay a solid groundwork for attaining a momentous and leapfrogging growth.

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 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company increased by 31% to HK\$3,227.0 million. Revenue increased by 29% to HK\$17,354.8 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 year is set out in details below:

	Revenue		GP ratio		Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%	
1. Water treatment services						
Sewage and reclaimed water treatment services						
China						
– Subsidiaries	3,494.9	20%	58%	1,661.7	37%	
– Joint ventures and associates				18.8	–	
				1,680.5	37%	
Overseas						
– Subsidiaries	159.0	1%	19%	16.5	1%	
	3,653.9	21%		1,697.0	38%	
Water distribution services						
China						
– Subsidiaries	1,164.5	7%	52%	409.3	9%	
– Joint ventures and associates				126.0	3%	
				535.3	12%	
Overseas						
– Subsidiaries	206.9	1%	30%	43.2	1%	
	1,371.4	8%		578.5	13%	
Subtotal	5,025.3	29%		2,275.5	51%	

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio		Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%	
2. Construction services for the water environmental renovation						
Construction services for comprehensive renovation projects						
– Projects with completion rate more than 10% [§]	4,612.3	27%	22%	717.8	16%	
– Interest income	–	–	–	68.8	2%	
	4,612.3	27%	22%	786.6	18%	
Construction of BOT water projects						
– China	6,111.4	35%	23%	1,085.7	24%	
– Overseas	584.9	3%	6%*	27.6	1%	
	6,696.3	38%	22%	1,113.3	25%	
Subtotal	11,308.6	65%		1,899.9	43%	
3. Technical services and sale of machineries for the water environmental renovation	1,020.9	6%	56%	274.9	6%	
Business results	17,354.8	100%		4,450.3	100%	
Fair value gain on derivative financial instruments				410.0		
Others[#]				(1,633.3)		
Total				3,227.0		

[#] Others included head office and other corporate expense, net, of HK\$368.1 million, share of profit of an associate of HK\$177.0 million, equity-settled share option expense of HK\$40.9 million and finance costs of HK\$1,401.3 million.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$4.2 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 year is set out in details below:

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	3,361.6	25%	64%	1,592.3	44%
– Joint ventures and associates				17.9	1%
				1,610.2	45%
Overseas					
– Subsidiaries	153.5	1%	15%	6.1	0%
	3,515.1	26%		1,616.3	45%
Water distribution services					
China					
– Subsidiaries	691.3	5%	57%	298.1	8%
– Joint ventures and associates				76.3	2%
				374.4	10%
Overseas					
– Subsidiaries	189.8	1%	27%	34.9	1%
	881.1	6%		409.3	11%
Subtotal	4,396.2	32%		2,025.6	56%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio		Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%	
2. Construction services for the water environmental renovation						
Construction services for comprehensive renovation projects						
– Projects with completion rate more than 10% [§]	1,889.7	14%	24%	291.6	8%	
– Interest income	–	–	–	104.6	3%	
	1,889.7	14%	24%	396.2	11%	
Construction of BOT water projects						
– China	5,912.6	44%	24%	879.1	25%	
– Overseas	528.7	4%	4%*	15.6	1%	
	6,441.3	48%	23%	894.7	26%	
Subtotal	8,331.0	62%		1,290.9	37%	
3. Technical services and sales of machineries for the water environmental renovation	775.8	6%	59%	264.4	7%	
Business results	13,503.0	100%		3,580.9	100%	
Fair value gain on derivative financial instruments				253.7		
Others [#]				(1,379.2)		
Total				2,455.4		

[#] Others included head office and other corporate expense, net, of HK\$174.4 million, share of profit of an associate of HK\$10.5 million, equity-settled share option expense of HK\$68.6 million and finance costs of HK\$1,146.7 million.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$8.3 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 comparison of the Group's financial results for the year ended 31 December 2016 and 2015 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2016 <i>HK\$'M</i>	2015 <i>HK\$'M</i>	Increase/(Decrease) <i>HK\$'M</i>	%	2016 <i>HK\$'M</i>	2015 <i>HK\$'M</i>	Increase/(Decrease) <i>HK\$'M</i>	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	3,494.9	3,361.6	133.3	4%	1,661.7	1,592.3	69.4	4%
– Joint ventures and associates					18.8	17.9	0.9	5%
<i>GP ratio</i>	58%	64%		(6%)	1,680.5	1,610.2	70.3	4%
Overseas								
– Subsidiaries	159.0	153.5	5.5	4%	16.5	6.1	10.4	170%
<i>GP ratio</i>	19%	15%		4%				
	3,653.9	3,515.1	138.8	4%	1,697.0	1,616.3	80.7	5%
Water distribution services								
China								
– Subsidiaries	1,164.5	691.3	473.2	68%	409.3	298.1	111.2	37%
– Joint ventures and associates					126.0	76.3	49.7	65%
<i>GP ratio</i>	52%	57%		(5%)	535.3	374.4	160.9	43%
Overseas								
– Subsidiaries	206.9	189.8	17.1	9%	43.2	34.9	8.3	24%
<i>GP ratio</i>	30%	27%		3%				
	1,371.4	881.1	490.3	56%	578.5	409.3	169.2	41%
Subtotal	5,025.3	4,396.2	629.1	14%	2,275.5	2,025.6	249.9	12%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2016 HK\$'M	2015 HK\$'M	Increase/(Decrease) HK\$'M	%	2016 HK\$'M	2015 HK\$'M	Increase/(Decrease) HK\$'M	%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	4,612.3	1,889.7	2,722.6	144%	717.8	291.6	426.2	146%
– Interest income	–	–	–	–	68.8	104.6	(35.8)	(34%)
	4,612.3	1,889.7	2,722.6	144%	786.6	396.2	390.4	99%
<i>GP ratio</i>	22%	24%		(2%)				
Construction of BOT water projects								
– China	6,111.4	5,912.6	198.8	3%	1,085.7	879.1	206.6	24%
– Overseas	584.9	528.7	56.2	11%	27.6	15.6	12.0	77%
	6,696.3	6,441.3	255.0	4%	1,113.3	894.7	218.6	24%
<i>GP ratio</i>	22%	23%		(1%)				
Subtotal	11,308.6	8,331.0	2,977.6	36%	1,899.9	1,290.9	609.0	47%
3. Technical services and sale of machineries for the water environmental renovation								
<i>GP ratio</i>	56%	59%		(3%)				
Business results	17,354.8	13,503.0	3,851.8	29%	4,450.3	3,580.9	869.4	24%
Fair value gain on derivative financial instruments					410.0	253.7	156.3	62%
Others					(1,633.3)	(1,379.2)	(254.1)	(18%)
Total					3,227.0	2,455.4	771.6	31%

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW

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

2.1 Water treatment services

As at 31 December 2016, the Group entered into service concession arrangements and entrustment agreements for a total of 452 water plants including 335 sewage treatment plants, 108 water distribution plants, 8 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for this year was 4,547,994 tons including Build-Operate-Transfer (“BOT”) projects of 359,000 tons, Transfer-Operate-Transfer (“TOT”) projects of 348,000 tons, Public-Private Partnership Project (“PPP”) of 3,037,794 tons, entrustment operation projects of 342,000 tons, and 461,200 tons through mergers and acquisitions.

During the year, the Group completed the entrusted operation projects with aggregate daily design capacity of 792,200 tons. As such, the net increase in daily design capacity of this year was 3,755,794 tons. As at 31 December 2016, total daily design capacity was 27,168,044* tons.

In addition, the Group signed a water environmental comprehensive renovation PPP project in Beijing Tongzhou recently. The project involves various sewage treatment projects with aggregate daily capacity of 2 million 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 31 December 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>					
China					
In operation	9,957,250	497,200	5,704,400	–	16,158,850
Not yet commenced operation/ Not yet transferred	4,674,700	544,500	5,420,794	50,000	10,689,994
Subtotal	14,631,950	1,041,700	11,125,194	50,000	26,848,844
Overseas					
In operation	55,200	228,000	36,000	–	319,200
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	55,200	228,000	36,000	–	319,200
Total	14,687,150	1,269,700	11,161,194	50,000	27,168,044
<i>(Number of water plants)</i>					
China					
In operation	207	5	59	–	271
Not yet commenced operation/ Not yet transferred	104	2	36	1	143
Subtotal	311	7	95	1	414
Overseas					
In operation	24	1	13	–	38
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	24	1	13	–	38
Total	335	8	108	1	452

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 year* <i>(Tons (M))</i>	Revenue <i>(HK\$'M)</i>	Profit attributable to shareholders of the Company <i>(HK\$'M)</i>
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	43	3,259,200	1,079.9	916.4	555.9
– Western China	49	1,624,500	493.4	785.2	349.6
– Shandong	29	1,269,000	339.2	434.3	248.8
– Eastern China	51	2,950,750	846.2	847.4	304.8
– Northern China	40	1,351,000	359.8	511.6	221.4
	212	10,454,450	3,118.5	3,494.9	1,680.5
Overseas	25	283,200	31.5	159.0	16.5
Subtotal	237	10,737,650	3,150.0	3,653.9	1,697.0
Water distribution services:					
Mainland China	59	5,704,400	1,041.4	1,164.5	535.3
Overseas	13	36,000	12.7	206.9	43.2
Subtotal	72	5,740,400	1,054.1	1,371.4	578.5
Total	309	16,478,050	4,204.1	5,025.3	2,275.5

* 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 31 December 2016, the Group had 207 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 9,957,250 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 8,857,006 tons and average



daily treatment rate is 86%. The actual average contracted tariff charge of water treatment was approximately RMB1.01 per ton (31 December 2015: RMB1.03 per ton) for water plants. The actual aggregate processing volume for the year was 3,118.5 million tons, of which 3,051.7 million tons was contributed by subsidiaries and 66.8 million tons was contributed by joint ventures. Total revenue for the year was HK\$3,494.9 million. Net profit attributable to shareholders of the Company was HK\$1,680.5 million, of which HK\$1,661.7 million was contributed by subsidiaries and HK\$18.8 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 31 December 2016, there were 43 sewage treatment plants with total daily design capacity of 3,259,200 tons, representing an increase of 181,300 tons or 6% as compared with last year. The actual aggregate processing volume for the year amounted to 1,079.9 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$916.4 million and HK\$555.9 million respectively during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

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

2.1.1a Mainland China *(Continued)*

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2016, there were 49 sewage treatment plants with total daily design capacity of 1,624,500 tons, representing an increase of 59,000 tons per day or 4% as compared with last year. The actual processing volume for the year was 493.4 million tons. The operating revenue of HK\$785.2 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK\$349.6 million.

Shandong

There were 29 plants in Shandong region. The total daily design capacity of Shandong region is 1,269,000 tons, representing an increase of 77,000 tons per day or 6% as compared with last year. The actual processing volume for the year was 339.2 million tons contributing operating revenue of HK\$434.3 million during the year. Profit attributable to shareholders of the Company was HK\$248.8 million.

Eastern China

There were 51 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 31 December 2016, the total daily design capacity of Eastern China had increased by 927,500 tons to 2,950,750 tons or 46% as compared with last year. The actual processing volume for the year amounted to 846.2 million tons and operating revenue was HK\$847.4 million during the year. Profit attributable to shareholders of the Company was HK\$304.8 million.

Northern China

Currently, the Group has 40 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 245,000 tons to 1,351,000 tons or 22% as compared with last year. The projects achieved actual processing volume of 359.8 million tons for the year. The operating revenue was HK\$511.6 million during the year. Profit attributable to shareholders of the Company was HK\$221.4 million.

2.1.1b Overseas:

As at 31 December 2016, the Group had 24 sewage treatment plants in Portugal and a reclaimed water plant in Singapore. Total daily design capacity in operation was 283,200 tons. The actual processing volume for the year is 31.5 million tons. Total revenue for the year was HK\$159.0 million. Profit attributable to shareholders of the Company was HK\$16.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2016, the Group had 59 water distribution plants in operation. Total daily design capacity in operation was 5,704,400 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, Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB1.86 per ton (2015: RMB1.78 per ton). The aggregate actual processing volume is 1,041.4 million tons, of which 588.2 million tons was contributed by subsidiaries, which recorded revenue of HK\$1,164.5 million and 453.2 million tons was contributed by joint ventures and an associate. Imputed interest income of HK\$64.5 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\$535.3 million, of which profit of HK\$409.3 million was contributed by subsidiaries and a profit of HK\$126.0 million in aggregate was contributed by joint ventures and associates.

2.1.2b Overseas:

As at 31 December 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 year is 12.7 million tons. Total revenue for the year was HK\$206.9 million. Profit attributable to shareholders of the Company was HK\$43.2 million.

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 20 comprehensive renovation projects under construction during the year. The projects mainly located in Beijing Liangshuihe, Beijing Xiaotaihouhe, Henan Luoyang, Foshan Gaoming, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia Wuhai and Malaysia Terengganu.

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)*

Revenue from comprehensive renovation projects increased by HK\$2,722.6 million from last year of HK\$1,889.7 million to HK\$4,612.3 million this year. Revenue increased was mainly due to the new commencement of construction work for Sichuan Suining, Inner Mongolia Wuhai and Beijing Xiaotaihouhe Projects and increase in contribution work for Beijing Liangshuihe and Henan Luoyang Projects.

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 year 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\$68.8 million for this year (2015: HK\$104.6 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK\$390.4 million from last year of HK\$396.2 million to HK\$786.6 million this year.



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.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

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

2.2.2 Construction of BOT water projects *(Continued)*

During the year, water plants under construction were mainly located in Beijing, Shandong, Jiangsu, Xinjiang and Henan provinces. Total revenue for construction of BOT water projects was HK\$6,696.3 million (2015: HK\$6,441.3 million) and profit attributable to shareholders of the Company was HK\$1,113.3 million (2015: HK\$894.7 million). The increase in contribution from BOT projects during this year was mainly due to the construction work performed for projects located in Beijing, Xinjiang and Henan.

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\$1,020.9 million (2015: HK\$775.8 million), representing 6% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$274.9 million (2015: HK\$264.4 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[^]) which was acquired during the year.

[^] For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded revenue of HK\$17,354.8 million (2015: HK\$13,503.0 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, Xinjiang and Henan.

3.2 Cost of sales

Cost of sales for the year amounted to HK\$11,570.0 million, compared to last year of HK\$8,536.1 million. The increase was mainly due to the increase in construction costs and operating costs of water plants amounted to HK\$2,382.9 million and HK\$526.1 million respectively. Cost of sales mainly included construction costs of HK\$8,816.2 million and operating costs of water plants of HK\$2,308.9 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\$613.5 million, staff costs of HK\$667.6 million and major overhaul charges of HK\$109.9 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the year, gross profit margin slightly decreased from last year of 37% to 33%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China decreased to 58% (2015: 64%). 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 increased to 19% (2015: 15%). The increase was mainly due to the commencement of operation of a reclaimed water plant in Singapore which generated a relatively higher gross margin during this year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin *(Continued)*

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 52% (2015: 57%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was 50% (2015: 51%). Gross margin for water distribution services in Overseas was 30% (2015: 27%). The slight increase in gross margin for water distribution services in Overseas was due to tariff increment for the Portugal project.

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects slightly decreased from last year of 24% to 22% this year. Gross margin decreased as the major comprehensive renovation projects (i.e. projects in Inner Mongolia and Malaysia) for this year have a relatively lower average gross margin.

Gross margin for construction of BOT water projects:

Gross margin for construction of BOT water projects in China was 23% (2015: 24%).

Gross margin for construction of BOT water projects in Overseas was 6% (2015: 4%). 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 56% (2015: 59%). Gross margin slightly decreased as the sales of machineries generated a lower gross margin.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$1,121.6 million during the year, compared to last year of HK\$454.6 million. The amount for this year mainly included sludge treatment income of HK\$146.4 million, government grants and subsidies of HK\$181.3 million, pipeline installation income of HK\$137.5 million and VAT refund of HK\$320.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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 and fourth tranche of subscription with total number of shares of 7,088,607,600 was completed during the year. 7,930,590,553 preference shares were converted into ordinary shares during the year.

According to the accounting policy, the remaining tranche of subscriptions with total number of shares of 1,772,151,900 shall be 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 this year, the Group recognised a fair value gain of HK\$410.0 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 be no longer existed. 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.

3.6 Administrative expenses

Administrative expenses for the year increased to HK\$1,537.7 million, compared to last year of HK\$1,225.7 million. The increase was mainly due to the increase in staff related expenses of HK\$220.1 million as a result of business expansion during the year. Excluded the equity-settled share option expense, the ratio of administrative expenses to total revenue remained at the same level of last year of 8.6%.

3.7 Other operating expenses, net

Other operating expenses increased from HK\$248.1 million to HK\$311.1 million in this year. The increase was mainly due to the increase in the pipeline installation cost during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$969.9 million (2015: HK\$805.1 million) and interests on corporate bonds and notes payable of HK\$526.0 million (2015: HK\$389.9 million). The increase in finance costs was mainly due to the increase in corporate bonds of HK\$6,958.3 million. Also, there was an increase in market interest rate as compared with last year.

3.9 Share of profits of associates

Share of profits of associates increased to HK\$182.4 million, compared to last year of HK\$12.2 million. The increase was mainly due to increase in share of profits of BE Clean Energy of HK\$166.6 million.

3.10 Income tax expense

Income tax expense for the year included the current PRC income tax of HK\$604.1 million. The effective tax rate for the PRC operation was about 18% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the year was HK\$348.2 million.

3.11 Profit attributable to holders of perpetual capital instruments

Amount represented the distribution of perpetual bonds. Perpetual bonds with aggregate principal amount of RMB5,600 million were issued during the year.

3.12 Property, plant and equipment

Property, plant and equipment increased by HK\$1,451.7 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 year.

3.13 Investment property

Investment property represented a portion of a building located in Beijing which the Group held to earn rental income during the year. The investment property was stated at fair value. Fair value gain of HK\$43.9 million was recognised in statement of profit or loss during the year. There was no such item in last year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.14 Amounts due from contract customers, receivable under service concession arrangements and trade receivables

The Group's total amounts due from contract customers, receivable under service concession arrangements and trade receivables of HK\$46,247.7 million (2015: HK\$35,122.6 million) included:

By accounting nature:

	2016			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	16,204.4	1,100.7	17,305.1	11,495.7	1,311.6	12,807.3
(ii) Receivables under service concession arrangements	22,638.2	1,933.1	24,571.3	16,977.7	1,712.9	18,690.6
(iii) Trade receivables	1,347.1	3,024.2	4,371.3	665.4	2,959.3	3,624.7
Total	40,189.7	6,058.0	46,247.7	29,138.8	5,983.8	35,122.6

- (i) Amounts due from contract customers of HK\$17,305.1 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from comprehensive renovation projects during the phase of construction. Total balance increased by HK\$4,497.8 million (non-current portion increased by HK\$4,708.7 million and current portion decreased by HK\$210.9 million), which was mainly due to the recognition of construction revenue for projects in Henan, Guangdong, Beijing and Inner Mongolia;
- (ii) Receivables under service concession arrangements of HK\$24,571.3 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\$5,880.7 million (non-current portion increased by HK\$5,660.5 million and current portion increased by HK\$220.2 million) was mainly due to (i) the acquisition of water plants through business combination resulting in an increase in receivables by HK\$1,990 million in aggregate; (ii) recognition of construction revenue of HK\$1,649 million in accordance with HK (IFRIC) – Int 12 for the construction of water plants under the BOT Arrangements; and (iii) commencement of business operations of various plants under service concession arrangements resulting in an increase in receivables by HK\$1,912 million; and

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.14 Amounts due from contract customers, receivable under service concession arrangements and trade receivables *(Continued)*

(iii) Trade receivables of HK\$4,371.3 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\$746.6 million (non-current portion increased by HK\$681.7 million and current portion increased by HK\$64.9 million).

By business nature:

	2016 <i>HK\$'M</i>	2015 <i>HK\$'M</i>
Water treatment services by BOT and TOT projects	36,432.7	29,046.0
Construction services of comprehensive renovation projects	8,852.1	5,508.5
Technical and consultancy services and other businesses	962.9	568.1
Total	46,247.7	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\$36,432.7 million (2015: HK\$29,046.0 million). Total receivables for the construction service of comprehensive renovation projects were HK\$8,852.1 million (2015: HK\$5,508.5 million). Total receivables for technical and consultancy services and other businesses were HK\$962.9 million (2015: HK\$568.1 million).

3.15 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. The increase was mainly due to commencement of operations of BOT and TOT project.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.16 Investments in joint ventures

Investments in joint ventures decreased by HK\$268.8 million, mainly due to the disposal of joint ventures in Dalian during the year.

3.17 Investments in associates

Investments in associates increased by HK\$1,487.3 million, mainly due to the subscriptions of preference share of BE Clean Energy and conversions of subsidiaries to associates as a result of partial disposal of interest in subsidiaries during the year.

3.18 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables decreased by HK\$4,181.2 million (non-current portion decreased by HK\$3,563.1 million and current portion decreased by HK\$618.1 million), mainly due to the reallocation of the deposit for purchasing a new office building to property, plant and equipments and decrease in bidding deposits during the year.

3.19 Cash and cash equivalents

Cash and cash equivalents increased by HK\$4,547.2 million, mainly due to the proceeds from the perpetual bonds issued during the year.

3.20 Other payables and accruals

Other payables and accruals increased by HK\$346.1 million (non-current portion decreased by HK\$70.6 million and current portion increased by HK\$416.7 million). This increase was mainly due to the net impact of (1) increase in other liabilities of HK\$1,397.1 million and (2) decrease in receipts in advance of HK\$1,009.7 million. The increase in other liabilities was mainly due to the consideration payables for several acquisitions and TOT projects during the year.

3.21 Bank and other borrowings

Bank and other borrowings decreased by HK\$1,661.4 million (non-current portion decreased by HK\$458.5 million and current portion decreased by HK\$1,202.9 million). Decrease in bank and other borrowings was mainly due to the repayments using proceeds from the corporate bonds issued during the year.

3.22 Corporate bonds and notes payable

The increase was mainly due to the issuance of corporate bonds with principal amount of RMB4,700 million and RMB2,000 million respectively during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.23 Trade payables

The increase in trade payables by HK\$4,056.5 million was mainly due to increase in trade payables to subcontractors for construction services of BOT and comprehensive renovation projects during the year.

3.24 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 31 December 2016, the Group's cash and cash equivalents amounted to HK\$10,921.0 million (31 December 2015: HK\$6,373.8 million). For the details of the currencies in which cash and cash equivalents are made, please refer to note 29 to the financial statements.

The Group's total borrowings amounted to HK\$36,170.9 million (31 December 2015: HK\$31,047.6 million) comprised bank and other borrowings of HK\$21,474.9 million (31 December 2015: HK\$23,136.4 million), finance lease payables of HK\$93.1 million (31 December 2015: HK\$114.9 million), notes payable of HK\$2,939.7 million (31 December 2015: HK\$3,091.4 million) and corporate bonds of HK\$11,663.2 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. For the details of the currencies in which borrowings are made, please refer to notes 34, 35 and 36 to the financial statements.

As at 31 December 2016, the Group had banking facilities amounting to HK\$24.4 billion, of which HK\$10.0 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$26,767.3 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 0.94 as at 31 December 2016 (31 December 2015: 1.22). The decrease in the gearing ratio as at 31 December 2016 was mainly due to the increase in total equity arising from the issue of perpetual bonds during the year. The corresponding proceeds were mainly utilised for the acquisition and construction of various water projects in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.25 Capital expenditures

During the year, the Group's total capital expenditures were HK\$9,267.2 million (2015: HK\$7,788.5 million), of which HK\$1,283.3 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$6,513.0 million was spent on construction and acquisition of water plants and HK\$1,470.9 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 31 December 2016, the Group employed 16,952 employees. Total staff cost for the year ended 31 December 2016 was HK\$1,671,041,000 (2015: HK\$1,247,212,000). 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. 34,214,000 share options were exercised, no share option was lapsed or cancelled during the year ended 31 December 2016. As at 31 December 2016, the Company had 323,466,000 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 3.72% of the Company's ordinary shares in issue as at 31 December 2016.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2016, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 31 December 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 certain land use rights and 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 31 December 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

During the year and up to the date of this annual report, the Board comprises the following Directors:

Executive Directors

Mr. Li Yongcheng (*Chairman*)

Mr. E Meng (*Vice Chairman*)

Mr. Jiang Xinhao

Mr. Hu Xiaoyong (*resigned as Executive Director and Chief Executive Officer on 30 March 2016*)

Mr. Zhou Min (*appointed as Chief Executive Officer on 30 March 2016*)

Mr. Li Haifeng

Mr. Zhang Tiefu

Ms. Qi Xiaohong

Mr. Ke Jian

Mr. Tung Woon Cheung Eric

Mr. Li Li

Independent Non-executive Directors (the “INEDs”)

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Ms. Hang Shijun (*resigned as Independent Non-executive Director on 30 March 2017*)

Mr. Wang Kaijun

Mr. Yu Ning (*passed away on 1 June 2016*)

One of the INEDs namely, Mr. Shea Chun Lok Quadrant, has the professional and accounting qualifications required by Rules Governing the Listing Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). There is no relationship among members of the Board in respect of financial, business, family or other material/relevant relationship. The biographical details of the Directors are set out in the section headed “Directors and Senior Management” in this annual report.

Role and Function

The function of the Board is to formulate and give direction of the Group’s corporate strategy and business development. The Board has met regularly during the year to approve acquisition, material contracts, discloseable and/or connected transactions, director’s appointment or reappointment, significant policy and to monitor the financial performance of the Group in pursuit of its strategic goals. Day to day operation of the Company is delegated to the chief executive officer and the management of the Company.

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

According to the records maintained by the Company, the current Directors received the following training in respect of the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules on continuous professional development during the year ended 31 December 2016.

Name of Director	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attended Seminars/ Briefing	Read Materials	Attended Seminars/ Briefing
Executive Directors				
Mr. Li Yongcheng (<i>Chairman</i>)	✓	✓		
Mr. E Meng (<i>Vice Chairman</i>)	✓			
Mr. Jiang Xinhao	✓	✓		
Mr. Hu Xiaoyong (<i>resigned as an Executive Director and the Chief Executive Officer on 30 March 2016</i>)	✓	✓		
Mr. Zhou Min (<i>appointed as the Chief Executive Officer on 30 March 2016</i>)	✓	✓		
Mr. Li Haifeng	✓	✓		
Mr. Zhang Tiefu	✓	✓		
Ms. Qi Xiaohong	✓	✓		
Mr. Ke Jian	✓	✓		
Mr. Tung Woon Cheung Eric	✓	✓	✓	
Mr. Li Li	✓	✓		
INEDs				
Mr. Shea Chun Lok Quadrant	✓	✓	✓	✓
Mr. Zhang Gaobo	✓	✓	✓	✓
Mr. Guo Rui	✓	✓		
Ms. Hang Shijun (<i>resigned as an Independent Non-executive Director on 30 March 2017</i>)	✓	✓		
Mr. Wang Kaijun	✓	✓		
Mr. Yu Ning (<i>passed away on 1 June 2016</i>)	N/A	N/A	N/A	N/A

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held three Board meetings and a general meeting during the financial year ended 31 December 2016. Directors present in those Board meetings were either in person or through electronic means of communication. Attendance records of the Board meetings and general meeting for the year ended 31 December 2016 are set out below:

Name of Director	Number of Board meetings attended/held	Number of general meetings attended/held
Executive Directors		
Mr. Li Yongcheng (<i>Chairman</i>)	3/3	1/1
Mr. E Meng (<i>Vice Chairman</i>)	2/3	0/1
Mr. Jiang Xinhao	3/3	0/1
Mr. Hu Xiaoyong (<i>resigned as an Executive Director and the Chief Executive Officer on 30 March 2016</i>)	1/3	0/1
Mr. Zhou Min (<i>appointed as Chief Executive Officer on 30 March 2016</i>)	3/3	1/1
Mr. Li Haifeng	3/3	0/1
Mr. Zhang Tiefu	2/3	0/1
Ms. Qi Xiaohong	3/3	0/1
Mr. Ke Jian	2/3	0/1
Mr. Tung Woon Cheung Eric	3/3	1/1
Mr. Li Li	3/3	0/1
INEDs		
Mr. Shea Chun Lok Quadrant	3/3	1/1
Mr. Zhang Gaobo	3/3	1/1
Mr. Guo Rui	3/3	0/1
Ms. Hang Shijun (<i>resigned as Independent Non-executive Director on 30 March 2017</i>)	3/3	0/1
Mr. Wang Kaijun	3/3	0/1
Mr. Yu Ning (<i>passed away on 1 June 2016</i>)	1/3	0/1

To supplement the formal Board meetings, the Chairman held regular gatherings with Executive Directors to consider issues in an informal settings.

During the year, the Chairman held one meeting with the INEDs, without the Executive Directors present.

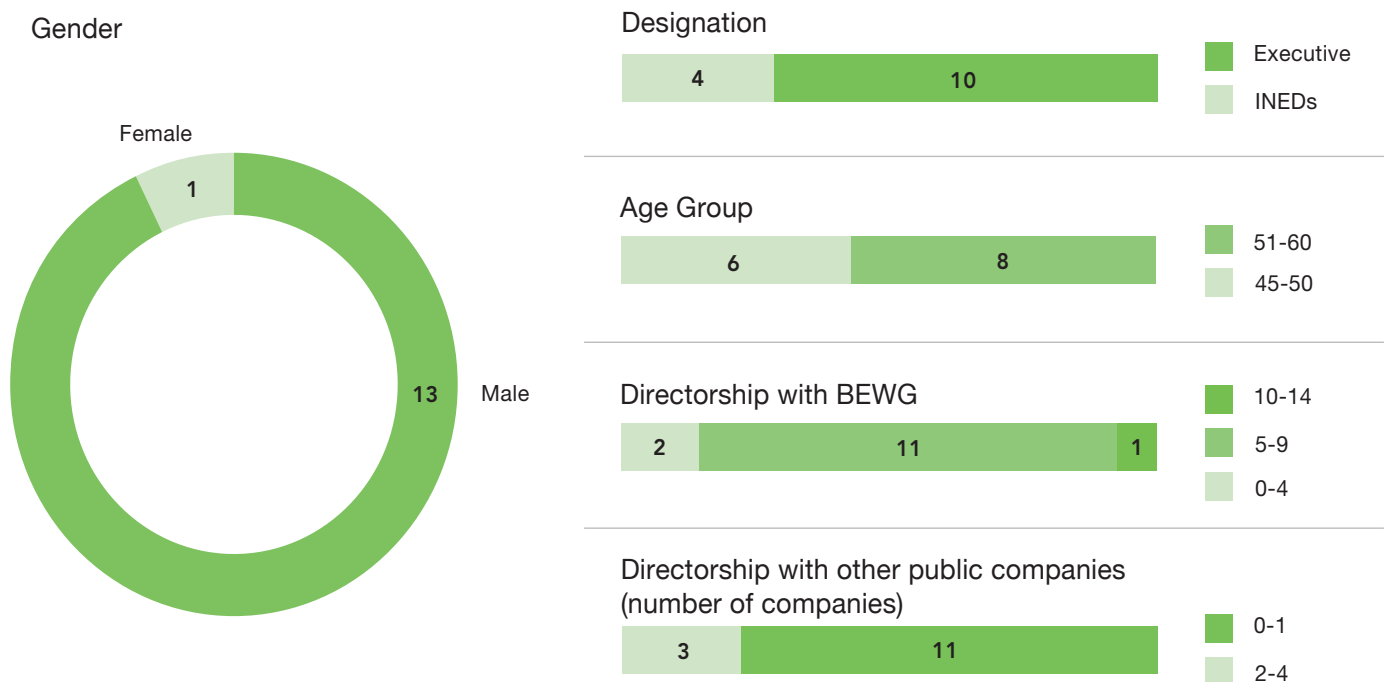
CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

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

The Board will review and monitor the implementation of board diversity on a regular basis or on the occasion of any vacancy arising from resignation or cessation as directors of the Company to ensure its effectiveness on determining the optional composition of the Board.

As at the date of this annual report, there are fourteen Directors with extensive experience and/or professional backgrounds to formulate and give direction of the Group’s corporate strategy and business development. The composition, experience and balance of skills on the Board are regularly reviewed by a core of members with longstanding and deep knowledge of the Group alongside new Directors who bring fresh perspectives and diverse experiences to the Board. The process for the nomination of Directors is led by the Nomination Committee. The following chart illustrates how the Company achieves diversity on the Board:



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

CORPORATE GOVERNANCE REPORT

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the financial year ended 31 December 2016, the positions of the chairman and the chief executive officer of the Company were held separately. The chairman of the Company is Mr. Li Yongcheng. The chief executive officer is Mr. Zhou Min who was appointed after Mr. Hu Xiaoyong resigned on 30 March 2016. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business. Their roles are clearly defined to ensure their respective independence. There is no relationship between the chairman and both chief executive officer and ex-chief executive officer of the Board in respect of financial, business, family or other material/relevant relationship.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD COMMITTEES

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

Audit Committee

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The Audit Committee is mainly responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements and issues arising from the audit as well as the review of the Group's risk management and internal control systems whereby the Board had delegated such responsibility to Audit Committee.

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

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

Summary of work done during the year: Reviewed the financial statements for the period from 1 January 2016 to 30 June 2016 and for the year ended 31 December 2016, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company, the risk management and internal control systems and the Company's compliance with the CG Code and disclosure in the corporate governance report.

The Audit Committee held two meetings during the financial year ended 31 December 2016 with an attendance rate of 100%.

Nomination Committee

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

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

The Nomination Committee had reviewed the size, structure and composition of the Board during the financial year ended 31 December 2016 to complement the Group's corporate strategy.

During the year, no Nomination Committee meeting was held but by way of one unanimous written resolutions, the Nomination Committee had reviewed nomination related matters.

Remuneration Committee

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

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

Summary of work done during the year: reviewed the Group's policy and structure for employees' remuneration proposals with reference to the Group's corporate goals, prevailing market rate and duties and responsibilities with the Group.

During the year, no Remuneration Committee meeting was held but by way of two unanimous written resolutions, the Remuneration Committee had reviewed remuneration related matters.

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK\$10.3 million and for non-audit service assignments was approximately HK\$4.1 million, which represented agreed-upon procedures engagement such as for the Group's interim financial report, taxation advisory and compliance services. The Audit Committee had satisfied that the non-audit services in 2016 did not affect the independence of the external auditors.

RISK MANAGEMENT AND INTERNAL CONTROL

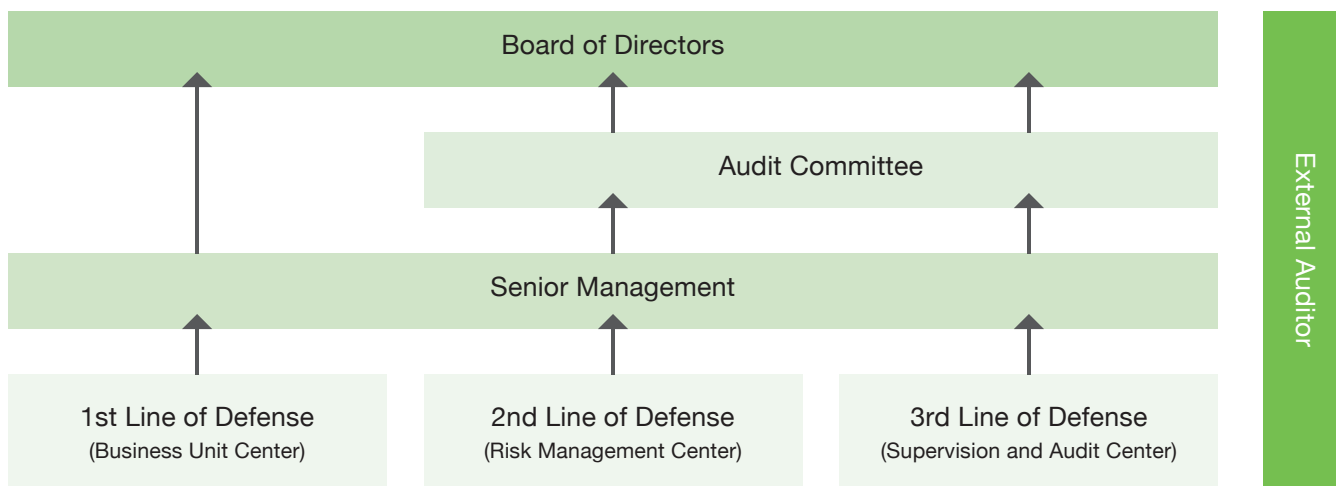
The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that may be exposed to the Group and ensuring that the Group maintains sound and effective risk management and internal control systems in order to safeguard the interest of shareholding and the Group's assets. 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.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Board has been provided with sufficient explanation and necessary information enabling it to make an informed assessment of financial and other information put before the Board for approval.

The risk management framework of the Group is designed of “Three Layers + Three Lines of Defense” model as shown below:



First Line Defense

Each business unit center of the Group, as a risk owner, identifies, evaluates and monitors its own risk.

Second Line Defense

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 business unit center 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.

Third Line Defense

The 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.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

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

The Group was adopted its own framework with reference to Enterprises Risk Management-Integrated Frameworks set down by Committee of Sponsoring Organization of the Treadway Commission (COSO) which covers risk identification, risk assessment, risk implement treatment plan and risks investigation and reporting.

During the year, the risk management center identified three significant risks namely disclosure policy and regulatory risk, risk of control mode and reputational risk faced by the Group.

The risk management center assessed the status of potential risks which might exist in the business unit centers through interviewing and collecting questionnaire. In addition, the risk management center also arranged a series of activities such as training workshop and discussion to all levels of staff in relation to the importance of the risk management and internal control systems.

The business unit centers were invited to discuss such potential risks which might input on their ability to achieve the Group's objectives including financial, operational and compliance control or its own goal. The risk management center shared risk knowledge across the business unit centers to enhance on the effectiveness of risk management function. The appropriate risk management activities had been taken and implemented in the second half of the year.

During the year, the supervision and audit center implemented by adopting the risk-based approach to carry out their annual audit work which covered the areas of internal environment, risk assessment, control activities, information and communication and internal control.

Any internal audit findings and control deficiencies had been communicated with each business unit center. Relevant control activities were enhanced and post-audit reviews are conducted where and when appropriate. Remedial activities have been implemented in terms of prior year findings and deficiencies with the Group.

Policy and procedures were laid down for the business unit centers covering project development, tendering, financial reporting, human resources and computer systems. It also defined clearly the liners of responsibility and authority for each employee. As the heads of the business unit centers were required to undertake a series of self-assessment in accordance with the Group policy and procedures, the supervision and audit center was not aware of any internal fraud of deficiencies in internal control of the Group during the year under review.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The risk management center has presented updated reports to the Board and the Audit Committee on the monitoring of the risk management and assisted the Directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year. The Audit Committee closely monitored the effectiveness of the Group's risk management and internal control systems and reported to the Board on an ongoing basis.

For the year ended 31 December 2016, both the Audit Committee and the Board were not aware of any material internal control defects and were satisfied that the risks management and internal control systems of the Group have been effective and adequate.

The internal audit is to provide independent and objective internal assurance and consulting services, evaluate and improve the effectiveness of risk management and internal control systems for the Company so as to add value and improve Company's operations and accomplish its objectives.

The Group has set up a whistleblower policy and a set of comprehensive procedures to the employees, business partners and other concerned parties to raise concerns, in confidence, to the Board about possible improprieties within the Group. The identity of the whistleblower will be treated with the strictest confidence.

The Group has set up the inside information policy and procedures for the handling and dissemination of inside information. The inside information policy mainly focuses on the obligations of the Group, external communication guidelines and compliance and reporting procedures. The Group shall take all reasonable measures from time to time to ensure that proper safeguards in existence to prevent any breach of disclosure requirements.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2016, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on page 74 to 80 of the "Independent Auditors' Report" in this annual report.

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric, as the executive Director, is also the company secretary of the Company. During the year ended 31 December 2016, Mr. Tung has complied with the relevant professional training required under Rule 3.29 of the Listing Rules. The biographical details of Mr. Tung is set out in the section headed "Directors and Senior Management" on page 47 in this annual report.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

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

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

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

Procedures for directing shareholders' enquiries to the Board

Shareholders of the Company may at any time send their enquiries to the Board for the attention of the Secretary of the Company ("Company Secretary") via email (mailbox@bewg.com.hk) or directed to the Company's head office and principal place of business in Hong Kong at Rooms 6706-07, 67th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. Shareholders of the Company may also make enquiries with the Board at the general meetings of the Company.

Procedures for putting forward proposals at shareholders' meetings

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

1. A shareholder shall validly serve on the Company Secretary his/her written and signed notice of intention to propose a resolution at the AGM/SGM.
2. The foregoing documents shall be lodged at the Company's head office and principal place of business in Hong Kong at Rooms 6706-07, 67th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

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

3. The period for lodgment of the foregoing notice required under the Bye-Laws shall commence on the day after the despatch of the notice of the AGM/SGM and end no later than 7 days prior to the date of the AGM/SGM and such period shall be at least 7 days.
4. If the foregoing notice shall be received less than 10 business days prior to the date of such AGM/SGM, the Company needs to consider the adjournment of such AGM/SGM in order to allow shareholders of the Company 14 days' notice (the notice period must include 10 business days) of the proposal.
5. The foregoing notice of intention to propose a resolution will be verified by the Company's branch share registrar in Hong Kong (the "Branch Share Registrar"). Upon confirmation from the Branch Share Registrar, the Company Secretary will present to the board of Directors for their approval on the inclusion of the proposed resolutions in the AGM/SGM.

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

INVESTOR RELATIONS

Communication with shareholders

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

During the financial year ended 31 December 2016, the Company has proactively taken the following measures to ensure effective shareholders' communication and enhance our transparency:

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

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS *(Continued)*

Constitutional documents

The AGM will be held on 1 June 2017 to pass the proposed resolution for amendments to the Bye-laws. A consolidated version of the Memorandum of Association and Bye-Laws will be available on both the websites of the Company and the Stock Exchange after the AGM.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. In the opinion of the Board, the Company had complied with all code provisions set out in the CG Code except Code Provision A.1.1 during the financial year ended 31 December 2016 and non-compliance of Rule 3.10A as at the date of this annual report.

Code Provision A.1.1 of the CG Code stipulates that the Board should be held at least four Board meetings a year. During the year, the Company held three board meetings and the Board has made resolutions by circulation of written resolutions from time to time. As there is no significant business development that needs to bring to the attention of the Board immediately, circulation of written materials to keep the Board informed throughout the year is considered to be sufficient. Such measure has been taken to ensure that there is efficient communication among the Directors.

Pursuant to Rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the resignation of Ms. Hang Shijun as an independent non-executive director on 30 March 2017, being the date of this annual report, the number of independent non-executive directors on the Board falls below one-third of the Board. The Company is in the course of identifying a suitable candidate to fill the causal vacancy arising from the resignation of Ms. Hang Shijun as an independent non-executive director with a view to comply with the requirements set out in Rule 3.10A and Rule 3.11 of the Listing Rules within three months from the effective date of Ms. Hang Shijun's resignation. Further announcement will be made by the Company as and when appropriate.

DIRECTORS AND SENIOR MANAGEMENT

The Directors except Mr. Yu Ning passed away on 1 June 2016 during the year were:

DIRECTORS

Executive Directors

Mr. Li Yongcheng (“Mr. Li”), aged 55, was appointed as the chairman and an executive director of the Company on 29 October 2014. Mr. Li is also the chairman of nomination committee of the Company. He is currently vice chairman and executive deputy general manager of Beijing Enterprises Group Company Limited. He was re-designated as executive director and vice chairman of the board of directors of Beijing Enterprises Holdings Limited (Stock Code: 392) on 16 March 2016. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master’s degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd., and was vice president of Beijing Enterprises Holdings Limited (Stock Code: 392). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations.

Mr. E Meng (“Mr. E Meng”), aged 58, was appointed as an executive director of the Company in February 2008 and the vice chairman of the Company in April 2013. He serves as a vice general manager and the chief financial officer of Beijing Enterprises Group Company Limited. He is also an executive director and an executive vice president of Beijing Enterprises Holdings Limited (Stock Code: 392) and the chairman and an executive director of Beijing Enterprises Environment Group Limited (Stock Code: 154). Mr. E Meng graduated from China Science and Technology University with a master’s degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. From September 2004 to August 2015, Mr. E Meng was an independent non-executive director of New Silkroad Culturaltainment Limited (formerly known as JLF Investment Company Limited) (Stock Code: 472). Mr. E Meng has extensive experience in economics, finance and enterprise management.

Mr. Jiang Xinhao (“Mr. Jiang”), aged 52, was appointed as an executive director of the Company in June 2008. Mr. Jiang serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice president of Beijing Enterprises Holdings Limited (Stock Code: 392). Mr. Jiang is also a non-executive director of China Gas Holdings Limited (Stock Code: 384). Mr. Jiang graduated from Fudan University in 1987 with a bachelor’s degree in law, and then in 1992 with a master’s degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. From January 2011 to June 2016, Mr. Jiang was an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925). Mr. Jiang has many years of experience in economics, finance and corporate management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Zhou Min (“Mr. Zhou”), aged 53, was appointed as an executive director of the Company in August 2008 and the chief executive officer of the Company on 30 March 2016. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People’s Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now the chairman of BEWG Environmental Group Co., Ltd.

Mr. Li Haifeng, aged 46, was appointed as an executive director and a vice president of the Company in August 2008. He graduated with a bachelor’s degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). He is now the chairman of the Supervisory Committee of BEWG Environmental Group Co., Ltd., responsible for exploring business opportunities in water market in the PRC. He is currently the chairman and an executive director of Carry Wealth Holdings Limited (Stock Code: 643). During the period from April 2010 to April 2013, he was an independent non-executive director of Huarong International Financial Holdings Limited (formerly known as Simsen International Corporation Limited) (Stock Code: 993). Both Carry Wealth Holdings Limited and Huarong International Financial Holdings Limited are listed on the Stock Exchange of Hong Kong Limited.

Mr. Zhang Tiefu, aged 54, was appointed as an executive director and a vice president of the Company in April 2009. He graduated from Jilin Industrial Institute with a bachelor’s degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) in 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and is concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management. He joined the Group in April 2009.

Ms. Qi Xiaohong (“Ms. Qi”), aged 49, was appointed as an executive director of the Company in May 2008 and a member of remuneration committee of the Company. Ms. Qi graduated from Capital Normal University with a bachelor’s degree in legal studies and subsequently obtained a master degree in economic management at Capital University of Economics and Business. She has worked for the Beijing Municipal Government for many years. She joined Beijing Enterprises Holdings Limited in 1997 and is now a vice president of Beijing Enterprises Holdings Limited (Stock Code: 392), responsible for corporate administration and human resources management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Ke Jian (“Mr. Ke”), aged 48, was appointed as an executive director of the Company in June 2011 and is the vice president of Beijing Enterprises Holdings Limited (Stock Code: 392) and a vice chairman, chief executive officer and an executive director of Beijing Enterprises Environment Group Limited (Stock Code: 154). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor’s degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.

Mr. Tung Woon Cheung Eric (“Mr. Tung”), aged 46, was appointed as an executive director of the Company in August 2011. Mr. Tung is the chief financial officer and company secretary of the Company. Mr. Tung is also the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the company secretary of Biosino Bio-Technology and Science Incorporation* (Stock Code: 8247), a company listed on growth enterprise market of the Stock Exchange and an independent non-executive director of South China Financial Holdings Limited (Stock Code: 619) and GR Properties Limited (Stock Code: 108), both of which are listed on the main board of the Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor’s honours degree in administrative studies. He is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

Mr. Li Li, aged 51, was appointed as an executive director of the Company in February 2014 and the chief operating officer of the Company on 30 March 2016. He is a Senior Engineer and qualified Senior Project Manager. Mr. Li Li joined the Company in October 2010 and is currently the chief operating officer of the Company. Mr. Li Li graduated from Xian Jiaotong University in mechanical engineering and is currently undertaking PhD study in engineering at School of Environment, Tsinghua University. Prior to joining the Company, Mr. Li Li was a senior engineer, a technical quality director and vice president of the First Design & Research Institute. Mr. Li Li served as various key positions of 北京桑德環保集團有限公司 (Beijing Sound Environmental Group Company Limited*) from 2001 to 2010. He has extensive experience in investment, construction and operation in water industry.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant (“Mr. Shea”), aged 50, was appointed as an independent non-executive Director of the Company in April 2002. He is also the chairman of audit committee of the Company. He is currently an independent non-executive director of Hi-Level Technology Holdings Limited (stock code: 8113), a company listed on the growth enterprise market of The Stock Exchange of Hong Kong Limited. Mr. Shea graduated from Monash University of Australia with a Bachelor’s degree in Business and later completed a postgraduate program of Public Finance (Taxation) and obtained a Master degree in Economics from Jinan University of China and a Master of Laws degree from Renmin University of China. He is also a fellow member of CPA Australia, a member of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong, The Chartered Institute of Management Accountants of United Kingdom and Institute of Singapore Chartered Accountant and a Chartered Global Management Accountant. Mr. Shea is a Certified Tax Adviser of Hong Kong and China Tax Committee member of The Taxation Institute of Hong Kong and obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau. Mr. Shea has substantial experience in accounting and finance in listed companies and worked as a qualified accountant and company secretary in various companies listed on the main board of The Stock Exchange of Hong Kong Limited over the years. Mr. Shea is currently the chief financial officer and company secretary of Asia Allied Infrastructure Holdings Limited (stock code: 711), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Zhang Gaobo (“Mr. Zhang”), aged 52, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of the Company. He obtained a bachelor’s degree in science from Henan University in 1985 and later graduated from Peking University with a master’s degree in Economics in 1988. From 1988 to 1991, he was a deputy chief of the policy division of the Hainan Provincial Government. From 1991 to 1993, he was the deputy chief of Financial Markets Administration Committee of PBOC Hainan Branch. From 1992 to 1994, he was the chairman of Hainan Stock Exchange Centre. Since 1993, he has been a founding partner and chief executive officer of Oriental Patron Financial Group and is responsible for its overall general management and business development. He is also an executive director and the chief executive officer of OP Financial Investments Limited (Stock Code: 1140), a company listed on the Stock Exchange of Hong Kong Limited and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange. As of April 2014, Mr. Zhang has taken up the role to serve as the Vice President of Finance Centre for South-South Cooperation, a non-profit international organization under the UN framework established for the promotion of South South Cooperation.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Mr. Guo Rui (“Mr. Guo”), aged 49, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Guo is the managing director of 北京明銳恒豐管理諮詢有限公司 Beijing MingRui Hengfeng Management & Consulting Co. Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceuticals, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was a former senior consultant of Arthur Andersen LLC from 1999 to 2001. Mr. Guo holds a bachelor’s degree of computer science (or engineering) from Peking University and a master degree of computer engineering from Northwestern University, U.S.A.

Ms. Hang Shijun (“Ms. Hang”), aged 75, was appointed as an independent non-executive director of the Company in August 2008. She graduated from the Beijing Industrial University majored in Water Supply and Drainage in 1963 and then worked in Beijing Municipal Planning Authority (北京市規劃管理局) from 1963 to 1965. During the period from 1983 to 1985, Ms. Hang studied in department of environmental & sanitary engineering, graduate school of engineering (currently known as department of environmental engineering, graduate school of engineering) in Kyoto University in Japan. Ms. Hang has been working in the Beijing General Municipal Engineering Design & Research Institute Co., Ltd. (北京市市政工程設計研究總院有限公司) since 1966, served as various positions such as head of design department, chief engineer of design department and vice chief engineer of the institute, and is now the chief technology officer of its project center. Ms. Hang is an expert in sewage treatment, solid wastes treatment and disposal as well as recycled water (reused water) technology and project.

Mr. Wang Kaijun (“Mr. Wang”), aged 56, was appointed as an independent non-executive director of the Company in August 2008. Mr. Wang holds a Doctor degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang was previously appointed as the chief engineer of Beijing Municipal Research Institute of Environmental Protection (北京市環境保護科學研究院). He is now working as a professor in School of Environment, Tsinghua University (清華大學環境學院), a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Protection Engineering Center for Technology Management and Evaluation. Mr. Wang has been engaged and experienced in the relevant research, development and industrialization of sewage pollution control technologies and the evaluation of policy-making over the years. Mr. Wang has unique and innovative opinions on the academic study and has made many achievements and demonstration cases on the hydrolysis aerobic process theory, aerobic and anaerobic reactor theory and design, development and application of sewage sludge treatment and disposal technologies, planning and management of state environment protection administration system, etc. Mr. Wang also developed the research fields on municipal sewage hydrolysis-aerobic treatment process, high performance anaerobic reactors, sewage sludge treatment and disposal, livestock manure treatment and rural environmental protection in mainland China.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment company and the holding company of the Group. The Group is principally engaged in construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the PRC, Republic of Singapore and Malaysia; provision of sewage and reclaimed water treatment services in the PRC, Republic of Singapore and Portuguese Republic; distribution and sale of piped water in the PRC and the Portuguese Republic; provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in the PRC; and the licensing of technical know-how related to sewage treatment in the PRC. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements.

RESULTS AND DISTRIBUTIONS

The Group's profit for the year ended 31 December 2016 and the Group's financial position at that date are set out in the consolidated financial statements on pages 81 to 222. An interim distribution of HK5.9 cents per ordinary share was paid on 14 October 2016. The Board recommended to make final distribution of HK6.0 cents per ordinary share out of the contributed surplus of the Company to shareholders of the Company for their continuous supports to the Company. This recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. The final distribution will be paid on or around 22 June 2017.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Monday, 29 May 2017 to Thursday, 1 June 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Thursday, 1 June 2017, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 26 May 2017.

For Entitlement to Proposed Final Distribution

The register of members will be closed from Wednesday, 7 June 2017 to Thursday, 8 June 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final distribution, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 6 June 2017. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the proposed final distribution will be paid on or around 22 June 2017.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the chairman's statement on pages 6 to 7 of this annual report. Description of possible risks and uncertainties that the Group may be facing, can be found in the chairman's statement on pages 5. The financial risk management objectives and policies of the Group can be found in note 52 to the financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided on pages 8 to 31 of the Group's management discussion and analysis. In addition, discussions on the Group's environmental policies, relationship with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the chairman's statement on pages 5 to 7 and the corporate governance report on pages 32 to 44 of this annual report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2015, is set out on pages 223 to 224. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group together accounted for 21% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 25% of the Group's total purchases for the year. Sales to the largest customer accounted for 5% of the Group's revenue and purchases from the largest supplier accounted for 6% of the Group's purchases.

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

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the Company's principal subsidiaries, joint ventures and associates at 31 December 2016 are set out in notes 1, 19 and 20 to the financial statements, respectively.

SHARE CAPITAL AND SHARE ISSUED

Details of movements in the share capital of the Company during the year, together with the reasons therefor, are set out in note 30 to the financial statements. Ordinary shares of the Company were issued during the year on exercises of share options of the Company and were cancelled during the year on shares repurchase of the Company.

REPORT OF THE DIRECTORS

DEBENTURE ISSUED

As at 31 December 2016, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was US\$480,000,000, with maturity date in May 2018 and fixed interest rate at 4.625% per annum.

As at 31 December 2016, the outstanding principal amounts of bonds guaranteed by a wholly-owned subsidiary of the Company and issued by a 60% owned subsidiary of the Company was RMB200,000,000, with maturity date on December 2018 unless being redeemed by the Group one year prior to the maturity date, and fixed interest rate at 5.00% per annum.

As at 31 December 2016, the outstanding principal amounts of bonds guaranteed by a wholly-owned subsidiary of the Company and issued by a wholly-owned subsidiary of the Company was RMB2,000,000,000, with maturity date on April 2021 unless being redeemed by the Group two years prior to the maturity date, and fixed interest rate at 3.60% per annum.

As at 31 December 2016, the outstanding principal amounts of bonds issued by the Company was RMB4,000,000,000, with maturity dates on July 2021 and July 2023 unless being redeemed by the Group two years prior to the respective maturity dates and fixed interest rates at 3.00% and 3.33% per annum, respectively.

As at 31 December 2016, the outstanding principal amounts of bonds issued by the Company was RMB700,000,000, with maturity date on August 2024 unless being redeemed by the Group three years prior to the maturity date, and fixed interest is 3.25% per annum.

As at 31 December 2016, the outstanding principal amounts of bonds guaranteed by a 60%-owned subsidiary of the Company and issued by a 60%-owned subsidiary of the Group was RMB200,000,000, with maturity date on November 2019 unless being redeemed by the Group one year prior to the maturity date, and fixed interest rate at 4.00% per annum.

As at 31 December 2016, the outstanding principal amounts of corporate notes guaranteed by the Company and issued by subsidiaries of the Company were RMB2,000,000,000 and HK\$700,000,000, with both maturity dates in November 2022 and May 2020 unless being redeemed prior to the respective maturity dates, and fixed interest rates at 6.15% and 3.9% per annum, respectively.

The reason for issuance of the above bonds or notes are used for the construction, operation or acquisition of certain “green projects” and/or for general working capital purpose.

The above bonds and notes are included in notes 35 and 36 to the financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2016, the Company's reserves available for distribution to shareholders of the Company amounted to HK\$5,460,244,000.

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

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

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Li Yongcheng (*Chairman*)

Mr. E Meng (*Vice Chairman*)

Mr. Jiang Xinhao

Mr. Hu Xiaoyong

(resigned as an executive director and the chief executive officer of the Company on 30 March 2016)

Mr. Zhou Min (*Chief Executive Officer*)

(appointed as the chief executive officer of the Company on 30 March 2016)

Mr. Li Haifeng

Mr. Zhang Tiefu

Ms. Qi Xiaohong

Mr. Ke Jian

Mr. Tung Woon Cheung Eric

Mr. Li Li

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Ms. Hang Shijun

Mr. Wang Kaijun

Mr. Yu Ning (passed away on 1 June 2016)

REPORT OF THE DIRECTORS

DIRECTORS *(Continued)*

After the reporting period, Ms. Hang Shijun resigned as an independent non-executive director of the Company on 30 March 2017.

In accordance with Bye-law 99(B), Mr. Zhang Tiefu, Ms. Qi Xiaohong, Mr. Ke Jian, Mr. Zhang Gaobo and Mr. Wang Kaijun shall retire by rotation from office as directors at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

The Company has received annual confirmations of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules, and as at the date of this report still considers them to be independent.

BOARD CHANGES

Since the date of the interim report 2016 of the Company and up to the date of this annual report, there has change to the Board effective from 30 March 2017 as follow:

Ms. Hang Shijun resigned as an independent non-executive director of the Company.

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

Changes in information of directors since the date of the interim report 2016 of the Company and up to the date of this annual report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

- (1) Mr. Shea Chun Lok Quadrant, an independent non-executive director of the Company, obtained a master of laws degree from Renmin University of China;
- (2) Mr. Guo Rui is the managing director of 北京明銳恒豐管理諮詢有限公司 Beijing MingRui Hengfeng Management & Consulting Co. Ltd.; and
- (3) Ms. Hang Shijun resigned as an independent non-executive director of the Company.

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

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

REPORT OF THE DIRECTORS

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and the senior management of the Company are set out on pages 45 to 49 of this annual report.

The interests of director who is a director or employee of a company which has an interest in the shares and underlying shares of the Group which would fall to be disclosed under Part XV of the SFO are set out in the Disclosure of Interests on pages 56 to 63 of this annual report.

DIRECTORS' SERVICE CONTRACTS

All Directors (including executive directors and INEDs) had entered into letters of appointment with the Company for a term of three years but are subject to retirement by rotation and re-election in accordance with the Bye-laws. No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to the Company's shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's directors' remuneration are set out on pages 142 to 144 of this annual report.

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

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS

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

As at 31 December 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	3.5258%
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)	3.7544%
	Mr. Li Haifeng	–	–	334,726,590	–	925,088,490	1,259,815,080 (Note 4)	2.9634%

REPORT OF THE DIRECTORS

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 31 December 2016 are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive director 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 31 December 2016 of 8,737,867,196 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 31 December 2016 of 42,512,107,314 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 the 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 31 December 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

The maximum number of unexercised share options currently permitted to be granted under the Scheme is 685,013,469, being an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of the Company in issue at the date of passing the resolution which the Scheme was adopted and representing 7.84% of the issued shares of the Company at the date of this annual report. The maximum number of ordinary shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time 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.

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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

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

During the year ended 31 December 2016, no option was granted under the Scheme, the movements in the share options of the Company during the year are set out as follows:

Name/Category of Participants	Number of Share Options					As at 31 December 2016	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$
	As at 1 January 2016	Granted	Exercised	Lapsed	Cancelled					
Directors										
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	5.620 <i>(Note 2)</i>
	5,800,000	-	(600,000)	-	-	5,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	5.620 <i>(Note 2)</i>
	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	-	(2,400,000)	-	-	22,600,000				
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				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Name/Category of Participants	Number of Share Options					As at 31 December 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	5.630 <i>(Note 2)</i>
	3,840,000	-	(2,660,000)	-	-	1,180,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	5.010 <i>(Note 1)</i>
	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	-	(6,500,000)	-	-	12,700,000				
Shea Chun Lok Quadrant	400,000	-	(400,000)	-	-	-	24/4/2013	24/4/2016 – 23/4/2023	2.244	4.53 <i>(Note 2)</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				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name/Category of Participants	Number of Share Options					As at 31 December 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				
Sub-total	117,200,000	-	(9,300,000)	-	-	107,900,000				
Former Directors										
Yu Ning (Note 3)	2,000,000	-	-	-	-	2,000,000	28/3/2014	1/6/2016-31/5/2017 (Note 3)	5.180	-
Eligible Employees										
In aggregate (Note 4)	29,350,000	-	(14,604,000)	-	-	14,746,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	5.523 (Note 5)
	50,600,000	-	(7,560,000)	-	-	43,040,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	5.640 (Note 5)
	53,510,000	-	(2,750,000)	-	-	50,760,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	5.837 (Note 5)
	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	-
Sub-total	240,480,000	-	(24,914,000)	-	-	215,566,000				
Total	359,680,000	-	(34,214,000)	-	-	325,466,000				

Notes:

- These represented the weighted average closing price of the Company's shares immediately before the dates of the share options exercised by the director during the year.
- These represented the closing price of the Company's shares immediately before the date of the share options exercised by the director during the year.
- 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.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Notes: *(Continued)*

4. 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”.
5. These represented the weighted average closing price of the Company’s shares immediately before the dates of the share options exercised by Eligible Employees during the year.
6. 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 year ended 31 December 2016.

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 options 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 options reserve will be transferred to retained profits as a movement in reserves. For further details, please refer to the “Summary of Significant Accounting Policies” set out in note 3.4 to the financial statements.

The Directors have estimated the values of the share options using the Black-Scholes model which is a generally accepted method of valuing options. The measurement date used in the valuation calculations was the date on which the share options were granted. Further details of the valuation of the share options are disclosed in note 31 to the financial statements.

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

As at 31 December 2016, the Company had 325,466,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive approximately HK\$736,218,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group’s accounting policy (note 3.4 to the financial statements) amounted to HK\$295,854,000.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the transactions as disclosed in the sections headed "Related Party Transactions" and "Connected Transactions" below, there were no other transactions, arrangements or 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 or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 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 (Note 2)
Beijing Enterprises Group Company Limited ("BEGCL") (Notes 1)	Interest of controlled corporation	3,827,377,831	43.80%
Beijing Enterprises Holdings Limited ("BEHL") (Notes 1)	Interest of controlled corporation	3,824,367,831	43.77%

REPORT OF THE DIRECTORS

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 43.77%) 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), which in turn held as to 100% by BEGCL.

2. The percentage represented the number of Shares over the total issued shares of the Company as at 31 December 2016 of 8,737,867,196 shares.

Save as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

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

The Company repurchased a total of 19,296,000 ordinary shares of the Company on the Stock Exchange for the year ended 31 December 2016 at an aggregate consideration of approximately 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

Redemption of USD500,000,000 4.625% Bonds Due 2018

For the year ended 31 December 2016, the Company redeemed US\$20,000,000 from the principal amount of US\$500,000,000 4.625% bonds due 2018 ("2018 Bonds") issued by a wholly-owned subsidiary of the Company during the period from September 2016 to December 2016 at the average redemption price equal to 105% of the outstanding principal amount of the 2018 Bonds, in which USD20,999,000 plus accrued interest was paid. Subsequent to the above redemption, they were cancelled and the outstanding amount of US\$480,000,000 of 2018 Bonds remains the official list of the Stock Exchange.

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

For the year ended 31 December 2016, the Company redeemed all the outstanding principal amount of CNY450,000,000 5.00% bonds due 2016 ("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, in which CNY450 million plus accrued interest was paid.

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)

For the year ended 31 December 2016, the Company redeemed all the outstanding principal amount of CNY50,000,000 5.00% bonds due 2016 ("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, in which CNY50 million plus accrued interest was paid.

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 the year ended 31 December 2016.

REPORT OF THE DIRECTORS

EMOLUMENT POLICY

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

RELATED PARTY TRANSACTIONS

The Group entered into certain activities with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to the activities in the ordinary course of the Group's business and were negotiated on normal commercial terms and an arm's length basis. Certain transactions set out in note 51 to the financial statements are connected transactions as defined under the Listing Rules and were exempt and complied with the requirements of Chapter 14A of the Listing Rules. The disclosures required by Rule 14A.71 of the Listing Rules during the year are provided in the paragraph headed "Connected Transactions" as identified below.

CONNECTED TRANSACTIONS

The Group entered into the following connected transactions during the year:

(A) Connected transaction

(a) *Acquisition of Entire Interest in Golden State Water Group Corporation*

On 9 December 2015, the Company entered into the sale and purchase agreement with Beijing Enterprises Holdings Limited ("BEHL"), pursuant to which the Company conditionally agreed to acquire, and BEHL conditionally agreed to procure GSE Investment Corporation ("GSEI") to sell, the entire issued share capital of Golden State Water Group Corporation ("GSWG") at an aggregate consideration of RMB1,508,000,000 (equivalent to approximately HK\$1,824,009,676) (the "Acquisition"). GSWG was an investment holding company directly or indirectly holding majority or minority interests in ten water projects in Jiangsu, Henan, Shanghai and Beijing, the PRC. Under the sale and purchase agreement, the consideration would be satisfied at completion by the allotment and issue by the Company of 300,001,592 new shares (the "Consideration Shares") at the issue price of HK\$6.08 per Consideration Share to BEHL or BEHL Nominee(s).

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) **Connected transaction** *(Continued)*

(a) *Acquisition of Entire Interest in Golden State Water Group Corporation (Continued)*

Since BEHL is the substantial shareholder of the Company and thus connected persons of the Company as defined under Chapter 14A of the Listing Rules. The entering into of the sale and purchase agreement and transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. In addition, since the Acquisition involves the allotment and issue of Consideration Shares to BEHL or BEHL Nominee(s), the Acquisition constituted a non-exempt connected transaction which was subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. On 29 July 2016, the Company entered into a termination agreement with BEHL, pursuant to which the Company and BEHL had unconditionally and irrevocably agreed that, among other things, the sale and purchase agreement would be fully terminated.

(b) *the Deemed Disposal of Mind Light Holdings Limited*

On 7 December 2016, Mind Light Holdings Limited ("Mind Light"), a wholly-owned subsidiary of the Company entered into subscription agreements with the Company, AID Utilities L.P., HNW Investment Fund Series SPC for and on behalf of PF Fund Segregated Portfolio, Benefit Sharp Investment Limited ("Benefit Sharp") (as the nominee for 上海自閱投資中心 (Shanghai Ziyue Investment Limited Partnership*) ("Shanghai Ziyue")), Star Colour Investments Limited ("Star Colour"), Zhihua Investments Limited ("Zhihua Investments") and Maolin Investments Limited ("Maolin") (collectively referred to as the "Subscribers") pursuant to which Subscribers conditionally agreed to subscribe for, and Mind Light conditionally agreed to allot and issue, an aggregate of 89,999 new shares in Mind Light, representing 99.99% of the enlarged total issued share capital of Mind Light. Following completion of the above subscription, Mind Light was owned as to approximately 35% by the Company and ceased to be a subsidiary of the Company.

Benefit Sharp subscribed the shares of Mind Light for and on behalf of Shanghai Ziyue, which was owned as to over 30% by the director of subsidiaries of the Company, and was therefore a connected person of the Company at the subsidiary level under the Listing Rules. Such subscription by Benefit Sharp was subject to the reporting and announcement requirement but exempted from shareholders' approval requirement under Rule 14A.101 of the Listing Rules.

Each of Star Colour and Maolin was respectively wholly-owned by Mr. Zhou Min and Mr. Li Haifeng, who are Director, and Zhihua Investments was wholly-owned by Mr. Hu Xiaoyong, a former director of the Company and an existing director of subsidiaries of the Company, were therefore connected persons of the Company.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(A) **Connected transaction** *(Continued)*

(b) *the Deemed Disposal of Mind Light Holdings Limited (Continued)*

In view of the above, the above subscriptions constituted connected transactions under the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the subscription by Star Colour, Maolin and Zhihua Investments were more than 0.1% but less than 5%, the entering into of the subscription agreements and the transactions contemplated hereunder were subject to the reporting and announcement requirements but exempted from shareholders' approval requirements under Chapter 14A of the Listing Rules. In view of the above, the subscriptions constituted deemed disposal for the Company under Rule 14.29 of the Listing Rules. Details of the subscriptions can be found on the websites of the Company and the Stock Exchange.

(c) *Disposal of 60% Equity Interest in a Subsidiary*

On 30 December 2016, the Company and Fortune Future Limited ("Fortune Future") and Honest World International Limited ("Honest World") entered into the equity transfer agreement pursuant to which the Company agreed to sell and Fortune Future agreed to purchase 31% equity interest and Honest World agreed to purchase 29% equity interest in 北控(大連)投資有限公司 (Bei Kong (Dalian) Investment Co., Ltd.* (the "Bei Kong (Dalian)")) respectively at a total consideration of RMB1,494,650,000 (the "Disposal"). Upon completion of the Disposal, the Bei Kong (Dalian) ceased to be a subsidiary of the Company.

Immediately before completion, the equity interest of the Bei Kong (Dalian) was held as to 60% by the Company and as to 40% by Meishi International Investment Group Limited ("Meishi International"). Each of Fortune Future and Honest World is a wholly-owned subsidiary of Meishi Group Limited which was solely and directly owned by Mr. Wu Lizhong ("Mr. Wu"). Each of Fortune Future and Honest World was therefore regarded as an associate of Mr. Wu. Meishi International, as a substantial shareholder of the Bei Kong (Dalian) and Mr. Wu, as the sole shareholder of Meishi International, were therefore connected persons of the Company at the subsidiary level, the disposal constituted a connected transaction of the Company under the requirement of Chapter 14A of the Listing Rules. Such disposal was subject to the reporting and announcement requirement but exempted from shareholders' approval requirement under Rules 14A.101 of the Listing Rules. Details of the disposal can be found on the websites of the Company and the Stock Exchange.

As at the date of this annual report, the above two disposals as mentioned in (b) and (c) had been completed.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transaction

(a) *Deposit Services Master Agreement*

On 31 March 2015, the Company entered into the deposit services master agreement (the “Deposit Services Master Agreement”) with Beijing Enterprises Group Finance Co., Ltd. (“BG Finance”), pursuant to which 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. The cumulative daily outstanding deposits balance placed by the Group with BG Finance (including any interest accrued thereon) during the term of the Deposit Services Master Agreement will not exceed the annual cap of HK\$900 million for each of the three years ended/ending 31 December 2015, 2016 and 2017 (the “Annual Cap”). The Deposit Services Master Agreement is therefore expected not only to provide the Group with a new means of financing but also to improve the efficiency of the use of its funds through higher interest income and lower costs of financing. The Group also expects to be in a better position to manage the security of its funds since BG Finance is not considered to be exposed to any significant capital risk.

On 22 December 2015, the Company and BG Finance entered into the supplemental agreement to the Deposit Services Master Agreement (the “Supplemental Agreement”) to revise the Annual Cap for each of the three years ended/ending 31 December 2015, 2016 and 2017 to HK\$2,350 million (the “Revised Annual Cap”).

The rate at which interest will accrue on any deposit placed by the Group with BG Finance under the Deposit Services Master Agreement will not be lower than the following:

- i. the minimum interest rate prescribed by the People’s Bank of China for the same type of deposits at the same period;
- ii. the interest rates offered by commercial banks in Hong Kong and the PRC to the Group for the same type of deposits at the same period; and
- iii. the interest rates offered by BG Finance to other members of BEGCL for the same type of deposits.

Each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of each being a substantial shareholder of the Company. As each of BEGCL and BEHL beneficially owns not less than 30% equity interest in BG Finance, BG Finance is an associate of each of BEGCL and BEHL, therefore, the entering into of the Deposit Services Master Agreement and Supplemental Agreement constituted continuing connected transactions of the Company which was subject to the reporting, announcement and annual review requirements but exempt from the circular (including independent financial advice) and independent shareholders’ approval requirement under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the Revised Annual Cap, details of which are set out in note 51 to the financial statements.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transaction *(Continued)*

(b) Review by Independent Non-executive Directors and the auditors of the Company

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions set out above have been reviewed by the independent non-executive directors, who confirmed that the aforesaid continuing connected transaction was entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms; and
- (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditors, Ernst & Young, were engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transaction disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution and discharge of the duties of his/her office or otherwise in relation thereto. No Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto, provided that this bye-law shall only have effect in so far as its provisions are not avoided by the Bermuda Companies Act.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group throughout the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$3,620,000.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed “Share Option Schemes” above, no equity-linked agreements were entered into by the Group, or existed during the year.

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 constituted 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\$480	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\$700	June 2018	<i>Note 1</i>
27 November 2015	Term loan facility with a bank	HK\$3,000	November 2020	<i>Note 3</i>
28 December 2015	Term loan facilities with three banks	HK\$1,760	December 2020	<i>Note 3</i>

REPORT OF THE DIRECTORS

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)。

* For identification purposes only

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

CORPORATE GOVERNANCE

The Company is committed to maintaining the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. During the year ended 31 December 2016, in the opinion of the Board, the Company complied with all code provisions set out in the CG Code as set out in Appendix 14 of the Listing Rules except Code Provision A.1.1 and the non-compliance with Rule 3.10A of the Listing Rules as at the date of this annual report. The Company held three full board meetings instead of at least four full board meetings during the year under review as required under Code Provision A.1.1. The Board has made resolutions by circulation of written resolutions from time to time. As there is no significant business development that needs to bring to the attention of the Board immediately, circulation of written materials to keep the Board informed throughout the year is considered to be sufficient. Such measure has been taken to ensure that there is efficient communications among the Directors.

Pursuant to Rule 3.10A of the Listing Rules, the Company is required to appoint independent non-executive directors representing at least one-third of the members of the Board. Following the resignation of Ms. Hang Shijun as an independent non-executive director on 30 March 2017, being the date of this annual report, the number of independent non-executive directors on the Board falls below one-third of the Board. The Company is in the course of identifying a suitable candidate to fill the causal vacancy arising from the resignation of Ms. Hang Shijun as an independent non-executive director with a view to comply with the requirements set out in Rule 3.10A and Rule 3.11 of the Listing Rules within three months from the effective date of Ms. Hang Shijun's resignation. Further announcement will be made by the Company as and when appropriate.

The corporate governance report is set out on pages 32 to 44 of this annual report.

REPORT OF THE DIRECTORS

COMPLIANCE WITH THE MODEL CODE

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

AUDITORS

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

EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 54 to the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2016 were approved by the board of directors on 30 March 2017.

On behalf of the Board

Li Yongcheng
CHAIRMAN

Hong Kong
30 March 2017

INDEPENDENT AUDITORS' REPORT



To the shareholders of Beijing Enterprises Water Group Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 81 to 222, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the key audit matter

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

Revenue from the construction of sewage and reclaimed water treatment and water distribution plants under the terms of Build-Operate-Transfer (“BOT”) contracts represented approximately 38% of total revenue for the year ended 31 December 2016 and was accounted for under HK(IFRIC) Interpretation 12 *Service Concession Arrangements*. The revenue was estimated on a cost-plus basis with reference to a prevailing market rate of profit margin at the date of the agreement applicable to similar construction services rendered in a similar location. Significant management judgement was involved in determining the construction margins for these construction services.

Disclosure of the determination of the fair value of construction contract revenue is included in note 4 to the financial statements.

Management engaged an external valuer to support their estimation of the gross profit margin for the construction revenue. As part of our audit procedures, we have considered the objectivity, independence and competency of the external valuer. In addition, we have involved our internal valuation specialists to assist us to assess the reasonableness of the bases and assumptions adopted in the valuation. Our procedures included discussions with management and the external valuer about the parameters used in estimating the Group's construction margins, including the benchmarks made to other comparable companies. We also performed a comparison of the inputs used in the valuation to external market data. We then assessed the disclosures under the section Significant Accounting Judgements and Estimates in the financial statements.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Determination of the provision for impairment of receivables under service concession arrangements, trade receivables and amounts due from contract customers

The Group has significant receivables under service concession arrangements, trade receivables and amounts due from contract customers for an aggregate amount of HK\$46.2 billion and represents 57% of the Group's total assets as at 31 December 2016.

Significant management judgement was required in determining the adequacy of provisions against these balances (if any), with reference to the ageing profile, background and repayment history of these debtors.

Disclosures of the provision for impairment of receivables under service concession arrangements, trade receivables and amounts due from contract customers are included in notes 4, 17, 25 and 26 of the financial statements.

We assessed the Group's processes and controls relating to the monitoring of receivables under service concession arrangements, trade receivables and amounts due from contract customers to identify impairment indicators.

For the material receivables under service concession arrangements, trade receivable and amounts due from contract customers balances, we evaluated if a provision was required. Our procedures included obtaining direct confirmations, consideration of whether the balances were overdue, the debtor's historical payment patterns and whether any post year-end payment had been received up to the date of completing our audit procedures. We also obtained corroborative evidence including correspondence between the parties involved, progress made by management to recover the outstanding amounts, pledges from the debtors and the credit status of these debtors where available. For the remaining balances, we also considered whether a provision was required, after taking into account factors such as the nature, ageing and movement during the year.

We also considered the adequacy of the Group's disclosures.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter

How our audit addressed the key audit matter

Goodwill impairment testing

Management is required to test goodwill for impairment on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the recoverable amounts of the relevant cash-generating units, which is compared with their respective carrying values. As at 31 December 2016, the goodwill carried in the Group's financial statements was HK\$3.3 billion.

Disclosures of goodwill are included in notes 4 and 16 to the financial statements.

Management engaged an external valuer to prepare the valuation models to assist with the impairment assessment. We involved our internal valuation specialists in evaluating the valuation models, and assumptions and parameters used by the valuer and the Group, giving particular attention to the estimated future revenues and results. Our procedures included testing the assumptions used in the cash flow forecast and assessing the accuracy of previous forecasts by comparison with the current performance. We also assessed the disclosures on the impairment testing, specifically the key assumptions that have the most significant effect on the determination of the recoverable amount of the goodwill, such as the discount rate and growth rate.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Paul Kai Lung Go.

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
REVENUE	6	17,354,833	13,502,957
Cost of sales		(11,569,994)	(8,536,057)
Gross profit		5,784,839	4,966,900
Interest income	6	202,887	315,781
Other income and gains, net	6	1,121,589	454,638
Administrative expenses		(1,537,747)	(1,225,728)
Other operating expenses, net		(311,068)	(248,054)
PROFIT FROM OPERATING ACTIVITIES	7	5,260,500	4,263,537
Fair value gain on derivative financial instruments		410,039	253,714
Finance costs	8	(1,401,329)	(1,146,708)
Share of profits and losses of:			
Joint ventures	19(f)	192,172	162,795
Associates	20(c)	182,373	12,221
PROFIT BEFORE TAX		4,643,755	3,545,559
Income tax expense	11	(970,773)	(777,766)
PROFIT FOR THE YEAR		3,672,982	2,767,793
ATTRIBUTABLE TO:			
Shareholders of the Company		3,227,013	2,455,370
Holders of perpetual capital instruments		56,570	–
Non-controlling interests		389,399	312,423
		3,672,982	2,767,793
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic		HK37.04 cents	HK28.17 cents
– Diluted		HK36.27 cents	HK27.50 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
PROFIT FOR THE YEAR	3,672,982	2,767,793
OTHER COMPREHENSIVE LOSS		
<i>Item to be reclassified to profit or loss in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	(2,650,535)	(1,622,744)
<i>Item not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive loss of a joint venture	(14,606)	(35,107)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	(2,665,141)	(1,657,851)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,007,841	1,109,942
ATTRIBUTABLE TO:		
Shareholders of the Company	1,216,828	1,050,776
Holders of perpetual capital instruments	(240,138)	–
Non-controlling interests	31,151	59,166
	1,007,841	1,109,942

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment	<i>14</i>	2,831,452	1,379,801
Investment property	<i>15</i>	755,326	–
Goodwill	<i>16</i>	3,312,200	2,967,365
Operating concessions	<i>17</i>	3,389,996	2,421,012
Other intangible assets	<i>18</i>	61,936	37,290
Investments in joint ventures	<i>19</i>	3,294,613	3,563,399
Investments in associates	<i>20</i>	2,390,062	902,774
Derivative financial instruments	<i>21</i>	–	42,404
Available-for-sale investments	<i>22</i>	693,611	153,664
Amounts due from contract customers	<i>25</i>	16,204,380	11,495,709
Receivables under service concession arrangements	<i>17</i>	22,638,167	16,977,664
Trade receivables	<i>26</i>	1,347,108	665,352
Prepayments, deposits and other receivables	<i>27</i>	2,046,779	5,609,924
Deferred tax assets	<i>40</i>	106,751	122,388
Total non-current assets		59,072,381	46,338,746
Current assets:			
Non-current assets held for sale	<i>23</i>	141,345	226,647
Inventories	<i>24</i>	90,847	99,083
Amounts due from contract customers	<i>25</i>	1,100,669	1,311,629
Receivables under service concession arrangements	<i>17</i>	1,933,078	1,712,947
Trade receivables	<i>26</i>	3,024,152	2,959,325
Prepayments, deposits and other receivables	<i>27</i>	4,415,085	5,033,177
Derivative financial instruments	<i>21</i>	214,150	167,174
Restricted cash and pledged deposits	<i>29</i>	134,526	269,189
Cash and cash equivalents	<i>29</i>	10,921,037	6,373,831
Total current assets		21,974,889	18,153,002
TOTAL ASSETS		81,047,270	64,491,748

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	<i>30</i>	873,787	872,295
Reserves	<i>32(a)</i>	15,627,355	15,311,538
		16,501,142	16,183,833
Perpetual capital instruments	<i>33</i>	6,305,025	–
Non-controlling interests		3,961,173	4,106,582
		10,266,198	4,106,582
TOTAL EQUITY		26,767,340	20,290,415
Non-current liabilities:			
Other payables and accruals	<i>42</i>	344,625	415,215
Bank and other borrowings	<i>34</i>	16,662,637	17,121,178
Corporate bonds	<i>35</i>	11,663,212	4,105,212
Notes payable	<i>36</i>	2,939,743	3,091,413
Finance lease payables	<i>37</i>	40,906	51,814
Provision for major overhauls	<i>38</i>	187,759	205,489
Deferred income	<i>39</i>	135,115	117,564
Deferred tax liabilities	<i>40</i>	1,691,342	1,320,597
Total non-current liabilities		33,665,339	26,428,482
Current liabilities:			
Trade payables	<i>41</i>	9,842,824	5,786,331
Other payables and accruals	<i>42</i>	5,234,492	4,817,755
Income tax payables		672,844	490,816
Bank and other borrowings	<i>34</i>	4,812,255	6,015,190
Corporate bonds	<i>35</i>	–	599,674
Finance lease payables	<i>37</i>	52,176	63,085
Total current liabilities		20,614,591	17,772,851
TOTAL LIABILITIES		54,279,930	44,201,333
TOTAL EQUITY AND LIABILITIES		81,047,270	64,491,748

Li Yongcheng
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

Notes	Attributable to shareholders of the Company											Non-controlling interests HK\$'000	Total equity HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000 (note 32(b))	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Defined benefit plan reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000 (note 32(c))	Retained profits HK\$'000	Total 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 year	-	-	-	-	-	-	-	-	-	2,455,370	2,455,370	312,423	2,767,793
Other comprehensive loss for the year:													
Exchange differences related to foreign operations	-	-	-	-	-	-	-	(1,369,487)	-	-	(1,369,487)	(253,257)	(1,622,744)
Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	(35,107)	-	-	-	(35,107)	-	(35,107)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	(35,107)	(1,369,487)	-	2,455,370	1,050,776	59,166	1,109,942
Equity-settled share option arrangements	31(a)	-	-	68,637	-	-	-	-	-	-	68,637	-	68,637
Exercise of share options	30(a)	1,552	45,613	(12,338)	-	-	-	-	-	-	34,827	-	34,827
Transfer of share option reserve upon the forfeiture or lapse of share options		-	-	(3,036)	-	-	-	-	-	3,036	-	-	-
Acquisition of subsidiaries	45	-	-	-	-	-	-	-	-	-	-	164,424	164,424
Acquisition of non-controlling interests		-	-	-	17,661	-	-	-	-	-	17,661	(25,977)	(8,316)
Share of reserves of an associate		-	-	-	29,350	-	-	-	-	-	29,350	-	29,350
Disposal of subsidiaries	46	-	-	-	-	-	-	-	-	-	-	(17,606)	(17,606)
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	(17,572)	(17,572)
Capital contributions from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	639,857	639,857
Final 2014 cash distributions paid		-	-	(418,247)	-	-	-	-	-	-	(418,247)	-	(418,247)
Interim 2015 cash distributions paid	12	-	-	(383,619)	-	-	-	-	-	-	(383,619)	-	(383,619)
Transfer to reserves		-	-	-	-	-	-	-	229,026	(229,026)	-	-	-
At 31 December 2015		872,295	4,878,170*	3,581,759*	258,791*	(231,487)*	14,989*	(49,536)*	(827,735)*	7,197,718*	6,966,869*	4,106,582	20,290,415

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to shareholders of the Company											Perpetual capital instruments	Non-controlling interests	Total equity	
	Notes	Issued capital	Share premium account	Contributed surplus	Share option reserve	Capital reserve	Property revaluation reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits				Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 year		-	-	-	-	-	-	-	-	-	3,227,013	3,227,013	56,570	389,399	3,672,982
Other comprehensive loss for the year:															
Exchange differences related to foreign operations		-	-	-	-	-	-	-	(1,995,579)	-	(1,995,579)	(296,708)	(358,248)	(2,650,535)	
Share of other comprehensive loss of a joint venture		-	-	-	-	-	-	(14,606)	-	-	(14,606)	-	-	(14,606)	
Total comprehensive income/(loss) for the year		-	-	-	-	-	(14,606)	(1,995,579)	-	3,227,013	1,216,828	(240,138)	31,151	1,007,841	
Equity-settled share option arrangements	31(a)	-	-	-	40,935	-	-	-	-	-	40,935	-	-	40,935	
Exercise of share options	30(a)	3,422	102,053	-	(28,704)	-	-	-	-	-	76,771	-	-	76,771	
Shares repurchased and cancelled	30(b)	(1,930)	(80,181)	-	-	-	-	-	-	-	(82,111)	-	-	(82,111)	
Acquisition of subsidiaries	45	-	-	-	-	-	-	-	-	-	-	-	627,536	627,536	
Acquisition of non-controlling interests		-	-	-	-	(16,850)	-	-	-	-	(16,850)	-	(88,405)	(105,255)	
Disposal of partial interests in subsidiaries		-	-	-	-	14,417	-	-	-	-	14,417	-	8,635	23,052	
Share of reserves of an associate		-	-	-	-	25,216	-	-	-	-	25,216	-	-	25,216	
Disposal of subsidiaries	46	-	-	-	-	-	-	-	-	-	-	-	(1,076,797)	(1,076,797)	
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	(101,642)	(101,642)	
Capital contributions from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	454,113	454,113	
Issuance of perpetual capital instruments		-	-	-	-	-	-	-	-	-	-	6,545,163	-	6,545,163	
Final 2015 cash distributions paid		-	-	(443,948)	-	-	-	-	-	-	(443,948)	-	-	(443,948)	
Interim 2016 cash distributions paid	12	-	-	(513,949)	-	-	-	-	-	-	(513,949)	-	-	(513,949)	
Transfer to reserves		-	-	-	-	-	-	-	276,953	(276,953)	-	-	-	-	
At 31 December 2016		873,787	4,900,042*	2,623,862*	271,022*	(208,704)*	14,989*	(64,142)*	(2,823,314)*	996,671*	9,916,929*	16,501,142	6,305,025	3,961,173	26,767,340

* These reserve accounts comprise the consolidated reserves of HK\$15,627,355,000 (2015: HK\$15,311,538,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,643,755	3,545,559
Adjustments for:			
Bank interest income	6	(81,921)	(64,227)
Interest income on trade and other receivables with extended credit periods	6	(107,429)	(118,667)
Interest income on loans to government authorities in Mainland China	6	(5,152)	(63,433)
Interest income from non-controlling equity holders	6	(3,179)	(67,027)
Interest income on loans to joint ventures	6	(5,206)	(2,427)
Fair value gain on investment property	6	(43,911)	(548)
Fair value gain on derivative financial instruments		(410,039)	(253,714)
Gain on bargain purchase of subsidiaries	6	(2,869)	(21,827)
(Gain)/loss on disposal of subsidiaries	6, 7	(8,675)	2,327
Gain on disposal of a joint venture	6	(6,439)	–
Loss on disposal of items of property, plant and equipment	7	370	115
Loss on disposal of other intangible assets	7	3,838	–
Depreciation	7	147,312	76,840
Amortisation of operating concessions	7	147,097	125,493
Amortisation of other intangible assets	7	7,214	4,308
(Reversal of impairment)/impairment of receivables under service concession arrangements, net	7	(6,445)	16,088
Impairment/(reversal of impairment) of trade receivables, net	7	21,567	(10,540)
Impairment of other receivables, net	7	123,935	96,812
Impairment of amounts due from contract customers	7	5,964	52,938
Provision for major overhauls	7	109,870	65,201
Equity-settled share option expenses	7	40,935	68,637
Finance costs	8	1,511,679	1,208,353
Share of profits and losses of joint ventures		(192,172)	(162,795)
Share of profits and losses of associates		(182,373)	(12,221)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Operating profit before working capital changes		5,707,726	4,485,245
Increase in inventories		(50,010)	(12,279)
Increase in amounts due from contract customers		(5,783,687)	(6,822,007)
Increase in receivables under service concession arrangements		(5,312,722)	(2,378,115)
Increase in trade receivables		(910,051)	(296,524)
Increase in prepayments, deposits and other receivables		(2,198,843)	(1,107,294)
Increase in trade payables		4,468,447	2,417,959
Increase in other payables and accruals		2,031,920	1,444,778
Utilisation of provision for major overhauls	38	(124,069)	(105,758)
Cash used in operations		(2,171,289)	(2,373,995)
Mainland China corporate income tax paid		(310,590)	(241,593)
Overseas taxes paid		(18,444)	(11,517)
Net cash flows used in operating activities		(2,500,323)	(2,627,105)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(377,796)	(383,947)
Additions of operating concessions	<i>17</i>	(649,130)	(194,857)
Additions of other intangible assets	<i>18</i>	(36,178)	(14,800)
Acquisition of subsidiaries	<i>45</i>	(683,572)	(678,149)
Proceeds from disposal of subsidiaries	<i>46</i>	688,891	40,293
Proceeds from disposal of subsidiaries in prior years		73,202	376,909
Proceeds from disposal of joint ventures		6,711	–
Proceeds from disposal of a joint venture in prior years		–	117,157
Decrease in loans to a joint venture		58,882	–
Deposits paid for the acquisition of subsidiaries		–	(374,585)
Proceeds from disposal of items of property, plant and equipment		9,266	2,742
Deposits paid for the purchase of items of property, plant and equipment		–	(1,709,564)
Proceeds from disposal of other intangible assets		–	6
Acquisition of/increase in investments in joint ventures		(210,047)	(381,613)
Acquisition of/increase in investments in associates		(642,939)	(800,000)
Additions of available-for-sale investments		(545,533)	(30,492)
Proceed from disposal of partial interests in subsidiaries		23,052	–
(Increase)/decrease in time deposits with maturity of more than three months when acquired		(661)	92,825
Decrease in restricted cash and pledged deposits		134,663	34,937
Dividends received from joint ventures		40,546	92,586
Interest received		81,921	64,227
Net cash flows used in investing activities		(2,028,722)	(3,746,325)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		454,113	639,857
Acquisition of non-controlling interests		(105,255)	(8,316)
Issue of a note payable		–	697,550
Issue of corporate bonds		8,008,270	250,000
Repayment of corporate bonds		(748,482)	–
Net proceeds from issuance of perpetual capital instruments	33	6,545,163	–
New bank and other borrowings		12,406,204	14,990,534
Repayment of bank and other borrowings		(14,525,454)	(7,647,018)
Proceeds from exercise of share options		76,771	34,827
Proceeds received under sale and leaseback transactions		–	131,250
Shares repurchased		(82,111)	–
Capital element of finance lease rental payments		(13,737)	(11,610)
Interest paid		(1,483,107)	(1,188,550)
Interest element of finance lease rental payments		(4,091)	(4,214)
Distributions paid		(957,897)	(801,866)
Dividends paid to non-controlling equity holders		(101,642)	(17,572)
Net cash flows from financing activities		9,468,745	7,064,872
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		6,365,698	5,989,925
Effect of foreign exchange rate changes, net		(393,155)	(315,669)
CASH AND CASH EQUIVALENTS AT END OF YEAR		10,912,243	6,365,698
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	29	10,921,037	6,373,831
Less: Time deposits with maturity of more than three months when acquired		(8,794)	(8,133)
Cash and cash equivalents as stated in the consolidated statement of cash flows		10,912,243	6,365,698

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

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

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

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the 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, Singapore and the Portuguese Republic (“Portugal”);
- distribution and sale of piped water in Mainland China and Portugal;
- provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in Mainland China; and
- licensing of technical know-how related to sewage treatment in Mainland China.

Information about subsidiaries

Particulars of the Company’s principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
深圳北控創新投資有限公司	PRC/Mainland China	RMB300,000,000	–	100	Sewage treatment
深圳北控豐泰投資有限公司	PRC/Mainland China	RMB70,000,000	–	100	Sewage treatment
綿陽中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
長沙中科成污水淨化有限公司	PRC/Mainland China	RMB50,000,000	–	100	Sewage treatment
廣州中業污水處理有限公司	PRC/Mainland China	RMB85,000,000	–	100	Sewage treatment
江油中科成污水淨化有限公司	PRC/Mainland China	RMB8,000,000	–	100	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
成都雙流中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島中科成污水淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
廣州中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
台州市路橋中科成污水淨化有限公司	PRC/Mainland China	RMB55,500,000	–	100	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/Mainland China	RMB27,600,000	–	100	Sewage treatment
菏澤中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
濟南中科成水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
彭州中科成污水淨化有限公司	PRC/Mainland China	RMB28,000,000	–	100	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/Mainland China	RMB76,000,000	–	100	Sewage treatment
永州市北控污水淨化有限公司 ²	PRC/Mainland China	HK\$85,630,000	100	–	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB20,000,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控城投水質淨化有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北控水務集團(海南)有限公司	PRC/Mainland China	RMB100,000,000	–	90	Sewage treatment
東莞市石排偉通水務有限公司	PRC/Mainland China	RMB83,350,000	–	100	Sewage treatment
百色中環水業有限公司 [□]	PRC/Mainland China	HK\$20,000,000	–	100	Sewage treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment
錦州市北控水務有限公司 [□]	PRC/Mainland China	RMB127,178,541	80	–	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB55,302,635	–	80	Sewage treatment and water distribution
Be Water S.A.	Portugal	€11,987,000	–	100	Sewage treatment and water distribution
北京北控污水淨化及回用 有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
成都北控蜀都投資有限公司 ("Beikong Shudu")	PRC/Mainland China	RMB852,750,000	–	68.5	Construction services and sewage treatment
北京建工環境發展有限責任公司 ("BCEG Environmental")	PRC/Mainland China	RMB300,000,000	–	60	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	MYR50,000,000	–	100	Construction services
昆明捷運泰富環保工程有限公司 [□]	PRC/Mainland China	RMB680,000,000	–	70	Construction services
昆明捷運路橋發展有限公司 [□]	PRC/Mainland China	RMB1,200,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司 [□]	PRC/Mainland China	RMB200,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司 [□]	PRC/Mainland China	RMB150,000,000	–	100	Construction services
佛山北控水環境開發有限公司 [□]	PRC/Mainland China	RMB100,000,000	–	70	Construction services

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
簡陽鴻琛建設工程有限公司 [□]	PRC/Mainland China	RMB10,000,000	–	60	Construction services
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	–	83.8	Water distribution
遵義北控水務有限公司	PRC/Mainland China	RMB50,236,000	80	–	Water distribution
德清達閩制水有限公司 [□]	PRC/Mainland China	US\$11,960,000	–	100	Water distribution
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD10	–	80	Reclaimed water treatment
泉州安平供水有限公司 [□]	PRC/Mainland China	US\$6,600,000	–	100	Water distribution
廣西貴港北控水務環保有限公司	PRC/Mainland China	RMB50,000,000	–	100	Waste treatment
北控中科成環保集團有限公司	PRC/Mainland China	RMB417,969,071	–	100	Consultancy services and investment holding
南京市市政設計研究院有限責任公司	PRC/Mainland China	RMB7,958,880	–	99.172	Consultancy services
北控水務(中國)投資有限公司 [□]	PRC/Mainland China	US\$100,000,000	100	–	Investment holding
雲南北控水務有限公司	PRC/Mainland China	RMB400,000,000	–	100	Investment holding
上海北控亞同水務投資有限公司	PRC/Mainland China	RMB100,000,000	–	100	Investment holding
北控(鞍山)水務有限公司	PRC/Mainland China	RMB65,000,000	–	70	Sewage treatment
阜新市北控水務有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
北控(洛陽)水務發展有限公司	PRC/Mainland China	RMB771,363,446	–	70	Sewage treatment
廣東鶴山北控水務有限公司	PRC/Mainland China	RMB800,000	–	70	Water distribution
金堂北控水環境治理有限公司	PRC/Mainland China	RMB24,360,000	–	83	Construction services
台州北控水務置業有限公司	PRC/Mainland China	RMB98,000,000	–	100	Construction services

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries are as follows: *(Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
成都青白江中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
錦州市小凌河北控水務有限公司	PRC/Mainland China	RMB33,250,000	–	100	Sewage treatment
衡陽市海朗水務有限公司	PRC/Mainland China	RMB37,000,000	–	100	Water distribution
廣安北控廣和水務有限公司	PRC/Mainland China	RMB70,000,000	–	100	Water distribution
北京稻香水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Reclaimed water treatment
東莞市德高水務有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
四川省彭州市自來水有限公司 [⊘] ("Pangzhou")	PRC/Mainland China	RMB73,600,000	–	70	Water distribution
北控南陽水務集團有限公司 [⊘]	PRC/Mainland China	RMB102,626,900	–	67	Water distribution
永州市水務運營有限責任公司 [⊘]	PRC/Mainland China	RMB309,285,300	–	49	Water distribution
成都北控陽安水環境治理有限公司 [⊘]	PRC/Mainland China	RMB170,000,000	–	98	Construction services
北控(濟源)污水淨化有限公司 [⊘]	PRC/Mainland China	RMB166,330,000	–	100	Sewage treatment
赤峰北控水環境開發有限公司 [⊘]	PRC/Mainland China	RMB800,000,000	–	99.8	Construction services
琪縣北控供水有限公司 [⊘]	PRC/Mainland China	RMB10,000,000	–	80	Water distribution
淮安市水利勘測設計研究院有限公司 [⊘]	PRC/Mainland China	RMB10,000,000	–	70	Consultancy service

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

[⊘] *Acquired/incorporated during the year*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2. BASIS OF PRESENTATION

Despite that the Group had capital commitments of approximately HK\$6.9 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2016, as detailed in note 50 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

- (a) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group's principal bankers;
- (b) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2017 with reference to the terms of respective agreements and the current status of the projects; and
- (c) the Company will consider equity financing when necessary.

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

3.1 BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property, available-for-sale listed equity investment and derivative financial instruments which have been measured at fair value. The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <i>Regulatory Deferral Accounts</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 nature and the impact of each amendment is described below:

- (a) Amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments to HKFRS 10 also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Consequential amendments were made to HKFRS 12 to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 9 to present the disclosures in respect of investment entities in accordance with HKFRS 12. HKAS 28 (2011) was also amended to allow an investor that is not itself an investment entity, and has an interest in an investment entity, associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interest in its subsidiaries. The amendments have had no impact on the Group as the consolidation exemption does not apply to a listed entity.
- (b) Amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are applied prospectively. The amendments have had no impact on the Group as there has been no interest acquired in a joint operation during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

- (c) HKFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of HKFRSs. Entities that adopt HKFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss. The standard requires disclosures on the nature of, and risk associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. The standard has had no impact on the Group as the Group is not subject to rate regulation and is not a first-time adopter of HKFRSs.
- (d) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in HKAS 1;
 - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
 - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
 - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

- (e) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

- (f) The HKAS 16 and HKAS 41 Amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants are within the scope of HKAS 16 instead of HKAS 41. After initial recognition, bearer plants are measured under HKAS 16 at accumulated cost before maturity. After the bearer plants mature, they are measured either using the cost model or revaluation model in accordance with HKAS 16. The amendments also require that produce growing on the bearer plants remains in the scope of HKAS 41 and is measured at fair value less costs to sell. Government grants relating to bearer plants are accounted for in accordance with HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The amendments have had no impact on the Group as the Group does not have any bearer plants.
- (g) The HKAS 27 (2011) Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying HKFRSs and electing to change to the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements are required to apply the change retrospectively. The amendments are not applicable to the Group's consolidated financial statements.
- (h) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:
- *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.
 - *HKFRS 7 Financial Instruments: Disclosures*: Clarifies that the disclosures in respect of the offsetting of financial assets and financial liabilities in HKFRS 7 are not required in the condensed interim financial statements, except where the disclosures provide a significant update to the information reported in the most recent annual report, in which case the disclosures should be included in the condensed interim financial statements. The amendments are not applicable to the Group's annual consolidated financial statements.
 - *HKFRS 7 Financial Instruments: Disclosures*: Clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the HKFRS 7 disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendments have had no impact on the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

(h) *(Continued)*

- HKAS 19 *Employee Benefits*: Clarifies that market depth of high quality corporate bonds used for discounting the post-employment benefit obligation for defined benefit plans is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment has had no impact on the Group.
- HKAS 34 *Interim Financial Reporting*: Clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The amendment also specifies that the information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is not applicable to the Group's annual consolidated financial statements.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts²</i>
HKFRS 9	<i>Financial Instruments²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers²</i>
HKFRS 16	<i>Leases³</i>
Amendments to HKAS 7	<i>Disclosure Initiative¹</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to a number of HKFRSs ⁵

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

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but available for adoption

⁵ Effective for annual periods beginning on or after 1 January 2017 or 2018, with early application permitted

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

Annual Improvements to HKFRSs 2014-2016 Cycle issued in March 2017 sets out amendments to a number of HKFRSs. Details of the applicable amendments are as follows:

HKFRS 12 *Disclosure of Interest in Other entities*: Clarified the scope of the standard by specifying that certain disclosure requirements is not required for subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

HKAS 28 *Investments in Associates and Joint Ventures*: Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

Related parties

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

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

or

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

Business combinations and goodwill

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June (2015: 30 June). For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment property

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

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

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

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

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

Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

Service concession arrangements

Consideration given by the grantor

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

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

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

Construction or upgrade services

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

Operating services

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

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

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

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

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

Patents

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Computer software

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

Research and development costs

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

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

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

(a) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

(b) Loans and receivables

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

(c) Available-for-sale investments

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

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

Impairment

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment *(Continued)*

(a) Financial assets carried at amortised cost

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

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

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

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

(b) Available-for-sale investments

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (Continued)

Impairment (Continued)

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

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

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

Derecognition

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (loans and borrowings)

Initial recognition and measurement

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

The Group's financial liabilities include trade and other payables, bank and other borrowings, corporate bonds, notes payable and finance lease payables.

Subsequent measurement

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

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

Derecognition

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

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

Financial guarantee contracts

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Inventories

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

Construction contracts

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

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

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

Contracts for services

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Perpetual capital instruments

Perpetual capital instruments with no contracted obligation to repay the principal or to pay any distribution are classified as part of equity.

Provisions

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

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

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

Income tax

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Government grants

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

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

Revenue recognition

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

- (a) from construction services, on the percentage-of-completion basis, as further explained in the accounting policy for “Construction contracts” above;
- (b) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for “Contracts for services” above;
- (c) from the sale of water and goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the water and goods sold;
- (d) rental income, on a time proportion basis over the lease terms;

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

- (e) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 31 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves.

Other employee benefits

Defined contribution plans

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined contribution plans (Continued)

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

Defined benefit plan

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

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

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

Borrowing costs

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Percentage of completion of construction work and service contracts

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

Classification between operating concessions and receivables under service concession arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK\$3,389,996,000 (2015: HK\$2,421,012,000) and HK\$24,571,245,000 (2015: HK\$18,690,611,000), respectively, further details of which are set out in note 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

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

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

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

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

Estimation of water consumption

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

The actual consumption could deviate from those estimates.

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

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment, and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment, and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of property, plant and equipment, and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK\$2,831,452,000 (2015: HK\$1,379,801,000) and HK\$3,451,932,000 (2015: HK\$2,458,302,000) in aggregate, respectively, further details of which are set out in notes 14, 17 and 18 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the relevant business units to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The total carrying amount of goodwill as at 31 December 2016 was HK\$3,312,200,000 (2015: HK\$2,967,365,000) in aggregate, details of which are set out in note 16 to the financial statements.

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

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

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

The policy for provision for impairment of receivables under service concession arrangements, amounts due from contract customers, trade receivables, and other receivables of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of receivables under service concession arrangements, amounts due from contract customers, trade receivables, and other receivables (other than prepayments) carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK\$24,571,245,000 (2015: HK\$18,690,611,000), HK\$17,305,049,000 (2015: HK\$12,807,338,000), HK\$4,371,260,000 (2015: HK\$3,624,677,000) and HK\$6,320,207,000 (2015: HK\$10,591,059,000), respectively, further details of which are set out in notes 17, 25, 26 and 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Defined benefit plan

The present value of the retirement benefit obligation under the defined benefit plan of a joint venture depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligation. Key assumptions for the obligation are based in part on the current market conditions. The carrying amount of the obligation carried as a liability in the statement of financial position of the joint venture as at 31 December 2016 was HK\$468,837,000 (2015: HK\$446,110,000) and the Group's share of which, amounting to HK\$210,977,000 (2015: HK\$200,750,000), has been included in the Group's investments in joint ventures.

Current tax and deferred tax assets

The Group is subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia and Singapore. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2016 was HK\$672,844,000 (2015: HK\$490,816,000).

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2016 were HK\$106,751,000 (2015: HK\$122,388,000) and HK\$1,691,342,000 (2015: HK\$1,320,597,000), respectively, details of which are set out in note 40 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

5. OPERATING SEGMENT INFORMATION

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	14,962,570	1,371,409	1,020,854	17,354,833
Cost of sales	(10,425,605)	(699,441)	(444,948)	(11,569,994)
Gross profit	4,536,965	671,968	575,906	5,784,839
Segment results:				
The Group	4,511,964	669,721	457,481	5,639,166
Share of profits and losses of:				
Joint ventures	66,203	125,969	–	192,172
Associates	5,345	–	–	5,345
	4,583,512	795,690	457,481	5,836,683
Fair value gain on derivative financial instruments				410,039
Corporate and other unallocated income and expenses, net				(378,666)
Share of profit of an associate				177,028
Finance costs				(1,401,329)
Profit before tax				4,643,755
Income tax				(970,773)
Profit for the year				3,672,982
Profit for the year attributable to shareholders of the Company:				
Operating segments	3,596,893	578,524	274,908	4,450,325
Fair value gain on derivative financial instruments				410,039
Corporate and other unallocated items				(1,633,351)
				3,227,013

NOTES TO FINANCIAL STATEMENTS

31 December 2016

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets:				
Operating segments	54,910,017	12,197,966	2,797,705	69,905,688
Corporate and other unallocated items				11,141,582
				81,047,270
Other segment information:				
Capital expenditure*				
– Operating segments	351,120	608,499	55,845	1,015,464
– Amount unallocated				915,494
				1,930,958
Depreciation				
– Operating segments	62,117	43,628	16,059	121,804
– Amount unallocated				25,508
				147,312
Amortisation of operating concessions	85,242	61,855	–	147,097
Amortisation of other intangible assets				
– Operating segments	1,528	1,111	681	3,320
– Amount unallocated				3,894
				7,214
Impairment of segment assets, net**	103,735	651	40,635	145,021
Provision for major overhauls	80,035	29,835	–	109,870

NOTES TO FINANCIAL STATEMENTS

31 December 2016

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	11,846,112	881,024	775,821	13,502,957
Cost of sales	(7,782,734)	(433,357)	(319,966)	(8,536,057)
Gross profit	4,063,378	447,667	455,855	4,966,900
Segment results:				
The Group	3,822,820	398,634	349,307	4,570,761
Share of profits and losses of:				
Joint ventures	86,508	76,287	–	162,795
Associates	1,761	–	–	1,761
	3,911,089	474,921	349,307	4,735,317
Fair value gain on derivative financial instruments				253,714
Corporate and other unallocated income and expenses, net				(307,224)
Share of profit of an associate				10,460
Finance costs				(1,146,708)
Profit before tax				3,545,559
Income tax				(777,766)
Profit for the year				2,767,793
Profit for the year attributable to shareholders of the Company:				
Operating segments	2,907,256	409,303	264,368	3,580,927
Fair value gain on derivative financial instruments				253,714
Corporate and other unallocated items				(1,379,271)
				2,455,370

NOTES TO FINANCIAL STATEMENTS

31 December 2016

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services and sale of machineries <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets:				
Operating segments	47,973,512	7,267,167	2,228,201	57,468,880
Corporate and other unallocated items				7,022,868
				64,491,748
Other segment information:				
Capital expenditure*				
– Operating segments	238,624	289,548	47,797	575,969
– Amount unallocated				17,635
				593,604
Depreciation				
– Operating segments	40,701	16,961	5,686	63,348
– Amount unallocated				13,492
				76,840
Amortisation of operating concessions	68,551	56,942	–	125,493
Amortisation of other intangible assets				
– Operating segments	752	461	934	2,147
– Amount unallocated				2,161
				4,308
Impairment of segment assets, net**	145,469	9,429	400	155,298
Provision for major overhauls	60,329	4,872	–	65,201

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue from external customers:		
Mainland China	16,026,894	12,110,629
Elsewhere	1,327,939	1,392,328
	17,354,833	13,502,957
Non-current assets:		
Mainland China	15,264,782	10,437,335
Portugal	687,701	754,438
Elsewhere	83,102	79,868
	16,035,585	11,271,641

The revenue information by geographical area is based on the location of the customers; while the non-current asset information shown above is based on the location of the assets and excludes financial instruments, amounts due from contract customers and deferred tax assets.

Information about major customers

During the year ended 31 December 2016, there was no single external customer (2015: Nil) from which over 10% of the Group's total revenue for the year was derived.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

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 service contracts and sale of machineries, net of value-added tax and government surcharges; and (5) the imputed interest income under service concession arrangements.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue		
Sewage and reclaimed water treatment services	3,653,872	3,515,103
Construction services	11,308,698	8,331,009
Water distribution services	1,371,409	881,024
Technical and consultancy services and sale of machineries	1,020,854	775,821
	17,354,833	13,502,957
Interest income		
Bank interest income	81,921	64,227
Interest income on trade and other receivables with extended credit periods	107,429	118,667
Interest income on loans to government authorities in Mainland China ^o	5,152	63,433
Interest income from non-controlling equity holders [@]	3,179	67,027
Interest income on loans to joint ventures ^π	5,206	2,427
	202,887	315,781

Imputed interest income under service concession arrangements amounting to HK\$1,659,158,000 (2015: HK\$1,354,905,000) is included in the above revenue.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Other income		
Gross rental income [#]	21,197	9,072
Government grants [§]	181,309	101,241
Sludge treatment income	146,412	51,630
Pipeline installation income	137,529	39,920
Investment income from an available-for-sale investment	13,113	5,307
VAT refunds for sewage and reclaimed water treatment services ^Ω	320,291	136,338
Others	79,404	41,171
	899,255	384,679
Gains, net		
Fair value gain on investment property <i>(note 15)</i>	43,911	548
Gain on bargain purchase of subsidiaries <i>(note 45)</i>	2,869	21,827
Gain on disposal of subsidiaries <i>(note 46)</i>	8,675	–
Gain on disposal of a joint venture	6,439	–
Foreign exchange differences, net	48,411	47,584
Others	112,029	–
	222,334	69,959
Other income and gains, net	1,121,589	454,638

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

- δ *The interest income recognised during the year was derived from loans to various government authorities in Mainland China, as further detailed in note 27(a)(ii) to the financial statements.*
- ⊕ *The interest income recognised during the year was derived from loans to non-controlling equity holders, as further detailed in notes 28(i) and (ii) to the financial statements.*
- π *The interest income recognised during the year represented the interest income on a loan to Aqualyng-BEWG China Desalination Company Limited, a 51%-owned joint venture of the Group, as further detailed in note 19(c) to the financial statements, and a loan to Beijing Enterprises Water Trading Limited, ("BE Water Trading"), a 50%-owned joint venture of the Group, as further detailed in note 19(d)(i) to the financial statements.*
- # *The Group leased a portion of its office premises and certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and reclaimed water treatment operations, to third parties under operating lease arrangements and, accordingly, earned rental income therefrom for the year.*
- § *The government grants recognised during the year represented grants received from certain government authorities in respect of the fulfilment of certain specific duties by the Group.*
- Ω *The Group is entitled to a refund 50% to 70% of the net VAT paid/payable under the Catalogue of Products and Services related to Recycling Businesses Qualified for Value-Added Tax (VAT) Preferential Treatment (Caishui [2015] No. 78) jointly issued by the PRC State Administration of Taxation and the Ministry of Finance.*

NOTES TO FINANCIAL STATEMENTS

31 December 2016

7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Cost of sewage and reclaimed water treatment services rendered		1,494,420	1,240,158
Cost of construction services		8,816,154	6,433,300
Cost of water distribution services		667,375	417,140
Cost of technical and consultancy services rendered and machineries sold		444,948	319,966
Depreciation	<i>14</i>	147,312	76,840
Amortisation of operating concessions*	<i>17</i>	147,097	125,493
Amortisation of other intangible assets*	<i>18</i>	7,214	4,308
Minimum lease payments under operating leases		20,562	15,905
Auditor's remuneration		12,000	9,800
Employee benefit expense (including directors' remuneration (<i>note 9</i>)):			
Salaries, allowances and benefits in kind		1,235,449	846,369
Equity-settled share option expense	<i>31(a)</i>	40,935	68,637
Pension scheme contributions		101,603	73,283
Welfare and other expenses		293,054	258,923
		1,671,041	1,247,212
(Reversal of impairment)/impairment of receivables under service concession arrangements, net	<i>17(b)</i>	(6,445)	16,088
Impairment of amounts due from contract customers	<i>25</i>	5,964	52,938
Impairment/(reversal of impairment) of trade receivables, net	<i>26(c)</i>	21,567	(10,540)
Impairment of other receivables, net	<i>27(c)</i>	123,935	96,812
Provision for major overhauls	<i>38</i>	109,870	65,201
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		2,950	384
Loss on disposal of items of property, plant and equipment		370	115
Loss on disposal of other intangible assets		3,838	–
(Gain)/loss on disposal of subsidiaries	<i>46</i>	(8,675)	2,327

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 HK\$'000	2015 HK\$'000
Interest on bank and other loans	969,949	805,077
Interest on corporate bonds	352,819	217,334
Interest on notes payable	173,167	172,562
Interest on finance leases	4,091	4,214
Total interest expense	1,500,026	1,199,187
Increase in discounted amounts of provision for major overhauls arising from the passage of time (note 38)	11,653	9,166
Total finance costs	1,511,679	1,208,353
Less: Interest included in cost of construction services	(110,350)	(61,645)
	1,401,329	1,146,708

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group 2016 HK\$'000	2015 HK\$'000
Fees	1,920	2,080
Other emoluments:		
Salaries, allowances and benefits in kind	19,975	16,645
Equity-settled share option expense	15,042	33,668
Pension scheme contributions	41	54
	35,058	50,367
	36,978	52,447

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31 December 2016

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share option expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2016					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>)	130	–	–	–	130
Mr. E Meng (<i>Vice Chairman</i>)	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong*	30	2,672	1,436	5	4,143
Mr. Zhou Min (<i>Chief Executive Officer</i>)#	120	6,561	6,020	18	12,719
Mr. Li Haifeng	120	3,620	2,429	18	6,187
Mr. Zhang Tiefu	120	2,972	–	–	3,092
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	968	–	1,088
Mr. Li Li	120	4,150	1,747	–	6,017
	1,240	19,975	12,600	41	33,856
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	86	–	206
Mr. Zhang Gaobo	150	–	129	–	279
Mr. Guo Rui	120	–	172	–	292
Ms. Hang Shijun&	120	–	215	–	335
Mr. Wang Kaijun	120	–	215	–	335
Mr. Yu Ning®	50	–	1,625	–	1,675
	680	–	2,442	–	3,122
Total	1,920	19,975	15,042	41	36,978

* Mr. Hu Xiaoyong has resigned as an executive director and the chief executive officer of the Company on 30 March 2016.

Mr. Zhou Min has been appointed as the chief executive officer of the Company on 30 March 2016.

& Mr. Hang Shijun has resigned as independent non-executive director of the Company on 30 March 2017.

® Mr. Yu Ning passed away on 1 June 2016.

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31 December 2016

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Equity-settled share option expense <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
Year ended 31 December 2015					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>)	130	–	–	–	130
Mr. E Meng (<i>Vice Chairman</i>)	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong (<i>Chief Executive Officer</i>)	120	5,922	11,548	18	17,608
Mr. Zhou Min	120	4,085	10,104	18	14,327
Mr. Li Haifeng	120	2,599	4,511	18	7,248
Mr. Zhang Tiefu	120	1,893	–	–	2,013
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	1,624	–	1,744
Mr. Li Li	120	2,146	3,058	–	5,324
	1,330	16,645	30,845	54	48,874
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	217	–	337
Mr. Zhang Gaobo	150	–	217	–	367
Mr. Guo Rui	120	–	289	–	409
Ms. Hang Shijun	120	–	361	–	481
Mr. Wang Kaijun	120	–	361	–	481
Mr. Yu Ning	120	–	1,378	–	1,498
	750	–	2,823	–	3,573
Total	2,080	16,645	33,668	54	52,447

Notes:

- (a) Certain directors were granted share options in respect of their services to the Group, under the share option scheme of the Company, details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.
- (b) There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2016 and 2015 were all directors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the year ended 31 December 2016 as the Group did not generate any assessable profits arising in Hong Kong during the year (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 year based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, a number of the Company's subsidiaries enjoy income tax exemptions and reductions, by reasons that (1) these companies are engaged in the operations of sewage and reclaimed water treatment; and/or (2) they have operations in the Western region of Mainland China that are qualified for a 15% concessionary corporate income tax rate for a prescribed period of time pursuant to the "Circular of the State Council on Policies and Measures Concerning the Large-scale Development of China's Western Regions" (Guo Fa [2000] No. 33) issued by the State Council of Mainland China.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current – Mainland China	604,088	337,812
Current – Elsewhere	17,497	21,077
Underprovision/(overprovision) in prior years	1,033	(23,330)
Deferred (<i>note 40</i>)	348,155	442,207
Total tax expense for the year	970,773	777,766

NOTES TO FINANCIAL STATEMENTS

31 December 2016

11. INCOME TAX EXPENSE *(Continued)*

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

Year ended 31 December 2016

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(554,287)		5,198,042		4,643,755	
Tax expense/(credit) at the statutory tax rate	(89,868)	16.2	1,299,511	25.0	1,209,643	26.0
Lower tax rates of specific provinces or enacted by local authorities	-	-	(58,578)	(1.1)	(58,578)	(1.3)
Tax concession	-	-	(210,525)	(4.1)	(210,525)	(4.5)
Adjustments in respect of current tax of previous periods	1,033	(0.2)	-	-	1,033	-
Profits and losses attributable to joint ventures and associates	(1,310)	0.2	(92,251)	(1.8)	(93,561)	(2.0)
Income not subject to tax	(106,400)	19.2	(90,058)	(1.7)	(196,458)	(4.2)
Expenses not deductible for tax	195,346	(35.2)	94,677	1.8	290,023	6.2
Withholding tax of 5% on the distributable profits of the Group's PRC subsidiary and joint venture	-	-	4,544	0.1	4,544	0.1
Tax losses utilised from previous periods	-	-	(10,850)	(0.2)	(10,850)	(0.2)
Tax losses not recognised as deferred tax assets	21,305	(3.8)	14,197	0.3	35,502	0.8
Tax expense at the Group's effective tax rate	20,106	(3.6)	950,667	18.3	970,773	20.9

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX EXPENSE *(Continued)*

Year ended 31 December 2015

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(387,036)		3,932,595		3,545,559	
Tax expense/(credit) at the statutory tax rate	(57,397)	14.8	982,156	25.0	924,759	26.1
Lower tax rates of specific provinces or enacted by local authorities	–	–	(54,077)	(1.4)	(54,077)	(1.5)
Tax concession	–	–	(136,785)	(3.5)	(136,785)	(3.9)
Adjustments in respect of current tax of previous periods	(2,800)	0.7	(20,530)	(0.5)	(23,330)	(0.7)
Profits and losses attributable to joint ventures and associates	(2,621)	0.7	(41,050)	(1.0)	(43,671)	(1.2)
Income not subject to tax	(77,214)	20.0	(70,576)	(1.8)	(147,790)	(4.2)
Expenses not deductible for tax	152,164	(39.3)	39,956	1.0	192,120	5.4
Withholding tax of 5% on the distributable profits of the Group's PRC joint ventures	–	–	3,794	0.1	3,794	0.1
Tax losses utilised from previous periods	–	–	(2,836)	(0.1)	(2,836)	(0.1)
Tax losses not recognised as deferred tax assets	4,999	(1.3)	60,583	1.5	65,582	1.9
Tax expense at the Group's effective tax rate	17,131	(4.4)	760,635	19.3	777,766	21.9

The share of tax attributable to associates and joint ventures amounting to HK\$43,577,000 (2015: HK\$6,777,000) and HK\$43,507,000 (2015: HK\$32,935,000), respectively, is included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

12. CASH DISTRIBUTIONS

	2016 HK\$'000	2015 HK\$'000
Interim – HK5.9 cents (2015: HK4.4 cents) per ordinary share	513,949	383,619
Proposed final – HK6.0 cents (2015: HK5.1 cents) per ordinary share	524,388	443,886
	1,038,337	827,505

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12. CASH DISTRIBUTIONS *(Continued)*

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2016 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 8,712,012,633 (2015: 8,714,976,582) ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the year, 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.

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	3,227,013	2,455,370
	2016	2015
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	8,712,012,633	8,714,976,582
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	185,509,807	213,110,567
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	8,897,522,440	8,928,087,149

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2016							
At 1 January 2016:							
Cost	786,248	53,318	381,248	130,825	136,447	218,619	1,706,705
Accumulated depreciation	(99,930)	(11,356)	(58,093)	(84,934)	(72,591)	-	(326,904)
Net carrying amount	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
Net carrying amount:							
At 1 January 2016	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
Acquisition of subsidiaries (<i>note 45</i>)	127,558	-	516,581	4,886	7,793	-	656,818
Additions	896,894	61,776	40,132	38,965	96,939	110,944	1,245,650
Depreciation provided during the year	(58,911)	(5,421)	(48,593)	(14,280)	(20,107)	-	(147,312)
Disposal of subsidiaries (<i>note 46</i>)	(60,633)	(1,086)	(30,541)	(11,078)	(11,874)	-	(115,212)
Disposals	(945)	-	(5,624)	(1,320)	(1,747)	-	(9,636)
Transfers and reclassifications	73,180	-	47,160	-	-	(120,340)	-
Exchange realignment	(92,009)	(5,039)	(55,027)	(4,093)	(7,738)	(14,751)	(178,657)
At 31 December 2016	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452
At 31 December 2016:							
Cost	1,716,092	107,974	882,908	151,108	205,728	194,472	3,258,282
Accumulated depreciation	(144,640)	(15,782)	(95,665)	(92,137)	(78,606)	-	(426,830)
Net carrying amount	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2015							
At 1 January 2015:							
Cost	546,077	54,011	151,680	119,369	123,172	551,129	1,545,438
Accumulated depreciation	(102,047)	(10,683)	(45,880)	(79,231)	(64,602)	-	(302,443)
Net carrying amount	444,030	43,328	105,800	40,138	58,570	551,129	1,242,995
Net carrying amount:							
At 1 January 2015	444,030	43,328	105,800	40,138	58,570	551,129	1,242,995
Acquisition of subsidiaries <i>(note 45)</i>	-	-	481	1,368	1,717	-	3,566
Additions	70,269	3,072	83,814	18,434	23,153	185,205	383,947
Depreciation provided during the year	(28,870)	(1,415)	(17,443)	(13,177)	(15,935)	-	(76,840)
Disposal of subsidiaries <i>(note 46)</i>	-	-	-	(54)	(231)	-	(285)
Disposals	-	(843)	(4)	(1,302)	(708)	-	(2,857)
Transfers and reclassifications	335,485	-	165,154	3,043	1,147	(504,829)	-
Transfer to non-current assets held for sale	(97,551)	-	-	-	-	-	(97,551)
Exchange realignment	(37,045)	(2,180)	(14,647)	(2,559)	(3,857)	(12,886)	(73,174)
At 31 December 2015	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
At 31 December 2015:							
Cost	786,248	53,318	381,248	130,825	136,447	218,619	1,706,705
Accumulated depreciation	(99,930)	(11,356)	(58,093)	(84,934)	(72,591)	-	(326,904)
Net carrying amount	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801

The net carrying amounts of the Group's fixed assets held under finance leases included in the total amounts of machinery at 31 December 2016 was HK\$72,889,000 (2015: HK\$76,391,000).

At 31 December 2016, certain land use rights and buildings situated in Mainland China with an aggregate carrying amount HK\$998,377,000 (2015: HK\$200,462,000) were pledged to secure certain bank loans granted to the Group *(note 34)*.

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15. INVESTMENT PROPERTY

	2016 HK\$'000	2015 HK\$'000
Carrying amount at 1 January	–	55,821
Transfer from prepayments (<i>note 27</i>)	746,960	–
Fair value gain on revaluation	43,911	548
Exchange realignment	(35,545)	(2,903)
Transfer to non-current assets held for sale	–	(53,466)
Carrying amount at 31 December	755,326	–

Notes:

- (a) The Group's investment property is a portion of an office building situated in Mainland China and is held under a long term lease.
- (b) The investment property is leased to third parties under an operating lease arrangement, further summary details of which are included in note 49(a) to the financial statements.
- (c) As at 31 December 2016, the Group's investment property with a carrying amount of HK\$755,326,000 (2015: Nil) was pledged to bank to secure bank loan granted to the Group (note 34).
- (d) The Group's investment property was revalued on 31 December 2016 by Beijing Northern Yashi Assets Appraisal Co., Ltd., independent professionally qualified valuers, at HK\$755,326,000. Each year, the management decides to appoint which external valuers to be responsible for the external valuations of the Group's property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Each year, the management has discussions with the valuers on the valuation assumptions and valuation results.

The fair value of the Group's investment property was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

Fair value hierarchy disclosure

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Office building HK\$'000
Carrying amount at 1 January 2015	55,821
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	548
Transfer to non-current assets held for sale	(53,466)
Exchange realignment	(2,903)
Carrying amount at 31 December 2015 and 1 January 2016	–
Transfer from prepayments	746,960
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	43,911
Exchange realignment	(35,545)
Carrying amount at 31 December 2016	755,326

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31 December 2016

15. INVESTMENT PROPERTY *(Continued)*

Notes: (Continued)

(d) *(Continued)*

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

Valuation technique	Significant unobservable inputs	Range	
		31 December 2016	31 December 2015
Income capitalisation method	Daily estimated rental value (per s.q.m.)	RMB15.75 to RMB18.24	RMB8.39 to RMB8.71
	Rent growth	2% from 2021	3% every three years
	Discount rate	6%	6%

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

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

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

16. GOODWILL

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	2,967,365	2,524,701
Acquisition of subsidiaries <i>(note 45)</i>	465,478	462,602
Disposal of subsidiaries <i>(note 46)</i>	(92,635)	–
Exchange realignment	(28,008)	(19,938)
At 31 December	3,312,200	2,967,365

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31 December 2016

16. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sewage and reclaimed water treatment and construction services segment	1,952,290	2,022,761
Water distribution services segment	804,779	486,513
Technical and consultancy services and sale of machineries segment	555,131	458,091
	3,312,200	2,967,365

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by Greater China Appraisal Limited, independent professionally qualified valuers, using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections ranged from 10.67% to 12.02% (2015: 12.12% to 13.24%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 3% (2015: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2016 (2015: Nil).

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16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in estimations of the recoverable amounts

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

- **Budgeted revenue**
 - in respect of the revenue from the sewage and reclaimed water treatment and construction services segment and the water distribution services segment, the budgeted revenue is based on the projected sewage and reclaimed water treatment and water distribution volume, and the latest sewage and reclaimed water treatment and water tariff charges up to the date of valuation.
 - in respect of the revenue from the technical and consultancy services and sale of machineries segment, the budgeted revenue is based on the expected growth rate of the market.
- **Budgeted gross margins**
 - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the six months ended 30 June for the same year, increased for expected efficiency improvements.
- **Discount rates**
 - The discount rates used are after tax and reflect specific risks of respective segments.
 - The pre-tax discount rates implied in the cash flow projections ranged from 13.56% to 14.09% (2015: 14.67% to 15.56%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment.
- **Business environment**
 - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Singapore, Portugal and Malaysia.

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17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China, Singapore and Portugal on a BOT or a Transfer-Operate-Transfer (“TOT”) basis in respect of its sewage and reclaimed water treatment, water distribution and seawater desalination services. These service concession arrangements generally involve the Group as an operator (i) constructing sewage and reclaimed water treatment plants, water distribution facilities and a seawater desalination plant (collectively, the “Facilities”) for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 12 to 40 years (the “Service Concession Periods”), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of services that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the terms of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China, Singapore or Portugal that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations imposed on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

At 31 December 2016, the Group had 312, 7, 105 and 1 service concession arrangements on sewage treatment, reclaimed water treatment, water distribution and seawater desalination, respectively, with various governmental authorities in Mainland China, Singapore and Portugal and a summary of the major terms of the principal service concession arrangements is set out as follows:

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries:							
1.	綿陽中科成污水淨化 有限公司	綿陽市塔子壩污水 處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT on sewage treatment	100,000	30 years from 2002 to 2032
2.	長沙中科成污水淨化 有限公司	長沙市金霞污水 處理廠	Changsha, Hunan Province, the PRC	長沙市公用事業 管理局	TOT on sewage treatment	180,000	20 years from 2004 to 2024
3.	廣州中業污水處理 有限公司	廣州市花都區新華 污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州市花都區 市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033

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17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
4.	深圳北控創新投資 有限公司	深圳市龍崗區橫嶺 污水處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031
5.	深圳北控豐泰投資 有限公司	深圳市龍崗區橫嶺 污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區 人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028
6.	成都青白江中科成污水 淨化有限公司	成都市青白江區 污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區 人民政府	TOT on sewage treatment	100,000	25 years from 2009 to 2034
7.	齊齊哈爾市北控污水 淨化有限公司	齊齊哈爾市富拉爾 基區污水處理廠	Qi Qi Har, Heilongjiang Province, the PRC	齊齊哈爾市環境 保護局	BOT on sewage treatment	100,000	28 years from 2012 to 2040
8.	錦州市北控水務 有限公司	錦州市一期污水 處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與 房產局	TOT on sewage treatment	100,000	30 years from 2009 to 2039
9.	錦州市北控水務 有限公司	錦州市二期污水 處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與 房產局	BOT on sewage treatment	100,000	30 years from 2011 to 2041
10.	錦州市小凌河北控水務 有限公司	錦州市三期污水 處理廠	Jinzhou, Liaoning Province, the PRC	錦州市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
11.	錦州市北控水務有限公司	錦州市再生水項目	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與 房產局	BOT on reclaimed water treatment	180,000	30 years from 2010 to 2040
12.	玉溪北控城投水質淨化 有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉 建設局	TOT on sewage treatment	100,000	30 years from 2010 to 2040
13.	廣西貴港北控水務 有限公司	貴港市城西污水 處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
14.	廣西貴港北控水務 有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038
15.	遵義北控水務有限公司	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水 有限責任公司	BOT on water distribution	100,000	25 years from 2010 to 2035

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31 December 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
16.	衡陽市海朗水務 有限公司	衡陽市珠暉自來水 制水廠	Hengyang, Hunan Province, the PRC	衡陽市建設局	BOT on water distribution	200,000	30 years (Not yet started)
17.	廣安北控廣和水務 有限公司	廣安新橋園區 供水廠(一期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years from 2015 to 2045
18.	廣安北控廣和水務 有限公司	廣安新橋園區 供水廠(二期)	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years (Not yet started)
19.	昆明空港北控城投水質 淨化有限公司	昆明空港經濟區 污水處理廠 (二期)	Kunming, Yunnan Province, the PRC	昆明市人民政府	BOT on sewage treatment	130,000	20 years (Not yet started)
20.	成都北控蜀都投資 有限公司	成都合作污水 處理廠	Chengdu, Sichuan Province, the PRC	成都市郫縣水務局	TOT on sewage treatment	100,000	25 years from 2012 to 2037
21.	北京稻香水質淨化 有限公司	海澱區稻香湖 再生水廠項目	Beijing Haidian, the PRC	北京市海澱區 水務局	BOT on reclaimed water treatment	160,000	30 years (Not yet started)
22.	東莞市石排偉通水務 有限公司	東莞市南畚朗 污水處理廠	Dongguan, Guangdong Province, the PRC	東莞華態園管理 委員會	BOT on sewage treatment	200,000	25 years from 2009 to 2034
23.	東莞市德高水務 有限公司	東莞市橫瀝東坑 合建污水處理廠	Dongguan, Guangdong Province, the PRC	高埗鎮人民政府	BOT on sewage treatment	120,000	25 years from 2008 to 2033
24.	北控水務集團(海南) 有限公司	白沙門污水處理廠	Haikou, Hainan Province, the PRC	海口市水務局	BOT on sewage treatment	200,000	25 years from 2010 to 2035
25.	德清達閩制水有限公司	德清縣乾元淨水廠 項目	Deqing, Zhejiang Province, the PRC	德清縣建設局	BOT on water distribution	100,000	25 years from 2007 to 2032
26.	北控(鞍山)水務 有限公司	鞍山市永寧 污水處理廠項目	Anshan, Liaoning Province, the PRC	鞍山市環境保護局	BOT on sewage treatment	100,000	30 years from 2015 to 2045

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31 December 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
27.	阜新市北控水務 有限公司	遼寧省阜新市 開發區污水 處理廠項目	Fuxin, Liaoning Province, the PRC	阜新市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
28.	北控(洛陽)水務發展 有限公司	澗西污水處理廠 項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
29.	北控(洛陽)水務發展 有限公司	瀘東污水處理廠 項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
30.	北控(洛陽)水務發展 有限公司	新區污水處理廠 項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
31.	廣東鶴山北控水務 有限公司	鶴山市沙坪鎮 第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045
32.	北控(濟源)污水 淨化有限公司	濟源市城市污水廠	Jiyuan, Henan Province, the PRC	濟源市住房和 城鄉建設局	TOT on sewage treatment	100,000	30 years from 2016 to 2046
33.	永州市水務運營 有限責任公司	永州曲河供水廠 一期	Yongzhou, Hunan Province, the PRC	永州市城市管理 行政執法局	TOT on water distribution	100,000	30 years from 2016 to 2046
34.	凱里北控清源水務 有限公司	凱里市城鎮供排水 項目	Kaili, Guizhou Province, the PRC	凱里水務局	TOT on water distribution	144,000	30 years from 2016 to 2046
35.	棗莊北控智信水務 有限公司	棗莊市區供水廠	Zaozhuang City, Shandong Province, the PRC	棗莊市人民政府	BOT on water distribution	110,000	30 years from 2013 to 2043
36.	南安實康水務有限公司	福建南安供水廠 一期	Nanan, Fujian Province, the PRC	福建南安市人民 政府	TOT on water distribution	170,000	30 years from 2013 to 2043

NOTES TO FINANCIAL STATEMENTS

31 December 2016

17. SERVICE CONCESSION ARRANGEMENTS (Continued)

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
37.	山東昌樂實康水業有限公司	山東昌樂供水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	TOT on water distribution	100,000	30 years from 2013 to 2043
38.	昌樂實康原水有限公司	山東昌樂原水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	BOT on water distribution	100,000	30 years from 2013 to 2043
39.	徐州建邦環境有限公司	江蘇徐州丁樓淨水廠	Xuzhou, Jiangsu Province, the PRC	徐州市水務局	BOT on sewage treatment	400,000	30 years from 2014 to 2044
40.	徐州建邦環境有限公司	徐州市南望淨水廠	Xuzhou, Jiangsu Province, the PRC	徐州市水務局	BOT on sewage treatment	200,000	30 years from 2014 to 2044
41.	南京城東北控污水處理有限公司	南京市城東污水處理廠一期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
42.	南京城東北控污水處理有限公司	南京市城東污水處理廠二期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
43.	常德北控碧海水務有限責任公司	常德柳葉湖污水廠	Changde City, Hunan Province, the PRC	常德市市政公用事業管理局	TOT on sewage treatment	100,000	15 years from 2016 to 2031
44.	UE NEWater (S) Pte. Ltd.	新加坡樟宜第二新生水廠	Singapore	新加坡公用事業局	DBOO on water recycling	228,000	25 years from 2014 to 2039
Joint ventures:							
45.	貴陽北控水務有限責任公司 ("Guiyang BEWG")	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
46.	海寧實康水務有限公司	浙江海寧供水廠	Haining, Zhejiang Province, the PRC	浙江海寧市人民政府	TOT on water distribution	300,000	30 years from 2013 to 2043

NOTES TO FINANCIAL STATEMENTS

31 December 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the Facilities and related land, which are generally registered under the names of the relevant companies in the Group, during the Service Concession Periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. At 31 December 2016, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

At 31 December 2016, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate carrying amount of HK\$9,102,328,000 (2015: HK\$9,303,850,000) were pledged to secure certain bank loans granted to the Group (*note 34*).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January:		
Cost	2,958,933	2,730,011
Accumulated amortisation	(537,921)	(444,488)
Net carrying amount	2,421,012	2,285,523
Net carrying amount:		
At 1 January	2,421,012	2,285,523
Acquisition of subsidiaries <i>(note 45)</i>	628,065	228,009
Additions	649,130	194,857
Amortisation provided during the year	(147,097)	(125,493)
Exchange realignment	(161,114)	(161,884)
At 31 December	3,389,996	2,421,012
At 31 December:		
Cost	4,035,866	2,958,933
Accumulated amortisation	(645,870)	(537,921)
Net carrying amount	3,389,996	2,421,012

NOTES TO FINANCIAL STATEMENTS

31 December 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Receivables under service concession arrangements	24,612,242	18,738,392
Impairment <i>(note (b))</i>	(40,997)	(47,781)
	24,571,245	18,690,611
Portion classified as current assets	(1,933,078)	(1,712,947)
	22,638,167	16,977,664

Notes:

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Billed:		
Within 3 months	747,658	662,753
4 to 6 months	256,118	211,827
7 to 12 months	285,860	221,404
Over 1 year	216,476	160,781
	1,506,112	1,256,765
Unbilled:		
Current portion	426,966	456,182
Non-current portion	22,638,167	16,977,664
	23,065,133	17,433,846
Total	24,571,245	18,690,611

NOTES TO FINANCIAL STATEMENTS

31 December 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	47,781	34,098
Acquisition of subsidiaries	13,247	–
(Reversal of impairment)/impairment during the year recognised in profit or loss, net	(6,445)	16,088
Amount written off as uncollectible	–	(6)
Disposal of subsidiaries	(10,871)	–
Exchange realignment	(2,715)	(2,399)
At 31 December	40,997	47,781

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2016 was a provision for individually impaired receivables of HK\$12,400,000 (2015: HK\$13,248,000) with an aggregate carrying amount before provision of HK\$60,660,000 (2015: HK\$86,409,000). The individually impaired receivables relate to those amounts which have remained long outstanding and only a portion of the receivables is expected to be recovered.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2016 and 2015 also included the provision made against the remaining balances of the receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Neither past due nor impaired	383,277	317,919
Less than 1 month past due	217,074	189,617
1 to 3 months past due	265,659	328,567
4 to 6 months past due	224,937	143,034
7 months to 1 year past due	210,590	141,715
Over 1 year past due	204,575	135,913
	1,506,112	1,256,765

The above receivables were mainly due from governmental authorities in Mainland China as grantors in respect of the Group's sewage and reclaimed water treatment and water distribution businesses. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

(c) Included in the receivables under service concession arrangements of the Group as at 31 December 2016 was an amount due from Beijing Enterprises Holdings Limited ("BEHL"), a substantial beneficial owner of the Company, of HK\$784,017,000 (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\$64,524,000 (2015: HK\$85,981,000), which was measured at amortised cost using the effective interest rate method, was recognised in "Revenue" on the face of the consolidated statement of profit or loss during the year. Further details of the transaction are set out in the Company's circular and announcement dated 30 November 2012 and 5 February 2013, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

18. OTHER INTANGIBLE ASSETS

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2016			
At 1 January 2016:			
Cost	747	48,644	49,391
Accumulated amortisation	(699)	(11,402)	(12,101)
Net carrying amount	48	37,242	37,290
Net carrying amount:			
At 1 January 2016	48	37,242	37,290
Acquisition of subsidiaries (<i>note 45</i>)	–	3,247	3,247
Additions	–	36,178	36,178
Amortisation provided during the year	(48)	(7,166)	(7,214)
Disposal	–	(3,838)	(3,838)
Exchange realignment	–	(3,727)	(3,727)
At 31 December 2016	–	61,936	61,936
At 31 December 2016:			
Cost	700	78,662	79,362
Accumulated amortisation	(700)	(16,726)	(17,426)
Net carrying amount	–	61,936	61,936

NOTES TO FINANCIAL STATEMENTS

31 December 2016

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2015			
At 1 January 2015:			
Cost	788	36,041	36,829
Accumulated amortisation	(680)	(7,717)	(8,397)
Net carrying amount	108	28,324	28,432
Net carrying amount:			
At 1 January 2015	108	28,324	28,432
Acquisition of subsidiaries <i>(note 45)</i>	–	266	266
Additions	–	14,800	14,800
Amortisation provided during the year	(56)	(4,252)	(4,308)
Disposal	–	(6)	(6)
Exchange realignment	(4)	(1,890)	(1,894)
At 31 December 2015	48	37,242	37,290
At 31 December 2015:			
Cost	747	48,644	49,391
Accumulated amortisation	(699)	(11,402)	(12,101)
Net carrying amount	48	37,242	37,290

NOTES TO FINANCIAL STATEMENTS

31 December 2016

19. INVESTMENTS IN JOINT VENTURES

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Investments in joint ventures, included in non-current assets:			
Share of net assets		3,097,238	3,305,306
Goodwill on acquisition	<i>(b)</i>	197,375	199,211
		3,294,613	3,504,517
Loans to a joint venture	<i>(c)</i>	–	58,882
		3,294,613	3,563,399
Due from joint ventures, included in current assets	<i>(d), 27</i>	306,763	236,136
Due to joint ventures, included in current liabilities	<i>(d), 42</i>	(602,833)	(560,388)
Total interests in joint ventures		2,998,543	3,239,147

Notes:

(a) Particulars of the Group's interests in the material joint ventures are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of			Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing	
Guiyang BEWG [#]	PRC/Mainland China	RMB1,456,162,145	45	45	45	Water distribution
洛陽北控水務集團有限公司 ("Luoyang BEWG")	PRC/Mainland China	RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services

[#] Directly held by the Company

NOTES TO FINANCIAL STATEMENTS

31 December 2016

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(b) The movements in the goodwill included in the investments in joint ventures during the year are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	199,211	200,771
Exchange realignment	(1,836)	(1,560)
At 31 December	197,375	199,211

(c) The loans to a joint venture as at 31 December 2015 were loans with principal amounts of RMB34,780,000 (equivalent to HK\$42,938,000, the "RMB Loan") and US\$100,000 (equivalent to HK\$776,000, the "US\$ Loan") advanced to a joint venture. The RMB Loan was unsecured, bore interest at the PRC 5-year or above bank loan rate and was repayable in 2030 while the US\$ Loan was unsecured, interest-free and repayable on demand. In the opinion of the directors, the loans were considered as investments in the joint venture. Interest income of HK\$1,527,000 (2015: HK\$2,427,000) was recognised in the profit or loss during the year ended 31 December 2016 in respect of the RMB Loan. Both loans were settled upon the disposal of the investment in this joint venture during the year.

- (d) (i) Included in the amounts due from joint ventures of the Group as at 31 December 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 at LIBOR plus 2.8% per annum, and repayable on demand. Interest income of HK\$3,679,000 (2015: Nil) was recognised in profit or loss during the year ended 31 December 2016;
- (ii) Other than the above balances, the amounts due from/to joint ventures included in current assets and current liabilities of the Group as at 31 December 2016 are unsecured, interest-free and have no fixed terms of repayment. The Group's trade payable balance with a joint venture is included in trade payables and disclosed in note 41 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: *(Continued)*

(e) Material joint ventures disclosures

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

	Guiyang BEWG		Luoyang BEWG	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Cash and cash equivalents	533,422	278,054	1,328,162	1,099,263
Other current assets	283,228	301,896	393,270	623,297
Current assets	816,650	579,950	1,721,432	1,722,560
Operating concessions	1,588,358	1,767,928	893,969	929,358
Other non-current assets	1,547,325	1,465,453	268,111	102,315
Non-current assets	3,135,683	3,233,381	1,162,080	1,031,673
Financial liabilities, excluding trade and other payables	(594,066)	(504,269)	–	–
Other current liabilities	(1,286,304)	(1,326,267)	(605,084)	(541,047)
Current liabilities	(1,880,370)	(1,830,536)	(605,084)	(541,047)
Non-current financial liabilities, excluding trade and other payables and provisions	–	–	(130,803)	(92,664)
Other non-current liabilities	(640,574)	(503,702)	(603,499)	(572,244)
Non-current liabilities	(640,574)	(503,702)	(734,302)	(664,908)
Net assets	1,431,389	1,479,093	1,544,126	1,548,278
Reconciliation to the Group's investments in the joint ventures:				
Proportion of the Group's ownership	45%	45%	40%	40%
Group's share of net assets of the joint ventures, excluding goodwill	644,125	665,591	617,650	619,311
Goodwill on acquisition	150,586	150,586	25,854	27,623
Carrying amount of the investments	794,711	816,177	643,504	646,934

NOTES TO FINANCIAL STATEMENTS

31 December 2016

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

	Guiyang BEWG		Luoyang BEWG	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	984,931	812,367	849,157	827,069
Interest income	–	–	–	33,300
Depreciation and amortisation	(171,426)	(158,835)	(46,109)	(44,311)
Interest expenses	(41,062)	(31,073)	27,547	33,300
Income tax expense	(42,117)	(24,837)	(33,356)	(41,238)
Profit for the year	151,593	66,519	99,477	93,113
Other comprehensive loss for the year	(32,457)	(78,016)	–	–
Total comprehensive income/(loss) for the year	119,136	(11,497)	99,477	93,113
Share of the joint ventures' profit for the year [®]	68,217	29,934	39,791	37,245
Share of the joint ventures' other comprehensive loss for the year	(14,606)	(35,107)	–	–
Dividend received	30,714	19,370	–	41,808

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

	2016 HK\$'000	2015 HK\$'000
Share of the joint ventures' profits and losses and total comprehensive income for the year [®]	84,164	95,616
Aggregate carrying amount of the Group's investments in the joint ventures	1,856,398	2,100,288

[®] Total share of the joint ventures' profit for the year was HK\$192,172,000 (2015: HK\$162,795,000).

NOTES TO FINANCIAL STATEMENTS

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20. INVESTMENTS IN ASSOCIATES

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Investments in associates, included in non-current assets:			
Share of net assets	<i>(d)</i>	1,477,053	474,013
Preference shares in an associate	<i>(e)</i>	452,004	327,477
Goodwill on acquisition	<i>(f)</i>	461,005	101,284
	<i>(c)</i>	2,390,062	902,774
Due from associates, included in current assets	<i>(b), 27</i>	247,407	116
Due to associates, included in current liabilities	<i>(b), 42</i>	–	(171)
Total investments in associates		2,637,469	902,719

Notes:

(a) Particulars of the Group's interests in the major associates are as follows:

Company name	Place of incorporation and operation	Issued capital/ paid-up capital	Percentage of			
			Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
Beijing Enterprises Clean Energy Group Limited ("BE Clean Energy")*	Cayman Islands	HK\$49,994,404	31.06	31.06	31.06	Management of photovoltaic power plants and the design, printing and sale of cigarette packages
Mind Light Holdings Limited ("Mind Light")*	BVI	HK\$900,000,000	35.00	35.00	35.00	Waste treatment services

* *In the opinion of the directors, the associates were not individually material to the Group in the current and prior years. Hence, no disclosure of their separate financial information has been made.*

(b) The balances with associates are unsecured, interest-free and have no fixed terms of repayment. The Group's trade payable balance with an associate is included in trade payables and disclosed in note 41 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Share of the associates' profit for the year	182,373	12,221
Share of the associates' total comprehensive income	42,515	4,194
Aggregate carrying amount of the Group's investments in associates	2,390,062	902,774

- (d) On 7 December 2016, Mind Light, a then wholly-owned subsidiary of the Company, entered into the subscription agreements with the Company and other 6 independent third parties, pursuant to which, the Company and the independent third parties conditionally agreed to subscribe for, and Mind Light conditionally agreed to allocate and issue, 89,999 shares for an aggregate cash consideration of HK\$899,999,999. Upon the completion of the above subscription, the percentage of equity interest held by the Company was diluted to 35% and Mind Light ceased to be a subsidiary of the Company.
- (e) In December 2014 and January 2015, the Company had signed several principal and supplemental subscription agreements with BE Clean Energy, pursuant to which, the Company had conditionally agreed to subscribe for, and BE Clean Energy had conditionally agreed to allot and issue 5,274,166,550 ordinary shares and 12,447,352,450 convertible preference shares in total between May 2015 and May 2017 for a total cash consideration of HK\$1,400 million.

In 2015, the subscription of 5,274,166,550 ordinary shares and 3,586,592,950 convertible preference shares in BE Clean Energy was completed by the Company for an aggregate cash consideration of HK\$700 million. None of the convertible preference shares were converted in 2015.

During the year, the subscription of 7,088,607,600 convertible preference shares in BE Clean Energy was completed by the Company for an aggregate cash consideration of HK\$560 million. The Group did not subscribe any ordinary shares and had converted 7,930,590,553 convertible preference shares into ordinary shares during the year.

- (f) The movements in the goodwill included in the investments in associates during the year are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	101,284	–
Acquisition of associates	365,693	105,131
Exchange realignment	(5,972)	(3,847)
At 31 December	461,005	101,284

NOTES TO FINANCIAL STATEMENTS

31 December 2016

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Assets		
Forward contracts	214,150	209,578
Portion classified as current assets	(214,150)	(167,174)
Non-current portion	–	42,404

The forward contracts were related to the subscription of the remaining 1,772,151,900 (2015: 8,860,759,500) convertible preference shares in BE Clean Energy in May 2017 (2015: between May 2016 and May 2017) for a total cash consideration of HK\$140 million (2015: HK\$700 million).

The fair value of the forward contracts was measured using significant unobservable inputs (Level 3 of the fair value hierarchy) up to 5 November 2016. As at 31 December 2016, the fair value of the forward contract was measured using Black-Scholes model with Binomial Tree method based on market observable inputs such as stock prices and hence the forward contract was classified as Level 2 of the fair value hierarchy. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and there was transfer out from Level 3 to Level 2 of HK\$214 million (2015: Nil) as at 31 December 2016.

Description of valuation technique used and key inputs to valuation on the forward contracts for the Level 3 measurement:

Valuation technique	Significant unobservable inputs	6 May 2015	31 December 2015	6 May 2016	5 November 2016
Black-Scholes model with Binomial Tree method	Adjusted equity value	HK\$4.9 billion	HK\$5.9 billion	HK\$5.9 billion	HK\$9.0 billion
	Stock volatility of comparable companies	Average 50.05%	Average 53.19%	Average 54.6%	Average 52.2%

NOTES TO FINANCIAL STATEMENTS

31 December 2016

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Generally, a change in the assumption made for the adjusted equity value is an opposite change in the stock volatility.

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, for the Level 3 measurement.

	Increase/ (decrease) in basis points	Effect on profit before tax <i>HK\$'000</i>
31 December 2015		
Adjusted equity value	100	10,295
Adjusted equity value	(100)	(10,295)
Stock volatility	100	(130)
Stock volatility	(100)	130

22. AVAILABLE-FOR-SALE INVESTMENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Listed equity investment, at fair value	545,533	–
Unlisted equity investments, at cost	148,078	153,664
	693,611	153,664

There was no change in fair value of the listed equity investment acquired during the year (2015: Nil).

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

NOTES TO FINANCIAL STATEMENTS

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23. NON-CURRENT ASSETS HELD FOR SALE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Land use rights	–	75,630
Land and building (<i>note</i>)	91,303	97,551
Investment property (<i>note</i>)	50,042	53,466
	141,345	226,647

Note: Some office buildings of the Group, which were classified as property, plant and equipment and investment property, were reclassified as non-current assets held for sale as the carrying amounts of the assets will be recovered principally through sale and the Group intends to dispose of the buildings.

24. INVENTORIES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Raw materials	82,117	93,528
Low value consumables	8,730	5,555
	90,847	99,083

NOTES TO FINANCIAL STATEMENTS

31 December 2016

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Contract costs incurred plus recognised profits less recognised losses to date	17,315,335	12,907,054
Impairment (<i>note</i>)	(10,286)	(99,716)
	17,305,049	12,807,338
Portion classified as current assets	(1,100,669)	(1,311,629)
	16,204,380	11,495,709

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	99,716	51,536
Impairment during the year recognised in profit or loss	5,964	52,938
Disposal of subsidiary	(88,740)	–
Exchange realignment	(6,654)	(4,758)
	10,286	99,716

The above provision was made against amounts due from contract customers of HK\$141,233,000 (2015: HK\$245,711,000) which have remained long outstanding and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over the balance.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

26. TRADE RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	4,399,240	3,631,921
Impairment (<i>note (c)</i>)	(27,980)	(7,244)
	4,371,260	3,624,677
Portion classified as current assets	(3,024,152)	(2,959,325)
Non-current portion	1,347,108	665,352

Notes:

- (a) 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 sale 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 6.85% to 12.98% per annum (2015: 6.85% to 12.98%), all 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:

	2016 HK\$'000	2015 HK\$'000
Billed:		
Within 3 months	953,948	674,939
4 to 6 months	284,586	61,879
7 to 12 months	238,599	52,169
Over 1 year	1,545,968	2,017,310
Balance with extended credit period	43,094	49,005
	3,066,195	2,855,302
Unbilled*	1,305,065	769,375
	4,371,260	3,624,677

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

- (b) Included in the trade receivables of the Group as at 31 December 2016 were (i) an aggregate amount of HK\$5,410,000 (2015: HK\$5,780,000) due from 北京北控環保工程技術有限公司, a wholly-owned subsidiary of BEHL which is a substantial beneficial owner of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (ii) an amount of HK\$2,097,000 (2015: HK\$2,240,000) due from a joint venture of the Group, arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies are unsecured, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.
- (c) The movements in the Group's provision for impairment of trade receivables during the year are as follows:

	2016 HK\$'000	2015 HK\$'000
At 1 January	7,244	18,255
Impairment/(reversal of impairment) during the year recognised in profit or loss, net	21,567	(10,540)
Exchange realignment	(831)	(471)
At 31 December	27,980	7,244

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

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

	2016 HK\$'000	2015 HK\$'000
Neither past due nor impaired	326,436	397,843
Less than 1 month past due	456,369	186,830
1 to 3 months past due	355,410	185,678
4 to 6 months past due	289,557	39,491
7 months to 1 year past due	97,230	35,493
Over 1 year past due	1,541,193	2,009,967
	3,066,195	2,855,302

NOTES TO FINANCIAL STATEMENTS

31 December 2016

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

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

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

- (i) a customer of the construction service for a comprehensive renovation project has pledged the future receivables from its comprehensive renovation services on certain government reserve lands owned by a government authority in Mainland China in an aggregate amount of HK\$2,793,258,000 (2015: HK\$2,984,393,000) to secure the trade receivables due from it. As at 31 December 2016, the trade receivables owed by this customer amounted to HK\$500,698,000 (2015: HK\$796,480,000); and
- (ii) pursuant to a supplemental agreement entered into between a customer of the construction service for a comprehensive renovation project and the Group in 2013, the trade receivables owed by this customer amounting HK\$725,043,000 (2015: HK\$916,539,000). The customer has undertaken to use the future proceeds from the disposal of certain of its land use rights in Mainland China with an estimated aggregate amount of not less than HK\$1,275,937,000 (2015: HK\$1,363,246,000) for settlement against any outstanding amount due to the Group.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Prepayments		141,657	52,042
Deposits and other debtors	<i>(a)</i>	4,293,382	7,101,476
Advances to subcontractors and suppliers	<i>(b)</i>	1,325,117	1,946,270
Due from joint ventures		306,763	236,136
Due from associates		247,407	116
Due from related parties	<i>28</i>	299,719	1,451,490
		6,614,045	10,787,530
Impairment	<i>(c)</i>	(152,181)	(144,429)
		6,461,864	10,643,101
Portion classified as current assets		(4,415,085)	(5,033,177)
		2,046,779	5,609,924

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Notes:

- (a) The Group's deposits and other debtors as at 31 December 2016 included, inter alia, the following:
- (i) an instalment deposit with a gross amount of HK\$474,192,000 (2015: HK\$506,640,000) paid by the Group to a government authority in Mainland China in relation to the Group's acquisition of certain land use rights in Liaoning Province, the PRC. The balance is classified as a non-current asset.
 - (ii) loans and related interest receivables of HK\$648,920,000 (2015: HK\$1,230,279,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. Most of these loans are interest bearing at 6.55% to 16% per annum.

Except for loans and corresponding interest receivables of HK\$27,515,000 (2015: HK\$513,530,000) in aggregate that are repayable within one year after the reporting period and are classified as current assets, the remaining balances of HK\$621,405,000 (2015: HK\$716,749,000) in aggregate are classified as non-current assets, and the repayment of which is dependent on (1) the sale of the corresponding land use rights of the comprehensive renovation projects by relevant government authorities; and (2) the sale of the 31.5% equity interest in Beikong Shudu held by two government authorities. The above balances are secured by:

- (1) proceeds from the disposals of certain land use rights owned by relevant government authorities in Mainland China; or
 - (2) proceeds from the disposal of the 31.5% equity interest in Beikong Shudu held by two government authorities in Mainland China.
- (iii) loan amount of HK\$430,703,000 (2015: HK\$480,192,000) provided to an immediate holding company of a then joint venture partner, 大連皮楊中心城鎮投資有限公司, for capital injection of the joint venture which was disposed by the Group in 2016. The balance is secured, interest bearing at 12% per annum and repayable on demand and is classified as a current asset.
 - (iv) investment deposits of HK\$188,333,000 (2015: HK\$450,658,000) in aggregate paid to independent third parties in connection with the Group's acquisition of the controlling equity interests in certain water distribution and consultancy operations in the PRC. The balances are classified as non-current assets.
 - (v) investment/bidding deposits of HK\$551,804,000 (2015: HK\$800,749,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK\$226,597,000 and HK\$325,207,000 are classified as current and non-current assets, respectively.
 - (vi) consideration receivables amounting to HK\$371,755,000 (2015: HK\$728,454,000) in aggregate from the disposal of parcels of land.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Notes: (Continued)

(a) *(Continued)*

(vii) in prior year, deposits amounting to HK\$1,641,838,000 for the acquisition of a new office building situated in Beijing City. The balances were classified as non-current assets. In current year, the deposits of HK\$894,878,000 and HK\$746,960,000 were transferred to property, plant and equipment and investment properties, respectively.

(b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK\$496,495,000 (2015: HK\$962,410,000) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation projects entered into between the Group and government authorities in the PRC. The constructions of these projects were delayed and the subcontractors had returned an aggregate amount of HK\$480,526,000 (2015: HK\$949,221,000) of these advance payments to the other subsidiaries of the Group. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position (*note 42*).

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	144,429	53,805
Acquisition of subsidiaries	4,690	442
Impairment during the year recognised in profit or loss, net	123,935	96,812
Disposal of subsidiaries	(108,207)	–
Exchange realignment	(12,666)	(6,630)
At 31 December	152,181	144,429

Included in the provision for impairment of other receivables as at 31 December 2016 was a full provision on a performance bond of HK\$44,944,000 (2015: HK\$48,019,000) paid to a government agent in the PRC. The individually impaired receivables relate to those amounts which have remained long outstanding and only a portion of the receivables is expected to be recovered.

Apart from the foregoing, the above provision for impairment of other receivables as at 31 December 2016 and 2015 also included the provisions made against the remaining balances of certain other receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

28. BALANCES WITH RELATED PARTIES

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

- (i) an amount of HK\$1,274,467,000 as at 31 December 2015 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, bore interest at the rate of the PRC 1-3 year bank loan rate per annum on the net loan amount, and secured by the 40% equity interest in the subsidiary held by the non-controlling equity holder. The subsidiary was disposed of to the non-controlling equity holder as at 31 December 2016 and the amount due from the non-controlling equity holder was settled with the Group, details of which are disclosed in note 46 to the financial statements; and
- (ii) pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, China International Construction Investment Holding (Hong Kong) Limited (“CICI”) (a 70% owned subsidiary of the Group) and the non-controlling equity holders of CICI, the non-controlling equity holders shall pay interest to the Company at the benchmark 1-year interest rate for Renminbi loans as promulgated by the People’s Bank of China over the same period in respect of intercompany advances provided by the Company to CICI.

The balances with related companies of the Group included in receivables under service concession arrangements, trade receivables, other receivables, trade payables and other payables are disclosed in notes 17, 26, 27, 41 and 42 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash and bank balances:		
Placed in banks	9,048,432	5,042,562
Placed in a financial institution (<i>note 51</i>)	1,016,744	775,888
Time deposits:		
Placed in banks	990,387	824,570
Total cash and bank balances	11,055,563	6,643,020
Less: Restricted cash and pledged deposits (<i>note (a)</i>)	(134,526)	(269,189)
Cash and cash equivalents	10,921,037	6,373,831

Notes:

- (a) The Group's restricted cash and pledged deposits as at 31 December 2016 included the following:
- (i) bank deposits of HK\$33,546,000 (2015: HK\$241,239,000) which could only be applied on the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and
 - (ii) bank deposits of HK\$8,618,000 (2015: HK\$15,945,000) pledged to banks to secure certain banking facilities granted to the Group (*note 34*).

In addition, as at 31 December 2016, bank deposits of HK\$92,362,000 (2015: HK\$12,005,000) were pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance of the duties by the Group under certain service concession agreements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

(Continued)

Notes: (Continued)

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
HK\$	296,765	303,522
RMB	10,287,962	5,860,533
US\$	172,047	43,690
MYR	44,291	256,015
EUR	230,438	164,379
SGD	23,830	14,654
TWD	230	227
	11,055,563	6,643,020

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

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

30. SHARE CAPITAL

Shares

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Authorised:		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
Issued and fully paid:		
8,737,867,196 (2015: 8,722,949,196) ordinary shares of HK\$0.10 each	873,787	872,295

NOTES TO FINANCIAL STATEMENTS

31 December 2016

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2016 and 2015 is as follows:

	<i>Notes</i>	Number of ordinary shares in issue	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015		8,707,425,196	870,743	4,832,557	5,703,300
Exercise of share options	<i>(a)</i>	15,524,000	1,552	45,613	47,165
At 31 December 2015 and 1 January 2016		8,722,949,196	872,295	4,878,170	5,750,465
Exercise of share options	<i>(a)</i>	34,214,000	3,422	102,053	105,475
Shares repurchased and cancelled	<i>(b)</i>	(19,296,000)	(1,930)	(80,181)	(82,111)
At 31 December 2016		8,737,867,196	873,787	4,900,042	5,773,829

Notes:

- (a) During the year, the subscription rights attaching to 34,214,000 (2015: 15,524,000) share options were exercised at a subscription price of HK\$2.244 (2015: HK\$2.244) per ordinary share during the year, resulting in the issue of 34,214,000 (2015: 15,524,000) ordinary shares of the Company for a total cash consideration of HK\$76,776,000 (2015: HK\$34,836,000) (before expense). At the time when the share options were exercised, the aggregate fair value of these share options of HK\$28,704,000 (2015: HK\$12,338,000) previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 31 to the financial statements.
- (b) During the year, the Company repurchased 19,296,000 ordinary shares on the Stock Exchange for a total consideration of HK\$82,111,000. The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value of approximately HK\$1,930,000. The premium and expenses paid on the repurchase of shares of HK\$80,181,000 were charged to the share premium of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

30. SHARE CAPITAL *(Continued)*

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

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

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

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

31. SHARE OPTION SCHEME *(Continued)*

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

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

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

	2016		2015	
	Weighted average exercise price <i>HK\$</i> <i>per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HK\$</i> <i>per share</i>	Number of options <i>'000</i>
At 1 January	2.261	359,680	2.259	380,364
Forfeited or lapsed during the year	–	–	2.244	(5,160)
Exercised during the year	2.244	(34,214)	2.244	(15,524)
At 31 December	2.262	325,466	2.261	359,680

NOTES TO FINANCIAL STATEMENTS

31 December 2016

31. SHARE OPTION SCHEME *(Continued)*

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

2016 Number of options '000	2015 Number of options '000	Exercise price* HK\$ per share	Exercise periods
28,066	48,310	2.244	24-4-2014 to 23-4-2023
63,800	74,620	2.244	24-4-2015 to 23-4-2023
75,100	78,250	2.244	24-4-2016 to 23-4-2023
78,250	78,250	2.244	24-4-2017 to 23-4-2023
78,250	78,250	2.244	24-4-2018 to 23-4-2023
400	400	5.180	24-4-2014 to 27-3-2024
400	400	5.180	24-4-2015 to 27-3-2024
400	400	5.180	24-4-2016 to 27-3-2024
400	400	5.180	24-4-2017 to 27-3-2024
400	400	5.180	24-4-2018 to 27-3-2024
325,466	359,680		

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

Notes:

- (a) The Group recognised a share option expense of HK\$40,935,000 (2015: HK\$68,637,000) during the year ended 31 December 2016 in respect of the share options granted in the prior years.
- (b) The 34,214,000 share options exercised during the year resulted in the issue of 34,214,000 ordinary shares of the Company and new share capital of HK\$3,422,000, as further detailed in note 30 to the financial statements.
- (c) At the end of the reporting period, the Company had 325,466,000 share options outstanding under the Scheme which represented approximately 3.72% of the Company's shares in issue as at 31 December 2016. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 325,466,000 additional ordinary shares of the Company and additional share capital of HK\$32,547,000 and share premium of HK\$999,526,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2016 and the fair values of the unvested share options).

Subsequent to the end of the reporting period, 1,940,000 share options exercised resulted in the issue of 1,940,000 ordinary shares of the Company and additional share capital of HK\$194,000 and share premium of HK\$5,799,000 (before issue expenses).

At the date of approval of these financial statements, the Company has 323,526,000 share options outstanding under the share option scheme, which represented approximately 3.70% of the Company's share in issue as at that date.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

32. RESERVES

- (a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (b) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.
- (c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2016 were distributable in the form of cash dividends.

33. PERPETUAL CAPITAL INSTRUMENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	–	–
Issued during the year	6,545,163	–
Share of profit for the year	56,570	–
Exchange realignment	(296,708)	–
At 31 December	6,305,025	–

In 2016, a PRC wholly-owned subsidiary of the Group issued two perpetual capital instruments (the "Perpetual Capital Instruments") with the aggregate principal amount of RMB5,600,000,000 (approximately HK\$6,588,235,000). Net proceeds after deducting the issuance costs amounted to RMB5,563,389,000 (approximately HK\$6,545,163,000).

One of the Perpetual Capital Instruments with a principal amount of RMB2,800,000,000 (approximately HK\$3,294,118,000) is guaranteed by the Company. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Group. The Perpetual Capital Instruments are classified as equity instruments. No distribution was declared in current and prior years.

NOTES TO FINANCIAL STATEMENTS

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34. BANK AND OTHER BORROWINGS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Bank loans:		
Secured	8,255,450	7,459,531
Unsecured	12,737,752	14,508,805
	20,993,202	21,968,336
Other loans:		
Secured	156,742	119,448
Unsecured	324,948	1,048,584
	481,690	1,168,032
Total bank and other borrowings	21,474,892	23,136,368
Analysed into:		
Bank loans repayable:		
Within one year or on demand	4,744,486	4,984,976
In the second year	2,553,011	3,351,202
In the third to fifth years, inclusive	11,350,394	10,784,553
Beyond five years	2,345,311	2,847,605
	20,993,202	21,968,336
Other loans repayable:		
Within one year or on demand	67,769	1,030,214
In the second year	11,331	9,576
In the third to fifth years, inclusive	50,045	39,166
Beyond five years	352,545	89,076
	481,690	1,168,032
Total bank and other borrowings	21,474,892	23,136,368
Portion classified as current liabilities	(4,812,255)	(6,015,190)
Non-current portion	16,662,637	17,121,178

NOTES TO FINANCIAL STATEMENTS

31 December 2016

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
HK\$	5,377,965	5,285,822
RMB	10,505,944	11,541,269
US\$	4,331,497	5,382,897
EUR	771,546	798,405
SGD	487,940	127,975
	21,474,892	23,136,368

(b) The effective interest rates (per annum) at the end of the reporting period were as follows:

	2016	2015
Bank loans:		
Secured	3.91% – 6.37%	2.68% – 6.98%
Unsecured	1.72% – 4.99%	1.46% – 5.60%
Other loans:		
Secured	1.2% – 4.75%	4.75%
Unsecured	1.2% – 4.9%	1.66% – 5.70%

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

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) in an aggregate carrying amount of HK\$9,102,328,000 (2015: HK\$9,303,850,000) as at 31 December 2016, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors (*note 17*);
- (ii) guarantees given by the Company and/or its subsidiaries;
- (iii) bank deposits of HK\$8,618,000 (2015: HK\$15,945,000) pledged to banks to secure certain banking facilities granted to the Group;

NOTES TO FINANCIAL STATEMENTS

31 December 2016

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) *(Continued)*

(iv) mortgages over certain land use rights and buildings in Mainland China in an aggregate carrying amount of HK\$1,753,703,000 (2015: HK\$200,462,000) *(notes 14 and 15)*; and

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

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

(i) bank and other loans in an aggregate principal amount of HK\$2,198,136,000 (2015: HK\$3,570,894,000) bearing interests at fixed rates ranging from 1.2% to 5.35% (2015: 4% to 6.46%) per annum; and

(ii) two interest-free government loans in an aggregate principal amount of HK\$12,166,000 (2015: HK\$13,000,000).

(e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK\$12,128,434,000 (2015: HK\$12,088,360,000) as at 31 December 2016 include covenants imposing specific performance obligations on BEHL, a substantial beneficial owner of the Company, among which any one of the following events would constitute events of default on the loan facilities:

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

(ii) if Beijing Enterprises Group Company Limited ("BEGCL"), a substantial shareholder of the Company, does not or ceases to beneficially own, directly or indirectly, at least 40%, where applicable, of the voting rights in BEHL; and/or

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

35. CORPORATE BONDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Unsecured corporate bonds, repayable:		
Within one year	–	599,674
In the second year	3,945,856	–
In the third to fifth years, inclusive	7,717,356	4,105,212
Total corporate bonds	11,663,212	4,704,886
Portion classified as current liabilities	–	(599,674)
Non-current portion	11,663,212	4,105,212

Corporate bonds of the Group as at 31 December 2016 and 2015 comprised:

- (i) corporate bonds with an aggregate principal amount of US\$500,000,000 (the “US\$ Bonds”) issued by a wholly-owned subsidiary of the Company to certain institutional investors on 6 May 2013 pursuant to the subscription agreement dated 26 April 2013. The Company redeemed US\$20,000,000 from the principal amount during the period from September 2016 to December 2016. The remaining position of the principal amount, which are due on 6 May 2018, bear interest at a rate of 4.625% per annum and are guaranteed by the Company;
- (ii) corporate bonds with an aggregate principal amount of RMB200,000,000 (the “RMB Bonds”) issued by a 60%-owned subsidiary of the Group to two institutional investors in December 2015 pursuant to the subscription agreement dated 16 December 2015, bear interest at a rate of 5% per annum and are guaranteed by a wholly-owned subsidiary of the Company. The RMB Bonds are due for repayment on 16 December 2018 unless being redeemed by the Group one year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement;
- (iii) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the “Second RMB Bonds”) issued by a wholly-owned subsidiary of the Group to two institutional investors in April 2016 pursuant to the subscription agreement dated 25 April 2016, bear interest at a rate of 3.60% per annum and are guaranteed by a wholly-owned subsidiary of the Company. The Second RMB Bonds are due for repayment on 25 April 2021 unless being redeemed by the Group two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement;

NOTES TO FINANCIAL STATEMENTS

31 December 2016

35. CORPORATE BONDS *(Continued)*

- (iv) corporate bonds with aggregate principal amounts of RMB4,000,000,000 (the “Panda Bonds”) issued by the Company to certain institutional investors in July 2016 pursuant to the subscription agreement dated 22 July 2016, bearing interest at rates of 3.00% and 3.33% per annum. The Panda Bonds are due for repayment on 28 July 2021 and 28 July 2023 unless being redeemed by the Group two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement. Further details of the Panda Bonds are set out in the Company’s announcements dated 25 July 2016;
- (v) corporate bonds with an aggregate principal amount of RMB700,000,000 (the “Green Bonds”) issued by the Company to certain institutional investors in August 2016, bearing interest at a rate of 3.25% per annum. The Green Bonds are due for repayment on 3 August 2024 unless being redeemed by the Group three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement. Further details of the Green Bonds are set out in the Company’s announcements dated 22 August 2016; and
- (vi) corporate bonds with an aggregate principal amount of RMB200,000,000 (the “Third RMB Bonds”) issued by a 60%-owned subsidiary of the Group to two institutional investors in November 2016 pursuant to the subscription agreement dated 14 November 2016, bear interest at a rate of 4% per annum and are guaranteed by a wholly-owned subsidiary of the Company. The Third RMB Bonds are due for repayment on 15 November 2019 unless being redeemed by the Group one year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement.

The balance as at 31 December 2015 also included two corporate bonds issued in 2011 with an aggregate amount of RMB500,000,000 which bore interest at a rate of 5% per annum. The bonds were fully repaid in 2016.

The corporate bonds at 31 December 2016 will be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the US\$ Bonds include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to, directly or indirectly, supervise the Company or be the single largest shareholder of the Company;
- (iii) if the nominees of BEHL cease to comprise the majority of the members of the Company’s board of directors; and/or

NOTES TO FINANCIAL STATEMENTS

31 December 2016

35. CORPORATE BONDS *(Continued)*

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

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

36. NOTES PAYABLE

Notes payable of the Group as at 31 December 2016 and 2015 comprised:

- (i) a corporate note issued on 8 November 2013 with a principal amount of RMB2,000,000,000 (the "RMB Note") which is unsecured and wholly repayable after five years from the end of the reporting period. The note payable is guaranteed by the Company, bears interest at a rate of 6.15% per annum and due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement; and
- (ii) a corporate note issued on 8 May 2015 with a principal amount of HK\$700,000,000 (the "HK\$ Note") which is unsecured and bears interest at a rate of 3.9% per annum. The note payable is guaranteed by the Company and due for repayment on 15 May 2020 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement.

The notes payable include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

36. NOTES PAYABLE *(Continued)*

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

37. FINANCE LEASE PAYABLES

The Group leases certain equipment for its sewage treatment service business under two finance lease arrangements. The leases are classified as finance leases and had remaining lease terms of seven years as at 31 December 2016.

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

	Minimum lease payments 2016 HK\$'000	Minimum lease payments 2015 HK\$'000	Present value of minimum lease payments 2016 HK\$'000	Present value of minimum lease payments 2015 HK\$'000
Amounts repayable:				
Within one year or on demand	61,071	75,833	52,176	63,085
In the second year	9,260	9,893	7,419	7,741
In the third to fifth years, inclusive	27,779	29,679	24,506	25,308
Over five years	9,260	19,786	8,981	18,765
Total minimum finance lease payments	107,370	135,191	93,082	114,899
Future finance charges	(14,288)	(20,292)		
Total net finance lease payables	93,082	114,899		
Portion classified as current liabilities	(52,176)	(63,085)		
Non-current portion	40,906	51,814		

NOTES TO FINANCIAL STATEMENTS

31 December 2016

37. FINANCE LEASE PAYABLES *(Continued)*

One of the finance leases with a carrying amount of HK\$45,103,000 (2015: HK\$55,696,000) as at 31 December 2016 included an on demand clause and therefore has been classified as a current liability accordingly. For the purpose of the above analysis, the finance lease is included within current finance lease payables and analysed into finance lease payable on demand.

The amounts payable based on the maturity terms of the loans are analysed as follows:

	Minimum lease payments 2016 HK\$'000	Minimum lease payments 2015 HK\$'000	Present value of minimum lease payments 2016 HK\$'000	Present value of minimum lease payments 2015 HK\$'000
Amounts repayable:				
Within one year	18,680	20,068	14,434	14,852
In the second year	18,680	20,032	15,133	15,577
In the third to fifth years, inclusive	56,039	60,096	49,937	51,244
Over five years	13,971	34,995	13,578	33,226
Total minimum finance lease payments	107,370	135,191	93,082	114,899

38. PROVISION FOR MAJOR OVERHAULS

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

38. PROVISION FOR MAJOR OVERHAULS *(Continued)*

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

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January		205,489	247,018
Acquisition of subsidiaries	<i>45</i>	12,097	557
Provision for the year	<i>7</i>	109,870	65,201
Increase in discounted amounts arising from the passage of time	<i>8</i>	11,653	9,166
Amount utilised during the year		(124,069)	(105,758)
Disposal of subsidiaries	<i>46</i>	(694)	–
Exchange realignment		(26,587)	(10,695)
At 31 December		187,759	205,489

39. DEFERRED INCOME

Deferred income of the Group mainly represented government subsidies received in respect of the Group's construction of sewage treatment and water distribution facilities in the PRC. These subsidies are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

40. DEFERRED TAX

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Deferred tax assets	106,751	122,388
Deferred tax liabilities	(1,691,342)	(1,320,597)
	(1,584,591)	(1,198,209)

NOTES TO FINANCIAL STATEMENTS

31 December 2016

40. DEFERRED TAX *(Continued)*

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

	Notes	Attributable to						Net deferred tax assets/(liabilities) HK\$'000
		Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Impairment provision HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Revaluation of properties HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	
At 1 January 2015		(291,742)	17,143	65,345	(634,301)	(10,280)	3,726	(850,109)
Acquisition of subsidiaries	45	42,814	-	-	-	-	-	42,814
Net deferred tax credited/(charged) to profit or loss	11	(2,305)	8,752	16,580	(465,097)	(137)	-	(442,207)
Exchange realignment		13,455	(347)	(4,163)	42,075	535	(262)	51,293
At 31 December 2015 and 1 January 2016		(237,778)	25,548	77,762	(1,057,323)	(9,882)	3,464	(1,198,209)
Acquisition of subsidiaries	45	(105,310)	6,179	-	-	-	-	(99,131)
Disposal of subsidiaries	46	-	(11,236)	(174)	50,769	-	-	39,359
Net deferred tax credited/(charged) to profit or loss	11	1,080	7,067	386	(356,688)	-	-	(348,155)
Exchange realignment		15,180	(4,361)	(4,998)	15,313	633	(222)	21,545
At 31 December 2016		(326,828)	23,197	72,976	(1,347,929)	(9,249)	3,242	(1,584,591)

Notes:

- (a) At 31 December 2016, deferred tax assets have not been recognised in respect of unused tax losses of HK\$574,870,000 (2015: HK\$489,843,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK\$342,044,000 (2015: HK\$356,228,000) will expire in one to five years.
- (b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$3,256,213,000 (2015: HK\$2,965,120,000) as at 31 December 2016.

NOTES TO FINANCIAL STATEMENTS

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41. 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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 3 months	4,285,337	2,129,973
4 to 6 months	992,009	870,743
7 months to 1 year	1,687,788	420,418
1 to 2 years	1,389,036	1,296,471
2 to 3 years	855,638	341,849
Over 3 years	321,900	197,788
Balance with extended credit period	311,116	529,089
	9,842,824	5,786,331

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

The Group's trade payables as at 31 December 2016 included, inter alia, the following:

- (a) an amount of HK\$28,664,000 (2015: HK\$2,385,000) due to a joint venture of the Group, arising from the trading of construction materials and equipment carried out in the ordinary course of business of the Group. Aggregated purchase costs of the aforementioned balance of HK\$35,787,000 (2015: HK\$100,254,000) were charged at the published prices and conditions offered by the joint venture to its major customers, and included in "Cost of sales" on the face of the consolidated statement of profit or loss during the year.
- (b) an amount of HK\$79,550,000 (2015: HK\$120,646,000) due to an associate of the Group, arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. Construction costs of HK\$410,345,000 (2015: HK\$411,090,000) were charged at the published prices and conditions offered by the associate to its major customers and included in "Cost of sales" on the face of the consolidated statement of profit or loss during the year.

NOTES TO FINANCIAL STATEMENTS

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42. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Accruals		665,530	413,485
Other liabilities	<i>(a)</i>	2,644,205	1,247,128
Receipts in advance		369,001	1,378,743
Due to subcontractors	<i>(b)</i>	610,517	1,134,785
Due to joint ventures		602,833	560,388
Due to associates		–	171
Due to related parties		478,142	350,863
Other taxes payables	<i>43</i>	208,889	147,407
		5,579,117	5,232,970
Portion classified as current liabilities		(5,234,492)	(4,817,755)
Non-current portion		344,625	415,215

Notes:

- (a) The Group's other liabilities as at 31 December 2016 included, inter alia, the following:
- (i) outstanding considerations in an aggregate amount of HK\$605,303,000 (2015: HK\$340,846,000) payable to various governmental authorities in Portugal and Mainland China for the construction or transfer of sewage treatment and water distribution facilities to the Group under the BOT or TOT arrangements; and
 - (ii) outstanding considerations in an aggregate amount of HK\$704,252,000 (2015: HK\$241,866,000) payable to various independent third parties for the acquisition of subsidiaries and an associate, of which HK\$554,529,000 (2015: HK\$56,180,000) was attributable to the acquisitions completed during the year.
- (b) The amounts due to subcontractors of the Group as at 31 December 2016 included refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of HK\$480,526,000 (2015: HK\$949,221,000), as further detailed in note 27 to the financial statements.
- (c) Other payables are non-interest-bearing and have an average credit term of three months.

NOTES TO FINANCIAL STATEMENTS

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43. OTHER TAXES PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Business tax	40,362	54,726
Value-added tax	135,782	64,390
Others	32,745	28,291
	208,889	147,407

44. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2016	2015
Percentage of equity interest held by non-controlling interests:		
Beikong Dalian and its subsidiaries ("Beikong Dalian Group")*	–	40%
BCEG Environmental and its subsidiaries ("BCEG Group")	40%	40%

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit/(loss) for the year allocated to non-controlling interests:		
Beikong Dalian Group*	(14,471)	(104,316)
BCEG Group	96,607	108,915

Accumulated balances of non-controlling interests at the reporting date:		
Beikong Dalian Group*	–	1,078,531
BCEG Group	650,934	620,966

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44. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

(Continued)

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

	Beikong Dalian Group*		BCEG Group	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	–	30,150	980,539	1,295,365
Interest income	223	805	36,230	15,418
Total expenses	(36,401)	(291,746)	(775,251)	(1,038,495)
Profit/(loss) for the year	(36,178)	(260,791)	241,518	272,288
Total comprehensive income/(loss) for the year	(104,877)	(348,246)	134,052	231,110
Current assets	N/A	9,205,048	482,317	1,141,280
Non-current assets	N/A	1,844,690	4,090,654	2,936,884
Current liabilities	N/A	(8,217,090)	(1,578,690)	(1,415,512)
Non-current liabilities	N/A	(136,321)	(1,315,809)	(1,110,238)
Net cash flows from/(used in):				
Operating activities	N/A	(233,918)	48,357	(284,900)
Investing activities	N/A	(1,528,209)	(1,340)	2,243
Financing activities	N/A	1,119,877	198,617	590,096
Net increase/(decrease) in cash and cash equivalents	N/A	(642,250)	245,634	307,439

* Beikong Dalian Group has been disposed of to the non-controlling equity holder during the year ended 31 December 2016. Details of which are disclosed in note 46 to the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

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45. BUSINESS COMBINATIONS

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

		2016			2015	
	Note	Mongolia HK\$'000	Pangzhou HK\$'000	Others HK\$'000	Total Total HK\$'000	
Property, plant and equipment		992	579,706	76,120	656,818	3,566
Operating concessions		217,733	–	410,332	628,065	228,009
Other intangible assets		2	272	2,973	3,247	266
Investments in joint ventures		–	–	–	–	184,136
Investments in associates		–	2,401	46,571	48,972	–
Available-for-sale investments		–	74	–	74	–
Amounts due from						
contract customers	(c)	–	–	–	–	55,250
Receivables under service						
concession arrangements	(c)	1,932,267	–	57,721	1,989,988	74,892
Deferred tax assets		5,952	–	227	6,179	42,814
Inventories		21	5,174	10,955	16,150	33,838
Trade receivables		–	13,156	72,070	85,226	–
Prepayments, deposits and						
other receivables	(c)	23,992	33,944	163,489	221,425	185,688
Cash and cash equivalents		7,059	8,886	163,022	178,967	128,836
Trade payables		(9,842)	(22,681)	(147,407)	(179,930)	(6,249)
Other payables and accruals		(63,587)	(152,975)	(231,422)	(447,984)	(70,474)
Income tax payables		(3,932)	–	(2,603)	(6,535)	1,109
Bank and other borrowings		(911,416)	(240,456)	(40,817)	(1,192,689)	(77,125)
Provision for major overhauls		(10,926)	–	(1,171)	(12,097)	(557)
Deferred income		(5,096)	–	(24,009)	(29,105)	–
Deferred tax liabilities		(53,026)	(45,018)	(7,266)	(105,310)	–
Total identifiable net assets						
at fair value		1,130,193	182,483	548,785	1,861,461	783,999
Non-controlling interests		(452,077)	(54,745)	(120,714)	(627,536)	(164,424)
		678,116	127,738	428,071	1,233,925	619,575
Goodwill on acquisition		16,521	172,468	276,489	465,478	462,602
Gains on bargain purchase		–	–	(2,869)	(2,869)	(21,827)
		694,637	300,206	701,691	1,696,534	1,060,350

NOTES TO FINANCIAL STATEMENTS

31 December 2016

45. BUSINESS COMBINATIONS *(Continued)*

		2016			2015
	<i>Notes</i>	Mongolia	Pangzhou	Others	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Satisfied by:					
Cash		694,637	300,206	701,691	1,696,534
					1,060,350
Revenue for the year since acquisition [#]		66,998	168,490	440,593	676,081
					123,028
Profit for the year since acquisition		42,339	49,379	82,110	173,828
					49,143

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

45. BUSINESS COMBINATIONS *(Continued)*

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash consideration	(1,696,534)	(1,060,350)
Cash and cash equivalents acquired	178,967	128,836
Amortised costs of outstanding cash consideration at end of year	554,529	56,180
Investment deposits paid in prior periods	279,466	197,185
 Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	 (683,572)	 (678,149)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK\$3,775,775,000 (2015: HK\$2,842,128,000) and the Group's revenue would have been HK\$17,496,801,000 (2015: HK\$13,614,995,000).

Notes:

- (a) Business combinations during the year ended 31 December 2016 included, inter alia, the following material transactions:
- (i) in January 2016, the Group completed the acquisition of the 70% equity interest in a company and its subsidiaries which engaged in the consultancy business in Jiangsu Province, the PRC, at an aggregate cash consideration of HK\$205,882,000;
 - (ii) in January 2016, the Group completed the acquisition of the 67% equity interest in a company and its subsidiaries which engaged in the provision of water distribution services in Henan Province, the PRC, at an aggregate cash consideration of HK\$182,905,000;
 - (iii) in January 2016, the Group completed the acquisition of the 70% equity interest in Pangzhou which engaged in the water distribution services in Sichuan Province, the PRC, at a cash consideration of HK\$300,206,000; and
 - (iv) in September 2016, the Group acquired the 60% equity interest in a company which engaged in the provision of sewage and reclaimed water treatment services in Inner Mongolia, the PRC (the "Mongolia"), at an aggregate cash consideration of HK\$694,637,000.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

45. BUSINESS COMBINATIONS *(Continued)*

Notes: (Continued)

- (b) Business combinations during the year ended 31 December 2015 included, inter alia, the following material transactions:
- (i) in July 2015, the Group completed the acquisition of the 62% equity interest a company which engaged in waste treatment business located in Gansu Province, the PRC, at an aggregate cash consideration of HK\$240,313,000;
 - (ii) in August 2015, the Group completed the acquisition of certain water distribution operations in Guangdong Province, the PRC, at an aggregate cash consideration of HK\$544,102,000; and
 - (iii) in October 2015, the Group completed the acquisition of the 100% equity interest in a company which engaged in sewage treatment business located in Sichuan Province, the PRC, at an aggregate cash consideration of HK\$78,750,000.
- (c) The fair values of receivables under service concession arrangements, deposits and other receivables as at the respective dates of acquisitions during the year ended 31 December 2016 amounted to HK\$1,989,988,000 and HK\$201,454,000, respectively.

The gross contractual amounts of receivables under service concession arrangements and deposits and other receivables were HK\$2,003,235,000 and HK\$206,145,000, respectively, of which receivables under service concession arrangements and deposits and other receivables of HK\$13,247,000 and HK\$4,690,000, respectively, are expected to be uncollectible.

NOTES TO FINANCIAL STATEMENTS

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46. DISPOSAL OF SUBSIDIARIES

	<i>Notes</i>	2016 HK\$'000 <i>(notes (a), (b) and (c))</i>	2015 HK\$'000
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Net assets disposed of:			
Property, plant and equipment		115,212	285
Goodwill		92,635	–
Investments in joint ventures		332,668	–
Amounts due from contract customers		78,860	4,064
Receivables under service concession arrangements		356,641	–
Trade receivables		56,355	–
Deferred tax assets		11,236	–
Inventories		68,139	–
Prepayments, deposits and other receivables		5,009,700	54,147
Cash and cash equivalents		431,729	1,245
Trade payables		(12,966)	–
Other payables and accruals		(2,495,146)	(458)
Income tax payables		(59,945)	(596)
Bank and other borrowings		(144,190)	–
Provision for major overhauls		(694)	–
Deferred tax liabilities		(50,595)	–
Non-controlling interests		(1,076,797)	(17,606)
		2,712,842	41,081
Exchange fluctuation reserve realised		65,572	2,784
Gain/(loss) on disposal of interests in subsidiaries		8,675	(2,327)
		2,787,089	41,538
<hr/>			
Satisfied by:			
Cash		1,120,620	41,538
Reclassified to an investment in an associate	<i>(a)(i)</i>	324,166	–
Set-off of current accounts, net	<i>(a)(ii)</i>	1,342,303	–
		2,787,089	41,538
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NOTES TO FINANCIAL STATEMENTS

31 December 2016

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash consideration	1,120,620	41,538
Cash and bank balances disposed of	(431,729)	(1,245)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	688,891	40,293

- (a) The Group completed the following disposal of subsidiaries during the year ended 31 December 2016:
- (i) in December 2016, the Group deemed disposal of 65% equity interest in Mind Light, further details of which are set out in note 20(d) to the financial statements;
 - (ii) in December 2016, the Group disposed of 60% equity interest in Beikong Dalian Group to the non-controlling equity holder for an aggregate consideration of HK\$1,679,382,000 (RMB1,494,650,000). Pursuant to the relevant sale and purchase agreements, HK\$1,342,303,000 (RMB1,194,650,000) of the consideration was settled by way of offsetting the net current accounts among the Beikong Dalian Group, the Group and the non-controlling equity holder and the remaining consideration of HK\$337,079,000 (RMB300,000,000) was settled in cash by the non-controlling equity holder;
 - (iii) the Group completed the disposals of (i) a wholly-owned subsidiary in sewage treatment operation located in Lianyungang City, Jiangsu Province, the PRC in December 2016 for a cash consideration of HK\$147,385,000 to the local government; and (ii) a wholly-owned subsidiary in waste treatment business located in Yichang City, Hebei Province, the PRC in July 2016 for a cash consideration of HK\$57,459,000 to an associate.
- (b) During the year ended 31 December 2015, the Group had disposed of its 70% equity interests in a subsidiary, which operated in the Republic of Indonesia, to an independent third party for an aggregate consideration of SGD7,000,000 (equivalent to HK\$41,538,000). Loss on disposal of the subsidiary of HK\$2,327,000 was included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

47. CONTINGENT LIABILITIES

At 31 December 2016, a corporate guarantee for a maximum amount of HK\$85,743,000 (MYR49,162,000) (2015: HK\$88,909,000 (MYR49,162,000)) 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 effective until 27 January 2019. In addition, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK\$456,833,000 (2015: Nil) were outstanding as at 31 December 2016.

Save as disclosed above, at 31 December 2016, the Group did not have any significant contingent liabilities.

48. PLEDGE OF ASSETS

Details of the Group’s bank and other borrowings, which are secured by certain assets of the Group, are included in note 34 to the financial statements. In addition, the Group’s bank guarantee facility is secured by pledged time deposits of the Group as detailed in note 29(ii).

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a portion of its office building and certain buildings for which the Group was granted the rights to use pursuant to service concession arrangements under operating lease arrangements, with the leases negotiated for terms ranging from 1 to 15 years (2015: from 2 to 13 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within one year	20,781	22,073
In the second to fifth years, inclusive	40,681	47,440
After five years	2,293	10,191
	63,755	79,704

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49. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases a piece of land and certain office properties under operating lease arrangements with leases negotiated for terms ranging from 5 months to 50 years (2015: from 1 to 46 years).

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within one year	16,414	21,656
In the second to fifth years, inclusive	23,639	18,435
After five years	116,139	65,291
	156,192	105,382

50. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 49(b) above, the Group had the following capital commitments at the end of the reporting period:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Contracted, but not provided for		
New service concession arrangements on:		
TOT basis	187,294	280,919
BOT basis	5,435,050	6,227,582
Build-Own-Operate basis	581,221	643,895
Capital contribution to joint ventures	199,555	96,038
Acquisition of subsidiaries	111,211	118,821
Acquisition of further interest in an associate	140,000	700,000
	6,654,331	8,067,255

NOTES TO FINANCIAL STATEMENTS

31 December 2016

50. CAPITAL COMMITMENTS *(Continued)*

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Contracted, but not provided for	259,856	105,618

Save as disclosed above, at 31 December 2016, the Group did not have any significant commitments.

51. RELATED PARTY TRANSACTIONS

- (a) The Group had engaged a joint venture and a related company of the Group to provide sewage treatment engineering services for the Malaysia Project at a service fee of HK\$30,678,000 (MYR16,398,000) (2015: HK\$96,614,000 (MYR47,888,000)) and HK\$94,190,000 (MYR50,347,000) (2015: HK\$37,849,000 (MYR18,760,000)), respectively which were charged at the published prices and conditions offered by the joint venture and the related company to their major customers, respectively.

Total net interest income from the non-controlling equity holders of HK\$3,179,000 (2015: HK\$67,027,000) was recognised by the Group during the year, details of interest rate applied are included in note 28 to the financial statements.

- (b) The Group had provided construction services for a sewage water plant located in Singapore to an associate of the Group for HK\$136,904,000 (SGD24,256,000) (2015: HK\$2,250,000 (SGD397,000)) which was charged at the published prices and conditions offered by the Group to its major customers.

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

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

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51. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel of the Group

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Short term employee benefits	21,895	18,725
Equity-settled share option expenses	15,042	33,668
Pension scheme contributions	41	54
Total compensation paid to key management personnel	36,978	52,447

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

- (e) Pursuant to a deposit services master agreement (the "Deposit Agreement") and a supplemental agreement to deposit services master 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 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.

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK\$1,016,744,000 (2015: HK\$775,888,000). The related interest income recognised in profit or loss during the year was not significant to the Group.

The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK\$125,843,000 (2015: HK\$1,103,241,000) and bear interest at floating rates ranging from 4.75% to 4.90% per annum. The related interest expenses recognised in profit or loss during the year were not significant to the Group.

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51. RELATED PARTY TRANSACTIONS *(Continued)*

Save as disclosed above and the transactions and balances detailed elsewhere in the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2016 and 2015.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

At 31 December 2016, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, finance lease payables, and cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2016 by approximately HK\$114,780,000 (2015: increase/decrease the Group's profit before tax by approximately HK\$115,260,000).

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

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31 December 2016

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

Foreign currency risk

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

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

	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
31 December 2016		
If Hong Kong dollar weakens against RMB by 5%	272,584	1,237,048
If Hong Kong dollar strengthens against RMB by 5%	(272,584)	(1,237,048)
31 December 2015		
If Hong Kong dollar weakens against RMB by 5%	195,836	836,586
If Hong Kong dollar strengthens against RMB by 5%	(195,836)	(836,586)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Credit risk

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

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

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

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK\$6.9 billion (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) in aggregate as at 31 December 2016 as detailed in note 50 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds, notes payable and finance lease payables, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2016. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Liquidity risk *(Continued)*

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

	Within 1 year or on demand <i>HK\$'000</i>	More than 1 year but less than 2 years <i>HK\$'000</i>	More than 2 years but less than 5 years <i>HK\$'000</i>	More than 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2016					
Bank borrowings	5,566,607	3,214,039	11,704,502	2,448,857	22,934,005
Other borrowings	87,540	29,356	66,715	368,110	551,721
Corporate bonds	440,601	440,601	7,124,401	5,368,075	13,373,678
Notes payable	165,097	165,097	1,178,234	2,512,089	4,020,517
Finance lease payable	61,071	9,260	27,779	9,260	107,370
Trade payables	9,842,824	–	–	–	9,842,824
Other liabilities	3,881,931	77,597	267,028	–	4,226,556
Due to related parties	478,142	–	–	–	478,142
	20,523,813	3,935,950	20,368,659	10,706,391	55,534,813
31 December 2015					
Bank borrowings	5,678,035	3,895,937	11,077,774	2,948,939	23,600,685
Other borrowings	1,061,155	15,944	44,367	93,339	1,214,805
Corporate bonds	805,432	190,767	4,179,203	–	5,175,402
Notes payable	174,440	174,440	1,203,286	2,522,453	4,074,619
Finance lease payable	75,833	9,893	29,679	19,786	135,191
Trade payables	5,786,331	–	–	–	5,786,331
Other liabilities	3,906,000	336,847	78,368	–	4,321,215
Due to related parties	350,863	–	–	–	350,863
	17,838,089	4,623,828	16,612,677	5,584,517	44,659,111

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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

Fair values

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

Capital management

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

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

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, notes payable and finance lease payables (as shown in the statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net debt	25,249,892	24,673,735
Total equity	26,767,340	20,290,415
Gearing ratio	94%	122%

NOTES TO FINANCIAL STATEMENTS

31 December 2016

53. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the derivative financial instruments and the unlisted equity investments being classified as available-for-sale investments as disclosed in notes 21 and 22 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2016 and 2015 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

54. EVENT AFTER THE REPORTING PERIOD

On 28 February 2017, the Company agreed to subscribe by way of cash in the registered capital of BG Finance. As at 28 February 2017, BG Finance was directly held by BEGCL, Beijing Gas Group Company Limited, an indirect-wholly owned subsidiary of BEHL and Beijing Yanjing Brewery Co., Ltd., an indirect non-wholly owned subsidiary of BEHL, as to 41%, 39% and 20%. The Company shall pay to BG Finance an amount of HK\$169,530,000 (RMB150,000,000), of which HK\$151,820,000 (RMB134,330,000) will be injected into BG Finance as registered capital and HK\$17,710,000 (RMB15,670,000) will be its capital reserve, being the total consideration of the capital subscription. Following the capital subscription, the Group will hold 6.69% equity interest in the enlarged registered capital of BG Finance. Further details of the transaction are set out in the Company's announcement dated 28 February 2017. As at the date of approval of these financial statements, the transaction has not been completed.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
ASSETS		
Non-current assets:		
Property, plant and equipment	2,644	3,501
Investments in subsidiaries	10,343,346	10,910,698
Investments in joint ventures	1,281,391	1,281,390
Investments in associates	284,000	–
Prepayments, deposits and other receivables	105,744	1,392,746
Available-for-sale equity investments	545,533	–
Total non-current assets	12,562,658	13,588,335
Current assets:		
Trade receivables	4,898	5,234
Prepayments, deposits and other receivables	16,848,213	14,501,791
Cash and cash equivalents	535,789	337,085
Total current assets	17,388,900	14,844,110
TOTAL ASSETS	29,951,558	28,432,445

NOTES TO FINANCIAL STATEMENTS

31 December 2016

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
EQUITY AND LIABILITIES		
Equity:		
Issued capital	873,787	872,295
Reserves <i>(note)</i>	5,731,266	7,434,246
TOTAL EQUITY	6,605,053	8,306,541
Non-current liabilities:		
Bank and other borrowings	9,880,387	9,785,309
Corporate bonds	5,256,233	–
Other payables and accruals	7,048,576	7,860,444
Total non-current liabilities	22,185,196	17,645,753
Current liabilities:		
Trade payables	353	377
Other payables and accruals	595,911	552,804
Bank and other borrowings	565,045	1,327,296
Corporate bonds	–	599,674
Total current liabilities	1,161,309	2,480,151
TOTAL LIABILITIES	23,346,505	20,125,904
TOTAL EQUITY AND LIABILITIES	29,951,558	28,432,445

NOTES TO FINANCIAL STATEMENTS

31 December 2016

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
		<i>(a)</i>			
At 1 January 2015	4,832,557	4,444,884	205,528	(954,836)	8,528,133
Loss for the year and total					
comprehensive loss for the year	–	–	–	(393,933)	(393,933)
Exercise of share options	45,613	–	(12,338)	–	33,275
Equity-settled share option arrangements	–	–	68,637	–	68,637
Transfer of share option reserve upon the forfeiture or lapse of share options	–	–	(3,036)	3,036	–
Final 2014 cash distributions paid	–	(418,247)	–	–	(418,247)
Interim 2015 cash distributions paid	–	(383,619)	–	–	(383,619)
At 31 December 2015 and 1 January 2016	4,878,170	3,643,018	258,791	(1,345,733)	7,434,246
Loss for the year and total					
comprehensive loss for the year	–	–	–	(779,186)	(779,186)
Exercise of share options	102,053	–	(28,704)	–	73,349
Shares repurchased and cancelled	(80,181)	–	–	–	(80,181)
Equity-settled share option arrangements	–	–	40,935	–	40,935
Final 2015 cash distributions paid	–	(443,948)	–	–	(443,948)
Interim 2016 cash distributions paid	–	(513,949)	–	–	(513,949)
At 31 December 2016	4,900,042	2,685,121	271,022	(2,124,919)	5,731,266

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

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.

FIVE YEAR FINANCIAL SUMMARY

31 December 2016

A summary of the results and of the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2015, is set out below:

RESULTS

	Year ended 31 December				
	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue	3,727,379	6,406,455	8,925,942	13,502,957	17,354,833
Operating profit	1,037,191	1,389,530	2,388,915	3,370,543	4,269,210
Share of profits and losses of:					
Joint ventures	56,011	84,515	256,230	162,795	192,172
Associates	(1,409)	23,115	22,032	12,221	182,373
Profit before tax	1,091,793	1,497,160	2,667,177	3,545,559	4,643,755
Income tax expense	(224,643)	(351,762)	(593,855)	(777,766)	(970,773)
Profit for the year	867,150	1,145,398	2,073,322	2,767,793	3,672,982
ATTRIBUTABLE TO:					
Shareholders of the Company	750,474	1,084,257	1,794,413	2,455,370	3,227,013
Holders of perpetual capital instruments	–	–	–	–	56,570
Other non-controlling interests	116,676	61,141	278,909	312,423	389,399
	867,150	1,145,398	2,073,322	2,767,793	3,672,982

FIVE YEAR FINANCIAL SUMMARY

31 December 2016

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Total assets	31,289,880	44,186,670	51,640,838	64,491,748	81,047,270
Total liabilities	(20,558,387)	(28,262,228)	(32,552,100)	(44,201,333)	(54,279,930)
NET ASSETS	10,731,493	15,924,442	19,088,738	20,290,415	26,767,340
Equity attributable to shareholders of the Company	8,467,124	13,297,631	15,784,448	16,183,833	16,501,142
Perpetual capital instruments	–	–	–	–	6,305,025
Other non-controlling interests	2,264,369	2,626,811	3,304,290	4,106,582	3,961,173
TOTAL EQUITY	10,731,493	15,924,442	19,088,738	20,290,415	26,767,340



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED
Stock Code: 371