BEIJING ENTERPRISES WATER GROUP LIMITED

ANNUAL REPORT 2017

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

CONTENTS

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
Mr. Wang Kaijun
Dr. Lee Man Chun Raymond

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

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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

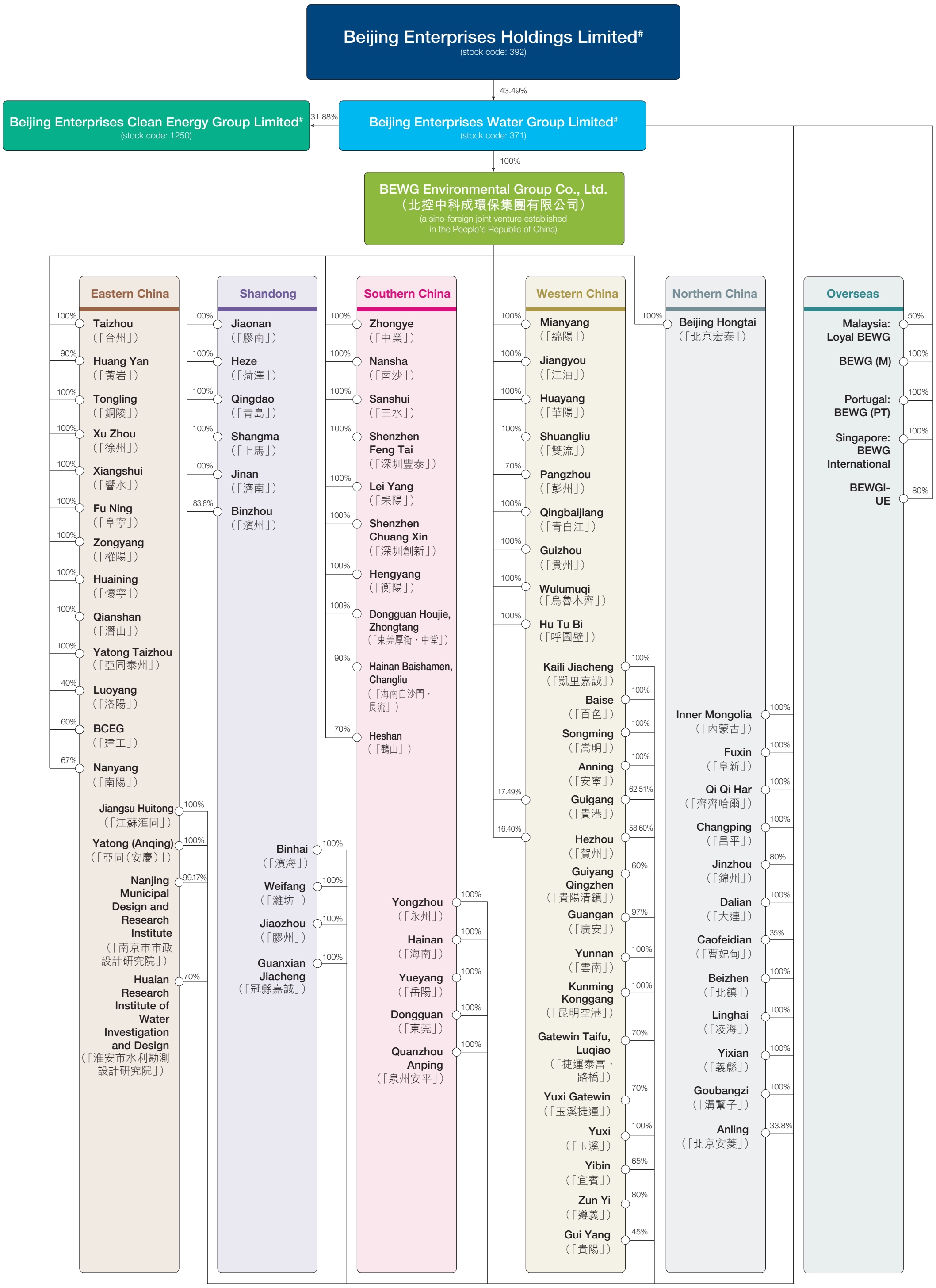
PRINCIPAL BANKERS

In Hong Kong:
Bank of China (Hong Kong) Limited
Bank of Communications Co., Limited
China Development Bank Corporation, Hong Kong Branch
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited

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
China Industrial Bank Co., Ltd
Industrial and Commercial Bank of China Limited

GROUP STRUCTURE

31 December 2017



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

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

CHAIRMAN'S STATEMENT

Dear shareholders,

In 2017, the world economy showed signs of recovery while China maintained a positive and steady economic development in a rationale range. The society is seeing a growing consensus about green, circular and low-carbon development, signifying a new era of the ecological progress. 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 2017, the Group recorded revenue of HK$21,192.4 million, which grew by 22% year-on-year. Profit attributable to shareholders of the Company amounted to HK$3,717.2 million, which increased by 15% year-on-year. Basic earnings per share for the year was HK42.42 cents. In recognition of the continuous support of the shareholders to the Company, the board of directors of the Company (the "Board") resolved to make a final distribution of HK7.5 cents per share to the shareholders.

In 2017, the ecological progress has gathered speed and green elements which now represents an important part of China's future development. On the policy and regulatory front, the enhanced enforcement efforts for environmental inspection and the shift of focus of PPP models from expansion in scale to better regulation have contributed to the health development of the environmental industry. In adherence to its Thirteenth Five-Year Strategic Plans and Ecological Objectives, the Group grasped the opportunity to expand and strengthen its two core businesses, namely urban water services and water environment comprehensive renovation, and explored new sources of profit growth in such extraordinary time of opportunity. The urban water treatment business saw its capacity maintaining a rapid rise. Meanwhile, the water environment comprehensive renovation business recorded an impressive growth year-on-year as the efforts to integrated investment and technology contribute to a rising number of large projects. Among those projects, the Baotou project is currently the largest stand-alone project planned and undertaken by the Group. As at 31 December 2017, the Group's total daily design capacity was 31,387,820 tonnes.

CHAIRMAN'S STATEMENT

As to the emerging businesses, the clean energy segment posted remarkable results, and the urban resources segment pushed forward with its market expansion by leveraging the brand strength and existing platform operated under BEWG. Industrial environmental service segment continued to focus on the provision of water services, emission treatment and energy conservation for industrial enterprises and industrial parks. The Group has stepped up the expansion of its global presence with a growing scale of its overseas businesses.

In addition, vigorously efforts were made to develop innovative financing models and adopt an asset-light approach in operation. The Group has set up fund companies with the private sectors such as banks and insurance companies for PPP project investment under an innovative model of financial-industrial integration. On the other hand, the Group has pursued green innovative finance reform with the issue of the country's first green asset-backed notes, which have brought about breakthrough in the development of new trends towards green financial products.

While maintaining the business growth at a rapid pace, the Group also rose to the challenges in the industry in 2017. The flourishing environmental industry has attracted many entrants from other industries and this has led to keen competition among participants that vary in standard and more stringent regulations by the government on PPP projects, which may be subject to "restructuring". Environmental renovation now requires a higher degree of integration and involves higher cost of capital. It is necessary of enterprises to be better-equipped with the capability in terms of investment, technology, management and resource integration. In order to better cope with the new developments in the environmental industry, the Group is heading towards an asset light enterprise by adopting a "dual platform" strategy which involves setting up asset management and operational management platforms.

CORPORATE MANAGEMENT AND CONTROL

The Group has carried out reforms on management and organisational structure in adherence to its Thirteenth Five-Year Strategic Objectives and strategic direction as an ecological enterprise. The layout of core business units comprising five regional segments and a sub-centre company has been formed by re-organising the existing regional segments, business segments, joint ventures and platform companies in a centralised approach. The Group has also enhanced its management strength with the synergy effect on sharing market, financial, management and technological resources.

The Group has set up a system covering all aspects of risk management to strictly control underlying risks. The importance of corporate culture in directing its development has been highlighted as it sets up a system which incorporates management practices into the corporate culture. The Group's continuous efforts to build brand prominence have proven fruitful as the Group topped the list of the Top 10 Influential companies in the Chinese Water Industry（中國水業十大影響力）for seven consecutive years. It also appeared on the Fortune China 500 list for two consecutive years, making it the only environmental enterprise having two consecutive years entries.

CHAIRMAN'S STATEMENT

SUSTAINABLE DEVELOPMENT

BEWG will thoroughly implement the national measures of establishing ecological civilisation in 2018, so as to expand and strengthen its two core businesses, namely urban water services and water environment comprehensive renovation in such extraordinary time of opportunity. It will also head towards an asset light enterprise by setting up asset management platform and operational management platform with the aims to enhance the core competitiveness across the enterprise and provide shareholders with a stable and growing return.

As to investment, it will continue its general approaches of maximising returns with prudence, monitoring and controlling risks and making ends meet with risk control as its priority. In terms of technological research and development, the Group will form an eco-system of "operation technology" for better technology identification and carry out research and development and resource integration with different key objectives in order to nurture capability for environmental service which is in line with its asset-light approach. Regarding construction management, a platform will be set up to unite the procurement and management of resources such as works, equipment, materials and services. New technology and new management approach will be actively applied to improve the quality of construction.

Moreover, a "positive and energetic" human resource policy will be in place to form a leadership which exhibits accountability, creates value and shares common goals and a management team which delivers efficiency in the hope of supporting the enterprise's stable and healthy development with strong minds.

The Group officially sets up a rural business segment in early 2018 for coordinating and carrying out projects on rural water services, beautiful countryside construction and rural living environment improvement. Meanwhile, the Group actively responds to national policies and takes advantage of the direction of industry development. As new environmental policies such as the Environmental Protection Tax Law (《環境保護稅法》), the amended Water Pollution Prevention and Control Law (《中華人民共和國水污染防治法》) and the Reform Program of the Ecological Environmental Damage Compensation System (《生態環境損害賠償制度改革方案》) have been officially promulgated and implemented, environmental concerns are now the main driving force for economic transformation and industry upgrade in China, and the opening up of the environmental market will represent greater room for BEWG to flourish.

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.

CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT

The report delivered at the 19th Party Congress has highlighted the importance of establishing ecological civilisation for the thousand-year sustainable development of the Chinese nation and comprehensively illustrated the strategic moves towards a beautiful China by stepping up structural reform on ecological civilisation and promoting green development. Together with the target of realising fundamental improvements to the ecological environment by 2035, such initiatives will create strategic opportunities for the environmental industry.

In addition, there has been an improvement in the quality of PPP models of the environmental industry. Companies which possess renovation technology and are capable of providing comprehensive solutions that will be in the best position to reap the benefits from the development.

In 2018, taking advantage of the favourable policy and market trends, BEWG will accumulate purposely those useful and valuable resources in order to build up professional asset management platform and operational management platform for the water service and environmental industries. It is committed to pursue quality and rapid growth in a progressive manner with its unique competitive edge brought by strategic synergy effect, so as to enjoy the fruitful results of the promising development of the industry with its shareholders as well as building up a green future.

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

28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company increased by 15% to HK$3,717.2 million. Revenue increased by 22% to HK$21,192.4 million as a result of increase in revenue contribution from construction services for comprehensive renovation 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	3,425.1			1,517.0	
– Subsidiaries (with ABN arrangement*)	315.3			157.6	
– Joint ventures and associates				35.1	
	3,740.4	18%	55%	1,709.7	33%
Overseas					
– Subsidiaries	291.3	1%	26%	47.7	1%
	4,031.7	19%		1,757.4	34%
Water distribution services					
China					
– Subsidiaries	1,611.2	8%	48%	466.9	9%
– Joint ventures				173.8	3%
				640.7	12%
Overseas					
– Subsidiaries	228.5	1%	31%	49.3	1%
	1,839.7	9%		690.0	13%
Subtotal	5,871.4	28%		2,447.4	47%

* *These subsidiaries partially disposed their receivables under service concession arrangements for the issuance of an asset-backed note ("ABN arrangement") in April 2017.*

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%[§]	7,335.3	35%	14%	992.9	20%
– Interest income	–	–	–	52.6	1%
	7,335.3	35%	14%	1,045.5	21%
Construction of BOT water projects					
– China	6,647.1	31%	25%	1,133.4	22%
– Overseas	–	–	–	–	–
	6,647.1	31%	25%	1,133.4	22%
Subtotal	13,982.4	66%		2,178.9	43%
3. Technical services and sale of machineries for the water environmental renovation	1,338.6	6%	60%	506.2	10%
Business results	21,192.4	100%		5,132.5	100%
Fair value gain on derivative financial instruments				39.6	
Others[#]				(1,454.9)	
Total				3,717.2	

[#] *Others included head office and other corporate expense, net, of HK$276.8 million, share of profit of associates of HK$540.1 million, equity-settled share option expense of HK$19.9 million, finance costs of HK$1,458.0 million and profit attributable to holders of perpetual capital instruments of HK$240.3 million.*

[§] *Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK$263.4 million.*

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
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				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%

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%[§]	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$311.5 million, share of profit of an associate of HK$177.0 million, equity-settled share option expense of HK$40.9 million, finance costs of HK$1,401.3 million and profit attributable to holders of perpetual capital instruments of HK$56.6 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 comparison of the Group's financial results for the year ended 31 December 2017 and 2016 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2017	2016	Increase/(Decrease)		**2017**	2016	Increase/(Decrease)	
	HK$'M	*HK$'M*	*HK$'M*	*%*	***HK$'M***	*HK$'M*	*HK$'M*	*%*
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	**3,425.1**	3,072.3	352.8	11%	**1,517.0**	1,425.2	91.8	6%
– Subsidiaries (with ABN arrangement)	**315.3**	422.6	(107.3)	(25%)	**157.6**	236.5	(78.9)	(33%)
– Joint ventures and associates					**35.1**	18.8	16.3	87%
	3,740.4	3,494.9	245.5	7%	**1,709.7**	1,680.5	29.2	2%
GP ratio	***55%***	*58%*		(3%)				
Overseas								
– Subsidiaries	**291.3**	159.0	132.3	83%	**47.7**	16.5	31.2	189%
GP ratio	***26%***	*19%*		7%				
	4,031.7	3,653.9	377.8	10%	**1,757.4**	1,697.0	60.4	4%
Water distribution services								
China								
– Subsidiaries	**1,611.2**	1,164.5	446.7	38%	**466.9**	409.3	57.6	14%
– Joint ventures					**173.8**	126.0	47.8	38%
					640.7	535.3	105.4	20%
GP ratio	***48%***	*52%*		(4%)				
Overseas								
– Subsidiaries	**228.5**	206.9	21.6	10%	**49.3**	43.2	6.1	14%
GP ratio	***31%***	*30%*		1%				
	1,839.7	1,371.4	468.3	34%	**690.0**	578.5	111.5	19%
Subtotal	**5,871.4**	5,025.3	846.1	17%	**2,447.4**	2,275.5	171.9	8%

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2017 and 2016 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2017	2016	Increase/(Decrease)		**2017**	2016	Increase/(Decrease)	
	HK$'M	*HK$'M*	*HK$'M*	*%*	***HK$'M***	*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%	**7,335.3**	4,612.3	2,723.0	59%	**992.9**	717.8	275.1	38%
– Interest income	**–**	–	–	–	**52.6**	68.8	(16.2)	(24%)
	7,335.3	4,612.3	2,723.0	59%	**1,045.5**	786.6	258.9	33%
GP ratio	***14%***	*22%*		(8%)				
Construction of BOT water projects								
– China	**6,647.1**	6,111.4	535.7	9%	**1,133.4**	1,085.7	47.7	4%
– Overseas	**–**	584.9	(584.9)	(100%)	**–**	27.6	(27.6)	(100%)
	6,647.1	6,696.3	(49.2)	(1%)	**1,133.4**	1,113.3	20.1	2%
GP ratio	***25%***	*22%*		3%				
Subtotal	**13,982.4**	11,308.6	2,673.8	24%	**2,178.9**	1,899.9	279.0	15%
3. Technical services and sale of machineries for the water environmental renovation	**1,338.6**	1,020.9	317.7	31%	**506.2**	274.9	231.3	84%
GP ratio	***60%***	*56%*		4%				
Business results	**21,192.4**	17,354.8	3,837.6	22%	**5,132.5**	4,450.3	682.2	15%
Fair value gain on derivative financial instruments					**39.6**	410.0	(370.4)	(90%)
Others					**(1,454.9)**	(1,633.3)	(178.4)	(11%)
Total					**3,717.2**	3,227.0	490.2	15%

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 21 provinces, 5 autonomous regions and 2 municipalities all across Mainland China.

2.1 Water treatment services

As at 31 December 2017, the Group entered into service concession arrangements and entrustment agreements for a total of 782 water plants including 655* sewage treatment plants, 112 water distribution plants, 14 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for the year was 4,838,476 tons including Build-Operate-Transfer ("BOT") projects of 677,750 tons, Transfer-Operate-Transfer ("TOT") projects of 10,000 tons, Design-Build-Own-Operate ("DBOO") projects of 50,000 tons, Public-Private Partnership ("PPP") projects of 3,240,726 tons, entrustment operation projects of 365,000 tons, and 495,000 tons through mergers and acquisitions.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 618,700 tons during the year. As such, the net increase in daily design capacity of the year was 4,219,776 tons. As at 31 December 2017, total daily design capacity was 31,387,820 tons.

* *Water plants with daily capacity of 2,000 tons or lower were classified as town-size water plants. During the year, the Group entered into service concession arrangements for 263 town-size sewage treatment plants with aggregate daily capacity of 86,176 tons.*

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
(Tons)					
China					
In operation	11,059,750	617,200	6,555,600	–	18,232,550
Not yet commenced operation/ Not yet transferred	6,445,976	929,000	5,267,094	50,000	12,692,070
Subtotal	17,505,726	1,546,200	11,822,694	50,000	30,924,620
Overseas					
In operation	199,200	228,000	36,000	–	463,200
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	199,200	228,000	36,000	–	463,200
Total	17,704,926	1,774,200	11,858,694	50,000	31,387,820
(Number of water plants)					
China					
In operation	231	7	73	–	311
Not yet commenced operation/ Not yet transferred	399	6	26	1	432
Subtotal	630	13	99	1	743
Overseas					
In operation	25	1	13	–	39
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	25	1	13	–	39
Total	655	14	112	1	782

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

	Number of plants	Design capacity *(Tons/Day)*	Actual processing volume during the year* *(Tons (M))*	Revenue *(HK$'M)*	Profit attributable to shareholders of the Company *(HK$'M)*
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	46	3,346,700	1,096.0	886.3	469.2
– Western China	51	1,754,500	527.5	786.6	363.7
– Shandong	32	1,462,000	399.1	432.3	207.8
– Eastern China	63	3,362,750	1,018.0	956.4	412.8
– Northern China	46	1,751,000	507.1	678.8	256.2
	238	11,676,950	3,547.7	3,740.4	1,709.7
Overseas	26	427,200	152.8	291.3	47.7
Subtotal	264	12,104,150	3,700.5	4,031.7	1,757.4
Water distribution services:					
Mainland China	73	6,555,600	1,403.6	1,611.2	640.7
Overseas	13	36,000	13.4	228.5	49.3
Subtotal	86	6,591,600	1,417.0	1,839.7	690.0
Total	350	18,695,750	5,117.5	5,871.4	2,447.4

* *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 2017, the Group had 231 sewage treatment plants and 7 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 11,059,750 tons (31 December 2016: 9,957,250 tons) and 617,200 tons (31 December 2016: 497,200 tons) respectively. The average daily processing volume is 9,882,175 tons and average daily treatment rate is 87%. The actual average contracted tariff charge of water treatment was approximately RMB1.08 per ton (31 December 2016: RMB1.01 per ton) for water plants. The actual aggregate processing volume for the year was 3,547.7 million tons, of which 3,325.4 million tons was contributed by subsidiaries and 222.3 million tons was contributed by joint ventures. Total revenue for the year was HK$3,740.4 million. Net profit attributable to shareholders of the Company was HK$1,709.7 million, of which HK$1,674.6 million was contributed by subsidiaries and HK$35.1 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 31 December 2017, there were 46 sewage treatment plants with total daily design capacity of 3,346,700 tons, representing an increase of 87,500 tons or 3% as compared with last year. The actual aggregate processing volume for the year amounted to 1,096.0 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$886.3 million and HK$469.2 million respectively during the year.

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 2017, there were 51 sewage treatment plants with total daily design capacity of 1,754,500 tons, representing an increase of 130,000 tons per day or 8% as compared with last year. The actual processing volume for the year was 527.5 million tons. The operating revenue of HK$786.6 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK$363.7 million.

Shandong

There were 32 plants in Shandong region. The total daily design capacity of Shandong region is 1,462,000 tons, representing an increase of 193,000 tons per day or 15% as compared with last year. The actual processing volume for the year was 399.1 million tons contributing operating revenue of HK$432.3 million during the year. Profit attributable to shareholders of the Company was HK$207.8 million.

Eastern China

There were 63 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 31 December 2017, the total daily design capacity of Eastern China had increased by 412,000 tons to 3,362,750 tons or 14% as compared with last year. The actual processing volume for the year amounted to 1,018.0 million tons and operating revenue was HK$956.4 million during the year. Profit attributable to shareholders of the Company was HK$412.8 million.

Northern China

Currently, the Group has 46 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 400,000 tons to 1,751,000 tons or 30% as compared with last year. The projects achieved actual processing volume of 507.1 million tons for the year. The operating revenue was HK$678.8 million during the year. Profit attributable to shareholders of the Company was HK$256.2 million.

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services (Continued)

2.1.1b Overseas:

As at 31 December 2017, the Group had 24 sewage treatment plants in Portugal, a sewage treatment plant in Macau and a reclaimed water plant in Singapore. Total daily design sewage treatment capacity in operation was 427,200 tons. The actual processing volume for the year is 152.8 million tons, of which 87.3 million tons was contributed by subsidiaries and 65.5 million tons was contributed by a joint venture. Total revenue for the year was HK$291.3 million. Profit attributable to shareholders of the Company was HK$47.7 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2017, the Group had 73 water distribution plants in operation. Total daily design capacity in operation was 6,555,600 tons (31 December 2016: 5,704,400 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 RMB2.14 per ton (2016: RMB1.86 per ton). The aggregate actual processing volume is 1,403.6 million tons, of which 762.2 million tons was contributed by subsidiaries, which recorded revenue of HK$1,611.2 million and 641.4 million tons was contributed by joint ventures. Imputed interest income of HK$45.3 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$640.7 million, of which profit of HK$466.9 million was contributed by subsidiaries and a profit of HK$173.8 million in aggregate was contributed by joint ventures.

2.1.2b Overseas:

As at 31 December 2017, 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 13.4 million tons. Total revenue for the year was HK$228.5 million. Profit attributable to shareholders of the Company was HK$49.3 million.

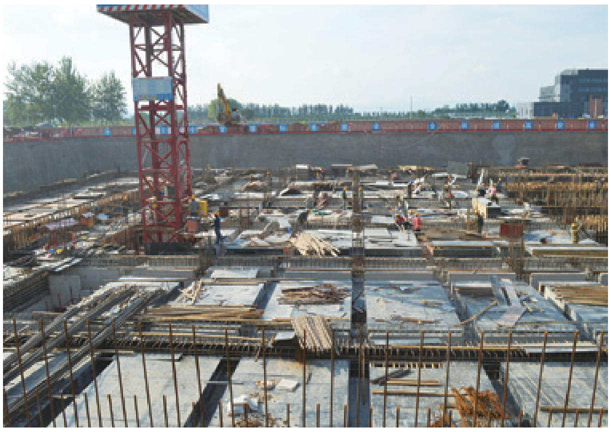
2. BUSINESS REVIEW *(Continued)*

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 18 comprehensive renovation projects under construction during the year. The projects mainly located in Henan Luoyang, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia, Chengdu Jianyang, Yunnan Ling Qang, Malaysia Terengganu, Sichuan Luzhou and Beijing Tongzhou. Last year, the Group had 20 comprehensive renovation projects under construction in Beijing Liangshuihe, Beijing Xiantaihouhe, Henan Luoyang, Foshan Gaoming, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia Wuhai and Malaysia Terengganu.

Revenue from comprehensive renovation projects increased by HK$2,723.0 million from last year of HK$4,612.3 million to HK$7,335.3 million this year. Revenue increased was mainly due to the new commencement of construction work for Sichuan Luzhou, Henan Luoyang and Inner Mongolia and increase in contribution work for Chengdu Jianyang.



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$52.6 million for this year (2016: HK$68.8 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK$258.9 million from last year of HK$786.6 million to HK$1,045.5 million this year.

2. BUSINESS REVIEW *(Continued)*

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

2.2.2 Construction of BOT water projects

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

During the year, water plants under construction were mainly located in Guangdong, Shandong, Zhejiang, Hunan and Henan provinces. Total revenue for construction of BOT water projects was HK$6,647.1 million (2016: HK$6,696.3 million) and profit attributable to shareholders of the Company was HK$1,133.4 million (2016: HK$1,113.3 million).

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$1,338.6 million (2016: HK$1,020.9 million), representing 6% of the Group's total revenue. Profit attributable to shareholders of the Company was HK$506.2 million (2016: HK$274.9 million).

Increase in revenue was mainly due to the increase in contribution from provision of technical services.

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded revenue of HK$21,192.4 million (2016: HK$17,354.8 million). The increase was mainly due to the increase in revenue from construction services for comprehensive renovation projects. The increase in revenue from construction services was mainly due to the construction work for comprehensive renovation projects in Sichuan Luzhou, Sichuan Chengdu, Henan Luoyang and Inner Mongolia.

3.2 Cost of sales

Cost of sales for the year amounted to HK$14,727.8 million, compared to last year of HK$11,570.0 million. The increase was mainly due to the increase in construction costs and operating costs of water plants amounted to HK$2,472.5 million and HK$598.7 million respectively. Cost of sales mainly included construction costs of HK$11,288.7 million and operating costs of water plants of HK$2,907.6 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 during the year. The operating costs of water plants, mainly included electricity charges of HK$721.7 million, staff costs of HK$910.9 million and major overhaul charges of HK$126.0 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. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin

During the year, gross profit margin slightly decreased from last year of 33% to 31%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China decreased to 55% (last year: 58%). The decrease was mainly due to the decrease in imputed interest income from certain water plants as a result of the partially disposal of the receivables under service concession arrangements of these water plants for the issuance of an asset-backed note with a principal amount of RMB2.1 billion during the year. Gross margin for sewage and reclaimed water treatment services in Overseas increased to 26% (last year: 19%). The increase was mainly due to the commencement of operation of a reclaimed water plant in Singapore in the second half of last year, which generated a relatively higher gross margin during this year.

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 48% (last year: 52%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services decreased to 46% (last year: 50%). The decrease was mainly due to the newly acquired projects which generated a relatively lower gross margin during the year. Gross margin for water distribution services in Overseas was 31% (last year: 30%).

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects decreased from last year of 22% to 14% this year. Gross margin decreased as the major comprehensive renovation projects (e.g. projects in Inner Mongolia) for the 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 25% (last year: 23%).

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 60% (last year: 56%). The increase was mainly due to increase in income from provision of technical services.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK$1,006.6 million during the year, compared to last year of HK$1,121.6 million. The amount for this year mainly included sludge treatment income of HK$124.4 million, government grants and subsidies of HK$92.0 million, pipeline installation income of HK$209.5 million, fair value gain on investment property of HK$12.9 million, and VAT refund of HK$327.6 million.

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 tranche 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 2016. The final tranche of subscription with total number of shares of 1,772,151,900 was completed during the year. 4,516,761,897 preference shares were converted into ordinary shares during the year.

According to the accounting policy, the potential subscription shares 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 the year, the Group recognised a fair value gain of HK$39.6 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. FINANCIAL ANALYSIS *(Continued)*

3.6 Administrative expenses

Administrative expenses for the year increased to HK$1,753.2 million, compared to last year of HK$1,537.7 million. The increase was mainly due to the increase in staff related expenses as a result of business expansion during the year.

3.7 Other operating expenses, net

Other operating expenses increased from HK$311.1 million to HK$343.3 million in the year. The increase was mainly due to the increase in the pipeline installation cost during the year.

3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK$895.8 million (2016: HK$969.9 million) and interests on corporate bonds and notes payable of HK$661.8 million (2016: HK$526.0 million). The increase in finance costs was mainly due to the issuance of corporate bonds with principal amounts of RMB1,300 million and MYR400 million during the year. 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$556.6 million, compared to last year of HK$182.4 million. The increase was mainly due to increase in share of profits of BE Clean Energy of HK$321.5 million.

3.10 Share of profits of joint ventures

Share of profits of joint ventures increased to HK$521.6 million, compared to last year of HK$192.2 million. The increase was mainly contributed by the fund set up during the year for Chifeng project.

3.11 Income tax expense

Income tax expense for the year included the current PRC income tax of HK$540.0 million. The effective tax rate for the PRC operation was about 14% 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$303.5 million.

3. FINANCIAL ANALYSIS *(Continued)*

3.12 Profit attributable to holders of perpetual capital instruments

Amount represented the coupon payments of perpetual bonds. Perpetual bonds with aggregate principal amount of RMB5,600 million were issued in the second half of last year.

3.13 Property, plant and equipment

Property, plant and equipment increased by HK$1,010.4 million which was mainly due to the acquisition of Build-Own-Operate ("BOO") projects in Inner Mongolia in current year.

3.14 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$12.9 million was recognised in statement of profit or loss during the year.

3.15 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$56,457.5 million (2016: HK$46,247.7 million) included:

By accounting nature:

	2017			2016		
	Non-current	**Current**	**Total**	Non-current	Current	Total
	HK$'M	***HK$'M***	***HK$'M***	*HK$'M*	*HK$'M*	*HK$'M*
(i) Amounts due from contract customers	**15,059.9**	**875.7**	**15,935.6**	16,204.4	1,100.7	17,305.1
(ii) Receivables under service concession arrangements	**33,322.9**	**2,614.9**	**35,937.8**	22,638.2	1,933.1	24,571.3
(iii) Trade receivables	**1,731.1**	**2,853.0**	**4,584.1**	1,347.1	3,024.2	4,371.3
Total	**50,113.9**	**6,343.6**	**56,457.5**	40,189.7	6,058.0	46,247.7

3. FINANCIAL ANALYSIS *(Continued)*

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

(i) Amounts due from contract customers of HK$15,935.6 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 decreased by HK$1,369.5 million (non-current portion decreased by HK$1,144.5 million and current portion decreased by HK$225.0 million), which was mainly due to the disposal of Taizhou project to the fund during the year;

(ii) Receivables under service concession arrangements of HK$35,937.8 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$11,366.5 million (non-current portion increased by HK$10,684.7 million and current portion increased by HK$681.8 million) was mainly due to the recognition of construction revenue in accordance with HK(IFRIC)-Int 12 for the construction of water plants under the BOT Arrangements; and

(iii) Trade receivables of HK$4,584.1 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$212.8 million (non-current portion increased by HK$384.0 million and current portion decreased by HK$171.2 million).

By business nature:

	2017	2016
	HK$'M	*HK$'M*
Water treatment services by BOT and TOT projects	**40,544.6**	36,432.7
Construction services of comprehensive renovation projects	**14,706.7**	8,852.1
Technical and consultancy services and other businesses	**1,206.2**	962.9
Total	**56,457.5**	46,247.7

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$40,544.6 million (2016: HK$36,432.7 million). Total receivables for the construction service of comprehensive renovation projects were HK$14,706.7 million (2016: HK$8,852.1 million). Total receivables for technical and consultancy services and other businesses were HK$1,206.2 million (2016: HK$962.9 million).

3. FINANCIAL ANALYSIS *(Continued)*

3.16 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.

3.17 Investments in joint ventures

Investments in joint ventures increased by HK$3,174.0 million, mainly due to the capital injection to the joint ventures, share of profit and conversions of subsidiaries to joint ventures as a result of partial disposal of interest in subsidiaries during the year.

3.18 Investments in associates

Investments in associates increased by HK$1,794.7 million, mainly due to the subscriptions of preference shares and share of profit of BE Clean Energy during the year.

3.19 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK$2,398.9 million (non-current portion increased by HK$69.0 million and current portion increased by HK$2,329.9 million), mainly due to the increase in amounts due from joint ventures.

3.20 Other payables and accruals

Other payables and accruals increased by 1,761.0 million. The increase was mainly due to the increase in amounts due to joint ventures of HK$584.9 million, increase in receipts in advance of HK$205.6 million and increase in other liabilities of HK$340.1 million.

3.21 Cash and cash equivalents

Cash and cash equivalents decreased by HK$982.2 million, mainly due to the payments for acquisition and construction of various water projects in PRC.

3.22 Bank and other borrowings

Bank and other borrowings increased by HK$4,658.0 million. Increase in bank and other borrowings was mainly utilised to finance for the acquisition and construction of various water project in the PRC.

3.23 Corporate bonds

Corporate bonds increased by HK$2,582.6 million which was mainly due to the issuance of corporate bonds with principal amounts of RMB1,300 million and MYR400 million during the year.

3. FINANCIAL ANALYSIS *(Continued)*

3.24 Trade payables

The increase in trade payables by HK$1,844.7 million was mainly due to increase in trade payables to subcontractors for construction services of comprehensive renovation projects during the year.

3.25 Deferred Income

Deferred income increased by HK$1,300.0 million which was mainly due to the recognition of deferred sewage water treatment income in relation to the issuance of an asset-backed note during the year.

3.26 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 2017, the Group's cash and cash equivalents amounted to HK$9,938.8 million (31 December 2016: HK$10,921.0 million).

The Group's total borrowings amounted to HK$43,951.8 million (31 December 2016: HK$36,170.9 million) comprised bank and other borrowings of HK$26,132.9 million (31 December 2016: HK$21,474.9 million), finance lease payables of HK$498.2 million (31 December 2016: HK$93.1 million), notes payable of HK$3,074.9 million (31 December 2016: HK$2,939.7 million) and corporate bonds of HK$14,245.8 million (31 December 2016: HK$11,663.2 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 90% of bank and other borrowings bear interest at floating rates.

As at 31 December 2017, the Group had banking facilities amounting to HK$34.8 billion, of which HK$15.9 billion have not been utilised. The banking facilities are of 1 to 12 years term.

The Group's total equity amounted to HK$33,041.3 million (31 December 2016: HK$26,767.3 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.03 as at 31 December 2017 (31 December 2016: 0.94). The increase in the gearing ratio as at 31 December 2017 was mainly due to the decrease in cash and cash equivalent and increase in corporate bonds during the year. The corresponding funds were mainly utilised for the acquisition and construction of various water projects in the PRC.

3. FINANCIAL ANALYSIS *(Continued)*

3.27 Capital expenditures

During the year, the Group's total capital expenditures were HK$10,641.4 million (2016: HK$9,267.2 million), of which HK$290.6 million was paid for the acquisition of property, plant and equipment and intangible assets; HK$7,289.70 million was spent on construction and acquisition of water plants, HK$3,061.1 million represented the consideration for acquisition of equity interests in associates, subsidiaries and available-for-sale investments and capital injections in joint ventures.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group employed 15,356 employees. Total staff cost for the year ended 31 December 2017 was HK$2,175,852,000 (2016: HK$1,671,041,000). 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. 55,950,000 share options were exercised, no share option was lapsed or cancelled during the year ended 31 December 2017. As at 31 December 2017, the Company had 267,516,000 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 3.06% of the Company's ordinary shares in issue as at 31 December 2017.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2017, 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 2017 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 2017, 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 exchange 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. 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 (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
Dr. Lee Man Chun Raymond *(appointed as Independent Non-executive Director on 30 June 2017)*

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 current 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. Guidance notes and memorandum are issued to Directors where appropriate, to ensure awareness of best corporate governance practices.

BOARD OF DIRECTORS *(Continued)*

According to the records maintained by the Company, the 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 2017.

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 *(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	✓	✓		
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	✓	✓		
Dr. Lee Man Chun Raymond *(appointed as Independent Non-executive Director on 30 June 2017)*	✓			

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held four Board meetings and a general meeting during the financial year ended 31 December 2017. 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 2017 are set out below:

Name of Director	Number of Board meetings attended/held	Number of general meetings attended/held
Executive Directors		
Mr. Li Yongcheng *(Chairman)*	4/4	1/1
Mr. E Meng *(Vice Chairman)*	2/4	0/1
Mr. Jiang Xinhao	4/4	0/1
Mr. Zhou Min *(Chief Executive Officer)*	4/4	1/1
Mr. Li Haifeng	4/4	0/1
Mr. Zhang Tiefu	4/4	0/1
Ms. Qi Xiaohong	3/4	0/1
Mr. Ke Jian	2/4	0/1
Mr. Tung Woon Cheung Eric	3/4	1/1
Mr. Li Li	4/4	0/1
INEDs		
Mr. Shea Chun Lok Quadrant	3/4	1/1
Mr. Zhang Gaobo	3/4	1/1
Mr. Guo Rui	3/4	0/1
Ms. Hang Shijun *(resigned as Independent Non-executive Director on 30 March 2017)*	0/4 *(Note 1)*	N/A *(Note 1)*
Mr. Wang Kaijun	4/4	0/1
Dr. Lee Man Chun Raymond *(appointed as Independent Non-executive Director on 30 June 2017)*	2/4 *(Note 2)*	N/A *(Note 2)*

Notes:

1. Ms. Hang Shijun resigned as an INED of the Company on 30 March 2017 before the annual general meeting held on 1 June 2017.

2. Dr. Lee Man Chun Raymond was appointed as an INED of the Company on 30 June 2017 after the annual general meeting held on 1 June 2017.

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.

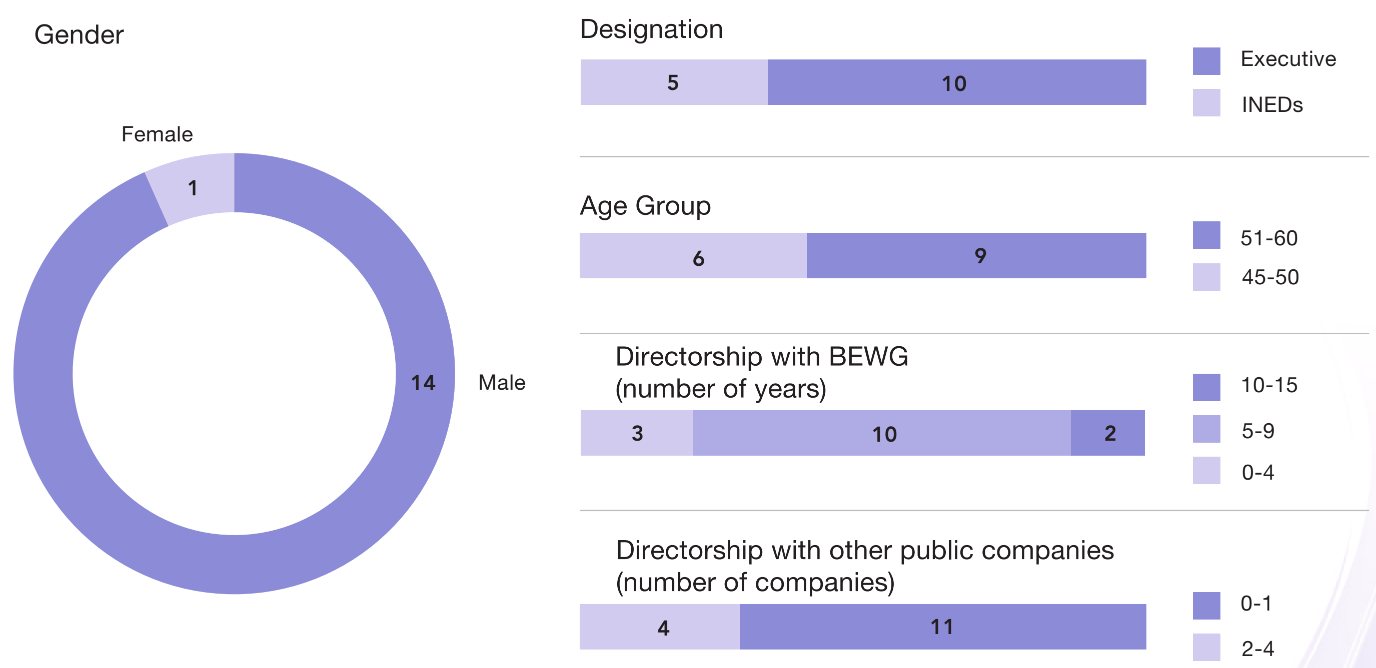
CORPORATE GOVERNANCE REPORT

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 fifteen 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 2017, 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 and the chief executive officer is Mr. Zhou Min. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business. Their roles are clearly defined to ensure their respective independence. There is no relationship between the chairman and chief executive officer of the Board in respect of financial, business, family or other material/relevant relationship.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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.

BOARD COMMITTEES *(Continued)*

Audit Committee

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

The Audit Committee is mainly responsible for considering all relationships between the Company and the auditing firm (including the provision of non-audit services), monitoring the integrity of the Company's financial statements and issues arising from the audit 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 2017 to 30 June 2017 and for the year ended 31 December 2017, 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 2017 with an attendance rate of 100%.

BOARD COMMITTEES *(Continued)*

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.

The Nomination Committee had reviewed the size, structure and composition of the Board during the financial year ended 31 December 2017 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 made recommendation to the Board on the new appointment.

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.

The Group's policy and structure for employees' remuneration proposals were with reference to the group's corporate goals, prevailing market rate and duties and responsibilities with the group while there was no recommendation from Remuneration Committee on the remuneration packages of Directors and senior management during the year.

During the year, neither Remuneration Committee meeting was held nor by way of unanimous written resolutions.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

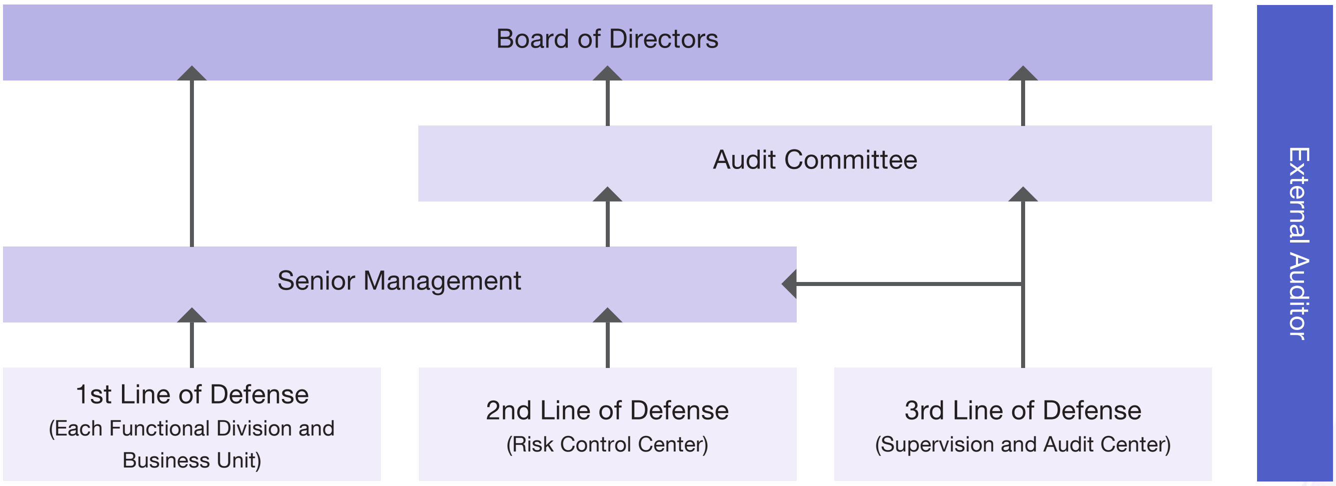
The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK$12 million and for non-audit service assignments was approximately HK$8 million, which represented agreed-upon procedures engagement such as for the Group's interim financial report, taxation advisory and compliance and financial due diligence services. The Audit Committee had satisfied that the non-audit services in 2017 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.

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 of Defence

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

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Second Line of Defence

The risk control center has set up a risk management mechanism regarding corporate objectives so as to identify, control, acknowledge and manage the risks faced by the Group. In particular, the Group applies strict guidelines and procedures that monitor and control each investing unit for its investment, with the aim to mitigate risk exposure and external impacts and ensure that the risk management process is in line with the relevant objective.

Third Line of Defence

The supervision and audit center carries out an independent review of key business process and controls in accordance with its normal procedures. Its recommendations and remedial measures will be taken to rectify the deficiencies accordingly.

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 has made reference to the Enterprises Risk Management-Integrated Frameworks set down by the Committee of Sponsoring Organization of the Treadway Commission (COSO) and adopted it as its own framework, which covers risk identification, risk assessment, risk implementation treatment plan as well as risk investigation and reporting.

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

The risk control center assessed the potential risk exposure of the Group by means of interview and questionnaire. In addition, the risk control center also arranged a series of activities such as training workshops to discuss with all levels of staff the importance of risk management and internal control systems.

Every functional division and business unit of the Group was invited to discuss such potential risks which might affect their ability to achieve the Group's financial, operational, compliance control and other objectives or their own goals. The risk control center shared risk knowledge with the functional divisions and business units to enhance the effectiveness of the risk management function. Appropriate risk management activities were carried out and implemented during the year.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

During the year, the supervision and audit center performed the annual audit by adopting a risk-based approach and covered the areas of internal environment, risk assessment, control activities, information and communications and internal control.

Any internal audit findings and control deficiencies were communicated with the relevant functional division and business units of the Group. Relevant control activities were enhanced and post-audit reviews were conducted as and when appropriate. Remedial activities were taken by the Group for prior year findings and deficiencies.

Policy and procedures were laid down to cover issues including project development, tendering, financial reporting, human resources and computer systems and to define clearly the line of authority for each employee. As every functional division and business unit of the Group was required to undertake a series of self-assessment in accordance with the Group's policy and procedures, the supervision and audit center was not aware of any internal withholding of internal control deficiency of the Group during the year under review.

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

For the year ended 31 December 2017, both the Audit Committee and the Board were not aware of any material internal control deficiencies and were satisfied that the risk management and internal control systems of the Group are 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 the 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 raises 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 procedure 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 requirement.

CORPORATE GOVERNANCE REPORT

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 2017, 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 pages 74 to 80 of the "Independent Auditor's 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 2017, 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.

SHAREHOLDERS' RIGHTS

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

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

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

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

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for directing shareholders' enquiries to the Board

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

Procedures for putting forward proposals at shareholders' meetings

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

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

2. The foregoing documents shall be lodged at the Company's head office and principal place of business in Hong Kong at Rooms 6706-07, 67th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

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

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

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

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Communication with shareholders

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

During the financial year ended 31 December 2017, the Company has proactively taken the following measures to ensure effective shareholders' communication and enhance our transparency:

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

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

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

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

Constitutional documents

There is no change on the constitutional documents of the Company since the amendments to the Bye-Laws made on 1 June 2017. A consolidated version of the Memorandum of Association and Bye-Laws is available on both the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2017, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, with deviation mentioned below.

Following the resignation of Ms. Hang Shijun as an independent non-executive director of the Company ("Ms. Hang") on 30 March 2017, the number of independent non-executive directors of the Company had fallen below one-third of the Board as required under Rule 3.10A of the Listing Rules. The Company had complied with Rule 3.10A and Rule 3.11 of the Listing Rules within three months from the effective date of Ms. Hang's resignation upon the effective of appointment of Dr. Lee Man Chun Raymond as an independent non-executive director of the Company on 30 June 2017.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Li Yongcheng ("Mr. Li"), aged 56, 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 is an executive director and vice chairman of Beijing Enterprises Holdings Limited (Stock Code: 392). Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd.. 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 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 59, 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 (Stock Code: 472). Mr. E Meng has extensive experience in economics, finance and enterprise management.

Mr. Jiang Xinhao ("Mr. Jiang"), aged 53, 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 was an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925) between 2011 and 2016. 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. Mr. Jiang has many years of experience in economics, finance and corporate management.

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Zhou Min ("Mr. Zhou"), aged 54, 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 ("Mr. Li"), aged 47, was appointed as an executive director and a vice president of the Company in August 2008. Mr. Li graduated with a bachelor's degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). Mr. Li is now the chairman of the Supervisory Committee of BEWG Environmental Group Co., Ltd., responsible for exploring business opportunities in water market in the PRC. Mr. Li is currently the chairman, an executive director and the chief executive officer 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 (Stock Code: 993). Both Carry Wealth Holdings Limited and Huarong International Financial Holdings Limited are listed on main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Mr. Zhang Tiefu, aged 55, 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.

Ms. Qi Xiaohong ("Ms. Qi"), aged 50, 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 *(Continued)*

Executive Directors *(Continued)*

Mr. Ke Jian ("Mr. Ke"), aged 49, was appointed as an executive director of the Company in June 2011 and is the vice president of Beijing Enterprises Holding Limited (Stock Code: 392) and 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 47, 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, 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 52, 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. Mr. Li Li graduated from Xian Jiaotong University in mechanical engineering and PhD 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.

* *For identification purpose only*

DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant ("Mr. Shea"), aged 51, was appointed as an independent non-executive Director of the Company in April 2002. Mr. Shea is also the chairman of audit committee. Mr. Shea is currently an executive director, 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. He is also 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. 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, 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 the United Kingdom and Institute of Singapore Chartered Accountants 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 has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers Serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau. Mr. Shea 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 over the years.

Mr. Zhang Gaobo ("Mr. Zhang"), aged 53, 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, Mr. Zhang worked in Hainan Provincial Government and PBOC Hainan Branch and as the chairman of Hainan Stock Exchange Centre. Since 1993, he has been a founding partner and chief executive 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 Limited (formerly known as OP Financial Investments Limited) (Stock Code: 1140), a company listed on the main board of the Stock Exchange and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange from June 2007 to June 2017. Mr. Zhang has taken up the role to serve as the vice-president of Finance Center for South-South Cooperation Limited, a non-profit international organization in Special Consultative Status with ECOSOC of the United Nations, established for the promotion of South South Cooperation since April 2014.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Mr. Guo Rui ("Mr. Guo"), aged 50, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee, 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 pharmaceutics, 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.

Mr. Wang Kaijun ("Mr. Wang"), aged 57, 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.

Dr. Lee Man Chun Raymond ("Dr. Lee"), aged 47, *CPPCC National Committee, SBS JP*, was appointed as an independent non-executive director of the Company in June 2017. He was conferred the Honorary Degree of Doctor of Laws in 2014 and holds a Bachelor's Degree in Applied Science from the University of British Columbia in Canada. Dr. Lee is the chairman of Lee & Man Paper Manufacturing Limited, a company listed on main board of the Stock Exchange (Stock Code: 2314). From 2004 to 2017, Dr. Lee was an independent non-executive director of the listed company, Bossini International Holdings Limited (Stock Code: 592), a company listed on main board of the Stock Exchange. Dr. Lee is currently involved in a number of public engagements and has been awarded honorary citizenship of Dongguan and reputational citizenship of Changshu. Dr. Lee was awarded the "Young Industrialist Award of Hong Kong 2002" and received an award for "2003 Hong Kong Ten Outstanding Young Persons Selection Awardees". Since December 2013, Dr. Lee was appointed as the member of Standing Committee, All-China Federation of Returned Overseas. In 2015, Dr. Lee was appointed as member of Council of City University of Hong Kong. Dr. Lee is currently appointed as president of Centum Charitas Foundation. Dr. Lee has over 24 years of operational experience in paper manufacturing and is experienced in professional formula of paper making and product development.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

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 and Malaysia; provision of sewage and reclaimed water treatment services in the PRC, Republic of Singapore and the 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 2017 and the Group's financial position at that date are set out in the consolidated financial statements on pages 81 to 226. An interim distribution of HK8.0 cents per ordinary share was paid on 20 October 2017. The Board recommended to make final distribution of HK7.5 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 Friday, 22 June 2018.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Tuesday, 29 May 2018 to Friday, 1 June 2018 (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 Friday, 1 June 2018, 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 Monday, 28 May 2018.

For Entitlement to Proposed Final Distribution

The register of members will be closed from Thursday, 7 June 2018 to Friday, 8 June 2018 (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 Wednesday, 6 June 2018. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the proposed final distribution will be paid on or around Friday, 22 June 2018.

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 4 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 page 6. The financial risk management objectives and policies of the Group can be found in note 54 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 6 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 2016, is set out on pages 227 to 228. 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 24% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 30% of the Group's total purchases for the year. Sales to the largest customer accounted for 13% of the Group's revenue and purchases from the largest supplier accounted for 18% 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 2017 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.

DEBENTURE ISSUED

As at 31 December 2017, 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 2017, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was RMB2,000,000,000, with maturity date in April 2021 and interest rate at 3.60% per annum. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the wholly-owned subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group.

As at 31 December 2017, the outstanding principal amounts of bonds issued by the Company was RMB4,000,000,000, with maturity dates in July 2021 and July 2023 and interest rates at 3.00% and 3.33% per annum, respectively. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2017, the outstanding principal amounts of bonds issued by the Company was RMB700,000,000, with maturity date in August 2024 and interest rate at 3.25% per annum. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2017, the outstanding principal amounts of bonds guaranteed by a wholly-owned subsidiary of the Company and issued by a 60%-owned subsidiary of the Group was RMB200,000,000, with maturity date in November 2019 and interest rate at 4.00% per annum. One year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the 60%-owned subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group.

DEBENTURE ISSUED *(Continued)*

As at 31 December 2017, the outstanding principal amounts of bonds issued by the Company was RMB1,300,000,000, with maturity dates in August 2022 and interest rate at 5.20% per annum. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company.

As at 31 December 2017, 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 and fixed interest rates at 6.15% and 3.9% per annum, respectively.

As at 31 December 2017, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was RMB2,800,000,000 with fixed interest rate of 3.68% per annum to be payable for first five years. Upon the maturity for first five years, the wholly-owned subsidiary of the Company has a right to choose to extend a further five years. Unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full, the wholly-owned subsidiary of the Company shall have a right of extension of the maturity date for a cycle of every five years. The bond holders shall not be entitled to sell back the bonds to the wholly-owned subsidiary of the Company.

As at 31 December 2017, the outstanding principal amounts of notes issued by a wholly-owned subsidiary of the Company was RMB2,800,000,000 with fixed interest rate of 3.70% per annum to be payable for first five years. Upon the maturity for first five years, the wholly-owned subsidiary of the Company has a right to choose to extend a further five years. Unless and until the wholly-owned subsidiary of the Company chooses to repay the outstanding principal amount with accrued interests in full, the wholly-owned subsidiary of the Company shall have a right of extension of the maturity date for a cycle of every five years. The bond holders shall not be entitled to sell back the bonds to the wholly-owned subsidiary of the Company.

As at 31 December 2017, the outstanding principal amounts of Islamic medium term notes issued by a wholly-owned subsidiary of the Company were MYR120,000,000, MYR90,000,000, MYR80,000,000, MYR80,000,000 and MYR30,000,000 with maturity dates in July 2020, July 2021, July 2022, July 2023 and July 2024 and fixed interest rates at 5.10%, 5.20%, 5.30%, 5.40%. 5.50% per annum, respectively.

The reasons for issuance of the above bonds or notes are used for the construction, operation or acquisition of certain "green project" and/or for general working capital purpose.

The above bonds and notes are included in notes 33, 35 and 36 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2017, the Company's reserves available for distribution to shareholders of the Company amounted to HK$3,955,857,000.

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. 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 an Independent Non-executive Director on 30 March 2017)*
Mr. Wang Kaijun
Dr. Lee Man Chun Raymond *(appointed as an Independent Non-executive Director on 30 June 2017)*

DIRECTORS *(Continued)*

In accordance with Bye-Law 99(B), Mr. Li Yongcheng, Mr. E Meng, Mr. Li Haifeng, Mr. Tung Woon Cheung Eric and Mr. Guo Rui 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

There has been no change in the Board since the date of the interim report 2017 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 2017 of the Company and up to the date of this annual report, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

(1) Mr. Li Li obtained a PhD in engineering at School of Environment, Tsinghua University.

(2) Mr. Zhang Gaobo is an executive director and the chief executive officer of OP Financial Limited (formerly known as OP Financial Investments Limited) (Stock Code: 1140), a company listed on the the main board of the Stock Exchange and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange from June 2007 to June 2017.

(3) Dr. Lee Man Chun Raymond resigned as an independent non-executive director of Bossini International Holdings Limited (Stock Code: 592) on 14 November 2017 and he is the president of Centum Charitas Foundation.

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.

Save as disclosed in the section headed "Directors and Senior Management", the director who is a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under Part XV of the SFO as at the date of this annual report are set out as follows:

Name of Director	Names of companies which had such discloseable interest or short position	Position within such companies
Li Yongcheng	Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	Director
	Beijing Enterprises Investments Limited ("BEIL")	Director
	Modern Orient Limited ("MOL")	Director
E Meng	BE Group (BVI)	Director
	BEIL	Director
	MOL	Director
Jiang Xinhao	BE Group (BVI)	Director
	BEIL	Director
	MOL	Director

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.

REPORT OF THE DIRECTORS

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's directors' remuneration are set out on pages 141 to 143 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.

DISCLOSURE OF INTERESTS

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

As at 31 December 2017, 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

	Number of ordinary shares					
Name of Directors	Personal Interest	Family Interest	Corporate interest	Other interest	Total	Approximate percentage of the Company's issued share capital *(Note 2)*
Mr. Zhou Min	400,000	–	307,676,110 *(Note 1)*	–	308,076,110	3.5033%
Mr. Li Haifeng	80,000	–	–	–	80,000	0.0009%
Mr. Li Li	10,000	–	–	–	10,000	0.0001%

DISCLOSURE OF INTERESTS *(Continued)*

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

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

		Number of ordinary shares					
Associated Corporation	Directors	Personal interests	Family interests	Corporate interests	Other interest	Total	Approximate percentage of the associated corporation's issued share capital *(Note 5)*
Beijing Enterprises Clean Energy Group Limited ("BECEG")	Mr. Zhou Min	–	–	1,824,086,800	–	1,824,086,800 *(Note 3)*	2.8714%
	Mr. Li Haifeng	–	–	1,127,175,080	–	1,127,175,080 *(Note 4)*	1.7744%

Notes:

1. 307,676,110 ordinary shares of HK$0.10 each in the share capital of the Company ("Shares") as at 31 December 2017 are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.

2. The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2017 of 8,793,817,196 Shares.

3. This represented the number of ordinary shares of BECEG of HK$0.001 each ("BECEG Ordinary 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 number of BECEG Ordinary 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 number of BECEG Ordinary Shares over the total issued shares of BECEG as at 31 December 2017 of 63,525,397,057 shares.

DISCLOSURE OF INTERESTS *(Continued)*

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

(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 2017, 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.

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 total number of shares available for issue under the scheme is 560,739,469 shares, representing approximately 6.38% of the Company's ordinary shares in issue as at 31 December 2017. 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.

SHARE OPTION SCHEME *(Continued)*

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.

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.

SHARE OPTION SCHEME *(Continued)*

During the year ended 31 December 2017, 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	As at 1 January 2017	Granted	Exercised	Lapsed	Cancelled	As at 31 December 2017	Grant Date	Exercisable Period	Exercise Price *HK$*	Weighted Average Closing price per share *HK$*
	Number of Share Options									
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	5,200,000	–	–	–	–	5,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	5,800,000	–	–	–	–	5,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	5,800,000	–	–	–	–	5,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	5,800,000	–	–	–	–	5,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	22,600,000	–	–	–	–	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				
Li Li	1,180,000	–	–	–	–	1,180,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	3,840,000	–	–	–	–	3,840,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	3,840,000	–	–	–	–	3,840,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	3,840,000	–	–	–	–	3,840,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	12,700,000	–	–	–	–	12,700,000				

SHARE OPTION SCHEME *(Continued)*

Name/Category of Participants	Number of Share Options: As at 1 January 2017	Granted	Exercised	Lapsed	Cancelled	As at 31 December 2017	Grant Date	Exercisable Period	Exercise Price HK$	Weighted Average Closing price per share HK$
Shea Chun Lok Quadrant	400,000	–	(400,000)	–	–	0	24/4/2013	24/4/2017 – 23/4/2023	2.244	6.500 *(Note 2)*
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	800,000	–	(400,000)	–	–	400,000				
Zhang Gaobo	400,000	–	(400,000)	–	–	0	24/4/2013	24/4/2016 – 23/4/2023	2.244	6.410 *(Note 2)*
	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				
Guo Rui	400,000	–	(400,000)	–	–	0	24/4/2013	24/4/2015 – 23/4/2023	2.244	6.300 *(Note 2)*
	400,000	–	(400,000)	–	–	0	24/4/2013	24/4/2016 – 23/4/2023	2.244	6.300 *(Note 2)*
	400,000	–	(400,000)	–	–	0	24/4/2013	24/4/2017 – 23/4/2023	2.244	6.300 *(Note 2)*
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	1,600,000	–	(1,200,000)	–	–	400,000				
Wang Kaijun	400,000	–	–	–	–	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	2,000,000	–	–	–	–	2,000,000				
Sub-total	105,900,000	–	(2,000,000)	–	–	103,900,000				

SHARE OPTION SCHEME *(Continued)*

Name/Category of Participants	Number of Share Options: As at 1 January 2017	Granted	Exercised	Lapsed	Cancelled	As at 31 December 2017	Grant Date	Exercisable Period	Exercise Price HK$	Weighted Average Closing price per share HK$
Eligible Participants including Employees										
In aggregate *(Notes 1 & 4)*	15,146,000	–	(6,820,000)	–	–	8,326,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	6.213 *(Note 3)*
	43,440,000	–	(23,906,000)	–	–	19,534,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	6.291 *(Note 3)*
	51,160,000	–	(21,764,000)	–	–	29,396,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	6.242 *(Note 3)*
	53,910,000	–	(1,460,000)	–	–	52,450,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	6.355 *(Note 3)*
	53,910,000	–	–	–	–	53,910,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	2,000,000	–	–	–	–	2,000,000	28/3/2014	1/6/2016 – 27/3/2024	5.180	–
Sub-total	219,566,000	–	(53,950,000)	–	–	165,616,000				
Total	325,466,000	–	(55,950,000)	–	–	269,516,000				

Notes:

1. Ms. Hang Shijun resigned as an independent non-executive director of the Company on 30 March 2017. In this respect, the options granted to Ms. Hang Shijun were re-classified under the category of "Eligible Participants including Employees".

2. These represented the closing price of the Shares immediately before the dates of the share options exercised by the director of the Company during the year.

3. These represented the weighted average closing price per Share immediately before the dates of the share options exercised by Eligible Participants including Employees during the year.

4. Each participant was vested on 24 April 2014, 24 April 2015, 24 April 2016 and 24 April 2017 each for 20% of the share options granted and the remaining will be vested on 24 April 2018 for 20% of the share options granted.

SHARE OPTION SCHEME *(Continued)*

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the year ended 31 December 2017.

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 2017, the Company had 269,516,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive approximately HK$610,666,000 (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$247,061,000.

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.

REPORT OF THE DIRECTORS

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 2017, 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") *(Note 1)*	Interest of controlled corporation	3,824,367,831	43.49%
Beijing Enterprises Holdings Limited ("BEHL") *(Note 1)*	Interest of controlled corporation	3,824,367,831	43.49%

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 3,824,367,831 shares as a result of its indirect holding of such shares through the following entities including its wholly-owned subsidiaries:

Name	Long position in Shares
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	3,824,367,831
BEHL	3,824,367,831
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	3,824,367,831
BEGCL	3,824,367,831

BE Environmental beneficially holds 3,824,367,831 Shares (representing approximately 43.49%) 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 2017 of 8,793,817,196 shares.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Redemption of RMB200,000,000 5.00% Bonds Due 2018

For the year ended 31 December 2017, the Company redeemed and cancelled one year prior to the maturity date of the outstanding principal amount of RMB200,000,000 5.00% bonds due 2018 ("2018 Bonds") guaranteed by a wholly-owned subsidiary of the Company and issued by a 60% owned subsidiary of the Company at the average redemption price equal to 100% of the outstanding principal amount of the 2018 Bonds, in which RMB200,000,000 plus accrued interest was paid.

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 2017.

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 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 52 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

On 28 February 2017, pursuant to the capital increase agreement, the Company agreed to subscribe by way of cash for the registered capital of Beijing Enterprises Group Finance Co., Ltd. ("BG Finance"). The Company shall pay to BG Finance an amount of RMB150,000,000 (equivalent to approximately HK$169,530,000), of which RMB134,330,000 (equivalent to approximately HK$151,820,000) would be injected into BG Finance as registered capital and RMB15,670,000 (equivalent to approximately HK$17,710,000) would be its capital reserve, being the consideration of the capital subscription, which would be funded by the internal resources of the Group. Pursuant to the supplementary agreement dated 29 March 2017, Beijing Instrument Industry Group Co., Ltd. (北京京儀集團有限責任公司) would not subscribe for the registered capital of BG Finance, but instead, in addition to its original subscription by BEGCL, BEGCL would subscribe the further amount of RMB150,000,000 (equivalent to approximately HK$169,530,000), of which RMB134,330,000 (equivalent to approximately HK$151,820,000) would be injected into BG Finance as registered capital and RMB15,670,000 (equivalent to approximately HK$17,710,000) would be its capital reserve. Following the capital subscription, the Group would hold 6.69% equity interest of the enlarged registered capital of BG Finance. As the date of this annual report, the Company had subscribed and paid the aforesaid amount of RMB150,000,000 (equivalent to approximately HK$169,530,000).

Each of BEGCL and BEHL is a connected person of the Company under the Listing Rules by virtue of each being a controlling shareholder of the Company. Beijing Gas Group Company Limited (北京市燃氣集團有限責任公司) ("Beijing Gas") and Beijing Yanjing Brewery Co., Ltd. (北京燕京啤酒股份有限公司) ("Yanjing") are associates of BEHL. Following the capital subscription, each of BEGCL, Beijing Gas and Yanjing is a substantial shareholder of BG Finance. As such, the capital subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Such capital subscription subject to the reporting and announcement requirements but exempt from the shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the connected transaction can be found on the websites of the Company and the Stock Exchange.

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 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 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 constitutes continuing connected transactions of the Company which is 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 52 to the financial statements.

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 transactions 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.

(c) 2018 Deposit Services Master Agreement

As the Deposit Services Master Agreement together with the Supplemental Agreement would expire on 31 December 2017, and in order to regulate such transactions that would continue to take place, after 31 December 2017, the Company and BG Finance entered into the 2018 Deposit Services Master Agreement on 30 October 2017 whereby the Company and BG Finance would continue to carry out the transactions of similar natures from time to time under the 2018 Deposit Services Master Agreement for three years from 1 January 2018 to 31 December 2020, with the terms and conditions substantially the same as those under the Deposit Services Master Agreement together with the Supplemental Agreement. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2018 Deposit Agreement shall not exceed HK$2,900,000,000.

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 Companies Act 1981 of Bermuda (as amended).

PERMITTED INDEMNITY PROVISION *(Continued)*

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$2,766,000.

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	*Note 2*
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	*Note 2*
29 April 2015 and 5 July 2017	Term loan facility with a bank	HK$1,172	April 2020	*Note 2*
8 May 2015	Note purchase agreement with an institutional investor	HK$700	May 2020	*Note 2*
19 June 2015	Term loan facility with a bank	HK$700	June 2018	*Note 1*
27 November 2015	Term loan facility with a bank	HK$3,000	November 2020	*Note 3*
28 December 2015	Term loan facilities with three banks	HK$1,760	December 2020	*Note 3*
18 December 2017	Term loan facility with a bank	HK$4,000	December 2022	*Note 3*

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 or is the single largest shareholder of 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 and/or have management control over 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. (i) BEHL owns, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company, free from any security; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; (iv) BEGCL owns, 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 directly or indirectly the single largest shareholder of BEHL or supervises BEHL; and (vi) BEGCL is 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 2017, 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 the non-compliance with Rule 3.10A of the Listing Rules during the year.

Following the resignation of Ms. Hang Shijun as an independent non-executive director of the Company ("Ms. Hang") on 30 March 2017, the number of independent non-executive directors of the Company had fallen below one-third of the Board as required under Rule 3.10A of the Listing Rules. The Company had complied with Rule 3.10A and Rule 3.11 of the Listing Rules within three months from the effective date of Ms. Hang's resignation upon the effective of appointment of Dr. Lee Man Chun Raymond as an independent non-executive director of the Company on 30 June 2017.

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.

EVENTS AFTER THE REPORTING PERIOD

Placing of shares

On 24 January 2018, the Company entered into the placing agreement with placing agents namely China International Capital Corporation Hong Kong Securities Limited, Daiwa Capital Markets Hong Kong Limited, Deutsche Bank AG, Hong Kong Branch, Haitong International Securities Company Limited and UBS AG, Hong Kong Branch in relation to the placing of 450,000,000 new Shares. Pursuant to the placing agreement, the placing agents have conditionally agreed with the Company to place, through the placing agents, on a fully underwritten basis, 450,000,000 new Shares to not less than six placees at the placing price of HK$5.9 per new Share, representing a discount of approximately 5.8% to the closing price of HK$6.26 per share as quoted on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 January 2018. In accordance with the terms and conditions of the placing agreement, a total of 450,000,000 new Shares have been successfully placed to the placees on 1 February 2018 pursuant to general mandate approved in the annual general meeting of the Company held on 1 June 2017.

The net proceeds, after deduction of all relevant expenses incidental to the placing are estimated to be approximately HK$2,614.7 million. The intended use of the net proceeds from the placing are as follows:

(i) approximately HK$472.0 million for repayment of loans;

(ii) approximately HK$823.0 million for the construction of water plants in the PRC under "Build-Operate-Transfer (BOT)" projects;

(iii) approximately HK$250.0 million for the acquisition of concession rights of "Transfer-Operate-Transfer (TOT)" water projects in the PRC;

(iv) approximately HK$965.0 million for the construction of water environment comprehensive renovation projects in the PRC; and

(v) approximately HK$104.7 million as general working capital of the Group mainly for the payment of interest expenses, administrative expenses and operation expenses, including salaries and office rental expenses.

EVENTS AFTER THE REPORTING PERIOD *(Continued)*

Subscription of shares

On 24 January 2018, the Company entered into the subscription agreement with Beijing Enterprises Environmental Construction Limited ("BE Environmental"), a controlling shareholder of the Company and the Company has conditionally agreed to allot and issue, and BE Environmental has conditionally agreed to subscribe for 169,491,525 new Shares at the subscription price of HK$5.9 per new Shares, representing a discount of approximately 1.5% over the closing price of HK$5.99 per share as quoted on the Stock Exchange on 23 January 2018. The new Shares will be allotted and issued pursuant to the specific mandate proposed to be sought at the special general meeting to be held on 29 March 2018. As at the date of approval of these financial statements, the subscription has not been completed.

The intended use of the net proceeds of approximately HK$999.5 million from the subscription are as follows:

(i) approximately HK$715.5 million for repayment of loans;

(ii) approximately HK$105.0 million for the construction of water plants in the PRC under BOT projects; and

(iii) approximately HK$179.0 million for the construction of water environment comprehensive renovation projects in the PRC.

Further details of the placing and subscription were disclosed in the announcements of the Company dated 24 January 2018 and 1 February 2018 and the circular of the Company dated 6 March 2018.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2017 were approved by the board of directors on 28 March 2018.

On behalf of the Board

Li Yongcheng
CHAIRMAN

Hong Kong
28 March 2018

INDEPENDENT AUDITOR'S REPORT

EY 安永

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 226, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 ("HKSAs") 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 AUDITOR'S 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 31% of total revenue for the year ended 31 December 2017 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. The Group engaged an external valuer to support their estimation of the gross profit margin for the construction revenue. 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.	As part of our audit procedures, we have considered the objectivity, independence and competency of the external valuer employed by the Group. 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.

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, amounts due from contract customers, trade receivables and other receivables

The Group has significant receivables under service concession arrangements, trade and other receivables and amounts due from contract customers for an aggregate amount of HK$65.0 billion which represented 65% of the Group's total assets as at 31 December 2017.

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

Disclosures of the provision for impairment of receivables under service concession arrangements, trade and other receivables and amounts due from contract customers are included in notes 4, 17, 25, 26 and 27 of the financial statements.

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

For the material receivables under service concession arrangements, trade and other 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.

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 Group engaged an external valuer to prepare the valuation models to assist with the impairment assessment. 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 2017, 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.	We involved our internal valuation specialists in evaluating the valuation models, 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.

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 Companies Act 1981 of Bermuda (as amended), 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 HKSAs 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.

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

As part of an audit in accordance with HKSAs, 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.

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 Mr. Tsang Chiu Hang.

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

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	6	**21,192,372**	17,354,833
Cost of sales		**(14,727,848)**	(11,569,994)
Gross profit		**6,464,524**	5,784,839
Interest income	6	**280,989**	202,887
Other income and gains, net	6	**1,006,587**	1,121,589
Administrative expenses		**(1,753,221)**	(1,537,747)
Other operating expenses, net		**(343,336)**	(311,068)
PROFIT FROM OPERATING ACTIVITIES	7	**5,655,543**	5,260,500
Fair value gain on derivative financial instruments		**39,554**	410,039
Finance costs	8	**(1,457,988)**	(1,401,329)
Share of profits and losses of:			
Joint ventures	19(g)	**521,629**	192,172
Associates	20(h)	**556,578**	182,373
PROFIT BEFORE TAX		**5,315,316**	4,643,755
Income tax expense	11	**(874,772)**	(970,773)
PROFIT FOR THE YEAR		**4,440,544**	3,672,982
ATTRIBUTABLE TO:			
Shareholders of the Company		**3,717,227**	3,227,013
Holders of perpetual capital instruments		**240,291**	56,570
Non-controlling interests		**483,026**	389,399
		4,440,544	3,672,982
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic		**HK42.42 cents**	HK37.04 cents
– Diluted		**HK41.53 cents**	HK36.27 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 *HK$'000*
PROFIT FOR THE YEAR		**4,440,544**	3,672,982
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Exchange fluctuation reserve:			
– Translation of foreign operations		**2,285,123**	(2,716,107)
– Release upon disposal of subsidiaries	*46*	**(12,478)**	65,572
Loss on revaluation of available-for-sale investments		**(93,694)**	–
		2,178,951	(2,650,535)
Item not to be reclassified to profit or loss in subsequent periods:			
– Gain on revaluation of a building upon transfer to investment property		**107,493**	–
– Share of other comprehensive income/(loss) of a joint venture		**17,403**	(14,606)
		124,896	(14,606)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**2,303,847**	(2,665,141)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**6,744,391**	1,007,841
ATTRIBUTABLE TO:			
Shareholders of the Company		**5,365,065**	1,216,828
Holders of perpetual capital instruments		**614,259**	(240,138)
Non-controlling interests		**765,067**	31,151
		6,744,391	1,007,841

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	*14*	**3,841,866**	2,831,452
Investment properties	*15*	**1,083,677**	755,326
Goodwill	*16*	**3,303,632**	3,312,200
Operating concessions	*17*	**4,190,771**	3,389,996
Other intangible assets	*18*	**101,899**	61,936
Investments in joint ventures	*19*	**6,468,569**	3,294,613
Investments in associates	*20*	**4,184,775**	2,390,062
Available-for-sale investments	*22*	**1,245,004**	693,611
Amounts due from contract customers	*25*	**15,059,884**	16,204,380
Receivables under service concession arrangements	*17*	**33,322,895**	22,638,167
Trade receivables	*26*	**1,731,053**	1,347,108
Prepayments, deposits and other receivables	*27*	**2,115,819**	2,046,779
Deferred tax assets	*40*	**272,320**	106,751
Total non-current assets		**76,922,164**	59,072,381
Current assets:			
Non-current assets held for sale	*23*	**330,052**	141,345
Inventories	*24*	**135,370**	90,847
Amounts due from contract customers	*25*	**875,721**	1,100,669
Receivables under service concession arrangements	*17*	**2,614,866**	1,933,078
Trade receivables	*26*	**2,852,976**	3,024,152
Prepayments, deposits and other receivables	*27*	**6,744,944**	4,415,085
Derivative financial instruments	*21*	**–**	214,150
Restricted cash and pledged deposits	*29*	**46,150**	134,526
Cash and cash equivalents	*29*	**9,938,829**	10,921,037
Total current assets		**23,538,908**	21,974,889
TOTAL ASSETS		**100,461,072**	81,047,270

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	*30*	**879,382**	873,787
Reserves	*32*	**19,905,341**	15,627,355
		20,784,723	16,501,142
Perpetual capital instruments	*33*	**6,623,082**	6,305,025
Non-controlling interests		**5,633,518**	3,961,173
		12,256,600	10,266,198
TOTAL EQUITY		**33,041,323**	26,767,340
Non-current liabilities:			
Other payables and accruals	*42*	**570,507**	344,625
Bank and other borrowings	*34*	**21,443,596**	16,662,637
Corporate bonds	*35*	**10,495,364**	11,663,212
Notes payable	*36*	**3,074,932**	2,939,743
Finance lease payables	*37*	**395,461**	40,906
Provision for major overhauls	*38*	**207,426**	187,759
Deferred income	*39*	**1,435,088**	135,115
Deferred tax liabilities	*40*	**2,103,997**	1,691,342
Total non-current liabilities		**39,726,371**	33,665,339
Current liabilities:			
Trade payables	*41*	**11,687,517**	9,842,824
Other payables and accruals	*42*	**6,769,636**	5,234,492
Income tax payables		**693,648**	672,844
Bank and other borrowings	*34*	**4,689,344**	4,812,255
Corporate bonds	*35*	**3,750,484**	–
Finance lease payables	*37*	**102,749**	52,176
Total current liabilities		**27,693,378**	20,614,591
TOTAL LIABILITIES		**67,419,749**	54,279,930
TOTAL EQUITY AND LIABILITIES		**100,461,072**	81,047,270

Li Yongcheng
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to shareholders of the Company													
	Notes	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$'000	Perpetual capital instruments HK$'000	Non-controlling interests HK$'000	Total equity HK$'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 income/(loss) for the year:															
Exchange differences related to foreign operations		–	–	–	–	–	–	–	(2,061,151)	–	–	(2,061,151)	(296,708)	(358,248)	(2,716,107)
Release upon disposal of subsidiaries	*46*	–	–	–	–	–	–	–	65,572	–	–	65,572	–	–	65,572
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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Attributable to shareholders of the Company												Perpetual capital instruments	Non-controlling interests	Total equity
		Issued capital	Share premium account	Contributed surplus	Share option reserve	Capital reserve	Property revaluation reserve	Available-for-sale investment revaluation reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Total			
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(note 32(b))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(note 32(c))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017		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
Profit for the year		–	–	–	–	–	–	–	–	–	–	3,717,227	3,717,227	240,291	483,026	4,440,544
Other comprehensive income/(loss) for the year:																
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	1,629,114	–	–	1,629,114	373,968	282,041	2,285,123
Release upon disposal of subsidiaries	*46*	–	–	–	–	–	–	–	–	(12,478)	–	–	(12,478)	–	–	(12,478)
Share of other comprehensive gain of a joint venture		–	–	–	–	–	–	–	17,403	–	–	–	17,403	–	–	17,403
Revaluation of available-for-sale investments		–	–	–	–	–	–	(93,694)	–	–	–	–	(93,694)	–	–	(93,694)
Gain on revaluation of a building upon transfer to investment property	*14*	–	–	–	–	–	107,493	–	–	–	–	–	107,493	–	–	107,493
Total comprehensive income/(loss) for the year		–	–	–	–	–	107,493	(93,694)	17,403	1,616,636	–	3,717,227	5,365,065	614,259	765,067	6,744,391
Equity-settled share option arrangements	*31(a)*	–	–	–	19,903	–	–	–	–	–	–	–	19,903	–	–	19,903
Exercise of share options	*30(a)*	5,595	168,741	–	(48,794)	–	–	–	–	–	–	–	125,542	–	–	125,542
Acquisition of subsidiaries	*45*	–	–	–	–	–	–	–	–	–	–	–	–	–	151,519	151,519
Acquisition of non-controlling interests		–	–	–	–	(5,291)	–	–	–	–	–	–	(5,291)	–	(101)	(5,392)
Share of reserves of an associate		–	–	–	2,068	3,600	–	–	–	–	–	–	5,668	–	–	5,668
Disposal of subsidiaries	*46*	–	–	–	–	–	–	–	–	–	–	–	–		(20,542)	(20,542)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	–	(21,393)	(21,393)
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	–	797,795	797,795
Distributions paid to perpetual capital instruments holders	*33*	–	–	–	–	–	–	–	–	–	–	–	–	(296,202)	–	(296,202)
Final 2016 cash distributions paid		–	–	(525,407)	–	–	–	–	–	–	–	–	(525,407)	–	–	(525,407)
Interim 2017 cash distributions paid	*12*	–	–	(701,899)	–	–	–	–	–	–	–	–	(701,899)	–	–	(701,899)
Transfer to reserves		–	–	–	–	–	–	–	–	–	261,244	(261,244)	–	–	–	–
At 31 December 2017		879,382	5,068,783*	1,396,556*	244,199*	(210,395)*	122,482*	(93,694)*	(46,739)*	(1,206,678)*	1,257,915*	13,372,912*	20,784,723	6,623,082	5,633,518	33,041,323

* *These reserve accounts comprise the consolidated reserves of HK$19,905,341,000 (2016: HK$15,627,355,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,315,316**	4,643,755
Adjustments for:			
Bank interest income	6	**(169,375)**	(81,921)
Interest income on trade and other receivables with extended credit periods	6	**(96,253)**	(107,429)
Interest income on loans to government authorities in Mainland China	6	**(125)**	(5,152)
Interest income from non-controlling equity holders	6	**(31)**	(3,179)
Interest income on loans to joint ventures	6	**(8,214)**	(5,206)
Interest income on loans to an associate	6	**(6,991)**	–
Fair value gain on derivative financial instruments		**(39,554)**	(410,039)
Fair value gain on investment properties	6	**(12,862)**	(43,911)
Gain on bargain purchase of subsidiaries	6	**(9,273)**	(2,869)
Loss/(gain) on disposal of subsidiaries	7	**45,746**	(8,675)
Gain on disposal of joint ventures	6	**(481)**	(6,439)
Gain on derecognition of financial assets	6	**(60,101)**	–
Depreciation	7	**209,016**	147,312
Amortisation of operating concessions	7	**182,960**	147,097
Amortisation of other intangible assets	7	**13,211**	7,214
Impairment /(reversal of impairment) of receivables under service concession arrangements, net	7	**15,915**	(6,445)
Impairment of amounts due from contract customers	7	**19,236**	5,964
Impairment of trade receivables, net	7	**9,758**	21,567
Impairment of other receivables, net	7	**48,263**	123,935
Provision for major overhauls	7	**126,038**	109,870
Loss on disposal of items of property, plant and equipment	7	**1,071**	370
Write-off of items of other intangible assets	7	**23**	3,838
Equity-settled share option expenses	7	**19,903**	40,935
Finance costs	8	**1,580,474**	1,511,679
Share of profits and losses of joint ventures		**(521,629)**	(192,172)
Share of profits and losses of associates		**(556,578)**	(182,373)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Operating profit before working capital changes		**6,105,463**	5,707,726
Increase in inventories		**(41,471)**	(50,010)
Increase in amounts due from contract customers		**(4,207,175)**	(5,783,687)
Increase in receivables under service concession arrangements		**(10,296,347)**	(5,312,722)
Decrease/(increase) in trade receivables		**85,015**	(910,051)
Increase in prepayments, deposits and other receivables		**(3,286,707)**	(2,198,843)
Increase in trade payables		**4,012,497**	4,468,447
Increase in other payables and accruals		**1,560,830**	2,031,920
Utilisation of provision for major overhauls	*38*	**(105,585)**	(124,069)
Cash used in operations		**(6,173,480)**	(2,171,289)
Mainland China corporate income tax paid		**(513,624)**	(310,590)
Overseas taxes paid		**(27,328)**	(18,444)
Net cash flows used in operating activities		**(6,714,432)**	(2,500,323)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(238,094)**	(377,796)
Additions of operating concessions	*17*	**(917,124)**	(649,130)
Additions of other intangible assets	*18*	**(52,496)**	(36,178)
Acquisition of subsidiaries	*45*	**(298,958)**	(683,572)
Disposal of subsidiaries	*46*	**2,348,627**	688,891
Proceeds from disposal of subsidiaries in prior years		**–**	73,202
Proceeds from disposal of joint ventures		**12,281**	6,711
Decrease in loans to a joint venture		**–**	58,882
Prepayments for the acquisition of subsidiaries		**(129,924)**	–
Proceeds from disposal of items of property, plant and equipment		**5,323**	9,266
Acquisition of/increase in investments in joint ventures		**(1,504,940)**	(210,047)
Acquisition of/increase in investments in associates		**(748,206)**	(642,939)
Additions of available-for-sale investments		**(640,074)**	(545,533)
Proceed from disposal of partial interests in subsidiaries		**–**	23,052
Proceed from derecognition of financial assets		**2,298,852**	–
Increase in time deposits with maturity of more than three months when acquired		**(730,305)**	(661)
Decrease in restricted cash and pledged deposits		**88,376**	134,663
Dividends received from joint ventures		**222,617**	40,546
Bank interest received		**169,375**	81,921
Net cash flows used in investing activities		**(114,670)**	(2,028,722)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**797,795**	454,113
Acquisition of non-controlling interests		**(5,392)**	(105,255)
Issue of corporate bonds		**2,308,339**	8,008,270
Repayment of corporate bonds		**(388,358)**	(748,482)
Net proceeds from issuance of perpetual capital instruments	*33*	**–**	6,545,163
Distributions to holders of perpetual capital instruments	*33*	**(238,960)**	–
New bank and other borrowings		**17,064,735**	12,406,204
Repayment of bank and other borrowings		**(12,685,448)**	(14,525,454)
Proceeds from exercise of share options		**125,542**	76,771
Proceeds received under sale and leaseback transactions		**406,977**	–
Shares repurchased		**–**	(82,111)
Capital element of finance lease rental payments		**(15,461)**	(13,737)
Interest paid		**(1,539,951)**	(1,483,107)
Interest element of finance lease rental payments		**(8,848)**	(4,091)
Distributions paid		**(1,227,306)**	(957,897)
Dividends paid to non-controlling equity holders		**(21,393)**	(101,642)
Increase in bank deposits that require approval of a bank for any withdrawal		**(603,874)**	–
Net cash flows from financing activities		**3,968,397**	9,468,745
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,860,705)**	4,939,700
Cash and cash equivalents at beginning of year		**10,912,243**	6,365,698
Effect of foreign exchange rate changes, net		**544,318**	(393,155)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**8,595,856**	10,912,243
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	*29*	**9,938,829**	10,921,037
Less: Time deposits with maturity of more than three months when acquired		**(739,099)**	(8,794)
Less: Bank deposits that require approval of a bank for any withdrawal	*29(c)*	**(603,874)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows		**8,595,856**	10,912,243

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") and Malaysia;
- provision of sewage and reclaimed water treatment services in Mainland China, the Republic of Singapore ("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 Direct	Indirect	Principal activities
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
廣州中業污水處理有限公司	PRC/Mainland China	RMB85,000,000	–	100	Sewage treatment
江油中科成污水淨化有限公司	PRC/Mainland China	RMB8,000,000	–	100	Sewage treatment
成都雙流中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment

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 Direct	Indirect	Principal activities
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Ω	PRC/Mainland China	HK$85,630,000	100	–	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB26,500,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控水務有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment
北控水務集團(海南)有限公司	PRC/Mainland China	RMB100,000,000	–	90	Sewage treatment
百色中環水業有限公司Ω	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Ω	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	RMB33,184,898	–	80	Sewage treatment and water distribution

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 Direct	Indirect	Principal activities
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	RMB690,000,000	–	60	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	MYR75,000,000	–	100	Construction services
昆明捷運泰富環保工程有限公司Ω	PRC/Mainland China	RMB100,000,000	–	70	Construction services
昆明捷運路橋發展有限公司Ω	PRC/Mainland China	RMB150,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司Ω	PRC/Mainland China	RMB300,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司Ω	PRC/Mainland China	RMB150,000,000	–	100	Construction services
佛山北控水環境開發有限公司Ω	PRC/Mainland China	RMB100,000,000	–	70	Construction services
簡陽鴻琛建設工程有限公司Ω	PRC/Mainland China	RMB80,000,000	–	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
德清達闊制水有限公司Ω	PRC/Mainland China	US$11,960,000	–	100	Water distribution
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD100,000	–	80	Reclaimed water treatment
泉州安平供水有限公司Ω	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	RMB60,000,000	–	99.172	Consultancy services

NOTES TO FINANCIAL STATEMENTS

31 December 2017

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 Direct	Indirect	Principal activities
北控水務(中國)投資有限公司Ω	PRC/Mainland China	US$500,000,000	100	–	Investment holding and consultancy services
雲南北控水務有限公司	PRC/Mainland China	RMB180,000,000	–	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	RMB800,000,000	–	70	Sewage treatment
廣東鶴山北控水務有限公司	PRC/Mainland China	RMB78,330,000	–	70	Water distribution
金堂北控水環境治理有限公司	PRC/Mainland China	RMB30,000,000	–	83	Construction services
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
錦州市小淩河北控水務有限公司	PRC/Mainland China	RMB33,250,000/ RMB66,500,000	–	100	Sewage treatment
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/ RMB58,000,000	–	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	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	RMB567,000,000	–	98	Construction services
北控(濟源)污水淨化有限公司	PRC/Mainland China	RMB166,330,000	–	100	Sewage treatment
珙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

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 Direct	Indirect	Principal activities
平陰北控水環境開發有限公司[δ]	PRC/Mainland China	RMB93,340,000/ RMB280,000,000	–	90	Construction services
鄒平北控水務有限公司[δ]	PRC/Mainland China	RMB407,200,000	–	45	Construction services and water distribution
瀘州北控環保工程投資有限公司[δ]	PRC/Mainland China	RMB230,686,000/ RMB362,000,000	–	90	Construction services
內蒙古科源水務有限公司 ("Mongolia")[δ]	PRC/Mainland China	RMB177,100,000	–	67	Water distribution

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

δ *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.

2. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK$4.2 billion and capital commitments of approximately HK$18.3 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2017, as detailed in note 51 to the financial statements, the directors of the Company 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 31 December 2017 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 2018 with reference to the terms of respective agreements and the current status of the projects;

(c) the completion of placement of new shares of HK$2,655 million before expense, in February 2018 further details of which are disclosed in note 56 to the financial statements; and

(d) 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 properties, available-for-sale listed equity investments 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 2017. 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).

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.

3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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.

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 47 to the financial statements upon the adoption of amendments to HKAS 7, which 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.

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	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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 an 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will 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 will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group expects to measure all available-for-sale investments at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

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 adoption now. The Group expects the adoption will have financial impact on the Group's future transactions with its associates and joint ventures.

HKFRS 15, issued in July 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the application of HKFRS 15 in the future may result in more disclosures.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKFRS 16, issued in May 2016, 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 elective 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 50 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$175,704,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interests in joint operations *(continued)*

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Related parties

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

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

or

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

(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 holding company 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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June (2016: 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.

Fair value measurement

The Group measures its investment property and certain available-for-sale investments 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Property, plant and equipment and depreciation

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the 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 under construction, 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.

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.

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.

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.

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.

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 properties, 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.

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.

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 listed and 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.

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.

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 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.

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.

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.

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.

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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;

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.

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.

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.

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. Proposed final dividends are disclosed in the notes to the financial statements.

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Percentage of completion of construction work and service contracts

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

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 2017 were HK$4,190,771,000 (2016: HK$3,389,996,000) and HK$35,937,761,000 (2016: HK$24,571,245,000), respectively, further details of which are set out in note 17 to the financial statements.

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

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to the related industry cycles. Management will increase the depreciation 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 lives and therefore depreciation in the future periods. The carrying amounts of property, plant and equipment carried as assets in the consolidated statement of financial position as at 31 December 2017 were HK$3,841,886,000 (2016: HK$2,831,452,000) in aggregate, further details of which are set out in note 14 to the financial statements.

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 2017 was HK$3,303,632,000 (2016: HK$3,312,200,000) 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 aging 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 2017 were HK$35,937,761,000 (2016: HK$24,571,245,000), HK$15,935,605,000 (2016: HK$17,305,049,000), HK$4,584,029,000 (2016: HK$4,371,260,000) and HK$8,552,383,000 (2016: HK$6,320,207,000), respectively, further details of which are set out in notes 17, 25, 26 and 27 to the financial statements.

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 2017 was HK$456,410,000 (2016: HK$468,837,000) and the Group's share of which, amounting to HK$205,384,000 (2016: HK$210,977,000), has been included in the Group's investments in joint ventures.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia 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 2017 was HK$693,648,000 (2016: HK$672,844,000).

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 2017 were HK$272,320,000 (2016: HK$106,751,000) and HK$2,103,997,000 (2016: HK$1,691,342,000), respectively, details of which are set out in note 40 to the financial statements.

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

Classification of investment in funds

In 2017, the Group has invested in funds as intermediate or deferred limited partner. The directors of the Company assessed whether or not the Group has control, joint control or significant influence over these funds based on whether the Group has the practical ability to direct the relevant activities of these funds to affect the returns. In making the judgment, the directors considered whether the Group has the power to the relevant activities of the funds (e.g., investment and operation decisions, approval of budget, etc.) in the funds' partners meeting, investment committee meetings or any other management committee (if any), and the Group's exposure to variable returns from its involvement in the funds. After the assessment, the directors concluded that the Group has joint control over the funds, further details of the investments in the funds are set out in note 19 to the financial statements.

Derecognition of receivables under service concession arrangements

In 2017, the Group has entered into an arrangement with a trust company in respect of selling certain guarantee receipts of sewage water treatment service in the PRC to the trust company which were recognised as receivables under service concession arrangements before the derecognition. Based on the evaluation of the terms and conditions of the arrangement and the credit quality and settlement pattern of the related receivables under service concession arrangements, management has to determine whether the Group has retained substantially the risks and rewards of the guarantee receipts, which include default risks, risks of late payments and other relevant terms of the arrangement. Details of the transfers of financial assets are included in note 17 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

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

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

(c) the technical and consultancy services and sale of machineries segment engages in the provision of consultancy services and sale of machineries related to sewage treatment, 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 and an associate, interest income from non-controlling equity holders of subsidiaries, gain on bargain purchase of subsidiaries, gain or loss on disposal of subsidiaries and joint ventures, fair value gain on derivative financial instruments, finance costs, share of profits of certain associates, 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.

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017

	Sewage and reclaimed water treatment and construction services HK$'000	Water distribution services HK$'000	Technical and consultancy services and sale of machineries HK$'000	Total HK$'000
Segment revenue	18,014,084	1,839,719	1,338,569	21,192,372
Cost of sales	(13,196,154)	(1,000,125)	(531,569)	(14,727,848)
Gross profit	4,817,930	839,594	807,000	6,464,524
Segment results:				
The Group	4,767,476	760,433	572,698	6,100,607
Share of profits and losses of:				
Joint ventures	347,799	173,830	–	521,629
Associates	16,482	–	–	16,482
	5,131,757	934,263	572,698	6,638,718
Fair value gain on derivative financial instruments				39,554
Corporate and other unallocated income and expenses, net				(445,064)
Share of profits of associates				540,096
Finance costs				(1,457,988)
Profit before tax				5,315,316
Income tax expense				(874,772)
Profit for the year				4,440,544
Profit for the year attributable to shareholders of the Company:				
Operating segments	3,936,255	690,071	506,190	5,132,516
Fair value gain on derivative financial instruments				39,554
Corporate and other unallocated items				(1,454,843)
				3,717,227

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017 *(Continued)*

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
Segment assets:				
Operating segments	66,510,287	16,132,292	4,252,341	86,894,920
Corporate and other unallocated items				13,566,152
				100,461,072
Other segment information:				
Capital expenditure*				
– Operating segments	503,132	628,712	2,800	1,134,644
– Amount unallocated				73,070
				1,207,714
Depreciation				
– Operating segments	39,689	96,213	17,045	152,947
– Amount unallocated				56,069
				209,016
Amortisation of operating concessions	111,662	71,298	–	182,960
Amortisation of other intangible assets				
– Operating segments	5,204	1,834	580	7,618
– Amount unallocated				5,593
				13,211
Impairment of segment assets, net**	72,085	14,790	6,297	93,172
Provision for major overhauls	109,794	16,244	–	126,038

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
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 expense				(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

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016 *(Continued)*

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
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

* *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 against receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables.*

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	2017	2016
	HK$'000	*HK$'000*
Revenue from external customers:		
Mainland China	**20,286,300**	16,026,894
Elsewhere	**906,072**	1,327,939
	21,192,372	17,354,833
Non-current assets:		
Mainland China	**22,418,854**	15,264,782
Portugal	**744,287**	687,701
Elsewhere	**12,048**	83,102
	23,175,189	16,035,585

The revenue information by geographical area is based on the locations of the customers; while the non-current asset information shown above is based on the locations 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 2017, revenue of approximately HK$2,821,366,000 was derived from the sewage and reclaimed water treatment and construction services segment to a single customer from which over 10% of the Group's total revenue for the year was derived.

During the year ended 31 December 2016, there was no single external customer for which over 10% of the Group's total revenue for that year was derived.

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 services contracts and sales 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:

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Sewage and reclaimed water treatment services	**4,031,739**	3,653,872
Construction services	**13,982,345**	11,308,698
Water distribution services	**1,839,719**	1,371,409
Technical and consultancy services and sale of machineries	**1,338,569**	1,020,854
	21,192,372	17,354,833

Imputed interest income under service concession arrangements amounting to HK$1,682,833,000 (2016: HK$1,659,158,000) is included in the above revenue.

Interest income		
Bank interest income	**169,375**	81,921
Interest income on trade and other receivables with extended credit periods	**96,253**	107,429
Interest income on loans to government authorities in Mainland China	**125**	5,152
Interest income from non-controlling equity holders	**31**	3,179
Interest income on loans to joint ventures$^{\pi}$	**8,214**	5,206
Interest income on loans to an associate*	**6,991**	–
	280,989	202,887

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

	2017 HK$'000	2016 HK$'000
Other income		
Gross rental income	**34,820**	21,197
Government grants [§]	**91,971**	181,309
Sludge treatment income	**124,410**	146,412
Pipeline installation income	**209,456**	137,529
Investment income from available-for-sale investments	**7,781**	13,113
VAT refunds for sewage and reclaimed water treatment and water distribution services [℧]	**327,567**	320,291
Others	**114,990**	79,404
	910,995	899,255
Gains, net		
Fair value gain on investment properties *(note 15)*	**12,862**	43,911
Gain on bargain purchase of subsidiaries *(note 45)*	**9,273**	2,869
Gain on disposal of subsidiaries *(note 46)*	**–**	8,675
Gain on disposal of joint ventures	**481**	6,439
Foreign exchange differences, net	**12,875**	48,411
Gain on derecognition of financial assets *(note 17)*	**60,101**	–
Others	**–**	112,029
	95,592	222,334
Other income and gains, net	**1,006,587**	1,121,589

π *The interest income recognised represented the interest income on a loan to Aqualyng-BEWG China Desalination Company Limited, a 51%-owned joint venture of the Group which was disposed of in 2016, 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 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.*

℧ *The Group is entitled to a refund of 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.*

* *The interest income recognised represented the interest income on loans to an associate of the Group, as further detailed in note 20(b) to the financial statements.*

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of sewage and reclaimed water treatment services rendered		**1,795,832**	1,494,420
Cost of construction services		**11,288,660**	8,816,154
Cost of water distribution services		**928,827**	667,375
Cost of technical and consultancy services rendered and machineries sold		**531,569**	444,948
Depreciation	*14*	**209,016**	147,312
Amortisation of operating concessions*	*17*	**182,960**	147,097
Amortisation of other intangible assets*	*18*	**13,211**	7,214
Minimum lease payments under operating leases		**29,090**	20,562
Auditor's remuneration		**13,850**	12,000
Employee benefit expense (including directors' remuneration *(note 9)*):			
Salaries, allowances and benefits in kind		**1,677,883**	1,235,449
Equity-settled share option expense	*31(a)*	**19,903**	40,935
Pension scheme contributions		**149,321**	101,603
Welfare and other expenses		**328,745**	293,054
		2,175,852	1,671,041
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	*17(b)*	**15,915**	(6,445)
Impairment of amounts due from contract customers	*25*	**19,236**	5,964
Impairment of trade receivables, net	*26(c)*	**9,758**	21,567
Impairment of other receivables, net	*27(c)*	**48,263**	123,935
Provision for major overhauls	*38*	**126,038**	109,870
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**3,545**	2,950
Loss on disposal of items of property, plant and equipment		**1,071**	370
Write-off of items of other intangible assets	*18*	**23**	3,838
(Gain)/loss on disposal of subsidiaries	*46*	**45,746**	(8,675)

* *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.*

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 HK$'000	2016 HK$'000
Interest on bank and other loans	**895,772**	969,949
Interest on corporate bonds	**490,758**	352,819
Interest on notes payable	**171,011**	173,167
Interest on finance leases	**8,848**	4,091
Total interest expense	**1,566,389**	1,500,026
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 38)*	**14,085**	11,653
Total finance costs	**1,580,474**	1,511,679
Less: Interest included in cost of construction services	**(122,486)**	(110,350)
	1,457,988	1,401,329

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 2017 HK$'000	Group 2016 HK$'000
Fees	**1,810**	1,920
Other emoluments:		
Salaries, allowances and benefits in kind	**17,310**	19,975
Equity-settled share option expense	**5,667**	15,042
Pension scheme contributions	**36**	41
	23,013	35,058
	24,823	36,978

9. DIRECTORS' REMUNERATION *(continued)*

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

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option expense *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2017					
Executive directors:					
Mr. Li Yongcheng *(Chairman)*	130	–	–	–	130
Mr. E Meng *(Vice Chairman)*	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Zhou Min *(Chief Executive Officer)*	120	7,354	3,054	18	10,546
Mr. Li Haifeng	120	3,759	1,232	18	5,129
Mr. Zhang Tiefu	120	2,133	–	–	2,253
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	491	–	611
Mr. Li Li	120	4,064	584	–	4,768
	1,210	17,310	5,361	36	23,917
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	22	–	142
Mr. Zhang Gaobo	150	–	44	–	194
Mr. Guo Rui	120	–	22	–	142
Ms. Hang Shijun[&]	30	–	109	–	139
Mr. Wang Kaijun	120	–	109	–	229
Dr. Lee Man Chun Raymond ("Dr. Lee")[@]	60	–	–	–	60
	600	–	306	–	906
Total	1,810	17,310	5,667	36	24,823

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

@ *Dr. Lee has been appointed as an independent non-executive director of the Company on 30 June 2017.*

9. DIRECTORS' REMUNERATION *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2016					
Executive directors:					
Mr. Li Yongcheng *(Chairman)*	130	–	–	–	130
Mr. E Meng *(Vice Chairman)*	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong*	30	2,672	1,436	5	4,143
Mr. Zhou Min *(Chief Executive Officer)*#	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. Yu Ning passed away on 1 June 2016.*

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2016: five directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2016: Nil) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**3,118**	–
Performance related bonuses	**2,572**	–
Pension scheme contributions	**88**	–
	5,778	–

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2017	2016
HK$5,500,000 to HK$6,000,000	**1**	–

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the year ended 31 December 2017 as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: 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.

	2017 ***HK$'000***	2016 *HK$'000*
Current – Mainland China	**539,951**	604,088
Current – Elsewhere	**30,198**	17,497
Underprovision in prior years	**1,124**	1,033
Deferred *(note 40)*	**303,499**	348,155
Total tax expense for the year	**874,772**	970,773

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 2017

	Hong Kong and overseas		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(720,961)		6,036,277		5,315,316	
Tax expense/(credit) at the statutory tax rate	(120,500)	16.7	1,510,011	25.0	1,389,511	26.1
Lower tax rates of specific provinces or enacted by local authorities	–	–	(78,464)	(1.3)	(78,464)	(1.5)
Tax concession	–	–	(276,168)	(406)	(276,168)	(5.2)
Adjustments in respect of current tax of previous periods	1,124	(0.1)	–	–	1,124	–
Profits and losses attributable to joint ventures and associates	(1,036)	0.1	(267,621)	(4.4)	(268,657)	(5.0)
Income not subject to tax	(58,108)	8.1	(125,765)	(201)	(183,873)	(3.4)
Expenses not deductible for tax	200,887	(27.9)	68,737	1.2	269,624	5.1
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	–	–	9,472	0.2	9,472	0.2
Tax losses utilised from previous periods	–	–	(3,501)	(0.1)	(3,501)	(0.1)
Tax losses not recognised as deferred tax assets	12,774	(1.8)	2,930	–	15,704	0.3
Tax expense at the Group's effective tax rate	35,141	(4.9)	839,631	13.9	874,772	16.5

11. INCOME TAX EXPENSE *(continued)*

Year ended 31 December 2016

	Hong Kong and overseas HK$'000	%	Mainland China HK$'000	%	Total 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 profit 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

The share of tax attributable to associates and joint ventures amounting to HK$91,970,000 (2016: HK$43,577,000) and HK$120,604,202 (2016: HK$43,507,000), 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

	2017 HK$'000	2016 HK$'000
Interim – HK8.0 cents (2016: HK5.9 cents) per ordinary share	**701,899**	513,949
Proposed final – HK7.5 cents (2016: HK6.0 cents) per ordinary share	**693,390**	525,407
	1,395,289	1,039,356

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 2017 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 8,763,115,914 (2016: 8,712,012,633) 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 calculations of the basic and diluted earnings per share amounts are based on the following data:

	2017 HK$'000	2016 HK$'000
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	**3,717,227**	3,227,013

	2017	2016
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**8,763,115,914**	8,712,012,633
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	**187,622,076**	185,509,807
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**8,950,737,990**	8,897,522,440

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Machinery, and sewage and water pipelines HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2017							
At 1 January 2017:							
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
Net carrying amount:							
At 1 January 2017	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452
Acquisition of subsidiaries *(note 45)*	368,926	–	484,019	1,731	4,708	42,853	902,237
Additions	19,736	31,866	41,756	49,461	59,596	35,679	238,094
Transfer from non-current asset held for sale	146,276	–	–	–	–	–	146,276
Fair value gain on revaluation of a building upon transfer to investment properties	107,493	–	–	–	–	–	107,493
Transfer to investment properties *(note 15)*	(253,769)	–	–	–	–		(253,769)
Depreciation provided during the year	(71,793)	(29,334)	(64,115)	(20,990)	(22,784)	–	(209,016)
Disposal of subsidiaries *(note 46)*	–	–	(2,163)	(9,772)	(88,083)	–	(100,018)
Disposals	(1,612)	(84)	–	(1,247)	(3,451)	–	(6,394)
Transfers and reclassifications	–	–	7,490	–	523	(8,013)	–
Exchange realignment	101,572	8,295	55,570	2,741	4,506	12,827	185,511
At 31 December 2017	1,988,281	102,935	1,309,800	80,895	82,137	277,818	3,841,866
At 31 December 2017:							
Cost	2,212,075	149,362	1,440,157	183,847	175,390	277,818	4,438,649
Accumulated depreciation	(223,794)	(46,427)	(130,357)	(102,952)	(93,253)	–	(596,783)
Net carrying amount	1,988,281	102,935	1,309,800	80,895	82,137	277,818	3,841,866

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

	Land and buildings HK$'000	Leasehold improvements HK$'000	Machinery, and sewage and water pipelines HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 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 *(note 45)*	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 *(note 46)*	(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

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 31 December 2017 was HK$533,090,000 (2016: HK$72,889,000).

At 31 December 2017, certain land use rights and certain buildings situated in Mainland China with an aggregate carrying amount HK$1,021,615,000 (2016: HK$998,377,000) were pledged to secure certain bank loans granted to the Group *(note 34)*.

15. INVESTMENT PROPERTIES

	2017	2016
	HK$'000	*HK$'000*
Carrying amount at 1 January	**755,326**	–
Transfer from property, plant and equipment *(note 14)*	**253,769**	–
Transfer from prepayments	**–**	746,960
Fair value gain on revaluation	**12,862**	43,911
Exchange realignment	**61,720**	(35,545)
Carrying amount at 31 December	**1,083,677**	755,326

Notes:

(a) The Group's investment properties consist of a portion of an office building and a commercial building situated in Mainland China and is held under a long term lease.

(b) The investment properties are leased to third parties and an associate under operating lease arrangements, further summary of which are included in note 50(a) to the financial statements.

(c) As at 31 December 2017, one of the Group's investment properties with a carrying amount of HK$813,455,000 (2016: HK$755,326,000) was pledged to bank to secure bank loan granted to the Group *(note 34)*.

(d) The Group's investment properties were revalued on 31 December 2017 by Beijing North Asia Asset Assessment Firm (2016: Beijing Northern Yashi Assets Appraisal Co., Ltd.), independent professionally qualified valuers, at HK$1,083,677,000 (2016: 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 properties. 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 properties 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 (2016: Nil).

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

Fair value hierarchy disclosure

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

	Office and commercial buildings *HK$'000*
Carrying amount at 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 and 1 January 2017	755,326
Transfer from property, plant and equipment	253,769
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	12,862
Exchange realignment	61,720
Carrying amount at 31 December 2017	1,083,677

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

Valuation technique	**Significant unobservable inputs**	**Range** **31 December 2017**	31 December 2016
Income capitalisation method	Daily estimated rental value (per square meter)	**RMB4.50 to RMB16.65**	RMB15.75 to RMB18.24
	Rent growth	**2% to 2.8% from 2019**	2% from 2021
	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 flows 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 properties. A significant increase/(decrease) in the discount rate in isolation would result in a significant (decrease)/increase in the fair value of the investment properties. 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

	2017	2016
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**3,312,200**	2,967,365
Acquisition of subsidiaries *(note 45)*	**41,316**	465,478
Disposal of subsidiaries *(note 46)*	**(96,240)**	(92,635)
Exchange realignment	**46,356**	(28,008)
At 31 December	**3,303,632**	3,312,200

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:

	2017	2016
	HK$'000	*HK$'000*
Sewage and reclaimed water treatment and construction services segment	**1,904,829**	1,952,290
Water distribution services segment	**832,011**	804,779
Technical and consultancy services and sale of machineries segment	**566,792**	555,131
	3,303,632	3,312,200

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 11.40% to 12.22% (2016: 10.67% to 12.02%) 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% (2016: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors of the Company, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2017 (2016: Nil).

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 the respective segments.
  - The pre-tax discount rates implied in the cash flow projections ranged from 13.98% to 14.77% (2016: 13.56% to 14.09%) 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.

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 in (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 2017, the Group had 631, 12, 108 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.	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
3.	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

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 *(Continued)*							
4.	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
5.	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
6.	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
7.	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
8.	錦州市小淩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
9.	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
10.	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
11.	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
12.	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
13.	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
14.	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)
15.	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)

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 *(Continued)*							
16.	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
17.	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 (Phase 2 not yet started)
18.	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
19.	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
20.	德清達闊制水有限公司	德清縣乾元淨水廠項目	Deqing, Zhejiang Province, the PRC	德清縣建設局	BOT on water distribution	100,000	25 years from 2007 to 2032
21.	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
22.	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
23.	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
24.	北控(洛陽)水務發展有限公司	瀍東污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
25.	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
26.	廣東鶴山北控水務有限公司	鶴山市沙坪镇第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045
27.	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
28.	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

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 *(Continued)*							
29.	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
30.	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
31.	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
32.	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
33.	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
34.	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
35.	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
36.	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
37.	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
38.	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
39.	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
40.	延吉京城環保產業有限公司	延吉污水處理廠一期	Yanji City, Jilin Province, the PRC	延吉市人民政府	TOT on sewage treatment	100,000	30 years from 2014 to 2044

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
Joint ventures:							
41.	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
42.	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
43.	朝陽市北控水務有限公司	朝陽淨源污水處理廠	Chaoyang City, Liaoning Province, the PRC	朝陽市人民政府國有資產監督管理委員會	TOT on sewage treatment	100,000	30 years from 2016 to 2046

The above table lists the service concession arrangements of the Group which, in the opinion of the directors of the Company, 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 the 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 assets to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. As at 31 December 2017, 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.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

At 31 December 2017, 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$8,934,591,000 (2016: HK$9,102,328,000) were pledged to secure certain bank loans granted to the Group *(note 34)*.

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:

In late April 2017, the Group sold certain guarantee receipts of sewage water treatment service in the PRC (which were recognised as receivables under service concession arrangements prior to the transaction) to a trust company and received a net amount of RMB2.0 billion through the issuance of asset-backed notes (the "ABN") of RMB2.1 billion in the National Association of Financial Market Institutional Investors by the trust company. The Group invested RMB100 million in the ABN as a deferred issue holder. In the opinion of the directors, the guarantee receipts are generated from sewage water plants with history of good payments from local governments that have good reputation and credit. Besides, an insurance company has been engaged by the Group to provide preferred issue holders of the ABN recourse in the event of a shortfall in cash collections or in the event of default. Therefore, the Group has transferred substantially all the risks and rewards relating to the related receivables under service concession arrangements, and the Group's exposure to the variability in the amounts of the net cash flows of the transferred assets is not significant after the transaction. Accordingly, it has derecognised the full carrying amounts of the related receivables under service concession arrangements. The maximum exposure to loss from the Group's continuing involvement in the derecognised receivables under service concession arrangements is equal to its investment in the ABN of RMB100 million which was recognised as an available-for-sale investment at cost.

During the year ended 31 December 2017, the Group has recognised a gain of HK$60,101,000 in respect of the derecognition of the receivables under service concession arrangements.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Operating concessions

	2017	2016
	HK$'000	*HK$'000*
At 1 January:		
Cost	**4,035,866**	2,958,933
Accumulated amortisation	**(645,870)**	(537,921)
Net carrying amount	**3,389,996**	2,421,012
Net carrying amount:		
At 1 January	**3,389,996**	2,421,012
Acquisition of subsidiaries *(note 45)*	**5,913**	628,065
Additions	**917,124**	649,130
Amortisation provided during the year	**(182,960)**	(147,097)
Disposal of subsidiaries *(note 46)*	**(183,594)**	–
Exchange realignment	**244,292**	(161,114)
At 31 December	**4,190,771**	3,389,996
At 31 December:		
Cost	**5,064,027**	4,035,866
Accumulated amortisation	**(873,256)**	(645,870)
Net carrying amount	**4,190,771**	3,389,996

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2017 HK$'000	2016 HK$'000
Receivables under service concession arrangements	**35,997,805**	24,612,242
Impairment *(note (b))*	**(60,044)**	(40,997)
	35,937,761	24,571,245
Portion classified as current assets	**(2,614,866)**	(1,933,078)
Non-current portion	**33,322,895**	22,638,167

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. Aging analyses of receivables under service concession arrangements are closely monitored in order to minimise any credit risk arising from the receivables.

An aging 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:

	2017 HK$'000	2016 HK$'000
Billed:		
Within 3 months	**1,046,677**	747,658
4 to 6 months	**512,561**	256,118
7 to 12 months	**293,350**	285,860
Over 1 year	**536,088**	216,476
	2,388,676	1,506,112
Unbilled:		
Current portion	**226,190**	426,966
Non-current portion	**33,322,895**	22,638,167
	33,549,085	23,065,133
Total	**35,937,761**	24,571,245

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:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**40,997**	47,781
Acquisition of subsidiaries	**–**	13,247
(Reversal of impairment)/impairment during the year recognised in profit or loss, net	**15,915**	(6,445)
Disposal of subsidiaries *(note 46)*	**–**	(10,871)
Exchange realignment	**3,132**	(2,715)
At 31 December	**60,044**	40,997

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2017 was a provision for individually impaired receivables of HK$43,013,000 (2016: HK$12,400,000) with an aggregate carrying amount before provision of HK$402,539,000 (2016: HK$60,660,000). 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 2017 and 2016 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.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

(b) *(Continued)*

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

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**520,832**	383,277
Less than 1 month past due	**216,030**	217,074
1 to 3 months past due	**300,127**	265,659
4 to 6 months past due	**325,983**	224,937
7 months to 1 year past due	**415,082**	210,590
Over 1 year past due	**610,622**	204,575
	2,388,676	1,506,112

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 2017 was an amount due from Beijing Enterprises Holdings Limited ("BEHL"), a substantial beneficial shareholder of the Company, of HK$424,708,000 (2016: HK$784,017,000). 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$45,325,000 (2016: HK$64,524,000), 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.

(d) The carrying amount of the Group's receivables under service concession arrangements under finance leases as at 31 December 2017 was HK$212,689,000.

18. OTHER INTANGIBLE ASSETS

	Patents	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2017			
At 1 January 2017:			
Cost	700	78,662	79,362
Accumulated amortisation	(700)	(16,726)	(17,426)
Net carrying amount	–	61,936	61,936
Net carrying amount:			
At 1 January 2017	–	61,936	61,936
Acquisition of subsidiaries *(note 45)*	–	17	17
Additions	4,724	47,772	52,496
Amortisation provided during the year	(236)	(12,975)	(13,211)
Disposal of subsidiaries *(note 46)*	–	(4,294)	(4,294)
Write-off	–	(23)	(23)
Exchange realignment	112	4,866	4,978
At 31 December 2017	4,600	97,299	101,899
At 31 December 2017:			
Cost	5,578	128,142	133,720
Accumulated amortisation	(978)	(30,843)	(31,821)
Net carrying amount	4,600	97,299	101,899

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*
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 *(note 45)*	–	3,247	3,247
Additions	–	36,178	36,178
Amortisation provided during the year	(48)	(7,166)	(7,214)
Write-off	–	(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

19. INVESTMENTS IN JOINT VENTURES

	Notes	2017 HK$'000	2016 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets		**6,269,597**	3,097,238
Goodwill on acquisition	*(d)*	**198,972**	197,375
		6,468,569	3,294,613
Due from joint ventures, included in current assets	*(e), 27*	**1,843,393**	306,763
Due to joint ventures, included in current liabilities	*(e), 42*	**(1,187,697)**	(602,833)
Total interests in joint ventures		**7,124,265**	2,998,543

Particulars of the Group's interests in the major joint ventures are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal activities
Guiyang BEWG#	PRC/ Mainland China	RMB1,456,162,145/ 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/ RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services
寧波北控水務星景環城水系投資中心（有限合夥）*	PRC/ Mainland China	RMB998,100,000/ RMB998,100,000	13	(a)	(a)	Investment fund
北控南南君悅（天津）投資合夥企業（有限合夥）*	PRC/ Mainland China	RMB556,050,000/ RMB3,111,500,000	6.5	(b)	(b)	Investment fund
北京北控國壽投資基金管理中心（有限合夥）*	PRC/ Mainland China	RMB2,082,400,000/ RMB24,002,400,000	–	(c)	(c)	Investment fund

Directly held by the Company

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

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes:

(a) During the year ended 31 December 2017, the Group (as deferred limited partner) entered into two separate limited partnership agreements (the "Partnership Agreements") with two trust companies (as preferential limited partners), and an independent third party or a joint venture investor (also as deferred limited partners) in relation to the establishment and management of two separate funds (the "Funds"). The Funds shall focus on investing in water and water environmental comprehensive projects in certain cities in Mainland China.

Pursuant to the Partnership Agreements, the aggregate capital commitment of the Funds is approximately RMB1,398 million. As at 31 December 2017, the total investment contributed by the preferential limited partners and the Group as deferred limited partners in the Funds amounted to RMB1,058 million and RMB190 million, respectively.

Preferential limited partners are entitled to preferential returns based on their actual capital contribution (after deducting any redeemed amount).

The Group has engaged Greater China Appraisal Limited, an independent professionally qualified valuer, to measure the fair value of the undertakings provided by the Group as one of the deferred limited partners. In the opinion of the directors, the fair value of the undertakings is not material that no separate disclosure is made.

As all the significant relevant activities of the Funds require unanimous consent from all deferred limited partners, the Funds are accounted for as joint ventures.

(b) During the year ended 31 December 2017, the Group (as deferred limited partner) entered into a limited partnership agreement (the "Junyue Partnership Agreement") with an investment management company (as preferential limited partner), and a joint venture investor (also as deferred limited partner) in relation to the establishment and management of a fund (the "Junyue Fund"). The Junyue Fund shall focus on investing in water and water environmental comprehensive projects in certain cities in Mainland China.

Pursuant to the Junyue Partnership Agreement, the capital commitment of the Junyue Fund is approximately RMB3.1 billion. As at 31 December 2017, the total investment contributed by the preferential limited partner and the Group as a deferred limited partner in the Junyue Fund amounted to RMB500 million and RMB36 million, respectively.

Preferential limited partner shall be prioritised to entitle the expected principal and return among all the partners in distribution and dissolution. In the event of loss, all the partners shall be shared the loss in accordance with the percentage of capital contribution.

The Group has engaged Greater China Appraisal Limited, an independent professionally qualified valuer, to measure the fair value of the undertakings provided by the Group as one of the deferred limited partners. In the opinion of the directors, the fair value of the undertakings is not material that no separate disclosure is made.

As all the significant relevant activities of the Junyue Fund require unanimous consent from all limited partners, the Junyue Fund is accounted for as a joint venture.

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(c) During the year ended 31 December 2017, the Group (as intermediate limited partner) entered into a master limited partnership agreement ("China Life Partnership Agreement") with China Life Insurance Company Limited ("China Life") (as preferential limited partner) and a joint venture investor (as deferred limited partner) in relation to the establishment and management of a master fund. The master fund shall focus on investing in water and water environmental comprehensive projects which had been invested by different subordinated funds in Mainland China.

Pursuant to the China Life Partnership Agreement, the aggregate capital commitment of the master fund was approximately RMB24 billion. As at 31 December 2017, the total investment contributed by China Life in the master fund amounted to approximately RMB2,082 million. The intermediate and deferred limited partners are not required to contribute the capital unless and until the general partner may issue a written notice to them to seek the relevant capital contribution pursuant to the China Life Partnership Agreement. No capital was contributed by the intermediate and deferred limited partners and all the capital in the master fund has been invested to four subordinated funds as at 31 December 2017.

China Life shall be prioritised to entitle the expected principal and return among all the partners in distribution and dissolution. In the event of loss, China Life shall share the loss lastly.

As all the significant relevant activities of the master fund require unanimous consent from all limited partners, the master fund is accounted for as a joint venture.

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

	2017	2016
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**197,375**	199,211
Exchange realignment	**1,597**	(1,836)
At 31 December	**198,972**	197,375

(e) (i) Included in the amounts due from joint ventures of the Group as at 31 December 2017 was an advance to a joint venture of US$26,390,000 (equivalent to HK$206,288,000) (31 December 2016: US$26,390,000 (equivalent to HK$205,270,000)). The amount is unsecured, bearing floating interest at LIBOR plus 2.8% per annum, and repayable on demand. Interest income of HK$8,214,000 (2016: HK$3,679,000) was recognised in profit or loss during the year ended 31 December 2017.

(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 2017 are unsecured, interest-free and are repayable on demand. The Group's trade payable balance with a joint venture is included in trade payables and disclosed in note 41 to the financial statements.

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(f) Disclosures of material joint ventures

The following tables illustrate the summarised financial information of the 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	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and cash equivalents	**258,685**	533,422	**1,437,679**	1,328,162
Other current assets	**335,482**	283,228	**403,482**	393,270
Current assets	**594,167**	816,650	**1,841,161**	1,721,432
Operating concessions	**1,614,448**	1,588,358	**1,262,793**	893,969
Other non-current assets	**1,597,339**	1,547,325	**219,695**	268,111
Non-current assets	**3,211,787**	3,135,683	**1,482,488**	1,162,080
Financial liabilities, excluding trade and other payables and provisions	**(291,847)**	(594,066)	**–**	–
Other current liabilities	**(1,026,520)**	(1,286,304)	**(758,628)**	(605,084)
Current liabilities	**(1,318,367)**	(1,880,370)	**(758,628)**	(605,084)
Non-current financial liabilities, excluding trade and other payables and provisions	**–**	–	**(132,043)**	(130,803)
Other non-current liabilities	**(844,071)**	(640,574)	**(741,937)**	(603,499)
Non-current liabilities	**(844,071)**	(640,574)	**(873,980)**	(734,302)
Net assets	**1,643,516**	1,431,389	**1,691,041**	1,544,126
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	**739,582**	644,125	**676,416**	617,650
Goodwill on acquisition	**150,586**	150,586	**27,393**	25,854
Carrying amount of the investments	**890,168**	794,711	**703,809**	643,504

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(f) Disclosures of material joint ventures *(Continued)*

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: *(Continued)*

	Guiyang BEWG		**Luoyang BEWG**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**1,021,454**	984,931	**830,643**	849,157
Interest income	**–**	–	**31,533**	27,547
Depreciation and amortisation	**(169,432)**	(171,426)	**(23,348)**	(46,109)
Interest expenses	**(14,246)**	(41,062)	**–**	–
Income tax expense	**(49,629)**	(42,117)	**(54,478)**	(33,356)
Profit for the year	**201,542**	151,593	**163,597**	99,477
Other comprehensive income/(loss) for the year	**38,674**	(32,457)	**–**	–
Total comprehensive income for the year	**240,216**	119,136	**163,597**	99,477
Share of the joint ventures' profit for the year@	**90,694**	68,217	**65,439**	39,791
Share of the joint ventures' other comprehensive income/(loss) for the year	**17,403**	(14,606)	**–**	–
Dividend received	**52,687**	30,714	**–**	–

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

	2017	2016
	HK$'000	*HK$'000*
Share of the joint ventures' profits and losses and total comprehensive income for the year@	**365,496**	84,164
Aggregate carrying amount of the Group's investments in the joint ventures	**4,874,592**	1,856,398

@ *Total share of the joint ventures' profit for the year was HK$521,629,000 (2016: HK$192,172,000).*

20. INVESTMENTS IN ASSOCIATES

	Notes	2017 HK$'000	2016 HK$'000
Investments in associates, included in non-current assets:			
Share of net assets		**3,491,158**	1,477,053
Preference shares in an associate	*(e)*	**–**	452,004
Goodwill on acquisition	*(f)*	**693,617**	461,005
	(h)	**4,184,775**	2,390,062
Due from associates, included in current assets	*(b), 27*	**233,059**	247,407
Due to associates, excluding trade payables, included in current liabilities	*(b), 42*	**(48,312)**	–
Total investments in associates		**4,369,522**	2,637,469

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	Percentage of: Voting power	Percentage of: Profit sharing	Principal activities
Beijing Enterprises Clean Energy Group Limited ("BE Clean Energy")	Cayman Islands	HK$63,525,397	31.88	31.88	31.88	Management of photovoltaic power business, wind power business, and clean heat supply business
Mind Light Holdings Limited ("Mind Light")*	BVI	HK$90,000	35.00	35.00	35.00	Electronic appliance dismantling and waste treatment services

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

(b) The balances with associates are unsecured, interest-free and are repayable on demand, except for loans to an associate, amounted to RMB76,000,000 (2016: Nil), bearing interest of 8% per annum.

(c) The Group's trade payable balance with an associate is included in trade payables and disclosed in note 41 to the financial statements.

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(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 six 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.

In December 2017, the Company injected an additional capital of HK$157,500,000 to Mind Light. As at the date of approval of these financial statements, the process of capital injection has not been completed.

(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 prior years, the subscription of 5,274,166,550 ordinary shares and 10,675,200,550 convertible preference shares in BE Clean Energy was completed by the Company for an aggregate cash consideration of HK$1,260 million. The Group did not subscribe any ordinary shares and had converted 7,930,590,553 convertible preference shares into ordinary shares during 2016.

During the current year, the subscription of 1,772,151,900 convertible preference shares in BE Clean Energy was completed by the Company for a cash consideration of HK$140 million. The Group has converted all the remaining convertible preference shares into ordinary shares during the year.

In addition, on 25 July 2017, BE Clean Energy proposed to raise gross proceeds of up to approximately HK$1,330 million by way of rights issue of 7,820,619,687 shares to the shareholders of BE Clean Energy at the subscription price of HK$0.17 per share, on the basis of one new BE Clean Energy's share ("BE Clean Energy Rights Shares") for every seven BE Clean Energy's shares held on 15 August 2017 ("BE Clean Energy Rights Issue").

The BE Clean Energy Rights Issue was completed on 11 September 2017. Upon the completion of the BE Clean Energy Rights Issue, an aggregate of 2,531,645,571 BE Clean Energy Rights Shares were allotted to and subscribed by the Group at HK$430 million.

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

	2017 ***HK$'000***	2016 *HK$'000*
Cost and net carrying amount:		
At 1 January	**461,005**	101,284
Increase in interest in an associate	**226,231**	365,693
Exchange realignment	**6,381**	(5,972)
At 31 December	**693,617**	461,005

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(g) Disclosures of a material associate

The following tables illustrate the summarised financial information of BE Clean Energy, the material associate in 2017 (2016: not a material associate), adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2017
	HK$'000
Current assets	**14,631,789**
Non-current assets, excluding goodwill	**21,024,606**
Goodwill on acquisition of the associate	**557,704**
Current liabilities	**(11,747,780)**
Non-current liabilities	**(15,243,873)**
Net assets	**9,222,446**
Net assets, excluding goodwill	**8,664,742**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**31.88%**
Group's share of net assets of the associate, excluding goodwill	**2,762,320**
Goodwill on acquisition	**557,704**
Carrying amount of the investment	**3,320,024**
Revenue	**10,039,549**
Profit for the year	**1,576,326**
Other comprehensive income	**729,397**
Total comprehensive income for the year	**2,305,723**
Share of the associate's profit for the year[#]	**497,439**
Share of the associate's other comprehensive income for the year	**205,713**
Dividend received	**–**
Fair value of the Group's investment, based on the market price of the associate	**5,367,089**

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

	2017	2016
	HK$'000	*HK$'000*
Share of the associates' profit for the year[#]	**59,139**	182,373
Share of the associates' total comprehensive income	**68,749**	42,515
Aggregate carrying amount of the Group's investments in associates	**864,751**	2,390,062

[#] *Total share of associates' profit for the year was HK$556,578,000 (2016: HK$182,373,000).*

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 HK$'000	2016 HK$'000
Assets		
Forward contracts	–	214,150
Portion classified as current assets	–	(214,150)
Non-current portion	–	–

As at 31 December 2016, the forward contracts were related to the subscription of the remaining 1,772,151,900 convertible preference shares in BE Clean Energy in May 2017 for a total cash consideration of HK$140 million. The forward contracts were fully exercised as at 31 December 2017.

As at 31 December 2016, the fair value of the forward contracts was measured using the Black-Scholes model with the Binomial Tree method based on market observable inputs such as stock prices and hence the forward contracts were 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 no transfer out from Level 3 as at 31 December 2017 (2016: there was transfer out from Level 3 to Level 2 of HK$214 million).

22. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2017 HK$'000	2016 HK$'000
Listed equity investments, at fair value	(a)	800,641	545,533
Unlisted equity investments, at cost	(b)	444,363	148,078
		1,245,004	693,611

(a) During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$93,694,000 (2016: Nil).

22. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

(b) The unlisted equity investments include an investment in an asset-backed note of RMB100 million (2016: Nil) as a deferred issue holder. The note was backed by guarantee receipts of certain sewage water plants in the PRC and will mature on 25 April 2024, further details of which are disclosed in note 17 to the financial statements.

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 of the Company, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

23. NON-CURRENT ASSETS HELD FOR SALE

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Land and building	*(a)*	**–**	91,303
Investment property	*(a)*	**–**	50,042
Receivables under service concession arrangements	*(b)*	**330,052**	–
		330,052	141,345

Notes:

(a) In prior years, certain portions of an office building of the Group, which were classified as property, plant and equipment and investment property respectively, were reclassified as non-current assets held for sale as the carrying amounts of the assets were expected to be recovered principally through sale and the Group intended to dispose of the building.

In 2017, certain floors of the office building were leased to third parties. As the Group changed its usage of the office building, in the opinion of the directors of the Company, the office building was transferred to investment property as at 31 December 2017.

(b) Certain sewage water plants under service concession arrangements were classified as non-current assets held for sale as the carrying amounts of the assets will be recovered by the Group principally through the sale of the related plants.

24. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	**126,645**	82,117
Low value consumables	**8,725**	8,730
	135,370	90,847

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2017 HK$'000	2016 HK$'000
Contract costs incurred plus recognised profits less recognised losses to date	**15,959,998**	17,315,335
Impairment *(note)*	**(24,393)**	(10,286)
	15,935,605	17,305,049
Portion classified as current assets	**(875,721)**	(1,100,669)
Non-current portion	**15,059,884**	16,204,380

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

	2017 HK$'000	2016 HK$'000
At 1 January	**10,286**	99,716
Impairment during the year recognised in profit or loss	**19,236**	5,964
Disposal of subsidiaries	**–**	(88,740)
Exchange realignment	**(5,129)**	(6,654)
At 31 December	**24,393**	10,286

The above provision was made against amounts due from contract customers of HK$149,640,000 (2016: HK$141,233,000) which have remained long outstanding and a portion of the balance is not expected to be recovered. The Group does not hold any collateral or other credit enhancements over the balance.

26. TRADE RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**4,623,321**	4,399,240
Impairment *(note (c))*	**(39,292)**	(27,980)
	4,584,029	4,371,260
Portion classified as current assets	**(2,852,976)**	(3,024,152)
Non-current portion	**1,731,053**	1,347,108

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 5.7% to 12.98% per annum (2016: 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:

	2017 HK$'000	2016 HK$'000
Billed:		
Within 3 months	**907,522**	953,948
4 to 6 months	**346,126**	284,586
7 to 12 months	**329,964**	238,599
Over 1 year	**1,711,348**	1,545,968
Balance with extended credit period	**41,051**	43,094
	3,336,011	3,066,195
Unbilled*	**1,248,018**	1,305,065
	4,584,029	4,371,260

* *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.*

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Included in the trade receivables of the Group as at 31 December 2017 were (i) an aggregate amount of HK$5,732,000 (2016: HK$5,410,000) 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 shareholder 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$2,221,000 (2016: HK$2,097,000) 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 credit terms similar 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:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**27,980**	7,244
Impairment during the year recognised in profit or loss, net	**9,758**	21,567
Exchange realignment	**1,554**	(831)
At 31 December	**39,292**	27,980

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 aging 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:

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**551,680**	326,436
Less than 1 month past due	**319,186**	456,369
1 to 3 months past due	**294,363**	355,410
4 to 6 months past due	**433,496**	289,557
7 months to 1 year past due	**53,168**	97,230
Over 1 year past due	**1,684,118**	1,541,193
	3,336,011	3,066,195

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$2,959,524,000 (2016: HK$2,793,258,000) to secure the trade receivables due from it. As at 31 December 2017, the trade receivables owed by this customer amounted to HK$493,221,000 (2016: HK$500,698,000); 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 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$1,351,886,000 (2016: HK$1,275,937,000) for settlement against any outstanding amount due to the Group. At 31 December 2017, the trade receivables owed by this customer amounted to HK$182,825,000 (2016: HK$725,043,000).

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Prepayments		**308,380**	141,657
Deposits and other debtors	*(a)*	**4,787,120**	4,293,382
Advances to subcontractors and suppliers	*(b)*	**1,650,612**	1,325,117
Due from joint ventures	*19(e)*	**1,843,393**	306,763
Due from associates	*20(b)*	**233,059**	247,407
Due from other related parties	*28*	**248,203**	299,719
		9,070,767	6,614,045
Impairment	*(c)*	**(210,004)**	(152,181)
		8,860,763	6,461,864
Portion classified as current assets		**(6,744,944)**	(4,415,085)
Non-current portion		**2,115,819**	2,046,779

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

Notes:

(a) The Group's deposits and other debtors as at 31 December 2017 included, inter alia, the following:

(i) an instalment deposit with a gross amount of HK$502,418,000 (2016: HK$474,192,000) 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$734,713,000 (2016: HK$648,920,000) 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. Certain of these loans are interest-bearing at 4.75% to 10% per annum.

All of the above loans and the corresponding interest receivables of HK$23,809,000 (2016: HK$27,515,000) in aggregate are repayable within one year after the reporting period and are classified as current assets, and those of HK$710,904,000 (2016: HK$621,405,000) in aggregate are classified as non-current assets. 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) a loan amount of HK$476,190,000 (2016: HK$430,703,000) 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 of 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$117,520,000 (2016: HK$188,333,000) 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$397,617,000 (2016: HK$551,804,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK$158,927,000 (2016: HK$226,597,000) and HK$238,690,000 (2016: HK$325,207,000) are classified as current and non-current assets, respectively.

(vi) consideration receivables amounting to HK$393,883,000 (2016: HK$371,755,000) in aggregate from the disposal of parcels of land.

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

Notes: (Continued)

(b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK$375,560,000 (2016: HK$496,495,000) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation project entered into between the Group and government authorities in the PRC. The construction of this project was delayed and the subcontractor had returned an aggregate amount of HK$375,560,000 (2016: HK$480,526,000) 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:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**152,181**	144,429
Acquisition of subsidiaries *(note 45)*	**60**	4,690
Impairment during the year recognised in profit or loss	**48,263**	123,935
Disposal of subsidiaries	**–**	(108,207)
Exchange realignment	**9,500**	(12,666)
At 31 December	**210,004**	152,181

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. 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 paid to a government agent in the PRC.

Apart from the foregoing, the above provision for impairment of other receivables as at 31 December 2017 and 2016 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.

28. BALANCES WITH RELATED PARTIES

The balances with related parties are unsecured, interest-free and are repayable on demand, except for the following:

(i) 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.

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

	2017	2016
	HK$'000	*HK$'000*
Cash and bank balances:		
Placed in banks	**6,482,645**	9,048,432
Placed in a financial institution *(note 52)*	**2,235,610**	1,016,744
Time deposits:		
Placed in banks	**1,266,724**	990,387
Total cash and bank balances	**9,984,979**	11,055,563
Less: Restricted cash and pledged deposits *(note (a))*	**(46,150)**	(134,526)
Cash and cash equivalents	**9,938,829**	10,921,037

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2017 included the following:

(i) bank deposits of HK$22,162,000 (2016: HK$33,546,000) 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$23,945,000 (2016: HK$8,618,000) pledged to banks to secure certain banking facilities granted to the Group *(note 34)*.

In addition, as at 31 December 2017, bank deposits of HK$43,000 (2016: HK$92,362,000) 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.

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:

	2017 HK$'000	2016 HK$'000
MOP	**2,502**	–
HK$	**225,734**	296,765
RMB	**8,635,967**	10,287,962
US$	**41,482**	172,047
MYR	**711,734**	44,291
EUR	**334,266**	230,438
SGD	**33,294**	23,830
TWD	**–**	230
	9,984,979	11,055,563

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

(c) As at 31 December 2017, bank balances in an aggregate amount of MYR313,050,000 (approximately HK$603,874,000) (2016: Nil) were designated as a charge for repayment of a corporate bond in a principal amount of MYR400,000,000, and any fund withdrawals from these bank accounts shall be approved by the bank.

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

30. SHARE CAPITAL

Shares

	2017 HK$'000	2016 HK$'000
Authorised: 15,000,000,000 ordinary shares of HK$0.10 each	**1,500,000**	1,500,000
Issued and fully paid: 8,793,817,196 (2016: 8,737,867,196) ordinary shares of HK$0.10 each	**879,382**	873,787

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2017 and 2016 is as follows:

	Notes	Number of ordinary shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2016		8,722,949,196	872,295	4,878,170	5,750,465
Exercise of share options	*(a)*	34,214,000	3,422	102,053	105,475
Shares repurchased and cancelled	*(b)*	(19,296,000)	(1,930)	(80,181)	(82,111)
At 31 December 2016 and 1 January 2017		8,737,867,196	873,787	4,900,042	5,773,829
Exercise of share options	*(a)*	55,950,000	5,595	168,741	174,336
At 31 December 2017		8,793,817,196	879,382	5,068,783	5,948,165

Notes:

(a) During the year, the subscription rights attaching to 55,950,000 (2016: 34,214,000) share options were exercised at a subscription price of HK$2.244 (2016: HK$2.244) per ordinary share during the year, resulting in the issue of 55,950,000 (2016: 34,214,000) ordinary shares of the Company for a total cash consideration of HK$125,552,000 (2016: HK$76,776,000) (before expenses). At the time when the share options were exercised, the aggregate fair value of these share options of HK$48,794,000 (2016: HK$28,704,000) 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) In 2016, 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 that 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 the shares of HK$80,181,000 were charged to the share premium of the Company.

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.

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:

	2017		2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**2.262**	**325,466**	2.261	359,680
Exercised during the year	**2.244**	**(55,950)**	2.244	(34,214)
At 31 December	**2.266**	**269,516**	2.262	325,466

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:

2017 Number of options '000	2016 Number of options '000	**Exercise price*** *HK$ per share*	**Exercise periods**
21,726	28,546	2.244	24-4-2014 to 23-4-2023
39,314	63,620	2.244	24-4-2015 to 23-4-2023
52,436	75,000	2.244	24-4-2016 to 23-4-2023
75,890	78,150	2.244	24-4-2017 to 23-4-2023
78,150	78,150	2.244	24-4-2018 to 23-4-2023
2,000	2,000	5.180	1-6-2016 to 27-3-2024
269,516	325,466		

* *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$19,903,000 (2016: HK$40,935,000) during the year ended 31 December 2017 in respect of the share options granted in the prior years.

(b) The 55,950,000 (2016: 34,214,000) share options exercised during the year resulted in the issue of 55,950,000 (2016: 34,214,000) ordinary shares of the Company and new share capital of HK$5,595,000 (2016: $3,422,000), as further detailed in note 30 to the financial statements.

(c) At the end of the reporting period, the Company had 269,516,000 share options outstanding under the Scheme which represented approximately 3.06% of the Company's shares in issue as at 31 December 2017. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 269,516,000 additional ordinary shares of the Company and additional share capital of HK$26,952,000 and share premium of HK$830,775,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2017 and the fair values of the unvested share options).

Subsequent to the end of the reporting period, 1,780,000 share options exercised resulted in the issue of 1,780,000 ordinary shares of the Company and additional share capital of HK$178,000 and share premium of HK$5,371,000 (before issue expenses).

At the date of approval of these financial statements, the Company has 267,736,000 share options outstanding under the share option scheme, which represented approximately 2.9% of the Company's share in issue as at that date.

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 2017 were distributable in the form of cash dividends.

33. PERPETUAL CAPITAL INSTRUMENTS

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January	**6,305,025**	–
Issued during the year	**–**	6,545,163
Share of profit for the year	**240,291**	56,570
Distribution for the year	**(296,202)**	–
Exchange realignment	**373,968**	(296,708)
At 31 December	**6,623,082**	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.

During the year ended 31 December 2017, distributions with an aggregate of RMB254,734,000 (approximately HK$296,202,000) (2016: Nil) were declared to the holders of the Perpetual Capital Instruments, of which RMB48,083,000 (approximately HK$57,242,000) (2016: Nil) have not been paid and recorded in other payables as at 31 December 2017.

34. BANK AND OTHER BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank loans:		
Secured	**10,410,240**	8,255,450
Unsecured	**15,230,067**	12,737,752
	25,640,307	20,993,202
Other loans:		
Secured	**170,350**	156,742
Unsecured	**322,283**	324,948
	492,633	481,690
Total bank and other borrowings	**26,132,940**	21,474,892
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**4,634,429**	4,744,486
In the second year	**1,925,417**	2,553,011
In the third to fifth years, inclusive	**15,879,803**	11,350,394
Beyond five years	**3,200,658**	2,345,311
	25,640,307	20,993,202
Other loans repayable:		
Within one year or on demand	**54,915**	67,769
In the second year	**20,927**	11,331
In the third to fifth years, inclusive	**135,601**	50,045
Beyond five years	**281,190**	352,545
	492,633	481,690
Total bank and other borrowings	**26,132,940**	21,474,892
Portion classified as current liabilities	**(4,689,344)**	(4,812,255)
Non-current portion	**21,443,596**	16,662,637

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:

	2017	2016
	HK$'000	*HK$'000*
HK$	**12,911,247**	5,377,965
RMB	**11,722,828**	10,505,944
US$	**31,247**	4,331,497
EUR	**883,238**	771,546
SGD	**584,380**	487,940
	26,132,940	21,474,892

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

	2017	2016
Bank loans:		
Secured	**3.91% – 5.88%**	3.91% – 6.37%
Unsecured	**1.67% – 4.99%**	1.72% – 4.99%
Other loans:		
Secured	**1.20% – 4.75%**	1.2% – 4.75%
Unsecured	**1.20% – 8.00%**	1.2% – 4.9%

(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$8,934,591,000 (2016: HK$9,102,328,000) as at 31 December 2017, 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$23,945,000 (2016: HK$8,618,000) pledged to banks to secure certain banking facilities granted to the Group;

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) *(Continued)*

(iv) mortgages over certain land use rights and buildings and investment properties in Mainland China in an aggregate carrying amount of HK$1,835,070,000 (2016: HK$1,753,703,000) *(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$2,320,696,000 (2016: HK$2,198,136,000) bearing interest at fixed rates ranging from 1.2% to 8.0% (2016: 1.2% to 5.35%) per annum; and

(ii) two interest-free government loans in an aggregate principal amount of HK$12,890,000 (2016: HK$12,166,000).

(e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK$13,794,485,000 (2016: HK$12,128,434,000) as at 31 December 2017 include covenants imposing specific performance obligations on BEHL, a substantial beneficial shareholder 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.

35. CORPORATE BONDS

	2017	2016
	HK$'000	*HK$'000*
Unsecured corporate bonds, repayable:		
Within one year	**3,750,484**	–
In the second year	**2,375,209**	3,945,856
In the third to fifth years, inclusive	**8,120,155**	7,717,356
Total corporate bonds	**14,245,848**	11,663,212
Portion classified as current liabilities	**(3,750,484)**	–
Non-current portion	**10,495,364**	11,663,212

Corporate bonds of the Group as at 31 December 2017 and 2016 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 subsidiary redeemed US$20,000,000 from the principal amount during the period from September 2016 to December 2016. The remaining portion of the principal amount, which is due on 6 May 2018, bears interest at a rate of 4.625% per annum and is guaranteed by the Company;

(ii) corporate bonds with an aggregate principal amount of RMB200,000,000 (equivalent to HK$240,096,000) (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, bearing 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. The Group redeemed the corporate bonds of RMB200,000,000 in December 2017;

35. CORPORATE BONDS *(Continued)*

(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, bearing interest at a rate of 3.60% per annum and are guaranteed by the Company. The Second RMB Bonds are due for repayment on 25 April 2021. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group;

(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. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. 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. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Green Bonds are set out in the Company's announcements dated 22 August 2016;

(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, bearing 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. One year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the 60%-owned subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group;

(vii) corporate bonds with an aggregate principal amount of RMB1,300,000,000 (the "Second Panda Bonds") issued by the Company to certain institutional investors in August 2017, bearing interest at a rate of 5.20% per annum. The Second Panda Bonds are due for repayment on 2 August 2022. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company; and

(viii) corporate bonds with an aggregate principal amount of RM400,000,000 (the "RM Bonds") issued by a wholly-owned subsidiary to certain institutional investors in July 2017, bearing interest at rates ranging from 5.1% to 5.5% per annum. The RM Bonds are due for repayment starting from 17 July 2020.

35. CORPORATE BONDS *(Continued)*

The corporate bonds at 31 December 2017 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

(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 Company's 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 2017 and 2016 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 in the third to fifth years, inclusive, 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 is 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.

36. NOTES PAYABLE *(Continued)*

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.

Based on the Company's 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 five (2016: two) finance lease arrangements. The leases are classified as finance leases and had remaining lease terms ranging from five to twelve years (2016: six years) as at 31 December 2017.

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

	Minimum lease payments 2017 *HK$'000*	Minimum lease payments 2016 *HK$'000*	**Present value of minimum lease payments 2017 *HK$'000***	Present value of minimum lease payments 2016 *HK$'000*
Amounts repayable:				
Within one year or on demand	**115,384**	61,071	**102,749**	52,176
In the second year	**86,155**	9,260	**58,342**	7,419
In the third to fifth years, inclusive	**249,388**	27,779	**216,505**	24,506
Over five years	**131,086**	9,260	**120,614**	8,981
Total minimum finance lease payments	**582,013**	107,370	**498,210**	93,082
Future finance charges	**(83,803)**	(14,288)		
Total net finance lease payables	**498,210**	93,082		
Portion classified as current liabilities	**(102,749)**	(52,176)		
Non-current portion	**395,461**	40,906		

One of the finance leases with a carrying amount of HK$39,988,000 (2016: HK$45,103,000) as at 31 December 2017 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.

37. FINANCE LEASE PAYABLES *(Continued)*

The amounts payable based on the maturity terms of the loans are analysed as follows:

	Minimum lease payments 2017 *HK$'000*	Minimum lease payments 2016 *HK$'000*	**Present value of minimum lease payments 2017 *HK$'000***	Present value of minimum lease payments 2016 *HK$'000*
Amounts repayable:				
Within one year	**80,451**	18,680	**59,883**	14,434
In the second year	**96,136**	18,680	**77,958**	15,133
In the third to fifth years, inclusive	**274,341**	56,039	**239,755**	49,937
Over five years	**131,085**	13,971	**120,614**	13,578
Total minimum finance lease payments	**582,013**	107,370	**498,210**	93,082

Details of the carrying amounts of the assets under finance leases are in notes 14 and 17 to the financial statements.

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.

38. PROVISION FOR MAJOR OVERHAULS *(Continued)*

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

	Notes	2017 HK$'000	2016 HK$'000
At 1 January		**187,759**	205,489
Acquisition of subsidiaries	*45*	**–**	12,097
Provision for the year	*7*	**126,038**	109,870
Increase in discounted amounts arising from the passage of time	*8*	**14,085**	11,653
Amount utilised during the year		**(105,585)**	(124,069)
Disposal of subsidiaries	*46*	**(25,620)**	(694)
Exchange realignment		**10,749**	(26,587)
At 31 December		**207,426**	187,759

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 and receipt in advance of certain guarantee receipts of sewage water treatment related to the transfer of financial assets, further details of which are disclosed in note 17 to the financial statements.

These government 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:

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**272,320**	106,751
Deferred tax liabilities	**(2,103,997)**	(1,691,342)
	(1,831,677)	(1,584,591)

40. DEFERRED TAX *(Continued)*

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

		Attributable to						
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Impairment provision *HK$'000*	Provision for major overhauls *HK$'000*	Temporary differences related to service concession arrangements *HK$'000*	Revaluation of properties *HK$'000*	Losses available for offsetting against future taxable profits *HK$'000*	Net deferred tax assets/ (liabilities) *HK$'000*
At 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 and 1 January 2017		(326,828)	23,197	72,976	(1,347,929)	(9,249)	3,242	(1,584,591)
Acquisition of subsidiaries	*45*	(51,596)	–	–	–	–	–	(51,596)
Disposal of subsidiaries	*46*	–	(4,050)	(6,405)	156,826	–	–	146,371
Net deferred tax credited/(charged) to profit or loss	*11*	2,283	–	(33)	(305,749)	–	–	(303,499)
Exchange realignment		(19,400)	1,381	4,343	(23,263)	(551)	(872)	(38,362)
At 31 December 2017		(395,541)	20,528	70,881	(1,520,115)	(9,800)	2,370	(1,831,677)

Notes:

(a) At 31 December 2017, deferred tax assets have not been recognised in respect of unused tax losses of HK$580,553,000 (2016: HK$574,870,000) 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$270,311,000 (2016: HK$342,044,000) 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 2017, 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 of the Company, 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$3,929,525,000 (2016: HK$3,256,213,000) as at 31 December 2017.

41. TRADE PAYABLES

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

	2017	2016
	HK$'000	*HK$'000*
Within 3 months	**5,375,901**	4,285,337
4 to 6 months	**1,194,027**	992,009
7 months to 1 year	**1,967,296**	1,687,788
1 to 2 years	**1,206,914**	1,389,036
2 to 3 years	**966,760**	855,638
Over 3 years	**819,153**	321,900
Balance with extended credit period	**157,466**	311,116
	11,687,517	9,842,824

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 2017 included, inter alia, the following:

(a) an amount of HK$31,598,000 (2016: HK$28,664,000) 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. No purchases were made by the Group from the joint venture during the year. During the year ended 31 December 2016, aggregate purchase costs of HK$35,787,000 were charged at the published prices and conditions offered by the joint venture to its major customers, and were included in "Cost of sales" on the face of the consolidated statement of profit or loss during that year.

(b) an amount of HK$30,676,000 (2016: HK$79,550,000) 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$26,412,000 (2016: HK$410,345,000) 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.

42. OTHER PAYABLES AND ACCRUALS

	Notes	2017 HK$'000	2016 HK$'000
Accruals		**884,420**	665,530
Other liabilities	*(a)*	**2,984,304**	2,644,205
Receipts in advance		**574,645**	369,001
Due to subcontractors	*(b)*	**906,429**	610,517
Due to joint ventures	*19(e)*	**1,187,697**	602,833
Due to associates	*20(b)*	**48,312**	–
Due to other related parties		**397,069**	478,142
Other taxes payables	*43*	**357,267**	208,889
		7,340,143	5,579,117
Portion classified as current liabilities		**(6,769,636)**	(5,234,492)
Non-current portion		**570,507**	344,625

Notes:

(a) The Group's other liabilities as at 31 December 2017 included, inter alia, the following:

(i) outstanding considerations in an aggregate amount of HK$837,097,000 (2016: HK$605,303,000) 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$783,615,000 (2016: HK$704,252,000) payable to various independent third parties for the acquisition of subsidiaries and an associate, of which HK$227,851,000 (2016: HK$554,529,000) was attributable to the acquisition completed during the year.

(b) The amounts due to subcontractors of the Group as at 31 December 2017 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$375,560,000 (2016: HK$480,526,000), 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.

43. OTHER TAXES PAYABLES

	2017 HK$'000	2016 HK$'000
Business tax	**28,837**	40,362
Value-added tax	**271,536**	135,782
Others	**56,894**	32,745
	357,267	208,889

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:

	2017	2016
Percentage of equity interest held by non-controlling interests:		
Beikong Dalian and its subsidiaries ("Beikong Dalian Group")*	**N/A**	N/A
BCEG Environmental and its subsidiaries ("BCEG Group")	**40%**	40%

	2017 HK$'000	2016 HK$'000
Profit/(loss) for the year allocated to non-controlling interests:		
Beikong Dalian Group*	**N/A**	(14,471)
BCEG Group	**28,584**	96,607
Accumulated balances of non-controlling interests at the reporting date:		
Beikong Dalian Group*	**N/A**	–
BCEG Group	**694,430**	650,934

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	**2017**	2016
	HK$'000	***HK$'000***	*HK$'000*
Revenue	–	**26,618**	980,539
Interest income	223	**34,710**	36,230
Total expenses	(36,401)	**(125,475)**	(775,251)
Profit/(loss) for the year	(36,178)	**71,460**	241,518
Total comprehensive income/(loss) for the year	(104,877)	**126,065**	134,052
Current assets	N/A	**1,171,418**	482,317
Non-current assets	N/A	**2,903,053**	4,090,654
Current liabilities	N/A	**(1,137,343)**	(1,578,690)
Non-current liabilities	N/A	**(1,085,586)**	(1,315,809)
Net cash flows from/(used in):			
Operating activities	N/A	**(12,949)**	48,357
Investing activities	N/A	**(8,088)**	(1,340)
Financing activities	N/A	**(307,588)**	198,617
Net increase/(decrease) in cash and cash equivalents	N/A	**(328,625)**	245,634

* *Beikong Dalian Group has been disposed of to the non-controlling equity holder during the year ended 31 December 2016. Details of the disposal are disclosed in note 46 to the financial statements.*

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

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:

		2017				2016
		Mongolia	**Dingzhou**	**Others**	**Total**	Total
	Note	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Property, plant and equipment		**584,062**	**317,627**	**548**	**902,237**	656,818
Operating concessions		**–**	**–**	**5,913**	**5,913**	628,065
Other intangible assets		**–**	**–**	**17**	**17**	3,247
Investments in associates		**–**	**–**	**–**	**–**	48,972
Available-for-sale investments		**–**	**–**	**–**	**–**	74
Receivables under service concession arrangements	*(c)*	**–**	**–**	**375,652**	**375,652**	1,989,988
Deferred tax assets		**14,167**	**–**	**–**	**14,167**	6,179
Inventories		**2,071**	**473**	**745**	**3,289**	16,150
Trade receivables	*(c)*	**58,261**	**72**	**217**	**58,550**	85,226
Prepayments, deposits and other receivables	*(c)*	**37,412**	**5,358**	**17,393**	**60,163**	221,425
Cash and cash equivalents		**1,636**	**1,359**	**3,228**	**6,223**	178,967
Trade payables		**(19,524)**	**(1,905)**	**(2,583)**	**(24,012)**	(179,930)
Other payables and accruals		**(199,487)**	**(120,178)**	**(7,955)**	**(327,620)**	(447,984)
Income tax payables		**(3,291)**	**1**	**(470)**	**(3,760)**	(6,535)
Bank and other borrowings		**(175,506)**	**–**	**(112,251)**	**(287,757)**	(1,192,689)
Provision for major overhauls		**–**	**–**	**–**	**–**	(12,097)
Deferred income		**(20,466)**	**(26,178)**	**–**	**(46,644)**	(29,105)
Deferred tax liabilities		**–**	**(44,270)**	**(21,493)**	**(65,763)**	(105,310)
Total identifiable net assets at fair value		**279,335**	**132,359**	**258,961**	**670,655**	1,861,461
Non-controlling interests		**(92,181)**	**(26,472)**	**(32,866)**	**(151,519)**	(627,536)
		187,154	**105,887**	**226,095**	**519,136**	1,233,925
Goodwill on acquisition		**–**	**28,540**	**12,776**	**41,316**	465,478
Gains on bargain purchase		**(7,282)**	**–**	**(1,991)**	**(9,273)**	(2,869)
		179,872	**134,427**	**236,880**	**551,179**	1,696,534

45. BUSINESS COMBINATIONS *(Continued)*

	2017				2016
	Mongolia	**Dingzhou**	**Others**	**Total**	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Satisfied by:					
Cash	**179,872**	**134,427**	**236,880**	**551,179**	1,696,534
Revenue for the year since acquisition#	**104,085**	**6,792**	**52,466**	**163,343**	676,081
Profit for the year since acquisition	**15,769**	**3,064**	**16,529**	**35,362**	173,828

\# *Revenue for the year since acquisition comprises revenue, interest income and other income and gains, net.*

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

	2017	2016
	HK$'000	*HK$'000*
Cash consideration	**(551,179)**	(1,696,534)
Cash and cash equivalents acquired	**6,223**	178,967
Amortised costs of outstanding cash consideration at end of year	**227,851**	554,529
Investment deposits paid in prior periods	**18,147**	279,466
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(298,958)**	(683,572)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$4,454,845,000 (2016: HK$3,775,775,000) and the Group's revenue would have been HK$21,227,424,000 (2016: HK$17,496,801,000).

Notes:

(a) Business combinations during the year ended 31 December 2017 included, inter alia, the following material transactions:

(i) in January 2017, the Group completed the acquisition of the 67% equity interest in a company which engaged in the provision of water supply services in Inner Mongolia, the PRC ("Mongolia"), at an aggregate cash consideration of HK$179,872,000; and

(ii) in August 2017, the Group completed the acquisition of the 80% equity interest in a company which engaged in the provision of water supply services in Sichuan Province, the PRC ("Dingzhou"), at an aggregate cash consideration of HK$134,427,000.

45. BUSINESS COMBINATIONS *(Continued)*

Notes: (Continued)

(b) 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, at an aggregate cash consideration of HK$694,637,000.

(c) The fair values of receivables under service concession arrangements, trade receivables, and deposits and other receivables as at the respective dates of acquisitions during the year ended 31 December 2017 amounted to HK$375,652,000, HK$58,550,000 and HK$33,035,000, respectively.

The gross contractual amounts of receivables under service concession arrangements, trade receivables, and deposits and other receivables were HK$375,652,000, HK$58,550,000 and HK$33,095,000, respectively, of which only deposits and other receivables of HK$60,000 are expected to be uncollectible.

46. DISPOSAL OF SUBSIDIARIES

	2017 HK$'000 (note (a))	2016 HK$'000 (note (b))
Net assets disposed of:		
Property, plant and equipment	100,018	115,212
Goodwill	96,240	92,635
Other intangible assets	4,294	–
Operating concessions	183,594	–
Investments in joint ventures	–	332,668
Amounts due from contract customers	4,562,434	78,860
Receivables under service concession arrangements	2,145,850	356,641
Trade receivables	106,897	56,355
Deferred tax assets	4,050	11,236
Inventories	6,105	68,139
Prepayments, deposits and other receivables	1,383,025	5,009,700
Cash and cash equivalents	1,146,200	431,729
Deferred income	(23,810)	–
Trade payables	(2,792,508)	(12,966)
Other payables and accruals	(1,088,883)	(2,495,146)
Income tax payables	(93,465)	(59,945)
Bank and other borrowings	(613,358)	(144,190)
Provision for major overhauls	(25,620)	(694)
Deferred tax liabilities	(150,421)	(50,595)
Non-controlling interests	(20,542)	(1,076,797)
	4,930,100	2,712,842
Exchange fluctuation reserve realised	(12,478)	65,572
Elimination of retained interests in the subsidiaries through investments in joint ventures and associates	(595,750)	–
Gain/(loss) on disposal of interests in subsidiaries	(45,746)	8,675
	4,276,126	2,787,089

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

	Notes	2017 HK$'000 (note (a))	2016 HK$'000 (note (b))
Satisfied by:			
Cash		**3,717,410**	1,120,620
Reclassified to an investment in an associate	*(b)(i)*	**–**	324,166
Reclassified to available-for-sale investment	*(a)(i)*	**5,013**	–
Reclassified to joint ventures	*(a)(ii),(iv)*	**531,749**	–
Reclassified to an associate	*(a)(iii)*	**21,954**	–
Set-off of current accounts, net	*(b)(ii)*	**–**	1,342,303
		4,276,126	2,787,089

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

	2017 HK$'000	2016 HK$'000
Cash consideration	**3,717,410**	1,120,620
Cash and bank balances disposed of	**(1,146,200)**	(431,729)
Consideration receivable as at year end	**(222,583)**	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**2,348,627**	688,891

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

Notes:

(a) The Group completed the following material disposal of subsidiaries during the year ended 31 December 2017:

(i) in June 2017, the Group disposed of a 99% equity interest in a subsidiary engaging in construction services for comprehensive renovation projects located in Zhejiang Province, the PRC, for a cash consideration of HK$356,203,000. The remaining interest in the company is reclassified to available-for-sale investment.

(ii) the Group completed the disposal of (i) 45% equity interest in two subsidiaries in construction services for comprehensive renovation projects located in Inner Mongolia, the PRC, for a cash consideration of HK$979,607,000 in December 2017; (ii) 90% equity interest in two subsidiaries engaging in construction services for comprehensive renovation projects located in Jiangsu Province, the PRC, for a cash consideration of HK$833,333,000 in December 2017; and (iii) 99.8% equity interest in a subsidiary engaging in construction services for comprehensive renovation project located in Chifeng City, the PRC, for a cash consideration of HK$1,188,095,000 in June 2017, to joint ventures.

(iii) in September 2017, the Group disposed of equity interest ranging from 85% to 100% in 15 subsidiaries operating in the sewage treatment and water supply services operations in the PRC, for a total cash consideration of HK$780,515,000 to a joint venture.

(iv) the Group completed the disposal of two wholly-owned subsidiaries in sewage treatment operations located in Hebei Province, the PRC, for a total cash consideration of HK$83,671,000 in August 2017.

(v) in April 2017, the Group disposed of a wholly-owned subsidiary in waste treatment operation in PRC, for a total cash consideration of HK$10,000 to an associate.

(b) The Group completed the following disposal of subsidiaries during the year ended 31 December 2016:

(i) in December 2016, the Group completed the deemed disposal of a 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 a 60% equity interest in Beikong Dalian Group to the non-controlling equity holder for an aggregate consideration of HK$1,679,382,000. Pursuant to the relevant sale and purchase agreements, a consideration of HK$1,342,303,000 was settled by way of offsetting the net current accounts among the Beikong Dalian Group, the Group and the non-controlling equity holder by the Group and the remaining consideration of HK$337,079,000 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, Hubei Province, the PRC in July 2016 for a cash consideration of HK$57,459,000 to an associate.

47. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other borrowings HK$'000	Finance lease payables HK$'000	Corporate bonds HK$'000	Notes payable HK$'000
At 1 January 2017	21,474,892	93,082	11,663,212	2,939,743
Changes from financing cash flows	4,379,287	(15,461)	1,919,981	–
New finance lease	–	406,977	–	–
Interest expense	–	–	15,881	1,709
Increase arising from acquisition of subsidiaries	287,757	–	–	–
Decrease arising from disposal of subsidiaries	(613,358)	–	–	–
Foreign exchange movement	604,362	13,612	646,774	133,480
At 31 December 2017	26,132,940	498,210	14,245,848	3,074,932

48. CONTINGENT LIABILITIES

At 31 December 2017, a corporate guarantee at a maximum amount of HK$89,382,000 (MYR49,162,000) (2016: HK$85,743,000 (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. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011. In addition, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK$793,076,000 (2016: HK$456,833,000) were outstanding and corporate guarantees of HK$2,064,409,000 (2016: Nil) were given to banks in connection with facilities granted to certain associates, joint ventures and independent third parties as at 31 December 2017.

Save as disclosed above, at 31 December 2017, the Group did not have any significant contingent liabilities.

49. PLEDGE OF ASSETS

Details of the Group's assets, pledged for the Group's bank and other borrowings 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).

50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a portion of its office building, a commercial building and certain buildings for which the Group was granted the rights to use pursuant to service concession arrangements under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years (2016: from 1 to 15 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:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**30,602**	20,781
In the second to fifth years, inclusive	**38,535**	40,681
After five years	**192**	2,293
	69,329	63,755

50. 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 3 months to 50 years (2016: from 5 months to 50 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:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**25,118**	16,414
In the second to fifth years, inclusive	**38,645**	23,639
After five years	**111,941**	116,139
	175,704	156,192

51. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 50(b) above, the Group had the following capital commitments at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
Contracted, but not provided for:		
New service concession arrangements on:		
TOT basis	**359,008**	187,294
BOT basis	**4,712,366**	5,435,050
Build-Own-Operate basis	**4,185**	581,221
Capital contribution to joint ventures	**11,264,214**	199,555
Acquisition of subsidiaries	**1,152,570**	111,211
Acquisition of further interest in an associate	**–**	140,000
	17,492,343	6,654,331

51. 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:

	2017	2016
	HK$'000	*HK$'000*
Contracted, but not provided for	**770,972**	259,856

Save as disclosed above, at 31 December 2017, the Group did not have any significant commitments.

52. 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 with service fees of HK$1,087,000 (MYR600,000) (2016: HK$30,678,000 (MYR16,398,000)) and HK$132,092,000 (MYR72,862,000) (2016: HK$94,190,000 (MYR50,347,000)), 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$31,000 (2016: HK$3,179,000) was recognised by the Group during the year, details of the 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$21,130,000 (SGD3,743,000) (2016: HK$136,904,000 (SGD24,256,000)) 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.

52. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel of the Group

	2017	2016
	HK$'000	*HK$'000*
Short term employee benefits	**19,120**	21,895
Equity-settled share option expenses	**5,667**	15,042
Pension scheme contributions	**36**	41
Total compensation paid to key management personnel	**24,823**	36,978

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 the 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 terms 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 terms of the Deposit Agreement and the Supplemental Agreement shall not exceed HK$2,350,000,000.

On 30 October 2017, the Company and BG Finance further entered into a 2018 deposit services master agreement (the "2018 Deposit Agreement") whereby the Company and BG Finance would continue to carry out the transactions of similar natures from time to time under the 2018 Deposit Agreement for three years from 1 January 2018 to 31 December 2020, with the terms and conditions substantially the same as those under the Deposit Agreement together with the Supplemental Agreement. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2018 Deposit Agreement shall not exceed HK$2,900,000,000.

52. RELATED PARTY TRANSACTIONS *(Continued)*

(e) *(Continued)*

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK$2,235,610,000 (2016: HK$1,016,744,000). The related interest expenses recognised in profit or loss during the year were not significant to the Group. 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$827,619,000 (2016: HK$125,843,000) and bear interest at floating rates ranging from 4.13% to 4.90% per annum (2016: 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.

(f) 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) would be injected into BG Finance as registered capital and HK$17,710,000 (RMB15,670,000) would be its capital reserve, being the total consideration of the capital subscription. Following the capital subscription, the Group would 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.

Save as disclosed above and the transactions and balances detailed elsewhere in the financial statements, the Group had no other material transactions and outstanding balances with related parties during the years ended 31 December 2017 and 2016.

53. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of other financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values largely due to the short term maturities of these instruments, and accordingly, no disclosure of the fair values of these financial instruments is made.

53. FAIR VALUE AND FAIR VALUE HIERARCHY *(Continued)*

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
At 31 December 2017				
Investment properties	**–**	**–**	**1,083,677**	**1,083,677**
Available-for-sale investments:				
Listed equity investments, at fair value	**800,641**	**–**	**–**	**800,641**
Total	**800,641**	**–**	**1,083,677**	**1,884,318**
At 31 December 2016				
Investment properties	–	–	755,326	755,326
Available-for-sale investments:				
Listed equity investments, at fair value	545,533	–	–	545,533
Total	545,533	–	755,326	1,300,859

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 fair value measurement (31 December 2016: Nil).

For other non-current financial assets and liabilities, in the opinion of the directors of the Company, since their carrying amounts are not significantly different from their respective fair values, no disclosure of the fair values of these financial instruments is made.

54. 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 2017, 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 2017 by approximately HK$122,080,000 (2016: HK$114,780,000).

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.

54. 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 the RMB/HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
31 December 2017		
If Hong Kong dollar weakens against RMB by 5%	292,059	1,648,640
If Hong Kong dollar strengthens against RMB by 5%	(292,059)	(1,648,640)
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)

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

Foreign currency risk *(Continued)*

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

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 payments 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.

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

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$18.3 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 2017 as detailed in note 51 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 2018. 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.

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 *HK$'000*	In the second year *HK$'000*	In the third to fifth years, inclusive *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
31 December 2017					
Bank and other borrowings	**5,497,090**	**2,641,432**	**16,405,539**	**3,600,077**	**28,144,138**
Corporate bonds	**4,217,856**	**2,955,356**	**7,761,304**	**792,903**	**15,727,419**
Notes payable	**173,395**	**173,395**	**3,519,803**	**–**	**3,866,593**
Finance lease payable	**80,451**	**96,136**	**274,341**	**131,085**	**582,013**
Trade payables	**11,687,517**	**–**	**–**	**–**	**11,687,517**
Other liabilities	**4,937,585**	**78,127**	**111,029**	**–**	**5,126,741**
Due to related parties	**397,069**	**–**	**–**	**–**	**397,069**
	26,990,963	**5,944,446**	**28,072,016**	**4,524,065**	**65,531,490**
31 December 2016					
Bank and other borrowings	5,654,147	3,243,395	11,771,217	2,816,967	23,485,726
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	3,682,031	77,597	97,927	–	3,857,555
Due to related parties	478,142	–	–	–	478,142
	20,323,913	3,935,950	20,199,558	10,706,391	55,165,812

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

Fair values

In the opinion of the directors, (1) the carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values; and (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 2017 and 2016 were as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Net debt	**34,013,101**	25,249,892
Total equity	**33,041,323**	26,767,340
Gearing ratio	**103%**	94%

55. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the derivative financial instruments and the listed equity investments and some 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 2017 and 2016 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

56. EVENTS AFTER THE REPORTING PERIOD

(a) On 24 January 2018, the Company entered into a placing agreement with China International Capital Corporation Hong Kong Securities Limited, Daiwa Capital Markets Hong Kong Limited, Deutsche Bank AG, Hong Kong Branch, Haitong International Securities Company Limited and UBS AG, Hong Kong Branch (collectively as the "Placing Agents"), pursuant to which, the Placing Agents agreed to procure not less than six placees to subscribe an aggregate of 450,000,000 new ordinary shares of the Company at a placing price of HK$5.9 per share. The placing was completed on 1 February 2018 and the Group raised a total of approximately HK$2,655 million, before expenses.

(b) On 24 January 2018, the Company entered into a subscription agreement with Beijing Enterprises Environmental Construction Limited (the "Subscriber"), a controlling shareholder of the Company, pursuant to which, the Company agreed to allot and issue, and the Subscriber agreed to subscribe for 169,491,525 new ordinary shares of the Company at a price of HK$5.9 per share. The Group will raise a total of approximately HK$1,000 million, before expenses. The subscription has not been completed as at the date of approval of these financial statements.

57. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and re-presented to conform to the current year's presentation.

58. 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:

	2017 HK$'000	2016 HK$'000
ASSETS		
Non-current assets:		
Property, plant and equipment	**2,671**	2,644
Investments in subsidiaries	**10,387,093**	10,343,346
Investments in joint ventures	**1,281,390**	1,281,391
Investments in associates	**441,500**	284,000
Prepayments, deposits and other receivables	**235,700**	105,744
Available-for-sale equity investments	**975,806**	545,533
Total non-current assets	**13,324,160**	12,562,658
Current assets:		
Trade receivables	**13,622**	4,898
Prepayments, deposits and other receivables	**18,241,707**	16,848,213
Cash and cash equivalents	**282,348**	535,789
Total current assets	**18,537,677**	17,388,900
TOTAL ASSETS	**31,861,837**	29,951,558

58. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2017	2016
	HK$'000	*HK$'000*
EQUITY AND LIABILITIES		
Equity:		
Issued capital	**879,382**	873,787
Reserves *(note)*	**4,104,294**	5,731,266
TOTAL EQUITY	**4,983,676**	6,605,053
Non-current liabilities:		
Bank and other borrowings	**12,995,222**	9,880,387
Corporate bonds	**7,116,545**	5,256,233
Other payables and accruals	**5,331,206**	7,048,576
Total non-current liabilities	**25,442,973**	22,185,196
Current liabilities:		
Trade payables	**374**	353
Other payables and accruals	**635,552**	595,911
Bank and other borrowings	**799,262**	565,045
Total current liabilities	**1,435,188**	1,161,309
TOTAL LIABILITIES	**26,878,161**	23,346,505
TOTAL EQUITY AND LIABILITIES	**31,861,837**	29,951,558

58. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account	Contributed surplus	Available-for-sale investments revaluation reserve	Share option reserve	Accumulated losses	Total
	HK$'000	*HK$'000* *(a)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 1 January 2017	4,900,042	2,685,121	–	271,022	(2,124,919)	5,731,266
Loss for the year and total comprehensive loss for the year	–	–	–	–	(445,822)	(445,822)
Revaluation of available-for-sale investments	–	–	(93,694)	–	–	(93,694)
Exercise of share options	168,741	–	–	(48,794)	–	119,947
Equity-settled share option arrangements	–	–	–	19,903	–	19,903
Final 2016 cash distributions paid	–	(525,407)	–	–	–	(525,407)
Interim 2017 cash distributions paid	–	(701,899)	–	–	–	(701,899)
At 31 December 2017	5,068,783	1,457,815	(93,694)	242,131	(2,570,741)	4,104,294

(a) Under the Companies Act 1981 of Bermuda (as amended), 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.

59. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

FIVE YEAR FINANCIAL SUMMARY

31 December 2017

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 2016, is set out below:

RESULTS

	Year ended 31 December				
	2013 *HK$'000*	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	**2017** ***HK$'000***
Revenue	6,406,455	8,925,942	13,502,957	17,354,833	**21,192,372**
Operating profit	1,389,530	2,388,915	3,370,543	4,269,210	**4,237,109**
Share of profits and losses of:					
Joint ventures	84,515	256,230	162,795	192,172	**521,629**
Associates	23,115	22,032	12,221	182,373	**556,578**
Profit before tax	1,497,160	2,667,177	3,545,559	4,643,755	**5,315,316**
Income tax expense	(351,762)	(593,855)	(777,766)	(970,773)	**(874,772)**
Profit for the year	1,145,398	2,073,322	2,767,793	3,672,982	**4,440,544**
ATTRIBUTABLE TO:					
Shareholders of the Company	1,084,257	1,794,413	2,455,370	3,227,013	**3,717,227**
Holders of perpetual capital instruments	–	–	–	56,570	**240,291**
Other non-controlling interests	61,141	278,909	312,423	389,399	**483,026**
	1,145,398	2,073,322	2,767,793	3,672,982	**4,440,544**

FIVE YEAR FINANCIAL SUMMARY

31 December 2017

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2013 *HK$'000*	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	**2017** ***HK$'000***
Total assets	44,186,670	51,640,838	64,491,748	81,047,270	**100,461,072**
Total liabilities	(28,262,228)	(32,552,100)	(44,201,333)	(54,279,930)	**(67,419,749)**
NET ASSETS	15,924,442	19,088,738	20,290,415	26,767,340	**33,041,323**
Equity attributable to shareholders of the Company	13,297,631	15,784,448	16,183,833	16,501,142	**20,784,723**
Perpetual capital instruments	–	–	–	6,305,025	**6,623,082**
Other non-controlling interests	2,626,811	3,304,290	4,106,582	3,961,173	**5,633,518**
TOTAL EQUITY	15,924,442	19,088,738	20,290,415	26,767,340	**33,041,323**

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