BEIJING ENTERPRISES WATER GROUP LIMITED

2018 Annual Report

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

AUDITORS

Ernst & Young

STOCK CODE

371

WEBSITE

www.bewg.net

REGISTERED OFFICE

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Hamilton HM 12
Bermuda

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Hong Kong
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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

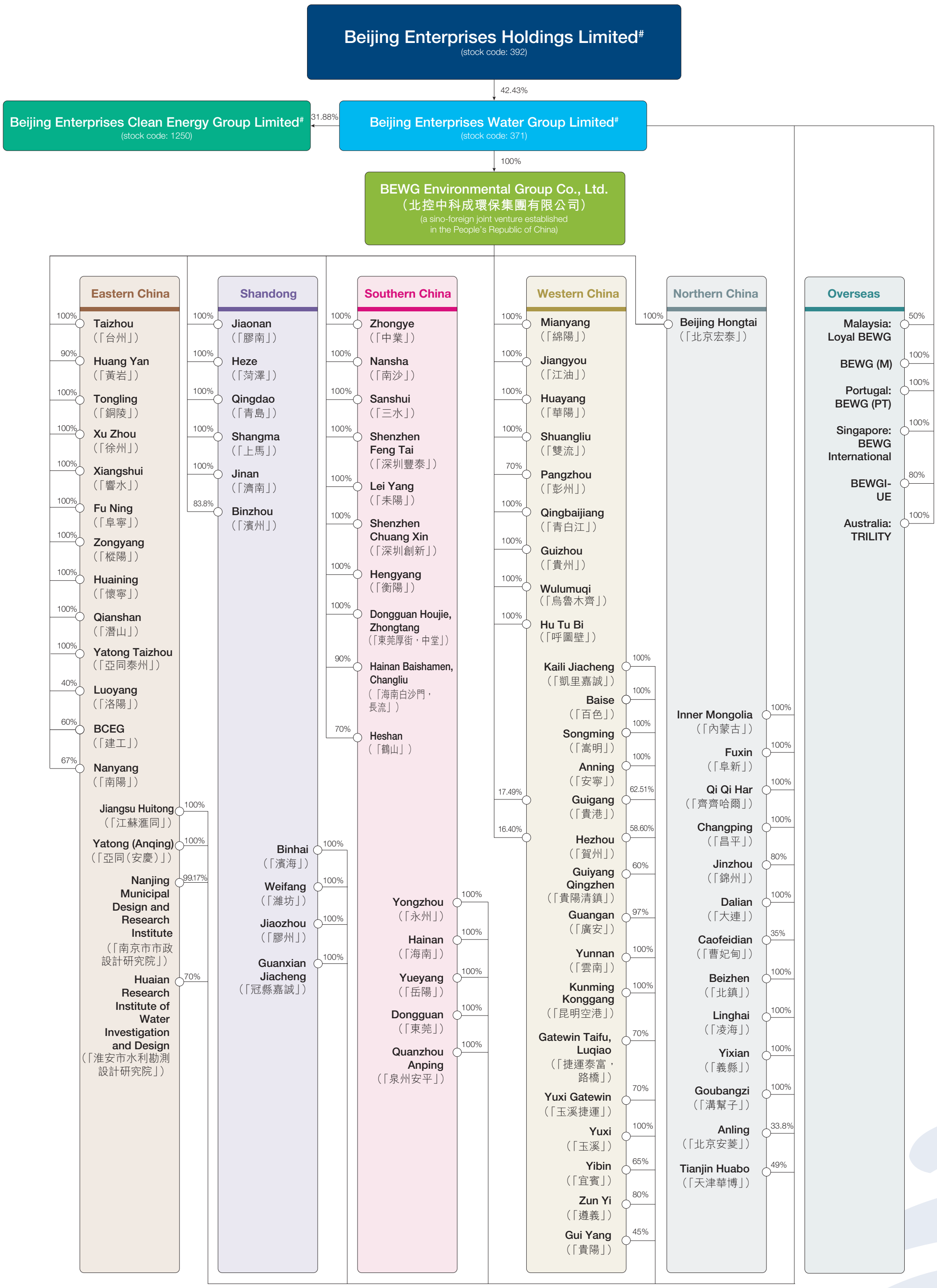
PRINCIPAL BANKERS

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

In Mainland China:
Agricultural Development Bank of China
Bank of Beijing Co., Limited
Bank of China Limited
China Construction Bank Corporation
China Development Bank
Industrial and Commercial Bank of China Limited
The Export-Import Bank of China

GROUP STRUCTURE

31 December 2018



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 2018, the world economy saw growth momentum fading while the Chinese economy faced complexities with signs of changes and economic concerns amid a positive and steady development in general. Under such background, Beijing Enterprises Water Group Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group") vigorously explored innovative business models, headed towards an asset-light enterprise and drove the growth of both core and emerging businesses according to its yearly business goals and work tasks, and hence delivered a rapid growth in operating results.

PERFORMANCE REVIEW

For the year ended 31 December 2018, the Group recorded revenue of HK$24,596.9 million, which grew by 16% year-on-year. Profit attributable to shareholders of the Company amounted to HK$4,471.3 million, which increased by 20% year-on-year. Basic earnings per share for the year was HK47.91 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 cash distribution of HK8.3 cents per share to the shareholders.

In 2018, a series of policies, including the Environmental Protection Tax Law and Opinions on Comprehensively Tightening Ecological and Environmental Protection and Promoting Triumph in the Uphill Battle for Prevention and Control of Pollution (《關於全面加強生態環境保護堅決打好污染防治攻堅戰的意見》), were promulgated. New development concepts as well as building an ecological civilisation and a beautiful China have made their way into the country's constitution by way of amendments, and building an ecological civilisation has turned from an administrative measure into legislation. In addition, the formation of the Ministry of Ecology and Environment further enhanced the regulatory function of environmental authorities. Benefitting from building an ecological civilization in China, the Group continued to expand and strengthen its two core businesses, namely urban water services and water environment comprehensive renovation. As at 31 December 2018, the Group's total daily design capacity was 36,824,633 tons with a net increase in daily treatment capacity of 5,436,813 tons. The water environment comprehensive renovation business has focused on certain major cities and a pioneering asset-light model has been applied to expand public-private-partnership (PPP) projects. The successful acquisition of the sewage and sludge treatment PPP project in Qinhuangdao, which is currently the largest PPP investment in existing drainage facilities in the country, was also an active response to the coordinated development strategy of the Beijing-Tianjin-Hebei region.

CHAIRMAN'S STATEMENT

As to the emerging businesses, the projects on hand under the urban resource business made steady progress: the hazardous waste treatment and environmental and hygiene services outshining its industry peers in scale, the wind power and photovoltaic operations integrating under the clean energy business and the installed capacity of new energy project growing stably. The overseas presence has been expanded to Australia and New Zealand. Thanks to the opportunity brought by the national policy for pollution treatment in rural areas, the Yixing project realised remarkable profits with low-cost financing under the asset-light model.

While maintaining the business growth at a rapid pace, the Group also positively coped with the challenges in the industry in 2018. In order to prevent systematic risks in the domestic financial market, the Chinese government has pushed ahead with its deleveraging, debt reduction and economic restructuring activities. As a result, the tightening market liquidity elevated pressure on enterprises. Meanwhile, the policy in relation to PPP projects gradually toughens that requires higher standard on the project operation in quality and compliance requirements. Such changes in the competitive environment have led to greater rivalry for quality projects.

To better cope with the new development and challenges in the environmental industry, the Group has reviewed the external and internal situations and determined its strategic moves of becoming an asset-light enterprise by setting up "dual platforms" for asset management and operational management.

CORPORATE MANAGEMENT AND CONTROL

In 2018, the Group adopted a three-tier management and control model comprising regional division as well as business division and sub-division center based on a standardised organisational structure.

Furthermore, the Group comprehensively revised and tightened its operational rules to regulate matters for discussion and the decision-making mechanism. To facilitate efficient decision-making and ensure timely resolution of issues, a closed-loop management system was adopted to strengthen supervisory and management functions. Risk control and management measures were enhanced to ensure the safety of projects, corporate, production process and staff members.

CHAIRMAN'S STATEMENT

SUSTAINABLE DEVELOPMENT

In 2019, the Group will carry on its strategic moves to become an asset-light enterprise and the set up of the asset management and operational management platforms through integration. The assets to be acquired will be turned into light assets by financial means. With a view to shifting from high-speed development to high quality growth, campaigns will be launched in specific areas, such as market selection, resource allocation, cash flow management and operation management, to promote development in quality and efficiency.

For the selection of market, investment will be made to quality projects in favourable regions and sectors that can offer high returns with low inputs and risk exposures.

With respect to resource allocation, human and capital resources will be invested in for favourable regions and sectors. Each of the functional and major divisions is responsible for channelling its best organisational, cadre and human resources to quality projects, so as to nurture a top-notch team for water plants.

Regarding cash flow management, the Group will better utilise its capital and implement stringent requirements on budgeting in order to exert control throughout the cash flow cycle of investment, construction and operation. A comprehensive annual budget will be compiled, and capital arrangement will be based on the principle of keeping the outflow within the limits of inflow and priorities will be given to projects with higher returns and efficiency.

In addition, the Group will look for new business models such as asset securitisation and real estate trust investment funds and additional financing means such as financial factoring and finance lease.

The positive treasury policy and stable monetary policy of the central government will continue in 2019 as the scope of tax and administrative fee reduction has been expanded. Despite the tightening regulations, the promulgation and implementation of policies, including the Implementation comments on promoting the development of government and social capital cooperation (《關於推進政府和社會資本合作規範發展的實施意見》), will bring about new development opportunities to the PPP sector.

By staying abreast of the latest industry development and adopting comprehensive and innovative strategies, the Group strives to establish a world-class system of technological support and services with innovative technologies, business models and management, with an ultimate goal of contributing to the higher quality, greater efficiency and robust development of the water and environmental industry.

The Group is fully aware of the importance of its staff, customers and joint venture partners to its sustainable and stable growth. It 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 sustainable business development.

CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT

Year of 2019 marks the 70th anniversary since the establishment of new China and is going to be a critical year for the strategic development of pollution prevention and control. With favourable policy support, market and structural reform and increasing mergers and acquisitions, the environmental industry has seen another cycle of expected and sustainable growth.

In 2019, with a view to shifting from high-speed development to high quality growth, the Group will reinforce its presence and continue to expand and strengthen its two core businesses, namely urban water services and water environment comprehensive renovation, in adherence to the development strategy of setting up asset management and operational management platforms and by way of comprehensive innovation. In achieving its yearly business goals and pursuing a momentous and leapfrogging growth, the Group will be dedicated to promote the ecological value of the entire industry and the creation of a community of shared future for mankind across the world.

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

27 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company increased by 20% to HK$4,471.3 million. Revenue increased by 16% to HK$24,596.9 million as a result of increase in revenue contribution from construction services for the water environmental renovation and water treatment services.

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	4,276.1	17%	55%	1,894.0	
– Joint ventures and associates				146.3	
				2,040.3	30%
Overseas					
– Subsidiaries	368.4	2%	24%	58.7	1%
	4,644.5	19%		2,099.0	31%
Water distribution services					
China					
– Subsidiaries	1,839.3	8%	50%	590.7	9%
– Joint ventures				132.8	2%
				723.5	11%
Overseas					
– Subsidiaries	502.6	2%	33%	108.3	2%
– Joint ventures				17.5	–
				125.8	2%
	2,341.9	10%		849.3	13%
Subtotal	6,986.4	29%		2,948.3	44%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
2. Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10%§	6,606.9	27%	24%	1,293.0	19%
– Interest income	–	–	–	105.9	2%
	6,606.9	27%	24%	1,398.9	21%
Construction of BOT water projects – China	8,698.6	35%	25%	1,654.1	24%
Subtotal	15,305.5	62%		3,053.0	45%
3. Technical services and sale of machineries for the water environmental renovation	2,305.0	9%	60%	773.0	11%
Business results	24,596.9	100%		6,774.3	100%
Others#				(2,303.0)	
Total				4,471.3	

\# *Others included head office and other corporate expense, net, of HK$359.9 million, share of profit of associates of HK$412.2 million, equity-settled share option expense of HK$4.7 million, finance costs of HK$2,104.6 million and profit attributable to holders of perpetual capital instruments of HK$246.0 million.*

§ *Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK$113.0 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	3,740.4	18%	55%	1,674.6	
– Joint ventures and associates				35.1	
				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%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
2. Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10%[§]	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%
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 comparison of the Group's financial results for the year ended 31 December 2018 and 2017 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2018	2017	Increase/(Decrease)		**2018**	2017	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	**4,276.1**	3,740.4	535.7	14%	**1,894.0**	1,674.6	219.4	13%
– Joint ventures and associates					**146.3**	35.1	111.2	317%
					2,040.3	1,709.7	330.6	19%
GP ratio	***55%***	*55%*		–				
Overseas								
– Subsidiaries	**368.4**	291.3	77.1	26%	**58.7**	47.7	11.0	23%
GP ratio	***24%***	*26%*		(2%)				
	4,644.5	4,031.7	612.8	15%	**2,099.0**	1,757.4	341.6	19%
Water distribution services								
China								
– Subsidiaries	**1,839.3**	1,611.2	228.1	14%	**590.7**	466.9	123.8	27%
– Joint ventures					**132.8**	173.8	(41.0)	(24%)
					723.5	640.7	82.8	13%
GP ratio	***50%***	*48%*		2%				
Overseas								
– Subsidiaries	**502.6**	228.5	274.1	120%	**108.3**	49.3	59.0	120%
– Joint ventures					**17.5**	–	17.5	100%
					125.8	49.3	76.5	155%
GP ratio	***33%***	*31%*		2%				
	2,341.9	1,839.7	502.2	27%	**849.3**	690.0	159.3	23%
Subtotal	**6,986.4**	5,871.4	1,115.0	19%	**2,948.3**	2,447.4	500.9	20%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the year ended 31 December 2018 and 2017 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2018	2017	Increase/(Decrease)		**2018**	2017	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%	**6,606.9**	7,335.3	(728.4)	(10%)	**1,293.0**	992.9	300.1	30%
– Interest income	**–**	–	–	–	**105.9**	52.6	53.3	101%
	6,606.9	7,335.3	(728.4)	(10%)	**1,398.9**	1,045.5	353.4	34%
GP ratio	***24%***	*14%*		10%				
Construction of BOT water projects								
– China	**8,698.6**	6,647.1	2,051.5	31%	**1,654.1**	1,133.4	520.7	46%
GP ratio	***25%***	*25%*		–				
Subtotal	**15,305.5**	13,982.4	1,323.1	9%	**3,053.0**	2,178.9	874.1	40%
3. Technical services and sale of machineries for the water environmental renovation	**2,305.0**	1,338.6	966.4	72%	**773.0**	506.2	266.8	53%
GP ratio	***60%***	*60%*		–				
Business results	**24,596.9**	21,192.4	3,404.5	16%	**6,774.3**	5,132.5	1,641.8	32%
Fair value gain on derivative financial instruments					**–**	39.6	(39.6)	(100%)
Others					**(2,303.0)**	(1,454.9)	(848.1)	58%
Total					**4,471.3**	3,717.2	754.1	20%

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 2018, the Group entered into service concession arrangements and entrustment agreements for a total of 937 water plants including 771* sewage treatment plants, 139 water distribution plants, 25 reclaimed water treatment plants and 2 seawater desalination plants. Total daily design capacity for new projects secured for the year was 5,756,813 tons including Build-Operate-Transfer ("BOT") projects of 320,000 tons, Transfer-Operate-Transfer ("TOT") projects of 175,000 tons, Public-Private Partnership ("PPP") projects of 1,824,250 tons, entrustment operation projects of 958,656 tons, and 2,478,907 tons through mergers and acquisitions.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 320,000 tons during the year. As such, the net increase in daily design capacity of the year was 5,436,813 tons. As at 31 December 2018, total daily design capacity was 36,824,633 tons.

* *During the year, the Group entered into service concession arrangements for 48 town-size sewage treatment plants with aggregate daily capacity of 32,511 tons.*

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	12,031,550	809,200	6,715,600	–	19,556,350
Not yet commenced operation/ Not yet transferred	8,418,341	1,065,000	5,625,094	50,000	15,158,435
Subtotal	20,449,891	1,874,200	12,340,694	50,000	34,714,785
Overseas					
In operation	225,998	376,750	1,207,100	300,000	2,109,848
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	225,998	376,750	1,207,100	300,000	2,109,848
Total	20,675,889	2,250,950	13,547,794	350,000	36,824,633
(Number of water plants)					
China					
In operation	274	10	77	–	361
Not yet commenced operation/ Not yet transferred	460	11	29	1	501
Subtotal	734	21	106	1	862
Overseas					
In operation	37	4	33	1	75
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	37	4	33	1	75
Total	771	25	139	2	937

MANAGEMENT DISCUSSION AND ANALYSIS

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	70	3,458,500	1,119.5	860.9	439.2
– Western China	59	1,823,000	543.9	866.9	471.9
– Shandong	31	1,502,000	426.0	486.7	251.1
– Eastern China	73	3,837,750	1,107.6	1,049.4	409.6
– Northern China	51	2,219,500	602.8	1,012.2	468.5
	284	12,840,750	3,799.8	4,276.1	2,040.3
Overseas	41	602,748	160.1	368.4	58.7
Subtotal	325	13,443,498	3,959.9	4,644.5	2,099.0
Water distribution services:					
Mainland China	77	6,715,600	1,441.5	1,839.3	723.5
Overseas§	34	1,507,100	103.5	502.6	125.8
Subtotal	111	8,222,700	1,545.0	2,341.9	849.3
Total	436	21,666,198	5,504.9	6,986.4	2,948.3

* *Excluded entrustment operation contracts*

§ *Included a seawater desalination plant*

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 2018, the Group had 274 sewage treatment plants and 10 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 12,031,550 tons (31 December 2017: 11,059,750 tons) and 809,200 tons (31 December 2017: 617,200 tons) respectively. The average daily processing volume is 10,704,386 tons and average daily treatment rate is 87%. The actual average contracted tariff charge of water treatment was approximately RMB1.10 per ton (31 December 2017: RMB1.08 per ton) for water plants. The actual aggregate processing volume for the year was 3,799.8 million tons, of which 3,493.2 million tons was contributed by subsidiaries and 306.6 million tons was contributed by joint ventures. Total revenue for the year was HK$4,276.1 million. Net profit attributable to shareholders of the Company was HK$2,040.3 million, of which HK$1,894.0 million was contributed by subsidiaries and HK$146.3 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 2018, there were 70 sewage treatment plants with total daily design capacity of 3,458,500 tons, representing an increase of 111,800 tons or 3% as compared with last year. The actual aggregate processing volume for the year amounted to 1,119.5 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$860.9 million and HK$439.2 million respectively during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services (Continued)

2.1.1a Mainland China *(Continued)*

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2018, there were 59 sewage treatment plants with total daily design capacity of 1,823,000 tons, representing an increase of 68,500 tons per day or 4% as compared with last year. The actual processing volume for the year was 543.9 million tons. The operating revenue of HK$866.9 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK$471.9 million.

Shandong

There were 31 plants in Shandong region. The total daily design capacity of Shandong region is 1,502,000 tons, representing an increase of 40,000 tons per day or 3% as compared with last year. The actual processing volume for the year was 426.0 million tons contributing operating revenue of HK$486.7 million during the year. Profit attributable to shareholders of the Company was HK$251.1 million.

Eastern China

There were 73 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 31 December 2018, the total daily design capacity of Eastern China had increased by 475,000 tons to 3,837,750 tons or 14% as compared with last year. The actual processing volume for the year amounted to 1,107.6 million tons and operating revenue was HK$1,049.4 million during the year. Profit attributable to shareholders of the Company was HK$409.6 million.

Northern China

Currently, the Group has 51 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 468,500 tons to 2,219,500 tons or 27% as compared with last year. The projects achieved actual processing volume of 602.8 million tons for the year. The operating revenue was HK$1,012.2 million during the year. Profit attributable to shareholders of the Company was HK$468.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services (Continued)

2.1.1b Overseas:

As at 31 December 2018, the Group had 37 sewage treatment plants and 4 reclaimed water plants in Portugal, Macau, Singapore, Australia and New Zealand. Total daily design sewage treatment capacity in operation was 602,748 tons. The actual processing volume for the year is 160.1 million tons. Total revenue for the year was HK$368.4 million. Profit attributable to shareholders of the Company was HK$58.7 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2018, the Group had 77 water distribution plants in operation. Total daily design capacity in operation was 6,715,600 tons (31 December 2017: 6,555,600 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 RMB2.07 per ton (2017: RMB2.14 per ton). The aggregate actual processing volume is 1,441.5 million tons, of which 794.2 million tons was contributed by subsidiaries, which recorded revenue of HK$1,839.3 million and 647.3 million tons was contributed by joint ventures. Imputed interest income of HK$25.5 million was recognised for the receivables under service concession arrangement of Plant No. 9 in Beijing. Profit attributable to shareholders of the Company was HK$723.5 million, of which profit of HK$590.7 million was contributed by subsidiaries and a profit of HK$132.8 million in aggregate was contributed by joint ventures.

2.1.2b Overseas:

As at 31 December 2018, the Group had 33 water distribution plants and a sea desalination plant which supplies drinking water in Portugal and Australia. Total daily design capacity in operation was 1,507,100 tons. The actual processing volume for the year is 103.5 million tons of which 69.8 million tons was contributed by subsidiaries and 33.7 million tons was contributed by joint ventures. Total revenue for the year was HK$502.6 million. Profit attributable to shareholders of the Company was HK$125.8 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 23 comprehensive renovation projects under construction during the year. The projects mainly located in Zhejiang Hangzhou, Zhejiang Taizhou, Chengdu Jianyang, Guangdong Heshan, Malaysia Terengganu, Inner Mongolia, Sichuan Luzhou and Beijing Liangshuihe. Last year, the Group had 18 comprehensive renovation projects under construction in Henan Luoyang, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia, Chengdu Jianyang, Yunnan Ling Qang, Malaysia Terengganu, Sichuan Luzhou and Beijing Tongzhou.

Revenue from comprehensive renovation projects decreased by HK$728.4 million from last year of HK$7,335.3 million to HK$6,606.9 million this year. Revenue decreased was mainly due to the decrease in contribution work for Inner Mongolia during the year.

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$105.9 million for this year (2017: HK$52.6 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK$353.4 million from last year of HK$1,045.5 million to HK$1,398.9 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 Shanxi, Shandong, Zhejiang, Guizhou, Hunan and Hebei provinces. Total revenue for construction of BOT water projects was HK$8,698.6 million (2017: HK$6,647.1 million) and profit attributable to shareholders of the Company was HK$1,654.1 million (2017: HK$1,133.4 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$2,305.0 million (2017: HK$1,338.6 million), representing 9% of the Group's total revenue. Profit attributable to shareholders of the Company was HK$773.0 million (2017: HK$506.2 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$24,596.9 million (2017: HK$21,192.4 million). The increase was mainly due to the increase in revenue from the Group's main business water treatment services and construction services for the water environmental renovation.

3.2 Cost of sales

Cost of sales for the year amounted to HK$15,820.9 million, compared to last year of HK$14,727.8 million. The increase was mainly due to the increase in operating costs of water plants amounted to HK$573.6 million and cost of technical services rendered of HK$390.8 million. Cost of sales mainly included construction costs of HK$11,417.4 million and operating costs of water plants of HK$3,481.2 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK$859.0 million, staff costs of HK$1,002.1 million and major overhaul charges of HK$139.1 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the year, gross profit margin increased from last year of 31% to 36%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was 55% (last year: 55%). Gross margin for sewage and reclaimed water treatment services in Overseas was slightly decreased to 24% (last year: 26%).

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 50% (last year: 48%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was 49% (last year: 46%). The slight increase was mainly due to the newly acquired projects which generated a relatively higher gross margin during the year. Gross margin for water distribution services in Overseas slightly increased to 33% (last year: 31%).

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects increased from last year of 14% to 24% this year. Gross margin increased as (1) the major comprehensive renovation projects for the year have a relatively higher average gross margin; and (2) the EPC projects undertook by the Group during the year in moving towards an asset-light enterprise (with the new subcontracting businesses including equipment and construction material procurement and partial construction) enjoyed higher gross margin.

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin *(Continued)*

Gross margin for construction of BOT water projects:

Gross margin for construction of BOT water projects in China was 25% (last year: 25%).

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: 60%).

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK$1,253.3 million during the year, compared to last year of HK$1,006.6 million. The amount for this year mainly included sludge treatment income of HK$138.7 million, government grants and subsidies of HK$65.1 million, pipeline installation income of HK$196.5 million, exchange gain of HK$17.2 million and VAT refund of HK$405.5 million.

3.5 Fair value gain on derivative financial instruments

On 9 December 2014, the Group entered into a subscription agreement with Beijing Enterprises Clean Energy Group Limited (the "BE Clean Energy"). The Group shall subscribe 17,721,519,000 shares at subscription price of HK$0.079. The total consideration is approximately HK$1.4 billion, which shall be paid in five 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 last 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 last 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$2,206.4 million, compared to last year of HK$1,753.2 million. The increase was mainly due to the increase in staff related expenses as a result of business expansion and increase in research and development expenses during the year.

3.7 Other operating expenses, net

Other operating expenses decreased from HK$343.3 million to HK$275.8 million during the year. The decrease in current year was mainly due to the reversal of impairment.

3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK$1,302.1 million (2017: HK$895.8 million) and interests on corporate bonds and notes payable of HK$915.6 million (2017: HK$661.8 million). The increase in finance costs was mainly due to the increase in bank and other borrowings of HK$5,940.5 million and corporate bond of HK$6,328.6 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 decreased to HK$459.7 million, compared to last year of HK$556.6 million. The decrease was mainly due to decrease in share of profits of BE Clean Energy.

3.10 Share of profits of joint ventures

Share of profits of joint ventures decreased to HK$454.6 million, compared to last year of HK$521.6 million. The decrease was mainly due to the conversion of joint ventures to subsidiaries as a result of the acquisition of additional interest in joint ventures during the year.

3.11 Income tax expense

Income tax expense for the year included the current PRC income tax of HK$814.7 million. The effective tax rate for the PRC operation was about 20% 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$711.4 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 an aggregate principal amount of RMB5,600 million were issued in 2016.

3.13 Property, plant and equipment

Property, plant and equipment increased by HK$380.9 million which was mainly due to the acquisition of subsidiaries in current year.

3.14 Investment properties

Investment properties 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$13.9 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$75,696.6 million (2017: HK$56,457.5 million) included:

By accounting nature:

	2018			2017		
	Non-current *HK$'M*	**Current** *HK$'M*	**Total** *HK$'M*	Non-current *HK$'M*	Current *HK$'M*	Total *HK$'M*
(i) Amounts due from contract customers	**34,722.6**	**3,008.6**	**37,731.2**	15,059.9	875.7	15,935.6
(ii) Receivables under service concession arrangements	**27,612.5**	**3,252.5**	**30,865.0**	33,322.9	2,614.9	35,937.8
(iii) Trade receivables	**2,903.6**	**4,196.8**	**7,100.4**	1,731.1	2,853.0	4,584.1
Total	**65,238.7**	**10,457.9**	**75,696.6**	50,113.9	6,343.6	56,457.5

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$37,731.2 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK$21,795.6 million (non-current portion increased by HK$19,662.7 million and current portion increased by HK$2,132.9 million), which was mainly due to the (1) recognition of construction revenue; (2) conversion of joint ventures to subsidiaries as a result of the acquisition of additional interest in joint ventures; and (3) reclassification from receivables under service concession arrangements in accordance with the newly effective HKFRS 15 during the year. There was no such reclassification in the last year;

(ii) Receivables under service concession arrangements of HK$30,865.0 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 decrease in balance by HK$5,072.8 million (non-current portion decreased by HK$5,710.4 million and current portion increased by HK$637.6 million) was mainly due to the reclassification to amounts due from contract customers in accordance with the newly effective HKFRS 15. There was no such reclassification in the last year; and

(iii) Trade receivables of HK$7,100.4 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$2,516.3 million (non-current portion increased by HK$1,172.5 million and current portion increased by HK$1,343.8 million).

By business nature:

	2018 ***HK$'M***	2017 *HK$'M*
Water treatment services by BOT and TOT projects	**53,185.9**	40,544.6
Construction services of comprehensive renovation projects	**19,817.2**	14,706.7
Technical and consultancy services and other businesses	**2,693.5**	1,206.2
Total	**75,696.6**	56,457.5

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

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$53,185.9 million (2017: HK$40,544.6 million). Total receivables for the construction service of comprehensive renovation projects were HK$19,817.2 million (2017: HK$14,706.7 million). Total receivables for technical and consultancy services and other businesses were HK$2,693.5 million (2017: HK$1,206.2 million).

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.

3.17 Investments in joint ventures

Investments in joint ventures increased by HK$814.4 million, mainly due to the acquisition of a group of joint ventures during the year.

3.18 Investments in associates

Investments in associates increased by HK$223.9 million, mainly due to the share of profit of associates during the year.

3.19 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK$1,119.2 million (non-current portion increased by HK$482.1 million and current portion increased by HK$637.1 million), mainly due to the increase in prepayments of construction cost.

3.20 Other payables and accruals

Other payables and accruals increased by 2,140.8 million. The increase was mainly due to the increase in other liabilities of HK$855.2 million during the year.

3.21 Cash and cash equivalents

Cash and cash equivalents increased by HK$2,998.8 million, mainly due to the proceeds from the corporate bonds issued during the year.

3. FINANCIAL ANALYSIS *(Continued)*

3.22 Bank and other borrowings

Bank and other borrowings increased by HK$5,940.5 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$6,328.6 million which was mainly due to the issuance of corporate bonds with principal amounts of RMB6,000 million during the year.

3.24 Trade payables

The increase in trade payables by HK$6,185.1 million was mainly due to increase in trade payables to subcontractors for construction services of the water environmental renovation projects during the year.

3.25 Deferred Income

Deferred income mainly represents the recognition of deferred sewage water treatment income in relation to the issuance of an asset-backed note in last 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 and RMB. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars and RMB.

As at 31 December 2018, the Group's cash and cash equivalents amounted to HK$12,937.6 million (31 December 2017: HK$9,938.8 million).

The Group's total borrowings amounted to HK$56,027.9 million (31 December 2017: HK$43,951.8 million) comprised bank and other borrowings of HK$32,073.4 million (31 December 2017: HK$26,132.9 million), finance lease payables of HK$401.1 million (31 December 2017: HK$498.2 million), notes payable of HK$2,979.0 million (31 December 2017: HK$3,074.9 million) and corporate bonds of HK$20,574.4 million (31 December 2017: HK$14,245.8 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 2018, the Group had banking facilities amounting to HK$43.5 billion, of which HK$23.4 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK$37,812.1 million (31 December 2017: HK$33,041.3 million).

3. FINANCIAL ANALYSIS *(Continued)*

3.26 Liquidity and financial resources *(Continued)*

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 1.14 as at 31 December 2018 (31 December 2017: 1.03). The increase in the gearing ratio as at 31 December 2018 was mainly due to the increase in corporate bonds and bank and other borrowings during the year. The corresponding funds were mainly utilised for the acquisition and construction of various water projects in the PRC.

3.27 Capital expenditures

During the year, the Group's total capital expenditures were HK$9,709.1 million (2017: HK$10,641.4 million), of which HK$608.5 million was paid for the acquisition of property, plant and equipment and intangible assets; HK$6,912.0 million was spent on construction and acquisition of water plants, HK$2,188.6 million represented the consideration for acquisition of equity interests in subsidiaries and capital injections in joint ventures and an associate.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed 16,490 employees. Total staff cost for the year ended 31 December 2018 was HK$2,373,019,000 (2017: HK$2,175,852,000). 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 the then 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. 2,580,000 share options were exercised, no share option was lapsed or cancelled during the year ended 31 December 2018. As at 31 December 2018, the Company had 264,936,000 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 2.84% of the Company's ordinary shares in issue as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2018, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings and the corporate bonds of the Group as at 31 December 2018 are secured by:

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising 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 and investment properties of the Group;

(iii) guarantees given by the Company and/or its subsidiaries;

(iv) pledges over the Group's equity interests in certain subsidiaries;

(v) pledges over certain of the Group's bank balances; and/or

(vi) pledges over certain of the Group's trade receivables and amounts due from contract customers.

Save as disclosed above, at 31 December 2018, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

Majority of the subsidiaries of the Company operates in the PRC with most of its transactions denominated and settled in RMB. Fluctuations of exchanges rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidation accounts. If RMB appreciates/depreciates against Hong Kong dollar, the Group would record a(n) increase/decrease in the Group's net asset value. Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

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

Executive Directors

Mr. Li Yongcheng *(Chairman)*
Mr. E Meng *(Vice Chairman)*
Mr. Jiang Xinhao
Mr. 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
Mr. Wang Kaijun
Dr. Lee Man Chun Raymond

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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Role and Function *(Continued)*

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.

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 2018.

	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
Name of Director	**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	✓	✓		
Mr. Wang Kaijun	✓	✓		
Dr. Lee Man Chun Raymond	✓			

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held three Board meetings and three general meetings during the financial year ended 31 December 2018. Directors present in those Board meetings were either in person or through electronic means of communication. Attendance records of the Board meetings and general meetings for the year ended 31 December 2018 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)*	3/3	3/3
Mr. E Meng *(Vice Chairman)*	3/3	0/3
Mr. Jiang Xinhao	2/3	0/3
Mr. Zhou Min *(Chief Executive Officer)*	3/3	0/3
Mr. Li Haifeng	3/3	0/3
Mr. Zhang Tiefu	3/3	0/3
Ms. Qi Xiaohong	2/3	0/3
Mr. Ke Jian	2/3	0/3
Mr. Tung Woon Cheung Eric	3/3	3/3
Mr. Li Li	2/3	0/3
INEDs		
Mr. Shea Chun Lok Quadrant	3/3	2/3
Mr. Zhang Gaobo	2/3	1/3
Mr. Guo Rui	3/3	1/3
Mr. Wang Kaijun	2/3	0/3
Dr. Lee Man Chun Raymond	1/3	0/3

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.

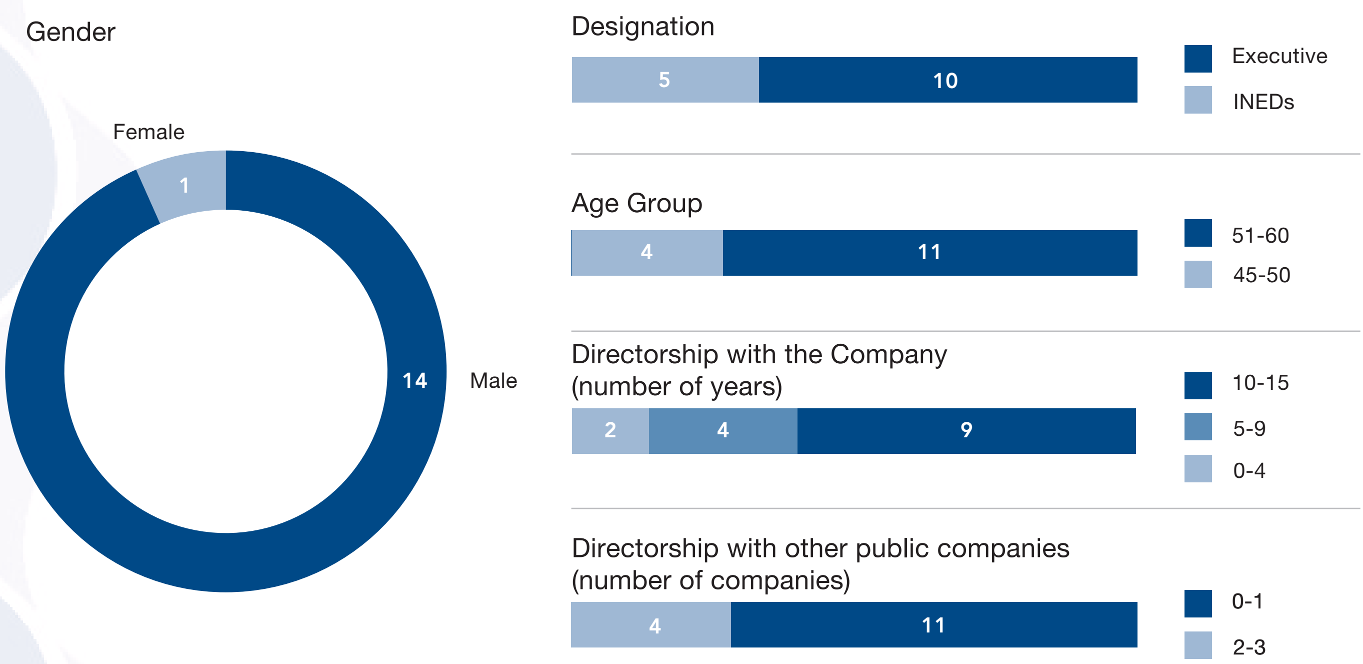
CORPORATE GOVERNANCE REPORT

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 that is set out in the section headed "Nomination Committee" in this corporate governance report. The following chart illustrates how the Company achieves diversity on the Board:



The names of the current Directors and their biographies (including their roles, functions, terms of office, skills and experiences) 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 2018, 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 2018 to 30 June 2018 and for the year ended 31 December 2018, 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.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The Audit Committee held two meetings during the financial year ended 31 December 2018. Details of attendance of each Audit Committee members are as follows:

Name of Audit Committee members	Number of Audit Committee meetings attended/held
Mr. Shea Chun Lok Quadrant *(Chairman of Audit Committee)*	2/2
Mr. Zhang Gaobo	1/2
Mr. Guo Rui	2/2

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 major responsibilities of the Nomination Committee include:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of the INEDs; and

4. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive officer.

Summary of work done during the year: reviewed and evaluated the structure, size and composition (including the skills, knowledge and experience) of the Board to complement the Company's corporate strategy, reviewed and recommended the re-appointment of the retiring Directors at the general meetings of the Company and assessed independence of the INEDs.

BOARD COMMITTEES *(Continued)*

Nomination Committee *(Continued)*

As the Company recognises that having a board diversity policy can enhance the quality of its performance and is an essential element in maintaining the Company's competitive advantage, the Board adopted a board diversity policy in compliance with the Listing Rules.

The Nomination Committee has adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and procedures of appointment and re-appointment of a Director. In evaluating and selecting candidate(s) for directorship, the Nomination Committee shall follow the criteria of nomination and appointment of the directors set out in Nomination Policy, including but not limited to the integrity, skills and expertise, professional and educational backgrounds, potential time commitment for the board and/or committee responsibilities and the elements of the board diversity policy of the Company. The Nomination Committee shall make recommendation to the Board to appoint the appropriate person among the candidates nominated for directorship. Suitable candidate(s) shall be appointed as director(s) by the Company in accordance with the Bye-laws and the Listing Rules.

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

Remuneration Committee

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

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

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.

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

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

AUDITORS' REMUNERATION

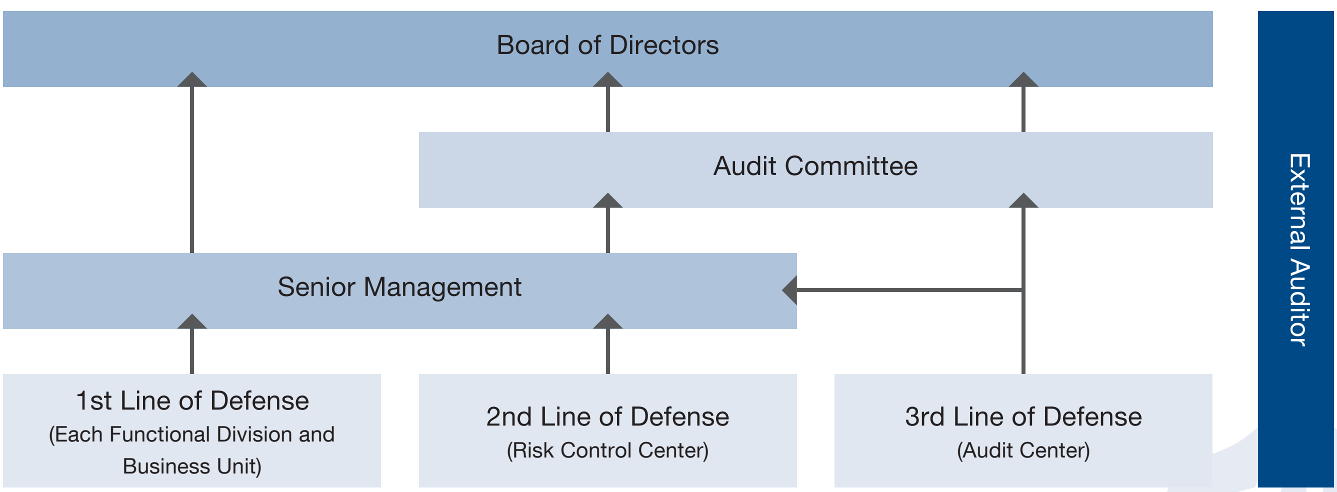
The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, external auditors' remuneration for audit services was approximately HK$12.0 million and for non-audit service assignments was approximately HK$5.3 million, which represented agreed-upon procedures engagement such as for the Group's interim financial report, taxation advisory and compliance services. The Audit Committee had satisfied that the non-audit services in 2018 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 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.

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.

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 regarding findings and deficiencies for prior year.

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 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 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 key risk indicators monitoring and 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, 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.

During the year, the risk control center has presented updated reports to the Audit Committee on implementation of risk management and the effectiveness of the risk management and internal control systems of the Group. The Audit Committee closely monitored and reported to the Board annually such effectiveness on an ongoing basis.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

During the year, the 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 as well as internal control.

For the year ended 31 December 2018, 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.

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 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 confidential.

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.

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 2018, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The responsibility of Ernst & Young, the Company's external auditors, is set out on page 80 to 86 of the "Independent Auditors' Report" in this annual report.

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric, as the executive Director, is also the company secretary of the Company. During the year ended 31 December 2018, Mr. Tung has complied with the relevant professional training required under Rule 3.29 of the Listing Rules. The biographical details of Mr. Tung is set out in the section headed "Directors and Senior Management" on page 47 in this annual report.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

The Company adopted a dividend policy. It aims to provide Shareholders with stable and sustainable returns.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. Any payment of the dividend by the Company is also subject to any restrictions under the Laws of Bermuda, the Bye-laws and any applicable laws, rules and regulations.

The declaration and payment of any dividend shall be determined at the sole discretion of the Board having taken into account, inter alia, the Group's financial performance, retained earnings and distributable reserves of the Group, the Group's working capital requirements and future expansion plans, the Group's liquidity position, general economic conditions, business cycle of the Group's business, contractual restrictions of the Group, the Shareholders' and the investors' expectation and any other factors that the Board deems relevant.

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.

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.

SHAREHOLDERS' RIGHTS *(Continued)*

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 "Investor Relations" 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 2018, 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 2018, in the opinion of the Board, the Company complied with all code provisions set out in the CG Code, with deviation mentioned below.

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Li Yongcheng ("Mr. Li"), aged 57, 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), a company listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 60, 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), a company listed on the main board of the Stock Exchange and the chairman and an executive director of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. Mr. E Meng graduated from China Science and Technology University with a master's degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E Meng had extensive experience in economics, finance and enterprise management.

Mr. Jiang Xinhao ("Mr. Jiang"), aged 54, 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), a company listed on the main board of the Stock Exchange. Mr. Jiang is also a non-executive director of China Gas Holdings Limited (Stock Code: 384), a company listed on the main board of the Stock Exchange. Mr. Jiang was an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925), a company listed on the main board of the Stock Exchange, between 2011 and 2016. Mr. Jiang is a senior economist and graduated from Fudan University in 1987 with a bachelor's degree in law, and then in 1992 with a master's degree in law from Fudan University. 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 AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Zhou Min ("Mr. Zhou"), aged 55, 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 degree 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"), former name as 李海峰, aged 48, 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), a company listed on the main board of the Stock Exchange.

Mr. Zhang Tiefu, aged 56, 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 51, 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's degree in economic management at Capital University of Economics and Business. She has worked for the Beijing Municipal Government for many years.

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Ke Jian ("Mr. Ke"), aged 50, was appointed as an executive director of the Company in June 2011 and is a vice president of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of the Stock Exchange and a vice chairman, chief executive officer and an executive director of Beijing Enterprises Environment Group Limited (Stock Code: 154), a company listed on the main board of the Stock Exchange. 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 48, 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 53, 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 52, 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's 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 a 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 54, 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, chairman and the chief executive officer of OP Financial Limited (Stock Code: 1140), a company listed on 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 51, 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 北京明鋭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's degree of computer engineering from Northwestern University, U.S.A.

Mr. Wang Kaijun ("Mr. Wang"), aged 58, was appointed as an independent non-executive director of the Company in August 2008. Mr. Wang holds a doctor's 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 48, *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 (Stock Code: 2314), a company listed on main board of the Stock Exchange. 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 was awarded the "Young Industrialist Award of Hong Kong 2002" and received an award for "2003 Hong Kong Ten Outstanding Young Persons Selection Awardees". He is also the chairman of Raymond Lee Charitable Foundation since 2017. 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 25 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 2018.

PRINCIPAL ACTIVITIES

The Company is an investment company and the holding company of the Group. The Group is principally engaged in construction of water treatment plants and provision of construction services for comprehensive renovation projects in the PRC, Malaysia and Australia; provision of sewage and reclaimed water treatment and seawater desalination services in the PRC, the Republic of Singapore, the Portuguese Republic ("Portugal"), Australia and New Zealand; distribution and sale of piped water in the PRC, Portugal and Australia; 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 Australia; 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 2018 and the Group's financial position at that date are set out in the consolidated financial statements on pages 87 to 266. An interim distribution of HK9.5 cents per ordinary share was paid on 19 October 2018. The Board recommended to make final distribution of HK8.3 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, 28 June 2019.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019 (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, 31 May 2019, 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 at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 27 May 2019.

For Entitlement to Proposed Final Distribution

The register of members will be closed from Thursday, 6 June 2019 to Tuesday, 11 June 2019 (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 at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 5 June 2019. 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, 28 June 2019.

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 30 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 4 to 6 and the corporate governance report on pages 31 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 reports of the Company for the financial years ended 31 December 2018, 2017, 2016, 2015, 2014 is set out on pages 267 to 268. 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 15% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 20% of the Group's total purchases for the year. Sales to the largest customer accounted for 5% of the Group's revenue and purchases from the largest supplier accounted for 7% 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 2018 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, placing of new shares and subscription of new shares of the Company.

REPORT OF THE DIRECTORS

DEBENTURE ISSUED

As at 31 December 2018, 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 2018, 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 2018, 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 2018, 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 RMB10,000,000, with maturity date in November 2019 and interest rate at 4.00% per annum.

As at 31 December 2018, 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 2018, 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.

DEBENTURE ISSUED *(Continued)*

As at 31 December 2018, the outstanding principal amounts of extendable 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. After the first five years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every 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 bond holders shall not be entitled to sell back the bonds to the wholly-owned subsidiary of the Company.

As at 31 December 2018, the outstanding principal amounts of extendable 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. After the first five years, the wholly-owned subsidiary of the Company shall have a right to adjust the coupon rate for a cycle of every 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 note holders shall not be entitled to sell back the notes to the wholly-owned subsidiary of the Company.

As at 31 December 2018, 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% and 5.50% per annum, respectively.

As at 31 December 2018, the outstanding principal amounts of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was US$500,000,000, with maturity date in May 2023 and fixed interest rate at 4.95% per annum.

As at 31 December 2018, the outstanding principal amounts of medium-term notes issued by the Company was RMB3,000,000,000, with maturity dates in May 2023 and May 2025 and interest rates at 4.92% and 5.1% per annum, respectively. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

As at 31 December 2018, the outstanding principal amounts of medium-term notes issued by the Company was RMB3,000,000,000, with maturity dates in July 2023 and July 2025 and interest rates at 4.45% and 4.72% per annum, respectively. Two years prior to the maturity, the Company shall be entitled to adjust the coupon rate of medium-term notes and the notes holders shall be entitled to sell back the notes to the Company.

DEBENTURE ISSUED *(Continued)*

The reasons for issuance of the above bonds or notes are used for the construction, operation or acquisition of certain water project and/or "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 2018, the Company's reserves available for distribution to shareholders of the Company amounted to HK$5,325,459,000.

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

DIRECTORS *(Continued)*

Independent Non-executive Directors
Mr. Shea Chun Lok Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Mr. Wang Kaijun
Dr. Lee Man Chun Raymond

In accordance with Bye-law 99(B), Mr. Jiang Xinhao, Mr. Zhou Min, Mr. Ke Jian, Mr. Li Li and Mr. Shea Chun Lok Quadrant 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 2018 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 2018 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. E Meng holds a qualification of senior accountant in the PRC.

(2) Mr. Jiang Xinhao holds a qualification of senior economist in the PRC.

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
	Beijing Enterprises Environmental Construction Limited	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 167 to 169 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 2018, 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 interests	Family interests	Corporate interests	Other interests	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	3.2729%
Mr. Li Haifeng	80,000	–	–	–	80,000	0.0008%
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 2018 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 2018 of 9,412,988,721 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 2018 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 2018, 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 558,159,469 Shares, representing approximately 5.93% of the ordinary Shares of the Company in issue as at 31 December 2018. 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 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 ordinary Shares of the Company 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 ordinary Shares of the Company on the Stock Exchange on the date of grant of the share options; (ii) the average closing price of the ordinary Share of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the ordinary Shares of the Company. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the share capital of the Company.

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 will lapse upon expiry or the grantee ceases to be an employee of the Group pursuant to the terms of the Scheme.

SHARE OPTION SCHEME *(Continued)*

During the year ended 31 December 2018, no option was granted under the Scheme, the movements in the share options of the Company during the year are set out as follows:

	Number of Share Options									
Category of Participants/Name	As at 1 January 2018	Granted	Exercised	Lapsed	Cancelled	As at 31 December 2018	Grant Date	Exercisable Period	Exercise Price *HK$*	Weighted Average Closing Price per Share *HK$*
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)*

Category of Participants/Name	Number of Share Options: As at 1 January 2018	Granted	Exercised	Lapsed	Cancelled	As at 31 December 2018	Grant Date	Exercisable Period	Exercise Price HK$	Weighted Average Closing Price per Share HK$
Shea Chun Lok Quadrant	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000				
Zhang Gaobo	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	–
	800,000	–	–	–	–	800,000				
Guo Rui	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	400,000	–	–	–	–	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	103,900,000	–	–	–	–	103,900,000				
Eligible Participants including Employees										
In aggregate	8,326,000 *(Note 2)*	–	(300,000)	–	–	8,026,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	4.220 *(Note 1)*
	19,534,000 *(Note 2)*	–	(300,000)	–	–	19,234,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	4.220 *(Note 1)*
	29,396,000 *(Note 2)*	–	(700,000)	–	–	28,696,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	5.566 *(Note 1)*
	52,450,000 *(Note 2)*	–	(1,280,000)	–	–	51,170,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	5.745 *(Note 1)*
	53,910,000 *(Note 2)*	–	–	–	–	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	165,616,000	–	(2,580,000)	–	–	163,036,000				
Total	269,516,000	–	(2,580,000)	–	–	266,936,000				

SHARE OPTION SCHEME *(Continued)*

Notes:

1. These represented the weighted average closing price per Shares immediately before the dates of the share options exercised by eligible participants including employees during the year.

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

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the year ended 31 December 2018.

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.

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 2018, the Company had 266,936,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive approximately HK$604,876,000 (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$244,620,000.

SHARE AWARD SCHEME

The Company has adopted a share award scheme (the "Share Award Scheme") on 17 December 2018. The purpose of the Share Award Scheme is to recognise the contributions by certain employees, directors and consultants of the Group and encourage them for the continual operation and development of the Group, and attract excellent talent for further development of the Group.

The Share Award Scheme shall be valid and effective for a term of five years commencing on the adoption date and ending on the expiry of the trust period which may be extended by the Board at its absolute discretion.

Pursuant to the Share Award Scheme, the Company shall cause to pay the trustee the sum for the purchase of the existing awarded shares and the related expenses. The trustee shall purchase the existing Shares from the market and shall hold such Shares until they are vested in accordance with the scheme rules. Subject to the terms and conditions of the Share Award Scheme and the fulfillment of all vesting conditions to the vesting of the awarded shares, the awarded shares shall be held by the trustee on behalf of the selected participants until the end of the vesting period. The awarded shares will be transferred by the trustee to the selected participants.

The Company shall not make any further award of awarded shares which will result in the aggregate number of Shares held by the trustee under the Share Award Scheme at any single point in time exceed two per cent (2%) of the total issued share capital of the Company from time to time. Further details of the Share Award Scheme are set out in the announcement of the Company dated 17 December 2018.

During the year ended 31 December 2018, no Shares had been awarded under the Share Award Scheme and no Shares was acquired by the trustee.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the transactions as disclosed in the sections headed "Related Party Transactions" and "Connected Transactions" below, there were no other transactions, arrangements or contracts of significance to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, 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

		Number of ordinary Shares held, capacity and nature of interest			
Name	*Notes*	**Beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's total number of issued share** *(Note 5)*
Beijing Enterprises Environmental Construction Limited ("BE Environmental")		3,993,859,356	–	3,993,859,356	42.43%
Beijing Enterprises Holdings Limited ("BEHL")	*(1)*	–	3,993,859,356	3,993,859,356	42.43%
Modern Orient Limited ("MOL")	*(2)*	–	3,993,859,356	3,993,859,356	42.43%
Beijing Enterprises Investments Limited ("BEIL")	*(2)*	–	3,993,859,356	3,993,859,356	42.43%
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	*(3)*	–	3,993,859,356	3,993,859,356	42.43%
Beijing Enterprises Group Company Limited ("BEGCL")	*(4)*	–	3,993,859,356	3,993,859,356	42.43%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

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

Notes:

(1) The interest disclosed comprises the Shares owned by BE Environmental. BE Environmental beneficially holds 3,993,859,356 Shares (representing approximately 42.43% in the share capital of the Company). BE Environmental is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the Shares owned by BE Environmental.

(2) The interest disclosed comprises the Shares owned by BEHL (through BE Environmental). MOL and BEIL are the immediate shareholders of BEHL and collectively hold approximately 20.90% of the issued share capital of BEHL. Accordingly, each of MOL and BEIL is deemed to be interested in the Shares owned by BEHL (through BE Environmental).

(3) The interest disclosed comprises the Shares owned by BEIL and MOL (through BEHL and BE Environmental). BEHL is held directly as to approximately 41.06% by BE Group (BVI). MOL is a wholly-owned subsidiary of BEIL, which is in turn directly held as to approximately 72.72% by BE Group (BVI). Accordingly, BE Group (BVI) is deemed to be interested in the Shares indirectly owned by BEIL and MOL (through BEHL and BE Environmental).

(4) The interest disclosed comprises the Shares owned by BE Group (BVI) as detailed in note (3) above. BE Group (BVI) is a wholly-owned subsidiary of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI).

(5) The percentage represented the number of Shares over the total issued Shares of the Company as at 31 December 2018 of 9,412,988,721 Shares.

Save as disclosed above, as at 31 December 2018, 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

The Company repurchased a total of 2,900,000 ordinary shares of the Company on the Stock Exchange for the year ended 31 December 2018 at an aggregate consideration of HK$12,465,820 (before expense). All the repurchased shares were subsequently cancelled by the Company. Details of repurchase of such ordinary shares were as follows:

Month/year	Number of ordinary shares repurchased	Price per Share Highest *(HK$)*	Price per Share Lowest *(HK$)*	Aggregate Consideration paid *(HK$)*
April 2018	2,900,000	4.50	4.23	12,465,820

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

For the year ended 31 December 2018, the Group redeemed all the outstanding principal amount of USD500,000,000 4.625% bonds due 2018 issued by a wholly-owned subsidiary of the Company ("2018 Bonds") on the maturity date of the 2018 Bonds at the redemption amount of USD480,000,000 plus accrued interest.

Subsequent to the redemption of 2018 Bonds, they were cancelled and delisted from the Stock Exchange.

Redemption of RMB200,000,000 4.00% Bonds Due 2019

For the year ended 31 December 2018, the Group redeemed and cancelled one year prior to the maturity date RMB190,000,000 from the outstanding principal amount of RMB200,000,000 4% bonds due 2019 ("2019 Bonds") guaranteed by a wholly-owned subsidiary of the Company and issued by a 60%-owned subsidiary of the Company at the redemption amount of RMB190,000,000 plus accrued interest was paid. The amount of RMB10,000,000, being the outstanding amount of principal amount of the 2019 Bonds, is scheduled to be redeemed on the maturity date in year 2019 as the bondholders do not register for the redemption within prescribed deadline.

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 2018.

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.

REPORT OF THE DIRECTORS

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

(a) Acquisition of 80% Equity Interest in Yan Ji Jing Cheng Environmental Co., Ltd.（延吉京城環保產業有限公司）*

On 4 January 2018, Beijing Enterprises Water (China) Investment Co., Ltd.*（北控水務（中國）投資有限公司）("BEWG (China) Investment", a wholly-owned subsidiary of the Company) as purchaser and BMEI Co., Ltd. ("BMEI", an associate of BEHL) as vendor entered into the equity transfer agreement pursuant to which BEWG (China) Investment agreed to acquire and BMEI agreed to sell 80% equity interest in Yan Ji Jing Cheng Environmental Co., Ltd.*（延吉京城環保產業有限公司）("Yan Ji") equity interest at a consideration of RMB54,140,000 (equivalent to approximately HK$65,049,000).

Yan Ji was incorporated in the PRC with limited liability and was wholly-owned by BMEI prior to the acquisition. The acquisition could open the channel of cooperation with the municipal government of Yanji city and laid a foundation for exploring other projects in Jilin province.

BEHL is a connected person of the Company under the Listing Rule by virtue of being the controlling shareholder of the Company. As BEHL beneficially owns not less than 30% equity interest in BMEI. BMEI is an associate of BEHL, therefore, the entering into of the equity transfer agreement constitutes connected transaction of the Company under Chapter 14A of the Listing Rules. Such acquisition was subject to the reporting and announcement requirements but exempt from the independent 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.

* *For identification purpose only*

CONNECTED TRANSACTIONS *(Continued)*

(A) Connected Transaction *(Continued)*

(b) Subscription of New Shares under Specific Mandate by BE Environmental

On 24 January 2018, the Company entered into the subscription agreement with BE Environmental, a controlling shareholder of the Company, and the Company conditionally agreed to allot and issue, and BE Environmental conditionally agreed to subscribe for 169,491,525 new ordinary Shares of HK$0.10 each with aggregate nominal value of HK$16,949,152.50 at a subscription price of HK$5.90 per ordinary Share, representing a discount of approximately 5.8% to the closing price of HK$6.26 per ordinary Share as quoted on the Stock Exchange on 24 January 2018, being the date of the subscription agreement (the "Subscription").

In accordance with the terms and conditions of the subscription agreement, a total of 169,491,525 new ordinary Shares had been successfully allotted and issued to BE Environmental on 4 April 2018 under specific mandate granted by independent shareholders in the special general meeting of the Company held on 29 March 2018.

The gross proceeds and net proceeds from the Subscription were approximately HK$1,000 million and approximately HK$999.5 million (equivalent to a net subscription price of approximately HK$5.90 per ordinary Share) respectively. The net proceeds had been applied as HK$743 million for repayment of loans, HK$68.5 million for the construction of water plants in the PRC under BOT projects and HK$188 million for the construction of water environment comprehensive renovation projects in the PRC.

BE Environmental is a controlling shareholder of the Company and therefore a connected person under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements 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) 2018 Deposit Services Master Agreement

References are made to the deposit services master agreement (the "Deposit Services Master Agreement") dated 31 March 2015 and the supplemental agreement to the Deposit Services Master Agreement (the "Supplemental Agreement") dated 22 December 2015 entered into between the Company and Beijing Enterprises Group Finance Co., Ltd. ("BG Finance") pursuant to which, the Group might, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time during the period from 31 March 2015 to 31 December 2017.

As the Deposit Services Master Agreement together with the Supplemental Agreement expired on 31 December 2017, and in order to regulate such transactions that continues to take place, after 31 December 2017, the Company and BG Finance entered into the deposit services master agreement ("2018 Deposit Services Master Agreement") on 30 October 2017 whereby the Company and BG Finance continues 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 cumulative daily outstanding deposits balance placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2018 Deposit Agreement will not exceed HK$2,900 million for each of the three years ending 31 December 2018, 2019 and 2020 (the "Annual Cap"). The 2018 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.

The rate at which interest will accrue on any deposit placed by the Group with BG Finance under the 2018 Deposit Services Master Agreement will not be lower than the following:

i. the benchmark 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 at the same period.

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transaction *(Continued)*

(a) 2018 Deposit Services Master Agreement (Continued)

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 2018 Deposit Services Master Agreement constitutes continuing connected transactions of the Company which is subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The above continuing connected transaction was carried out within the Annual Cap, details of which are set out in note 52 to the financial statements.

(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 (Revised) *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 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.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

Pursuant to the 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).

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$1,972,000.

EQUITY-LINKED AGREEMENTS

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

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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

Date of the Agreement(s)/ Issuance of Notes	Nature of the Agreement(s)/Notes	Aggregate amount *(million)*	Final Maturity	Specific performance obligations
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	*Note 1*
29 April 2015 and 5 July 2017	Term loan facility with a bank	HK$1,172	April 2020	*Note 1*
8 May 2015	Note purchase agreement with an institutional investor	HK$700	May 2020	*Note 1*
27 November 2015	Term loan facility with a bank	HK$3,000	November 2020	*Note 2*
28 December 2015	Term loan facilities with three banks	HK$1,760	December 2020	*Note 2*
18 December 2017	Term loan facility with a bank	HK$4,000	December 2022	*Note 2*
24 April 2018	Subscription agreement for issuance of bonds	US$500	May 2023	*Note 1*
25 May 2018	Issuance of medium-term notes	RMB2,000	May 2023 *Note 4*	*Note 1*
		RMB1,000	May 2025 *Note 4*	*Note 1*
20 July 2018	Issuance of medium-term notes	RMB1,000	July 2023 *Note 4*	*Note 1*
		RMB2,000	July 2025 *Note 4*	*Note 1*
14 December 2018	Term loan facilities with various banks	AU$210	Dec 2023	*Note 3*
11 January 2019	Issuance of medium-term notes	RMB1,000	Jan 2026 *Note 4*	*Note 1*
11 January 2019	Issuance of medium-term notes	RMB1,000	Jan 2029	*Note 1*

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

Notes:

1. (i) BEHL owns or controls at least/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.

2. (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）("Beijing SASAC").

3. (i) BEHL owns, directly or indirectly, more than 35% of the issued share capital of the Company; (ii) BEHL is the single largest shareholder of the Company; (iii) 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 and (iv) BEGCL is effectively wholly-owned, supervised and controlled by Beijing SASAC.

4. Two years prior to the maturity pursuant to the terms and conditions in the medium-term notes, the Company shall be entitled to adjust the coupon rate of the medium-term notes and the note holders shall be entitled to sell back the medium-term notes to the Company.

* *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; or (c) holders of medium-term notes may have the option to sell back the medium-term notes to the Company.

EQUITY FUNDS RAISING BY PRIVATE PLACEMENT AND SHARES SUBSCRIPTION

(A) Placing of New Shares under General Mandate

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 respectively in relation to the placing of 450,000,000 new ordinary Shares of HK$0.10 each with aggregate nominal value of HK$45,000,000 at a placing price of HK$5.90 per ordinary Share, representing a discount of approximately 5.8% to the closing price of HK$6.26 per ordinary Share as quoted on the Stock Exchange on 24 January 2018, being the date of the placing agreement. Pursuant to the placing agreement, the placing agents conditionally agreed with the Company to place, through the placing agents, on a fully underwritten basis, 450,000,000 new ordinary Shares to not less than six placees who were professional, institutional and other investors independent of and not connected with the Company, the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

In accordance with the terms and conditions of the placing agreement, a total of 450,000,000 new ordinary Shares had been successfully placed to the placees on 1 February 2018 under general mandate granted by shareholders in the annual general meeting of the Company held on 1 June 2017.

The gross proceeds and net proceeds from the placing were HK$2,655.0 million and approximately HK$2,614.7 million (equivalent to a net placing price of approximately HK$5.81 per ordinary Share) respectively. The net proceeds were fully utilized as follows:

Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
HK$2,614.7 million	(i) approximately HK$472.0 million for repayment of loans;	(i) HK$513.0 million for repayment of loans;
	(ii) approximately HK$823.0 million for the construction of water plants in the PRC under BOT projects;	(ii) HK$352.0 million for the construction of water plants in the PRC under BOT projects;
	(iii) approximately HK$250.0 million for the acquisition of concession rights of TOT water projects in the PRC;	(iii) HK$954.0 million for the acquisition of concession rights of TOT water projects in the PRC;

EQUITY FUNDS RAISING BY PRIVATE PLACEMENT AND SHARES SUBSCRIPTION *(Continued)*

(A) Placing of New Shares under General Mandate *(Continued)*

Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
	(iv) approximately HK$965.0 million for the construction of water environment comprehensive renovation projects in the PRC; and	(iv) HK$695.7 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.	(v) HK$100.0 million for general working capital of the Group.

(B) Subscription of New Shares under Specific Mandate by BE Environmental

On 24 January 2018, the Company entered into the subscription agreement with BE Environmental, a controlling shareholder of the Company, and the Company conditionally agreed to allot and issue, and BE Environmental conditionally agreed to subscribe for 169,491,525 new ordinary Shares of HK$0.10 each with aggregate nominal value of HK$16,949,152.50 at a subscription price of HK$5.90 per ordinary Share, representing a discount of approximately 5.8% to the closing price of HK$6.26 per ordinary Share as quoted on the Stock Exchange on 24 January 2018, being the date of the subscription agreement.

In accordance with the terms and conditions of the subscription agreement, a total of 169,491,525 new ordinary Shares had been successfully allotted and issued to BE Environmental on 4 April 2018 under specific mandate granted by independent shareholders in the special general meeting of the Company held on 29 March 2018.

EQUITY FUNDS RAISING BY PRIVATE PLACEMENT AND SHARES SUBSCRIPTION *(Continued)*

(B) Subscription of New Shares under Specific Mandate by BE Environmental *(Continued)*

The gross proceeds and net proceeds from the subscription were approximately HK$1,000 million and approximately HK$999.5 million (equivalent to a net subscription price of approximately HK$5.90 per ordinary Share) respectively. The net proceeds were fully utilized as follows:

Net proceeds raised (approximately)	Intended use of proceeds	Actual use of proceeds
HK$999.5 million	(i) approximately HK$715.5 million for repayment of loans;	(i) HK$743.0 million for repayment of loans;
	(ii) approximately HK$105.0 million for the construction of water plants in the PRC under BOT projects; and	(ii) HK$68.5 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.	(iii) HK$188.0 million for the construction of water environment comprehensive renovation projects in the PRC.

The Directors consider that the placing and the subscription would accelerate the Company's growth by strengthening the capital base and financial position of the Company and laying down a more solid foundation for the future business development, mergers and acquisitions. The placing would also increase the public float of the Company, which would in turn broaden the shareholder base of the Company and improve the liquidity of the shares.

Further details of the placing and subscription were disclosed in the announcements of the Company dated 24 January 2018, 1 February 2018 and 29 March 2018 and the circular of the Company dated 6 March 2018.

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 2018, in the opinion of the Board, the Company complied with all code provisions set out in the CG Code as set out in Appendix 14 of the Listing Rules except Code Provision A.1.1.

CORPORATE GOVERNANCE *(Continued)*

The Company held three full board meetings instead of at least four full board meetings during the year under review as required under Code Provision A.1.1. The Board has made resolutions by circulation of written resolutions from time to time. As there is no significant business development that needs to bring to the attention of the Board immediately, circulation of written materials to keep the Board informed throughout the year is considered to be sufficient. Such measure has been taken to ensure that there is efficient communications among the Directors.

The corporate governance report is set out on pages 31 to 44 of this annual report.

COMPLIANCE WITH THE MODEL CODE

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

AUDITORS

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

EVENTS AFTER THE REPORTING PERIOD

(A) Subscription of New Shares under Specific Mandate by China Yangtze Power International (Hongkong) Co., Limited

On 18 January 2019, the Company entered into the subscription agreement with China Yangtze Power International (Hongkong) Co., Limited ("CYPI") and the Company conditionally agreed to allot and issue, and CYPI conditionally agreed to subscribe for 470,649,436 new ordinary Shares of HK$0.10 each with aggregate nominal value of HK$47,064,943.60 at a subscription price of HK$4.29 per ordinary Share, representing the equivalence to the closing price of HK$4.29 per ordinary Share as quoted on the Stock Exchange on 18 January 2019, being the date of the subscription agreement ("CYPI Subscription Agreement").

In accordance with the terms and conditions of the CYPI Subscription Agreement, a total of 470,649,436 new ordinary Shares had been successfully allotted and issued to CYPI on 18 March 2019 under specific mandate granted by shareholders in the special general meeting of the Company held on 7 March 2019.

The gross proceeds and net proceeds from the subscription were approximately HK$2,019.1 million and approximately HK$2,018.6 million (equivalent to a net subscription price of HK$4.29 per ordinary Share) respectively. The intended use of the net proceeds from the CYPI Subscription were as follows: (i) approximately HK$1,518.6 million for the investment in traditional water projects including BOT and TOT projects and (ii) approximately HK$500.0 million for the construction of water environment comprehensive renovation projects.

EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(A) Subscription of New Shares under Specific Mandate by China Yangtze Power International (Hongkong) Co., Limited *(Continued)*

Further details of the subscription were disclosed in the announcements of the Company dated 18 January 2019, 13 February 2019 and 7 March 2019 and the circular of the Company dated 18 February 2019.

(B) Subscription of New Shares under Specific Mandate by BE Environmental

On 18 January 2019, the Company entered into the subscription agreement with BE Environmental, a controlling shareholder of the Company, and the Company conditionally agreed to allot and issue, and BE Environmental conditionally agreed to subscribe for 127,747,714 new ordinary Shares of HK$0.10 each with aggregate nominal value of 12,774,771.40 at the subscription price of HK$4.29 per ordinary Share, representing the equivalence to the closing price of HK$4.29 per ordinary Share as quoted on the Stock Exchange on 18 January 2019, being the date of the subscription agreement ("BE Environmental Subscription Agreement").

In accordance with the terms and conditions of the BE Environmental Subscription Agreement, a total of 127,747,714 new ordinary Shares had been successfully allotted and issued to BE Environmental on 18 March 2019 under specific mandate granted by independent shareholders in the special general meeting of the Company held on 7 March 2019.

The gross proceeds and net proceeds from the subscription were approximately HK$548.0 million and approximately HK$547.5 million (equivalent to a net subscription price of HK$4.29 per ordinary Share) respectively. The intended use of the net proceeds from the BE Environmental subscription is for repayment of debts.

Further details of the subscription were disclosed in the announcements of the Company dated 18 January 2019, 13 February 2019 and 7 March 2019 and the circular of the Company dated 18 February 2019.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2018 were approved by the board of directors on 27 March 2019.

On behalf of the Board

Li Yongcheng
CHAIRMAN

Hong Kong
27 March 2019

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Beijing Enterprises Water Group Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 87 to 266, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 35% of total revenue for the year ended 31 December 2018 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 considered the objectivity, independence and competency of the external valuer employed by the Group. In addition, we 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

Provision for expected credit losses on receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables

Key audit matter	How our audit addressed the key audit matter
The Group has significant receivables under service concession arrangements, trade and other receivables and amounts due from contract customers for an aggregate amount of approximately HK$82.3 billion and represents 65% of the Group's total assets as at 31 December 2018. The provision for expected credit losses ("ECL") carried as at 31 December 2018 was approximately HK$522.5 million. The Group adopted HKFRS 9 on its mandatory effective date of 1 January 2018. The key changes arising from the adoption of HKFRS 9 are that the Group's credit losses are now estimated based on an expected loss model rather than an incurred loss model. Management uses the general approach to calculate ECL for receivables under service concession arrangements, trade and other receivables and amounts due from contract customers. Management has engaged an independent specialist to assist in the calculation of the ECL. The Group considers the available information which includes information about past events, current conditions and forecasts of future economic conditions to estimate the ECL. We identified the ECL assessment of receivables under service concession arrangements, trade and other receivables and amounts due from contract customers as a key audit matter because of the significant balance of them, and significant management judgements and estimates are involved in determining the ECL. Relevant disclosures are included in notes 4, 17, 25, 26 and 27 to the financial statements.	We obtained an understanding of the Group's credit risk management and practices, and assessed the Group's policy on determining ECL, including an evaluation of management judgements on (i) the level of disaggregation of categories for assessment; (ii) the use of available credit risk information including historical and forward-looking factors; and (iii) the criteria for determining if a significant increase in credit risk has occurred. We obtained and reviewed the valuation established by management which is based on the Group's historical credit loss experience and, with the aid of the external specialist, adjusted for forward-looking factors specific to the debtors and the economic environment. We assessed the competence, objectivity and independence of the Group's external specialist. We involved our internal valuation specialists to assist us to evaluate the Group's estimation methodology of ECL and check the parameters to external available data sources.

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 at least 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 2018, the goodwill carried in the Group's financial statements was approximately HK$3.8 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.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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

27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	6	**24,596,857**	21,192,372
Cost of sales		**(15,820,917)**	(14,727,848)
Gross profit		**8,775,940**	6,464,524
Interest income	6	**422,183**	280,989
Other income and gains, net	6	**1,253,305**	1,006,587
Administrative expenses		**(2,206,376)**	(1,753,221)
Other operating expenses, net		**(275,808)**	(343,336)
PROFIT FROM OPERATING ACTIVITIES	7	**7,969,244**	5,655,543
Fair value gain on derivative financial instruments		**–**	39,554
Finance costs	8	**(2,104,563)**	(1,457,988)
Share of profits and losses of:			
Joint ventures	19	**454,565**	521,629
Associates	20	**459,664**	556,578
PROFIT BEFORE TAX		**6,778,910**	5,315,316
Income tax expense	11	**(1,548,890)**	(874,772)
PROFIT FOR THE YEAR		**5,230,020**	4,440,544
ATTRIBUTABLE TO:			
Shareholders of the Company		**4,471,265**	3,717,227
Holders of perpetual capital instruments		**246,012**	240,291
Non-controlling interests		**512,743**	483,026
		5,230,020	4,440,544
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic		**HK47.91 cents**	HK42.42 cents
– Diluted		**HK47.13 cents**	HK41.53 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
PROFIT FOR THE YEAR		**5,230,020**	4,440,544
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified to profit or loss in subsequent periods:			
Exchange fluctuation reserve:			
– Translation of foreign operations		**(2,531,013)**	2,285,123
– Release upon disposal of subsidiaries	*46*	**46**	(12,478)
Loss on revaluation of available-for-sale investments		**–**	(93,694)
		(2,530,967)	2,178,951
Items that will not 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		**(7,939)**	17,403
– Changes in fair value of equity investments designated at fair value through other comprehensive income		**(257,019)**	–
		(264,958)	124,896
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**(2,795,925)**	2,303,847
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,434,095**	6,744,391
ATTRIBUTABLE TO:			
Shareholders of the Company		**2,218,652**	5,365,065
Holders of perpetual capital instruments		**(26,170)**	614,259
Non-controlling interests		**241,613**	765,067
		2,434,095	6,744,391

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	**4,222,798**	3,841,866
Investment properties	15	**1,052,492**	1,083,677
Goodwill	16	**3,803,072**	3,303,632
Operating concessions	17	**3,914,362**	4,190,771
Other intangible assets	18	**145,780**	101,899
Investments in joint ventures	19	**7,282,927**	6,468,569
Investments in associates	20	**4,408,675**	4,184,775
Available-for-sale investments	22	**–**	1,245,004
Equity investments designated at fair value through other comprehensive income	22	**1,362,679**	–
Financial assets at fair value through profit or loss	21	**97,854**	–
Amounts due from contract customers	25	**34,722,560**	15,059,884
Receivables under service concession arrangements	17	**27,612,518**	33,322,895
Trade receivables	26	**2,903,593**	1,731,053
Prepayments, deposits and other receivables	27	**2,597,895**	2,115,819
Deferred tax assets	40	**277,075**	272,320
Total non-current assets		**94,404,280**	76,922,164
Current assets:			
Non-current assets held for sale	23	**316,488**	330,052
Inventories	24	**225,517**	135,370
Amounts due from contract customers	25	**3,008,591**	875,721
Receivables under service concession arrangements	17	**3,252,496**	2,614,866
Trade receivables	26	**4,196,758**	2,852,976
Prepayments, deposits and other receivables	27	**7,382,082**	6,744,944
Restricted cash and pledged deposits	29	**656,849**	46,150
Cash and cash equivalents	29	**12,937,647**	9,938,829
Total current assets		**31,976,428**	23,538,908
TOTAL ASSETS		**126,380,708**	100,461,072

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	30	**941,299**	879,382
Reserves	32	**24,548,238**	19,905,341
		25,489,537	20,784,723
Perpetual capital instruments	33	**6,350,900**	6,623,082
Non-controlling interests		**5,971,700**	5,633,518
		12,322,600	12,256,600
TOTAL EQUITY		**37,812,137**	33,041,323
Non-current liabilities:			
Other payables and accruals	42	**595,488**	570,507
Bank and other borrowings	34	**27,781,560**	21,443,596
Corporate bonds	35	**16,233,214**	10,495,364
Notes payable	36	**2,978,957**	3,074,932
Finance lease payables	37	**311,418**	395,461
Provision for major overhauls	38	**210,949**	207,426
Deferred income	39	**1,396,589**	1,435,088
Deferred tax liabilities	40	**2,543,849**	2,103,997
Total non-current liabilities		**52,052,024**	39,726,371
Current liabilities:			
Trade payables	41	**17,872,645**	11,687,517
Other payables and accruals	42	**8,885,441**	6,769,636
Income tax payables		**1,035,716**	693,648
Bank and other borrowings	34	**4,291,839**	4,689,344
Corporate bonds	35	**4,341,192**	3,750,484
Finance lease payables	37	**89,714**	102,749
Total current liabilities		**36,516,547**	27,693,378
TOTAL LIABILITIES		**88,568,571**	67,419,749
TOTAL EQUITY AND LIABILITIES		**126,380,708**	100,461,072

Li Yongcheng
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Attributable to shareholders of the Company												Perpetual capital instruments HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000 (note 32(b))	Capital reserve HK$'000	Property revaluation reserve HK$'000	Fair value reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 32(c))	Retained profits HK$'000	Total HK$'000			
At 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
Effect of adoption of HKFRS 9	3.2	–	–	–	–	–	–	438,169	–	–	–	(96,826)	341,343	–	(6,639)	334,704
At 1 January 2018 (restated)		879,382	5,068,783	1,396,556	244,199	(210,395)	122,482	344,475	(46,739)	(1,206,678)	1,257,915	13,276,086	21,126,066	6,623,082	5,626,879	33,376,027
Profit for the year		–	–	–	–	–	–	–	–	–	–	4,471,265	4,471,265	246,012	512,743	5,230,020
Other comprehensive income/(loss) for the year:																
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	(1,987,701)	–	–	(1,987,701)	(272,182)	(271,130)	(2,531,013)
Release upon disposal of subsidiaries	46	–	–	–	–	–	–	–	–	46	–	–	46	–	–	46
Share of other comprehensive loss of a joint venture		–	–	–	–	–	–	–	(7,939)	–	–	–	(7,939)	–	–	(7,939)
Changes in fair value of equity investments designated at fair value through other comprehensive income		–	–	–	–	–	–	(257,019)	–	–	–	–	(257,019)	–	–	(257,019)
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	(257,019)	(7,939)	(1,987,655)	–	4,471,265	2,218,652	(26,170)	241,613	2,434,095
Transfer to contributed surplus**	30(d)	–	(8,617,313)	8,617,313	–	–	–	–	–	–	–	–	–	–	–	–
Issue of shares	30(c)	61,949	3,553,021	–	–	–	–	–	–	–	–	–	3,614,970	–	–	3,614,970
Exercise of share options	30(a)	258	7,729	–	(2,199)	–	–	–	–	–	–	–	5,788	–	–	5,788
Shares repurchased and cancelled	30(b)	(290)	(12,220)	–	–	–	–	–	–	–	–	–	(12,510)	–	–	(12,510)
Equity-settled share option arrangements	31(a)	–	–	–	4,688	–	–	–	–	–	–	–	4,688	–	–	4,688
Acquisition of subsidiaries	45	–	–	–	–	–	–	–	–	–	–	–	–	–	63,432	63,432
Acquisition of non-controlling interests		–	–	–	–	6,250	–	–	–	–	–	–	6,250	–	(78,965)	(72,715)
Share of reserves of an associate		–	–	–	7,490	130,327	–	–	–	–	–	–	137,817	–	–	137,817
Disposal of subsidiaries	46	–	–	–	–	–	–	–	–	–	–	–	–	–	(91,466)	(91,466)
Disposal of partial interests in subsidiaries		–	–	–	–	(12,044)	–	–	–	–	–	–	(12,044)	–	–	(12,044)
Deregistration of subsidiaries		–	–	–	–	(4,702)	–	–	–	–	–	4,702	–	–	–	–
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	–	(121,667)	(121,667)
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	–	331,874	331,874
Distributions paid to holders of perpetual capital instruments	33	–	–	–	–	–	–	–	–	–	–	–	–	(246,012)	–	(246,012)
Final 2017 cash distributions paid		–	–	(705,944)	–	–	–	–	–	–	–	–	(705,944)	–	–	(705,944)
Interim 2018 cash distributions paid	12	–	–	(894,196)	–	–	–	–	–	–	–	–	(894,196)	–	–	(894,196)
Transfer to reserves		–	–	–	–	–	–	–	–	–	339,873	(339,873)	–	–	–	–
At 31 December 2018		941,299	–*	8,413,729*	254,178*	(90,564)*	122,482*	87,456*	(54,678)*	(3,194,333)*	1,597,788*	17,412,180*	25,489,537	6,350,900	5,971,700	37,812,137

* *These reserve accounts comprise the consolidated reserves of HK$24,548,238,000 (2017: HK$19,905,341,000) in the consolidated statement of financial position.*

** *Pursuant to a resolution passed at the special general meeting held on 10 December 2018, an amount of approximately HK$8,617,313,000 was transferred from the share premium account to the contributed surplus. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		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	Available-for-sale investment 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 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 income 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
Exercise of share options	30(a)	5,595	168,741	–	(48,794)	–	–	–	–	–	–	–	125,542	–	–	125,542
Equity-settled share option arrangements	31(a)	–	–	–	19,903	–	–	–	–	–	–	–	19,903	–	–	19,903
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 holders of perpetual capital instruments	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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,778,910**	5,315,316
Adjustments for:			
Bank interest income	6	**(267,179)**	(169,375)
Interest income on trade and other receivables with extended credit periods	6	**(135,875)**	(96,253)
Interest income on loans to government authorities in Mainland China	6	**–**	(125)
Interest income from non-controlling equity holders	6	**–**	(31)
Interest income on loans to joint ventures	6	**(19,129)**	(8,214)
Interest income on loans to an associate	6	**–**	(6,991)
Fair value gain on derivative financial instruments		**–**	(39,554)
Gain on disposal of a service concession arrangement	6	**(37,892)**	–
Fair value gain on investment properties	6	**(13,922)**	(12,862)
Gain on bargain purchase of subsidiaries	6	**(115,463)**	(9,273)
Loss on disposal of subsidiaries	7	**67,159**	45,746
Loss on deregistration of subsidiaries	7	**15,541**	–
Gain on disposal of joint ventures	6	**(2,736)**	(481)
Gain on derecognition of financial assets	6	**–**	(60,101)
Depreciation	7	**246,408**	209,016
Amortisation of operating concessions	7	**246,873**	182,960
Amortisation of other intangible assets	7	**17,519**	13,211
Impairment of receivables under service concession arrangements, net	7	**3,086**	15,915
Impairment of amounts due from contract customers	7	**79,155**	19,236
Impairment of trade receivables, net	7	**31,218**	9,758
Impairment/(reversal of impairment) of other receivables, net	7	**(32,226)**	48,263
Provision for major overhauls	7	**139,100**	126,038
Loss on disposal of items of property, plant and equipment	7	**1,145**	1,071
Write-off of items of other intangible assets	7	**–**	23
Equity-settled share option expenses	7	**4,688**	19,903
Finance costs	8	**2,260,417**	1,580,474
Share of profits and losses of joint ventures		**(454,565)**	(521,629)
Share of profits and losses of associates		**(459,664)**	(556,578)
Operating profit before working capital changes		**8,352,568**	6,105,463

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Operating profit before working capital changes		**8,352,568**	6,105,463
Increase in inventories		**(64,011)**	(41,471)
Increase in amounts due from contract customers		**(13,848,253)**	(4,207,175)
Increase in receivables under service concession arrangements		**(4,891,993)**	(10,296,347)
Decrease/(increase) in trade receivables		**(2,571,625)**	85,015
Increase in prepayments, deposits and other receivables		**(863,535)**	(3,286,707)
Increase in trade payables		**6,738,568**	4,012,497
Increase in other payables and accruals		**2,317,581**	1,560,830
Utilisation of provision for major overhauls	*38*	**(175,097)**	(105,585)
Cash used in operations		**(5,005,797)**	(6,173,480)
Mainland China corporate income tax paid		**(538,794)**	(513,624)
Overseas taxes paid		**(28,394)**	(27,328)
Net cash flows used in operating activities		**(5,572,985)**	(6,714,432)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(542,535)**	(238,094)
Additions of operating concessions	17	**(387,975)**	(917,124)
Additions of other intangible assets	18	**(65,987)**	(52,496)
Acquisition of subsidiaries	45	**(1,073,351)**	(298,958)
Disposal of subsidiaries	46	**(8,601)**	2,348,627
Proceeds from disposal of joint ventures		**6,862**	12,281
Prepayment for the acquisition of subsidiaries		**(83,276)**	(129,924)
Proceeds from disposal of items of property, plant and equipment		**6,424**	5,323
Acquisition of/increase in investments in joint ventures		**(1,095,434)**	(1,504,940)
Acquisition of/increase in investments in associates		**(5,682)**	(748,206)
Purchases of equity investments designated at fair value through other comprehensive income/available-for-sale investments		**(8,806)**	(640,074)
Proceeds from derecognition of financial assets		**–**	2,298,852
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**409,787**	(730,305)
Decrease/(increase) in restricted cash and pledged deposits		**(610,699)**	88,376
Redemption of asset-backed note	21	**21,194**	–
Dividends received from joint ventures		**158,673**	222,617
Dividends received from associates		**2,628**	–
Bank interest received		**267,179**	169,375
Net cash flows used in investing activities		**(3,009,599)**	(114,670)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**331,874**	797,795
Acquisition of non-controlling interests		**(72,715)**	(5,392)
Issue of corporate bonds		**10,700,342**	2,308,339
Repayment of corporate bonds		**(3,980,366)**	(388,358)
Distributions to holders of perpetual capital instruments	33	**(246,012)**	(238,960)
New bank and other borrowings		**10,946,088**	17,064,735
Repayment of bank and other borrowings		**(4,887,099)**	(12,685,448)
Proceeds from exercise of share options		**5,788**	125,542
Proceeds from issue of shares		**3,614,970**	–
Shares repurchased		**(12,510)**	–
Proceeds received under sale and leaseback transactions		**16,190**	406,977
Capital element of finance lease rental payments		**(96,078)**	(15,461)
Interest paid		**(2,136,586)**	(1,539,951)
Interest element of finance lease rental payments		**(25,601)**	(8,848)
Distributions paid		**(1,600,140)**	(1,227,306)
Dividends paid to non-controlling equity holders		**(121,667)**	(21,393)
Decrease/(increase) in bank deposits that require approval of a bank for any withdrawal		**603,874**	(603,874)
Net cash flows from financing activities		**13,040,352**	3,968,397
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**4,457,768**	(2,860,705)
Cash and cash equivalents at beginning of year		**8,595,856**	10,912,243
Effect of foreign exchange rate changes, net		**(445,289)**	544,318
CASH AND CASH EQUIVALENTS AT END OF YEAR		**12,608,335**	8,595,856

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	*29*	**12,937,647**	9,938,829
Less: Time deposits with maturity of more than three months when acquired		**(329,312)**	(739,099)
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		**12,608,335**	8,595,856

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

Beijing Enterprises Water Group Limited (the "Company" or "BEWG") 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 water treatment plants, and provision of construction services for comprehensive renovation projects in the mainland ("Mainland China") of the People's Republic of China (the "PRC"), Malaysia and Australia;
- provision of sewage and reclaimed water treatment and seawater desalination services in Mainland China, the Republic of Singapore ("Singapore") and the Portuguese Republic ("Portugal"), Australia and New Zealand;
- distribution and sale of piped water in Mainland China, Portugal and Australia;
- 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 Australia; and
- licensing of technical know-how related to sewage treatment in Mainland China.

Information about subsidiaries

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

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

(a) 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
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	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
Be Water S.A.	Portugal	€11,987,000	–	100	Sewage treatment and water distribution

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

(a) 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	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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
北控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
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	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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

(a) 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
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
平陰北控水環境開發有限公司	PRC/Mainland China	RMB186,680,000/ RMB280,000,000	–	90	Construction services
鄒平北控水務有限公司	PRC/Mainland China	RMB407,200,000	–	45	Water distribution
瀘州北控環保工程投資有限公司	PRC/Mainland China	RMB100,000,000	–	90	Construction services
內蒙古科源水務有限公司 ("Mongolia")	PRC/Mainland China	RMB177,100,000	–	67	Water distribution
北控(成都雙流)水務有限公司δ	PRC/Mainland China	RMB171,706,000/ RMB194,268,000	–	100	Sewage treatment
廣州增城北控水處理有限公司δ	PRC/Mainland China	RMB190,000,000	–	90	Sewage treatment
北控(杭州)環境工程有限公司δ	PRC/Mainland China	RMB200,000,000/ RMB687,000,000	99.7	–	Construction services
TRILITY Group PTY Ltd. ("TRILITY")δ	Australia	AUD209,100,000	–	100	Investment holding

Ω *These entities are registered as wholly-foreign-owned enterprises under 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.

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

(b) Controlled structured entity

In accordance with HKFRS 10 *Consolidated Financial Statements*, the Company is required to consolidate a trust if the Company has control over the trust and can derive benefits from the contributions of employees who have been awarded the shares through their employment with the Group. The Company controls a structured entity which operate in Hong Kong, particular of which is as follows:

Structured entity	Principal activities
Share Award Scheme Trust	Purchase, administers and holds the shares of the Company for the share award scheme for the benefit of eligible participants *(note 31)*

The Company has the power to direct the relevant activities of the Share Award Scheme and it has the ability to use its power over the entity to affect its exposure to returns. Therefore, it was considered as controlled structured entity of the Group.

2. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK$4.5 billion and capital commitments of approximately HK$19.2 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2018, as detailed in note 51 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

(a) the existing banking facilities available to the Group as at 31 December 2018 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$2,567.1 million (before expenses) in March 2019, 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, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss 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 for the year ended 31 December 2018. 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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

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

Except for the amendments to HKFRS 4 and Annual Improvements to HKFRSs 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 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. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECL").

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

(b) *(Continued)*

Classification and measurement *(Continued)*

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement Category	HKAS 39 measurement Amount HK$'000	Re-classification HK$'000	ECL HK$'000	Other HK$'000	HKFRS 9 measurement Amount HK$'000	HKFRS 9 measurement Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	1,125,956	–	438,169	1,564,125	FVOCI[1] (equity)
From: Available-for-sale investments	*(i)*			1,125,956				
Available-for-sale investments		AFS[2]	1,245,004	(1,245,004)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	*(i)*			(1,125,956)	–	–		
To: Financial asset at fair value through profit or loss	*(ii)*			(119,048)	–	–		
Receivables under service concession arrangements		L&R[3]	35,937,761	–	(105,193)	–	35,832,568	AC[4]
Trade receivables		L&R	4,584,029	–	–	–	4,584,029	AC
Financial assets included in prepayments, deposits and other receivables		L&R	6,901,771	–	–	–	6,901,771	AC
Financial asset at fair value through profit or loss		FVPL[5]	–	119,048	–	–	119,048	FVPL (mandatory)
From: Available-for-sale investments				119,048	–	–		
Restricted cash and pledged deposits		L&R	46,150	–	–	–	46,150	AC
Cash and cash equivalents		L&R	9,938,829	–	–	–	9,938,829	AC
			58,653,544	–	(105,193)	438,169	58,986,520	
Other assets								
Amounts due from contract customers			15,935,605	–	(32,761)	–	15,902,844	
Deferred tax assets			272,320	–	34,489	–	306,809	
			16,207,925	–	1,728	–	16,209,653	
Total assets			74,861,469	–	(103,465)	438,169	75,196,173	

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

(b) *(Continued)*

Classification and measurement *(Continued)*

		HKAS 39 measurement					HKFRS 9 measurement	
		Category	Amount	Re-classification	ECL	Other	Amount	Category
	Notes		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	
Financial liabilities								
Trade payables		AC	11,687,517	–	–	–	11,687,517	AC
Financial liabilities included in other payables and accruals		AC	5,523,811	–	–	–	5,523,811	AC
Interest-bearing bank and and other borrowings		AC	26,132,940	–	–	–	26,132,940	AC
Corporate bonds		AC	14,245,848	–	–	–	14,245,848	AC
Notes payable		AC	3,074,932	–	–	–	3,074,932	AC
Finance lease payables		AC	498,210	–	–	–	498,210	AC
Total liabilities			61,163,258	–	–	–	61,163,258	

1 *FVOCI: Financial assets at fair value through other comprehensive income*

2 *AFS: Available-for-sale investments*

3 *L&R: Loans and receivables*

4 *AC: Financial assets or financial liabilities at amortised cost*

5 *FVPL: Financial asset at fair value through profit or loss*

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified one of its unlisted investment previously classified as available-for-sale investment as financial asset measured at fair value through profit or loss as this investment did not pass the contractual cash flow characteristics test in HKFRS 9.

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

(b) *(Continued)*

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 17, 25, 26 and 27 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017	Remeasurement	ECL allowances under HKFRS 9 at 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
Receivables under service concession arrangements	60,044	105,193	165,237
Amounts due from contract customers	24,393	32,761	57,154
Trade receivables	39,292	–	39,292
Financial assets included in prepayments, deposits and other receivables	210,004	–	210,004
	333,733	137,954	471,687

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

(b) *(Continued)*

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits *HK$'000*
Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	(93,694)
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	438,169
Balance as at 1 January 2018 under HKFRS 9	344,475
Retained profits	
Balance as at 31 December 2017 under HKAS 39	13,372,912
Recognition of expected credit losses for receivables under service concession arrangements under HKFRS 9	(98,554)
Recognition of expected credit losses for amounts due from contract customers under HKFRS 9	(32,761)
Deferred tax in relation to the above	34,489
Balance as at 1 January 2018 under HKFRS 9	13,276,086
Non-controlling interests	
Balance as at 31 December 2017 under HKAS 39	5,633,518
Recognition of expected credit losses for receivables under service concession arrangements under HKFRS 9	(6,639)
Balance as at 1 January 2018 under HKFRS 9	5,626,879

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

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue.

The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 6 to the financial statements for the disclosure of disaggregated revenue. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The initial application of HKFRS 15 had no impact to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Increase/ (decrease) *HK$'000*
Assets	
Receivables under service concession arrangements	(9,423,930)
Amounts due from contract customers	9,423,930
Total assets	–

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

(c) *(Continued)*

The adoption of HKFRS 15 has had no impact on profit for the year and other comprehensive income or on the Group's net operating, investing and financing cash flows.

The nature of the adjustment as at 1 January 2018 and the reason for the significant changes in the statement of financial position as at 31 December 2018 are described below:

Receivables under service concession arrangements

Before the adoption of HKFRS 15, contract costs for Build-Operate-Transfer ("BOT") contracts were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from contract customers and were recorded as receivables under service concession arrangements in the statement of financial position before the construction services were billed to customers. Upon the adoption of HKFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified HK$9,423,930,000 from receivables under service concession arrangements to amounts due from contract customers as at 1 January 2018.

(d) Amendments to HKAS 40 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 have had no impact on the financial position or performance of the Group.

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

(e) HK(IFRIC)-Int 22 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. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
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)

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two 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 will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group expects that the transitional adjustment to be made on 1 January 2019 upon initial adoption of HKFRS 16 will not be material. However, the application of HKFRS 16 in the future may result in more disclosures.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

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

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

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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.

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 (2017: 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Consideration given by the grantor (Continued)

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(Continued)*

Financial assets at fair value through profit or loss (Continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. 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.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

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 financial investments, or as derivatives designated as hedging instruments in an effective hedge, 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 the 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:

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Financial assets at fair value through profit or loss (Continued)

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 (applicable before 1 January 2018)" 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.

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 other income and gains in the statement of profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Available-for-sale financial investments (Continued)

After initial recognition, available-for-sale financial 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 financial 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 (applicable before 1 January 2018)" 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.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. 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 asset 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.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are past due over 2 years based on historical pattern and credit risk management practices of the Group. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is 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.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets 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 through the use of an allowance account and 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 and all collateral has been realised or has been transferred to the Group.

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 expenses in the statement of profit or loss.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(Continued)*

Available-for-sale financial investments

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

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

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

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as payables, 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(Continued)*

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 in 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 (policies under HKFRS 9 applicable from 1 January 2018)

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 issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount of the 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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such 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.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(Continued)*

Initial recognition and subsequent measurement (Continued)

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(Continued)*

Cash flow hedges (Continued)

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Such earned consideration represented an amount due from contract customer in the financial statements.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts (applicable before 1 January 2018)

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.

Revenue from the construction of water treatment plants 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 (applicable before 1 January 2018)

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services (applicable before 1 January 2018) *(Continued)*

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

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

Cash and cash equivalents

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

For the purpose of the 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 contractual 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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

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

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

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

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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" 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 (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018) *(Continued)*

Revenue from contracts with customers (Continued)

The Group satisfied a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

- The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.

If none of the above conditions are met, the Group recognises revenue at the point in time at which the performance obligation is satisfied.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the surveyors' assessment of work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

When the Group provides more than one service in a service concession arrangement, the transaction price will be allocated to each performance obligation by reference to their relative stand-alone selling prices. If the standalone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable from 1 January 2018) *(Continued)*

Revenue from contracts with customers (Continued)

(a) Construction service revenue

The Group's performance in respect of construction services creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the surveyors' assessment of work performed and the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Revenue from the construction services under a service concession arrangement 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.

(b) Sewage and reclaimed water treatment services and technical and consultancy services revenue

The Group recognised revenue from sewage and reclaimed water treatment services and technical and consultancy services, when the related services are rendered.

(c) Sales of water and machineries

Revenue from the sales of water and machineries is recognised at the point in time when control of the asset is transferred to the customer, generally when the customer obtains the physical possession or the legal title of the water or completed machineries and the Group has present right to payment and the collection of the consideration is probable.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (applicable before 1 January 2018)

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 (applicable before 1 January 2018)" above;

(b) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" above;

(c) from the sale of water and goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the water and goods sold;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Equity compensation benefits

The Company operates a share option scheme and a share award 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 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 the Black-Scholes model.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity compensation benefits *(Continued)*

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.

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.

Shares held under share award scheme

As disclosed in note 31 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, and the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held under Share Award Scheme" and deducted from the Group's equity. No shares have been acquired by the Group up to 31 December 2018.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Defined contribution plans

The employees of the Group's subsidiaries which operate in Mainland China, 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.

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.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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:

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.

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

Classification between operating concessions and receivables under service concession arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, 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 2018 were HK$3,914,362,000 (2017: HK$4,190,771,000) and HK$30,865,014,000 (2017: HK$35,937,761,000), respectively, further details of which are set out in note 17 to the financial statements.

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

Revenue from the construction of water treatment 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 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.

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

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 2018 were HK$4,222,798,000 (2017: HK$3,841,866,000) in aggregate, further details of which are set out in note 14 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 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 2018 was HK$3,803,072,000 (2017: HK$3,303,632,000) 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.

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

Provision for expected credit losses on receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables

The policy for provision for expected credit losses on receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables of the Group is based on an ECL model. A considerable amount of estimation is required in assessing the available information which includes information about past events, current conditions and forecasts future economic conditions to estimate the ECL. 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 2018 were HK$30,865,014,000 (2017: HK$35,937,761,000), HK$37,731,151,000 (2017: HK$15,935,605,000), HK$7,100,351,000 (2017: HK$4,584,029,000) and HK$6,653,329,000 (2017: HK$6,901,771,000), respectively, further details of which are set out in notes 17, 25, 26 and 27 to the financial statements.

Defined benefit plan

The present value of the retirement benefit obligation under the defined benefit plan of a joint venture depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligation. Key assumptions for the obligation are based in part on the current market conditions. The carrying amount of the obligation carried as a liability in the statement of financial position of the joint venture as at 31 December 2018 was HK$472,200,000 (2017: HK$456,410,000) and the Group's share of which, amounting to HK$212,490,000 (2017: HK$205,384,000), 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, Singapore, Australia and New Zealand. 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 2018 was HK$1,035,716,000 (2017: HK$693,648,000).

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

Current tax and deferred tax *(Continued)*

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2018 were HK$277,075,000 (2017: HK$272,320,000) and HK$2,543,849,000 (2017: HK$2,103,997,000), respectively, details of which are set out in note 40 to the financial statements.

Classification of investment in funds

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) 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.

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 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 sales of machineries segment engages in the provision of consultancy services and sales 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 2018

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sales of machineries *HK$'000*	Total *HK$'000*
Segment revenue *(note 6)*	19,949,993	2,341,876	2,304,988	24,596,857
Cost of sales	(13,634,943)	(1,263,631)	(922,343)	(15,820,917)
Gross profit	6,315,050	1,078,245	1,382,645	8,775,940
Segment results:				
The Group	6,320,676	1,026,077	876,838	8,223,591
Share of profits and losses of:				
Joint ventures	304,336	150,229	–	454,565
Associates	6,286	–	41,204	47,490
	6,631,298	1,176,306	918,042	8,725,646
Corporate and other unallocated income and expenses, net				(254,347)
Share of profits of associates				412,174
Finance costs				(2,104,563)
Profit before tax				6,778,910
Income tax expense				(1,548,890)
Profit for the year				5,230,020
Profit for the year attributable to shareholders of the Company:				
Operating segments	5,151,912	849,288	772,965	6,774,165
Corporate and other unallocated items				(2,302,900)
				4,471,265

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2018 *(Continued)*

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sales of machineries *HK$'000*	Total *HK$'000*
Segment assets:				
Operating segments	82,757,032	18,995,369	5,104,464	106,856,865
Corporate and other unallocated items				19,523,843
				126,380,708
Other segment information:				
Capital expenditure*				
– Operating segments	478,021	212,295	232,704	923,020
– Amount unallocated				73,477
				996,497
Depreciation				
– Operating segments	68,418	98,056	17,104	183,578
– Amount unallocated				62,830
				246,408
Amortisation of operating concessions	138,864	108,009	–	246,873
Amortisation of other intangible assets				
– Operating segments	5,138	710	2,375	8,223
– Amount unallocated				9,296
				17,519
Impairment/(reversal of impairment) of segment assets, net**				
– Operating segments	75,279	(21)	5,975	81,233
Provision for major overhauls	118,364	20,736	–	139,100

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 sales 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 sales 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

* *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

	2018	2017
	HK$'000	*HK$'000*
Revenue from external customers:		
Mainland China	**23,113,441**	20,286,300
Elsewhere	**1,483,416**	906,072
	24,596,857	21,192,372
Non-current assets:		
Mainland China	**23,515,170**	22,418,854
Portugal	**667,867**	744,287
Australia	**638,052**	–
Elsewhere	**9,017**	12,048
	24,830,106	23,175,189

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 2018, the Group has no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year.

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.

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

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

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers		
Sewage and reclaimed water treatment services	**4,644,541**	4,031,739
Construction services	**15,305,452**	13,982,345
Water distribution services	**2,341,876**	1,839,719
Technical and consultancy services and sales of machineries	**2,304,988**	1,338,569
	24,596,857	21,192,372

Imputed interest income under service concession arrangements amounting to HK$2,339,257,000 (2017: HK$1,682,833,000) is included in the above revenue.

Revenue from contracts with customers

(i) Disaggregated revenue information

As described in note 3.4 to the financial statements, revenue of sewage and reclaimed water treatment services, construction services and technical and consultancy services are recognised over time. For revenue of water distribution services and sales of machineries are recognised point in time.

Please refer to note 5 to the financial statements and the table above for the disclosure on disaggregated revenue.

(ii) Performance Obligation

The aggregate amount of the transaction prices allocated to the performance obligations of BOT and Transfer-Operate-Transfer ("TOT") arrangements that are unsatisfied (or partially unsatisfied) as at 31 December 2018 was HK$162 billion. The performance obligations expected to be recognised in more than one year relate to the services to be performed in respect of the BOT and TOT arrangements. The amounts disclosed above do not include variable consideration which is constrained.

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

	2018 *HK$'000*	2017 *HK$'000*
Interest income		
Bank interest income	**267,179**	169,375
Interest income on trade and other receivables with extended credit periods	**135,875**	96,253
Interest income on loans to government authorities in Mainland China	**–**	125
Interest income from non-controlling equity holders	**–**	31
Interest income on loans to joint ventures[π]	**19,129**	8,214
Interest income on loans to an associate*	**–**	6,991
	422,183	280,989
Other income		
Gross rental income	**50,770**	34,820
Government grants[§]	**65,093**	91,971
Sludge treatment income	**138,735**	124,410
Pipeline installation income	**196,515**	209,456
Dividend income from equity investments at fair value through other comprehensive income	**19,836**	–
Dividend income from available-for-sale investments	**–**	7,781
VAT refunds for sewage and reclaimed water treatment and water distribution services[℧]	**405,533**	327,567
Others	**189,579**	114,990
	1,066,061	910,995
Gains, net		
Fair value gain on investment properties *(note 15)*	**13,922**	12,862
Gain on bargain purchase of subsidiaries *(note 45)*	**115,463**	9,273
Gain on disposal of joint ventures	**2,736**	481
Foreign exchange differences, net	**17,231**	12,875
Gain on derecognition of financial assets measured at amortised cost *(note 17)*	**–**	60,101
Gain on disposal of a service concession arrangement	**37,892**	–
	187,244	95,592
Other income and gains, net	**1,253,305**	1,006,587

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

π *The interest income recognised represented the interest income on (i) loans to joint ventures of the Group, as further detailed in notes 19(e)(i), (ii) and (iii) to the financial statements, and (ii) loans totalling of RMB101,100,000 (equivalent to HK$115,411,000) to a joint venture of the Group, which were unsecured, bearing fixed interests ranging from 8.5% to 10% per annum and fully settled with interest income of HK$6,760,000 recognised in profit or loss during the year ended 31 December 2018.*

* *For the year ended 31 December 2017, the interest income recognised represented the interest income on loans to an associate of the Group which was acquired as a subsidiary during the year. The loans were further detailed in note 20(b) 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.*

ʊ *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.*

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of sewage and reclaimed water treatment services rendered		**2,078,728**	1,795,832
Cost of construction services		**11,417,351**	11,288,660
Cost of water distribution services		**1,155,622**	928,827
Cost of technical and consultancy services rendered and machineries sold		**922,343**	531,569
Depreciation	*14*	**246,408**	209,016
Amortisation of operating concessions*	*17*	**246,873**	182,960
Amortisation of other intangible assets*	*18*	**17,519**	13,211
Minimum lease payments under operating leases		**43,047**	29,090
Auditor's remuneration		**13,850**	13,850
Employee benefit expense (including directors' remuneration *(note 9)*):			
Salaries, allowances and benefits in kind		**1,811,356**	1,677,883
Equity-settled share option expense	*31(a)*	**4,688**	19,903
Pension scheme contributions		**169,843**	149,321
Welfare and other expenses		**387,132**	328,745
		2,373,019	2,175,852
Impairment of receivables under service concession arrangements, net	*17(b)*	**3,086**	15,915
Impairment of amounts due from contract customers	*25*	**79,155**	19,236
Impairment of trade receivables, net	*26(c)*	**31,218**	9,758
Impairment/(reversal of impairment) of other receivables, net	*27(c)*	**(32,226)**	48,263
Provision for major overhauls	*38*	**139,100**	126,038
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**4,016**	3,545
Loss on disposal of items of property, plant and equipment		**1,145**	1,071
Write-off of items of other intangible assets	*18*	**–**	23
Loss on disposal of subsidiaries, net	*46*	**67,159**	45,746
Loss on deregistration of subsidiaries		**15,541**	–

* *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:

	2018 HK$'000	2017 HK$'000
Interest on bank and other loans	**1,302,132**	895,772
Interest on corporate bonds	**740,169**	490,758
Interest on notes payable	**175,461**	171,011
Interest on finance leases	**25,601**	8,848
Total interest expense	**2,243,363**	1,566,389
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 38)*	**17,054**	14,085
Total finance costs	**2,260,417**	1,580,474
Less: Interest included in cost of construction services	**(155,854)**	(122,486)
	2,104,563	1,457,988

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	
	2018 HK$'000	2017 HK$'000
Fees	**1,840**	1,810
Other emoluments:		
Salaries, allowances and benefits in kind	**19,649**	17,310
Equity-settled share option expense	**1,525**	5,667
Pension scheme contributions	**36**	36
	21,210	23,013
	23,050	24,823

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 2018					
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	8,256	720	18	9,114
Mr. Li Haifeng	120	3,743	373	18	4,254
Mr. Zhang Tiefu	120	2,715	–	–	2,835
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	116	–	236
Mr. Li Li	120	4,935	212	–	5,267
	1,210	19,649	1,421	36	22,316
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	26	–	146
Mr. Zhang Gaobo	150	–	26	–	176
Mr. Guo Rui	120	–	26	–	146
Mr. Wang Kaijun	120	–	26	–	146
Dr. Lee Man Chun Raymond	120	–	–	–	120
	630	–	104	–	734
Total	1,840	19,649	1,525	36	23,050

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 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

Ms. 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.*

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2017: four directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2017: One) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**6,582**	3,118
Performance related bonuses	**2,929**	2,572
Pension scheme contributions	**441**	88
	9,952	5,778

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

	Number of employees 2018	 2017
HK$3,500,000 to HK$4,000,000	**1**	–
HK$5,500,000 to HK$6,000,000	**1**	1
	2	1

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the year ended 31 December 2018 as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: 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.

	2018	2017
	HK$'000	*HK$'000*
Current – Mainland China	**814,691**	539,951
Current – Elsewhere	**24,789**	30,198
Underprovision/(overprovision) in prior years	**(2,026)**	1,124
Deferred *(note 40)*	**711,436**	303,499
Total tax expense for the year	**1,548,890**	874,772

11. INCOME TAX EXPENSE *(Continued)*

A reconciliation of the tax expense 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 2018

	Hong Kong and overseas		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(976,489)		7,755,399		6,778,910	
Tax expense/(credit) at the statutory tax rate	(152,731)	15.6	1,938,851	25.0	1,786,120	26.3
Lower tax rates of specific provinces or enacted by local authorities	–	–	(62,149)	(0.8)	(62,149)	(0.9)
Tax concession	–	–	(168,528)	(2.2)	(168,528)	(2.5)
Adjustments in respect of current tax of previous periods	(2,026)	0.2	–	–	(2,026)	–
Profits and losses attributable to joint ventures and associates	(4,933)	0.5	(223,440)	(2.9)	(228,373)	(3.4)
Income not subject to tax	(170,434)	17.5	(139,895)	(1.8)	(310,329)	(4.6)
Expenses not deductible for tax	333,949	(34.2)	203,904	2.6	537,853	7.9
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	–	–	2,746	–	2,746	–
Tax losses utilised from previous periods	–	–	(64,143)	(0.8)	(64,143)	(0.9)
Tax losses not recognised as deferred tax assets	19,002	(1.9)	38,717	0.6	57,719	0.9
Tax expense at the Group's effective tax rate	22,827	(2.3)	1,526,063	19.7	1,548,890	22.8

11. INCOME TAX EXPENSE *(Continued)*

Year ended 31 December 2017

	Hong Kong and overseas HK$'000	%	Mainland China HK$'000	%	Total 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)	(4.6)	(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)	(2.1)	(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

The share of tax attributable to associates and joint ventures amounting to HK$75,027,000 (2017: HK$91,970,000) and HK$134,868,000 (2017: HK$120,604,000), 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

	2018 *HK$'000*	2017 *HK$'000*
Interim – HK9.5 cents (2017: HK8.0 cents) per ordinary share	**894,196**	701,899
Proposed final – HK8.3 cents (2017: HK7.5 cents) per ordinary share	**830,945**	693,390
	1,725,141	1,395,289

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 2018 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 9,331,756,305 (2017: 8,763,115,914) 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, adjusted to reflect a dilutive effect of share options of an associate. 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.

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

The calculations of the basic and diluted earnings per share amounts are based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	**4,471,265**	3,717,227
Effect of dilution on earnings in respect of share options of an associate	**(9,039)**	–
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**4,462,226**	3,717,227

	2018	2017
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**9,331,756,305**	8,763,115,914
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	**135,340,424**	187,622,076
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**9,467,096,729**	8,950,737,990

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 2018							
At 1 January 2018:							
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
Net carrying amount:							
At 1 January 2018	1,988,281	102,935	1,309,800	80,895	82,137	277,818	3,841,866
Acquisition of subsidiaries *(note 45)*	105,997	–	110,147	14,246	17,447	64,680	312,517
Additions	10,452	21,573	157,065	41,929	122,642	188,874	542,535
Depreciation provided during the year	(92,498)	(30,064)	(67,881)	(37,732)	(18,233)	–	(246,408)
Disposal of subsidiaries *(note 46)*	–	–	(993)	(3,293)	(49,212)	–	(53,498)
Disposals	–	–	(1,738)	(303)	(5,528)	–	(7,569)
Transfers and reclassifications	–	–	1,588	–	744	(2,332)	–
Exchange realignment	(81,303)	(8,772)	(60,627)	(4,909)	(6,765)	(4,269)	(166,645)
At 31 December 2018	1,930,929	85,672	1,447,361	90,833	143,232	524,771	4,222,798
At 31 December 2018:							
Cost	2,240,579	158,346	1,637,732	222,546	241,563	524,771	5,025,537
Accumulated depreciation	(309,650)	(72,674)	(190,371)	(131,713)	(98,331)	–	(802,739)
Net carrying amount	1,930,929	85,672	1,447,361	90,833	143,232	524,771	4,222,798

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 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 assets held for sale *(note a)*	146,276	–	–	–	–	–	146,276
Fair value gain on revaluation of a building upon transfer to investment properties *(note a)*	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)*

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 31 December 2018 was HK$417,540,000 (2017: HK$533,090,000).

At 31 December 2018, certain land use rights and certain buildings situated in Mainland China with an aggregate carrying amount HK$950,897,000 (2017: HK$1,021,615,000) were pledged to secure certain bank loans granted to the Group *(note 34)*.

Note 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.

15. INVESTMENT PROPERTIES

	2018	2017
	HK$'000	*HK$'000*
Carrying amount at 1 January	**1,083,677**	755,326
Transfer from property, plant and equipment *(note 14)*	**–**	253,769
Fair value gain on revaluation	**13,922**	12,862
Exchange realignment	**(45,107)**	61,720
Carrying amount at 31 December	**1,052,492**	1,083,677

Notes:

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

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

(c) As at 31 December 2018, one of the Group's investment properties with a carrying amount of HK$787,446,000 (2017: HK$813,455,000) was pledged to bank to secure a bank loan granted to the Group *(note 34)*.

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(d) The Group's investment properties were revalued on 31 December 2018 by Beijing North Asia Asset Assessment Firm (2017: Beijing North Asia Asset Assessment Firm), independent professionally qualified valuers, at HK$1,052,492,000 (2017: HK$1,083,677,000). 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 (2017: Nil).

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 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 and 1 January 2018	1,083,677
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	13,922
Exchange realignment	(45,107)
Carrying amount at 31 December 2018	1,052,492

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

Valuation technique	**Significant unobservable inputs**	**Range** **31 December 2018**	31 December 2017
Income capitalisation method	Daily estimated rental value (per sq. m)	**RMB4.33 to RMB9.10**	RMB4.50 to RMB16.65
	Rent growth	**2% from 2020**	2% to 2.8% from 2019
	Discount rate	**6%**	6%
Direct comparison method	Market unit sale rate (per sq. m)	**RMB55,589 to RMB110,984**	N/A

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.

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

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.

Under the direct comparison method, fair value is estimated using the comparison method by making references to comparable market transactions and adjusted for differences on location and physical attributes, such as salable area of the building. The fair value measurement is positively correlated to the market unit sale rate.

16. GOODWILL

	2018	2017
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**3,303,632**	3,312,200
Acquisition of subsidiaries *(note 45)*	**645,379**	41,316
Disposal of subsidiaries *(note 46)*	**(64,625)**	(96,240)
Exchange realignment	**(81,314)**	46,356
At 31 December 2018	**3,803,072**	3,303,632

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:

	2018	2017
	HK$'000	*HK$'000*
Sewage and reclaimed water treatment and construction services segment	**1,864,025**	1,904,829
Water distribution services segment	**982,577**	832,011
Technical and consultancy services and sale of machineries segment	**956,470**	566,792
	3,803,072	3,303,632

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

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 Valtech Valuation Advisory Limited (2017: 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 11.04% to 12.50% (2017: 11.40% to 12.22%) 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% (2017: 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 2018 (2017: Nil).

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.

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in estimations of the recoverable amounts (Continued)

- Discount rates
  - The discount rates used are after tax and reflect specific risks of the respective segments.
  - The pre-tax discount rates applied in the cash flow projections ranged from 12.65% to 15.83% (2017: 13.98% to 14.77%) 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, Malaysia, Australia and New Zealand.

17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China, Singapore, Portugal and Australia on a BOT or a 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 50 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, Portugal or Australia 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.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

At 31 December 2018, the Group had 729, 20, 112 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, Portugal and Australia 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
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

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)*							
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.	衡陽市海朗水務有限公司	衡陽市珠暉自來水制水廠	Hengyang, Hunan Province, the PRC	衡陽市建設局	BOT on water distribution	200,000	30 years (Not yet started)
14.	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
15.	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)
16.	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.	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
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

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)*							
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	鶴山市沙坪鎮第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045
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
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.	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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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)*							
35.	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
36.	常德北控碧海水務有限責任公司	常德柳葉湖污水廠公用事業管理局	Changde City, Hunan Province, the PRC	常德市市政	TOT on sewage treatment	100,000	15 years from 2016 to 2031
37.	BEWGI – 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
38.	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
39.	永州市北控污水淨化有限公司	永州市冷水灘區下河綫污水處理廠	Yongzhou, Hunan Province, the PRC	湖南省永州市公用事業管理局	BOT on Sewage treatment	100,000	30 years from 2008 to 2038
40.	厚街海清污水處理有限公司	厚街沙塘污水處理廠	Dongguan, Guangdong Province, the PRC	厚街鎮人民政府	BOT on Sewage treatment	100,000	25 years from 2009 to 2033
41.	北控(洛陽)水務發展有限公司	新區污水處理廠二期	Louyang, Henan Province, the PRC	洛陽市水務局	TOT on Sewage treatment	100,000	30 years from 2015 to 2045
42.	內蒙古泰弘生態環境發展股份有限公司	包頭市大青山生態應急水源工程	Baotou, Inner Mongolia, the PRC	包頭市人民政府	BOT on Water supply	190,000	30 years from 2012 to 2042
43.	TRILITY Group PTY Ltd.	Macarthur	Sydney, Australia	Sydney Water	BOT on Water supply	265,000	35 years from 1995 to 2030

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:							
44.	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
45.	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
46.	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.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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 2018, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

At 31 December 2018, 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$10,878,619,000 (2017: HK$8,934,591,000) 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 had been engaged by the Group to provide preferred issue holders of the ABN resource in the event of a shortfall in cash collections or in the event of default. Therefore, the Group had 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 was not significant after the transaction. Accordingly, it had 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 was equal to its investment in the ABN of RMB100 million which was recognised as an available-for-sale investment at cost (applicable before 1 January 2018) and a financial asset at fair value through profit or loss (applicable from 1 January 2018 after the adoption of HKFRS 9).

During the year ended 31 December 2017, the Group had 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

	2018 HK$'000	2017 HK$'000
At 1 January:		
Cost	**5,064,027**	4,035,866
Accumulated amortisation	**(873,256)**	(645,870)
Net carrying amount	**4,190,771**	3,389,996
Net carrying amount:		
At 1 January	**4,190,771**	3,389,996
Acquisition of subsidiaries *(note 45)*	**135,441**	5,913
Additions	**387,975**	917,124
Amortisation provided during the year	**(246,873)**	(182,960)
Disposal of subsidiaries *(note 46)*	**(354,978)**	(183,594)
Exchange realignment	**(197,974)**	244,292
At 31 December	**3,914,362**	4,190,771
At 31 December:		
Cost	**4,981,435**	5,064,027
Accumulated amortisation	**(1,067,073)**	(873,256)
Net carrying amount	**3,914,362**	4,190,771

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2018 HK$'000	2017 HK$'000
Receivables under service concession arrangements	**31,008,697**	35,997,805
Impairment *(note (b))*	**(143,683)**	(60,044)
	30,865,014	35,937,761
Portion classified as current assets	**(3,252,496)**	(2,614,866)
Non-current portion	**27,612,518**	33,322,895

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. Ageing analyses of receivables under service concession arrangements are regularly reviewed by senior management in order to minimise any credit risk arising from the receivables.

An ageing 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 loss allowance, is as follows:

	2018 HK$'000	2017 HK$'000
Billed:		
Within 3 months	**1,328,652**	1,046,677
4 to 6 months	**601,011**	512,561
7 to 12 months	**340,745**	293,350
Over 1 year	**765,192**	536,088
	3,035,600	2,388,676
Unbilled:		
Current portion	**216,896**	226,190
Non-current portion	**27,612,518**	33,322,895
	27,829,414	33,549,085
Total	**30,865,014**	35,937,761

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

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

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**60,044**	40,997
Effect of adoption of HKFRS 9 *(note 3.2)*	**105,193**	–
At 1 January (restated)	**165,237**	40,997
Impairment losses, net	**3,086**	15,915
Exchange realignment	**(24,640)**	3,132
At 31 December	**143,683**	60,044

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2018, the probability of default applied ranged from 0.06% to 2.22% and the loss given default was estimated to be ranged from 55.83% to 69.64%.

Significant changes in the gross carrying amount of the receivables under service concession arrangements mainly contributed to changes in the ECL allowance were mainly due to the acquisition of new subsidiaries and new completed BOT projects, with a corresponding increase in the ECL allowance measured on Stage 1.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

(b) *(Continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018 *(Continued)*

Set out below is the information about the credit risk exposure of the Group's receivables under service concession arrangements using the probability of default approach:

	Stage 1 Collective *HK$'000*	Stage 2 Collective *HK$'000*	Stage 3 Collective *HK$'000*	Purchased or originated credit-impaired ("POCI") *HK$'000*	Total *HK$'000*
ECL allowance as at 1 January 2018 under HKFRS 9	70,818	89,490	4,929	–	165,237
New assets originated	3,086	–	–	–	3,086
Repaid (excluding write-offs)	(2,393)	–	–	–	(2,393)
Transfers to Stage 2	(2,918)	2,918	–	–	–
Transfers to Stage 3	(166)	–	166	–	–
Impact on year end ECLs of exposures transferred between stages during the year	–	1,965	428	–	2,393
Exchange realignment	(20,489)	(3,678)	(473)	–	(24,640)
At 31 December 2018	47,938	90,695	5,050	–	143,683

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of receivables under service concession arrangements, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired receivables of HK$43,013,000 with an aggregate carrying amount before provision of HK$402,539,000. The individually impaired receivables as at 31 December 2017 related to those amounts which had remained long outstanding and only a portion of the receivables was expected to be recovered.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2017 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)*

Impairment under HKAS 39 for the year ended 31 December 2017 *(Continued)*

An ageing analysis of the billed receivables under service concession arrangements as at 31 December 2017 that were neither individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *HK$'000*
Neither past due nor impaired	520,832
Less than 1 month past due	216,030
1 to 3 months past due	300,127
4 to 6 months past due	325,983
7 months to 1 year past due	415,082
Over 1 year past due	610,622
	2,388,676

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 were of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were 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 2018 was an amount due from Beijing Enterprises Holdings Limited ("BEHL"), a substantial beneficial shareholder of the Company, of HK$214,814,000 (2017: HK$424,708,000). 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 ended 31 December 2018. Imputed interest income of HK$25,502,000 (2017: HK$45,325,000), 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 2018 was HK$113,629,000 (2017: HK$212,689,000).

18. OTHER INTANGIBLE ASSETS

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2018			
At 1 January 2018:			
Cost	5,578	128,142	133,720
Accumulated amortisation	(978)	(30,843)	(31,821)
Net carrying amount	4,600	97,299	101,899
Net carrying amount:			
At 1 January 2018	4,600	97,299	101,899
Acquisition of subsidiaries *(note 45)*	–	1,658	1,658
Additions	117	65,870	65,987
Amortisation provided during the year	(551)	(16,968)	(17,519)
Exchange realignment	(179)	(6,066)	(6,245)
At 31 December 2018	3,987	141,793	145,780
At 31 December 2018:			
Cost	5,461	187,528	192,989
Accumulated amortisation	(1,474)	(45,735)	(47,209)
Net carrying amount	3,987	141,793	145,780

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents *HK$'000*	Computer software *HK$'000*	Total *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

19. INVESTMENTS IN JOINT VENTURES

	Notes	2018 HK$'000	2017 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets		**6,804,652**	6,269,597
Goodwill on acquisition	*(d)*	**478,275**	198,972
		7,282,927	6,468,569
Due from joint ventures, included in current assets	*(e), 27*	**2,293,324**	1,843,393
Due to joint ventures, included in current liabilities	*(e), 42*	**(1,318,709)**	(1,187,697)
Total interests in joint ventures		**8,257,542**	7,124,265

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

			Percentage of			
Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Ownership interest attributable to the Group	Voting power	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
天津市華博水務有限公司 ("Tianjin Huabo")	PRC/Mainland China	RMB588,235,294/ RMB588,235,294	49	49	49	Sewage treatment and construction services
北控南南君悦(天津)投資合伙企業(有限合夥)*	PRC/Mainland China	RMB556,050,000/ RMB3,111,500,000	6.5	(a)	(a)	Fund investment
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	–	(b)	(b)	Fund investment

Directly held by the Company

* *In the opinion of the directors, the joint ventures were 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 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 2018, 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 (2017: RMB500 million) and RMB36 million (2017: 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, the loss shall be shared by all the partners in accordance with the percentage of capital contribution.

The Group has engaged Valtech Valuation Advisory Limited (2017: 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.

(b) 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 2018, the total investment contributed by China Life in the master fund amounted to approximately RMB2,082 million (2017: 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 2018.

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.

(c) In November 2018, the Group completed the acquisition of a 49% equity interest in a company and its subsidiaries which engaged in the provision of sewage treatment and construction services in Tianjin City, the PRC through capital injection of HK$957,411,000. As all the significant relevant activities of the acquired group require unanimous consent from all parties, the acquisition is accounted for as a joint venture.

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

	2018	2017
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**198,972**	197,375
Acquisition of a joint venture	**276,091**	–
Exchange realignment	**3,212**	1,597
At 31 December	**478,275**	198,972

(e) (i) Included in the amounts due from joint ventures of the Group as at 31 December 2018 was an advance to a joint venture of US$26,390,000 (equivalent to HK$206,673,000) (2017: US$26,390,000 (equivalent to HK$206,288,000)). The amount is unsecured, bearing floating interest at LIBOR plus 2.8% per annum, and repayable on demand. Interest income of HK$10,315,000 (2017: HK$8,214,000) was recognised in profit or loss during the year ended 31 December 2018.

(ii) Included in the amounts due from joint ventures of the Group as at 31 December 2018 was a loan to a joint venture of RMB21,700,000 (equivalent to HK$24,772,000) (2017: Nil). The amount is unsecured, bearing fixed interest at 8% per annum and repayable on 25 November 2019. Interest income of HK$149,000 (2017: Nil) was recognised in profit or loss during the year ended 31 December 2018.

(iii) Included in the amounts due from joint ventures of the Group as at 31 December 2018 were two loans to a joint venture totalling of RMB34,980,000 (equivalent to HK$39,932,000) (2017: Nil). The amounts are unsecured, bearing fixed interests at 4.35% per annum and repayable on demand and bearing fixed interest at 8% per annum and repayable on 16 April 2019, respectively. Interest income of HK$1,905,000 (2017: Nil) was recognised in profit or loss during the year ended 31 December 2018.

(iv) 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 2018 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 three material joint ventures, adjusted for any differences in accounting policies and reconciled to their carrying amounts in the financial statements:

	Tianjin Huabo	Guiyang BEWG		Luoyang BEWG	
	2018	**2018**	2017	**2018**	2017
	HK$'000	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Cash and cash equivalents	**1,775,183**	**436,123**	258,685	**1,485,257**	1,437,679
Other current assets	**406,001**	**308,318**	335,482	**323,162**	403,482
Current assets	**2,181,184**	**744,441**	594,167	**1,808,419**	1,841,161
Operating concessions	**1,610,912**	**2,381,460**	1,614,448	**1,520,756**	1,262,793
Other non-current assets	**580,056**	**567,948**	1,597,339	**53,090**	219,695
Non-current assets	**2,190,968**	**2,949,408**	3,211,787	**1,573,846**	1,482,488
Financial liabilities, excluding trade and other payables and provisions	**(118,447)**	**(237,780)**	(291,847)	**–**	–
Other current liabilities	**(1,769,765)**	**(967,699)**	(1,026,520)	**(739,719)**	(758,628)
Current liabilities	**(1,888,212)**	**(1,205,479)**	(1,318,367)	**(739,719)**	(758,628)
Non-current financial liabilities, excluding trade and other payables and provisions	**(794,795)**	**–**	–	**(119,830)**	(132,043)
Other non-current liabilities	**(13,003)**	**(863,119)**	(844,071)	**(782,516)**	(741,937)
Non-current liabilities	**(807,798)**	**(863,119)**	(844,071)	**(902,346)**	(873,980)
Net assets	**1,676,142**	**1,625,251**	1,643,516	**1,740,200**	1,691,041
Non-controlling interests	**(245,955)**	**–**	–	**–**	–
Net assets, excluding non-controlling interest	**1,430,187**	**1,625,251**	1,643,516	**1,740,200**	1,691,041
Reconciliation to the Group's investments in the joint ventures:					
Proportion of the Group's ownership	**49%**	**45%**	45%	**40%**	40%
Group's share of net assets of the joint ventures, excluding goodwill	**700,791**	**731,363**	739,582	**696,080**	676,416
Goodwill on acquisition	**280,472**	**150,586**	150,586	**26,267**	27,393
Carrying amount of the investments	**981,263**	**881,949**	890,168	**722,347**	703,809

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

	Tianjin Huabo	Guiyang BEWG		Luoyang BEWG	
	2018	**2018**	2017	**2018**	2017
	HK$'000	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**211,392**	**1,023,727**	1,021,454	**983,213**	830,643
Interest income	**–**	**–**	–	**43,253**	31,533
Depreciation and amortisation	**(148,545)**	**(173,851)**	(169,432)	**(37,063)**	(23,348)
Interest expenses	**(25,519)**	**(751)**	(14,246)	**–**	–
Income tax expense	**(10,346)**	**(44,996)**	(49,629)	**(63,583)**	(54,478)
Profit for the year	**18,432**	**69,651**	201,542	**196,135**	163,597
Other comprehensive income/(loss) for the year	**–**	**(17,644)**	38,674	**–**	–
Total comprehensive income for the year	**18,432**	**52,007**	240,216	**196,135**	163,597
Share of the joint ventures' profit for the year*	**9,032**	**31,343**	90,694	**78,454**	65,439
Share of the joint ventures' other comprehensive income/(loss) for the year	**–**	**(7,940)**	17,403	**–**	–
Dividend received	**–**	**–**	52,687	**–**	–

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

	2018	2017
	HK$'000	*HK$'000*
Share of the joint ventures' profits and losses and total comprehensive income for the year*	**335,736**	365,496
Aggregate carrying amount of the Group's investments in the joint ventures	**4,697,368**	4,874,592

* *Total share of the joint ventures' profit for the year was HK$454,565,000 (2017: HK$521,629,000).*

20. INVESTMENTS IN ASSOCIATES

	Notes	2018 HK$'000	2017 HK$'000
Investments in associates, included in non-current assets:			
Share of net assets		**3,743,563**	3,491,158
Goodwill on acquisition	*(d)*	**665,112**	693,617
		4,408,675	4,184,775
Due from associates, included in current assets	*(b), 27*	**88,097**	233,059
Due to associates, excluding trade payables, included in current liabilities	*(b), 42*	**(432,491)**	(48,312)
Total investments in associates		**4,064,281**	4,369,522

Notes:

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

Company name	Place of incorporation	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$135,000	35.00	35.00	35.00	Provision of environmental hygiene services, hazardous waste treatment services and others

* *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.*

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(b) The balances with associates are unsecured, interest-free and are repayable on demand, except for loans to an associate as at 31 December 2017, amounting to RMB76,000,000, which bore interest at 8% per annum. The associate become a subsidiary during the year after additional investment made by the Group, details of which are set out in note 45 to the financial statements.

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

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

	2018	2017
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**693,617**	461,005
Increase in interest in an associate	**–**	226,231
Exchange realignment	**(28,505)**	6,381
At 31 December	**665,112**	693,617

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(e) Disclosures of a material associate

The following tables illustrate the summarised financial information of BE Clean Energy, the material associate in 2018 and 2017, adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2018 *HK$'000*	2017 *HK$'000*
Current assets	**14,669,499**	14,631,789
Non-current assets, excluding goodwill	**26,803,197**	21,024,606
Goodwill on acquisition of the associate	**534,785**	557,704
Current liabilities	**(12,594,257)**	(11,747,780)
Non-current liabilities	**(19,938,486)**	(15,243,873)
Net assets	**9,474,738**	9,222,446
Net assets, excluding goodwill	**8,939,953**	8,664,742
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**31,88%**	31.88%
Group's share of net assets of the associate, excluding goodwill	**2,850,057**	2,762,320
Goodwill on acquisition	**534,785**	557,704
Carrying amount of the investment	**3,384,842**	3,320,024
Revenue	**6,980,270**	10,039,549
Profit for the year	**1,377,956**	1,576,326
Other comprehensive income/(loss)	**(931,507)**	729,397
Total comprehensive income for the year	**446,449**	2,305,723
Share of the associate's profit for the year#	**402,296**	497,439
Share of the associate's other comprehensive income/(loss) for the year	**(282,228)**	205,713
Dividend received	**–**	–
Fair value of the Group's investment, based on the market price of the associate	**2,248,101**	5,367,089

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

	2018	2017
	HK$'000	*HK$'000*
Share of the associates' profit for the year#	**57,368**	59,139
Share of the associates' total comprehensive income	**11,105**	68,749
Aggregate carrying amount of the Group's investments in associates	**1,023,833**	864,751

Total share of associates' profit for the year was HK$459,664,000 (2017: HK$556,578,000).

21. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	HK$'000	*HK$'000*
Asset-backed note, at fair value	**97,854**	–

As at 1 January 2018, available-for-sale investments under HKAS 39 were reclassified to financial asset at fair value through profit or loss under HKFRS 9 as detailed in note 3.2 to the financial statements.

(a) The above asset-backed 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. It was mandatorily classified as financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

(b) The fair values of the asset-backed note have been estimated using Monte Carlo simulation valuation technique based on the estimates on default rate and recovery rate of the industry adjusted to reflect the specific circumstances of the investments. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period. During the year ended 31 December 2018, the related changes in fair value was not significant to the Group.

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

21. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(b) *(Continued)*

Below is a summary of the valuation technique used and the key inputs to the valuation of financial assets at fair value through profit or loss together with a quantitative sensitivity analysis as at 31 December 2018:

Valuation technique	Significant unobservable input		Sensitivity of fair value to the input
Monte Carlo simulation	Default rate	2018: 1.26%	5% increase/decrease in multiple would result in decrease in fair value by HK$68,000/ increase in fair value by HK$27,000
	Recovery rate	2018: 37.24%	5% increase/decrease in multiple would result in increase in fair value by HK$7,000/ decrease in fair value by HK$10,000

The movements in fair value measurements within Level 3 during the year are as follows:

	Financial assets at fair value through profit or loss *HK$'000*
At 1 January 2018	–
Effect of adoption of HKFRS 9 *(note 3.2)*	119,048
At 1 January 2018 (restated)	119,048
Redemption for the year	(21,194)
At 31 December 2018	97,854

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 HK$'000	2017 HK$'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value	**908,331**	–
Unlisted equity investments, at fair value	**454,348**	–
	1,362,679	–
Available-for-sale investments		
Listed equity investments, at fair value	**–**	800,641
Unlisted investments, at cost	**–**	444,363
	–	1,245,004

(a) As of 1 January 2018, available-for-sale investments under HKAS 39, were reclassified to equity investments designated at fair value through other comprehensive income under HKFRS 9 as detailed in note 3.2 to the financial statements. The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

(b) As at 31 December 2017, the unlisted investments under available-for-sale investments included an investment in an asset-backed note of RMB100 million as an issue holder. Further details of which were disclosed in note 17 to the financial statements.

The unlisted investments of the Group were not stated at fair value but at cost less any accumulated impairment losses because they did 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 was significant and the probabilities of the various estimates could not be reasonably assessed.

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

(c) A fair value of an equity investment designated at fair value through other comprehensive income has been estimated using the market approach by reference to the quoted market price was classified as level 2 to the fair value hierarchy.

The fair values of the remaining equity investments designated at fair value through other comprehensive income have been estimated using the market approach were classified as level 3 to the fair value hierarchy. The directors will determine comparable public companies (peers) based on industry, size and leverage, and calculates an appropriate price multiple, such as price to book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by net assets. The multiple is then discounted for considerations such as illiquidity based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding net assets of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of the valuation technique used and the key inputs to the valuation of equity investments designated at fair value through other comprehensive income together with a quantitative sensitivity analysis as at 31 December 2018:

Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Valuation multiples	Average P/B multiple of peers	2018: 1.7x to 4.0x	5% increase/decrease in multiple would result in increase/decrease in fair value by HK$7,719,000
	Discount for lack of marketability	2018: 10.5% to 24.0%	5% increase/decrease in discount would result in decrease/increase in fair value by HK$16,911,000

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

(c) *(Continued)*

Fair value hierarchy

The movements in fair value measurements within Level 3 during the year are as follows:

	Note	Equity investments designated at fair value through other comprehensive income *HK$'000*
At 1 January 2018		–
Effect of adoption of HKFRS 9		347,795
At 1 January 2018 (restated)		347,795
Total losses recognised in other comprehensive income		(5,395)
Redefined interest in a former subsidiary	*46*	46,994
Additions		3,176
Exchange realignment		(501)
At 31 December 2018		392,069

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 for both financial assets and financial liabilities.

23. NON-CURRENT ASSETS HELD FOR SALE

	2018 *HK$'000*	2017 *HK$'000*
Receivables under service concession arrangements	**316,488**	330,052

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

	2018 *HK$'000*	2017 *HK$'000*
Raw materials	**217,141**	126,645
Low value consumables	**7,385**	8,725
Finished goods	**991**	–
	225,517	135,370

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2018	2017
	HK$'000	*HK$'000*
Contract costs arising from construction services provided plus recognised profits less recognised losses to date	**37,866,458**	15,959,998
Impairment *(note)*	**(135,307)**	(24,393)
	37,731,151	15,935,605
Portion classified as current assets	**(3,008,591)**	(875,721)
Non-current portion	**34,722,560**	15,059,884

Amounts due from contract customers are initially recognised for revenue earned from the construction services as the receipt of consideration is conditional on successful completion of construction. Upon completion of construction and acceptance by the customer, the amounts recognised as amounts due from contract customers are reclassified to receivables under service concession arrangements for BOT arrangements and trade receivables for other construction contracts. The increase in amounts due from contract customers in 2018 was the result of the increase in the ongoing provision of construction services during the year. During the year ended 31 December 2018, HK$79.2 million was recognised as an allowance for expected credit losses on amounts due from contract customers. The Group's trading terms and credit policy with customers are disclosed in notes 17 and 26 to the financial statements, respectively.

At 31 December 2018, amounts due from contract customers of HK$232,947,000 were designated as a charge for the repayment of corporate bonds, details of which are disclosed in note 35 to the financial statements.

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS *(Continued)*

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

	2018 HK$'000	2017 HK$'000
At 1 January	**24,393**	10,286
Effect of adoption of HKFRS 9	**32,761**	–
At 1 January (restated)	**57,154**	10,286
Impairment losses, net	**79,155**	19,236
Exchange realignment	**(1,002)**	(5,129)
At 31 December	**135,307**	24,393

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2018, the probability of default applied ranged from 0.06% to 1.93% and the loss given default was estimated to be ranged from 55.83% to 57.43%.

Significant changes in the gross carrying amount of the amounts due from contract customers mainly contributed to changes in the ECL allowance were mainly due to:

– The acquisition of new subsidiaries and new ongoing BOT projects, with a corresponding increase in the ECL allowance measured on Stage 1.

– The significant increase in credit risk of certain amounts due from contract customers during the year.

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS *(Continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018 *(Continued)*

Set out below is the information about the credit risk exposure of the Group's amounts due from contract customers using the probability of default approach:

	Stage 1 Collective *HK$'000*	Stage 2 Collective *HK$'000*	Stage 3 Collective *HK$'000*	POCI *HK$'000*	Total *HK$'000*
ECL allowance as at 1 January 2018 under HKFRS 9	30,094	27,060	–	–	57,154
New assets originated	25,914	–	–	–	25,914
Exchange realignment	(234)	(768)	–	–	(1,002)
Transfers to Stage 2	(1,152)	1,152	–	–	–
Impact on year end ECLs of exposures transferred between stages during the year	–	53,241	–	–	53,241
At 31 December 2018	54,622	80,685	–	–	135,307

Impairment under HKAS 39 for the year ended 31 December 2017

At 31 December 2017, provision with an aggregate amount of HK$24,393,000 was made against amounts due from contract customers of HK$149,640,000 which had remained long outstanding and a portion of the balances were not expected to be recovered.

The Group does not hold any collateral or other credit enhancements over the balances.

26. TRADE RECEIVABLES

	2018 **HK$'000**	2017 *HK$'000*
Trade receivables	**7,169,412**	4,623,321
Impairment *(note (c))*	**(69,061)**	(39,292)
	7,100,351	4,584,029
Portion classified as current assets	**(4,196,758)**	(2,852,976)
Non-current portion	**2,903,593**	1,731,053

26. TRADE RECEIVABLES *(Continued)*

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 15.0% per annum (2017: 5.7% to 12.98%), all other trade receivables are non-interest-bearing.

An ageing 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:

	2018 ***HK$'000***	2017 *HK$'000*
Billed:		
Within 3 months	**1,587,583**	907,522
4 to 6 months	**519,304**	346,126
7 to 12 months	**404,426**	329,964
Over 1 year	**1,708,875**	1,711,348
Balance with extended credit period	**40,483**	41,051
	4,260,671	3,336,011
Unbilled*	**2,839,680**	1,248,018
	7,100,351	4,584,029

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

(b) Included in the trade receivables of the Group as at 31 December 2018 were (i) an aggregate amount of HK$5,504,000 (2017: HK$5,732,000) 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$2,130,000 (2017: HK$2,221,000) 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.

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

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

	2018	2017
	HK$'000	*HK$'000*
At 1 January*	**39,292**	27,980
Impairment losses, net	**31,218**	9,758
Exchange realignment	**(1,449)**	1,554
At 31 December	**69,061**	39,292

* *The opening adjustment related to the effect of adoption of HKFRS 9 was not significant to the Group.*

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2018, the probability of default applied ranged from 0.06% to 0.46% and the loss given default was estimated to be ranged from 55.83% to 69.64%. The loss allowance for impairment of trade receivables during the year was not significant to the Group.

Significant changes in the gross carrying amount of the trade receivables mainly contributed to increase in ongoing construction projects and provision of services, with a corresponding increase in the ECL allowance measured on Stage 1.

Set out below is the information about the credit risk exposure of the Group's trade receivables using the probability of default approach:

	Stage 1 Collective	**Stage 2 Collective**	**Stage 3 Collective**	**POCI**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ECL allowance as at 1 January 2018 under HKFRS 9	39,292	–	–	–	39,292
New assets originated	31,218	–	–	–	31,218
Exchange realignment	(1,449)	–	–	–	(1,449)
At 31 December 2018	69,061	–	–	–	69,061

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision made after an impairment assessment of the Group's trade receivables collectively. The Group did not hold any collateral or other credit enhancements over these balances.

An ageing analysis of the billed trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 *HK$'000*
Neither past due nor impaired	551,680
Less than 1 month past due	319,186
1 to 3 months past due	294,363
4 to 6 months past due	433,496
7 months to 1 year past due	53,168
Over 1 year past due	1,684,118
	3,336,011

The above receivables that were neither past due nor impaired mainly related 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 related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(d) As at 31 December 2017, 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 for settlement against any outstanding amount due to the Group. As at 31 December 2017, the trade receivable owed by this customer amounted to HK$182,825,000. As at 31 December 2018, the trade receivable was settled by the customer.

Save as disclosed above, the Group did not hold any material collateral or other credit enhancements over trade receivable balances.

(e) As 31 December 2018, trade receivables of HK$581,461,000 are designated as a charge for the repayment of the RM Bonds, details of which are disclosed in note 35 to the financial statements.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2018 HK$'000	2017 HK$'000
Prepayments		**276,347**	308,380
Deposits and other debtors	*(a)*	**3,979,283**	4,787,120
Advances to subcontractors and suppliers	*(b)*	**3,050,301**	1,650,612
Due from joint ventures	*19(e)*	**2,293,324**	1,843,393
Due from associates	*20(b)*	**88,097**	233,059
Due from other related parties	*28*	**467,099**	248,203
		10,154,451	9,070,767
Impairment	*(c)*	**(174,474)**	(210,004)
		9,979,977	8,860,763
Portion classified as current assets		**(7,382,082)**	(6,744,944)
Non-current portion		**2,597,895**	2,115,819

Notes:

(a) The Group's deposits and other debtors as at 31 December 2018 and 2017 included, inter alia, the following:

(i) an instalment deposit with a gross amount of HK$502,418,000 paid by the Group as at 31 December 2017 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 deposit was sold to an independent third party during the year.

(ii) loans and related interest receivables of HK$636,027,000 (2017: HK$734,713,000) 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$11,416,000 (2017: HK$23,809,000) in aggregate are repayable within one year after the reporting period and are classified as current assets, and HK$624,611,000 (2017: HK$710,904,000) 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; and

(2) proceeds from the disposal of the 31.5% equity interest in Beikong Shudu held by two government authorities in Mainland China.

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

Notes: (Continued)

(a) *(Continued)*

(iii) a loan amount of HK$456,621,000 (2017: HK$476,190,000) provided to an immediate holding company of a then joint venture partner 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 non-current asset.

(iv) investment deposits of HK$195,966,000 (2017: HK$117,520,000) 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$112,214,000 (2017: HK$397,617,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK$111,643,000 (2017: HK$158,927,000) and HK$571,000 (2017: HK$238,690,000) are classified as current and non-current assets, respectively.

(vi) consideration receivables amounting to HK$377,696,000 (2017: HK$393,883,000) in aggregate from the disposal of parcels of land and is classified as a non-current asset.

(b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK$360,126,000 (2017: HK$375,560,000) 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$360,126,000 (2017: HK$375,560,000) 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 the loss allowance for impairment of other receivables during the year are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January*	**210,004**	152,181
Acquisition of subsidiaries *(note 45)*	**–**	60
Impairment losses/(reversal of impairment losses), net	**(32,226)**	48,263
Exchange realignment	**(3,304)**	9,500
At 31 December	**174,474**	210,004

* *The opening adjustment related to the effect of adoption of HKFRS 9 was not significant to the Group.*

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

Notes: (Continued)

(c) *(Continued)*

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. As at 31 December 2018, the probability of default applied ranged from 0.06% to 0.54% and the loss given default was estimated to be ranged from 55.83% to 69.64%. The loss allowance for impairment of deposits and other receivables during the year was not significant to the Group.

Impairment under HKAS 39 for the year ended 31 December 2017

The individually impaired receivables as at 31 December 2017 related to those amounts which had remained long outstanding and only a portion of the receivables was expected to be recovered. Included in the provision for impairment of other receivables, which was measured based on incurred losses under HKAS 39 as at 31 December 2017 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 also included the provisions made against the remaining balances of certain other receivables collectively as at that date.

As at 31 December 2018 and 2017, the Group did 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:

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

	2018	2017
	HK$'000	*HK$'000*
Cash and bank balances:		
Placed in banks	**9,080,357**	6,482,645
Placed in a financial institution *(note 52)*	**2,737,338**	2,235,610
Time deposits:		
Placed in banks	**1,776,801**	1,266,724
Total cash and bank balances	**13,594,496**	9,984,979
Less: Restricted cash and pledged deposits *(note (a))*	**(656,849)**	(46,150)
Cash and cash equivalents	**12,937,647**	9,938,829

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2018 included the following:

(i) bank deposits of HK$648,360,000 (2017: HK$22,162,000) which could only be applied to the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and

(ii) bank deposits of HK$8,489,000 (2017: HK$23,945,000) 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 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:

	2018 HK$'000	2017 HK$'000
MOP	**15,033**	2,502
HK$	**903,095**	225,734
RMB	**11,613,931**	8,635,967
US$	**48,232**	41,482
MYR	**271,629**	711,734
EUR	**372,022**	334,266
SGD	**44,802**	33,294
AUD	**325,752**	–
	13,594,496	9,984,979

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) 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

	2018 HK$'000	2017 HK$'000
Authorised: 15,000,000,000 ordinary shares of HK$0.10 each	**1,500,000**	1,500,000
Issued and fully paid: 9,412,988,721 (2017: 8,793,817,196) ordinary shares of HK$0.10 each	**941,299**	879,382

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2018 and 2017 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 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 and 1 January 2018		8,793,817,196	879,382	5,068,783	5,948,165
Exercise of share options	*(a)*	2,580,000	258	7,729	7,987
Shares repurchased and cancelled	*(b)*	(2,900,000)	(290)	(12,220)	(12,510)
Issue of shares	*(c)*	619,491,525	61,949	3,553,021	3,614,970
Transfer to contributed surplus	*(d)*	–	–	(8,617,313)	(8,617,313)
At 31 December 2018		9,412,988,721	941,299	–	941,299

Notes:

(a) During the year, the subscription rights attaching to 2,580,000 (2017: 55,950,000) share options were exercised at a subscription price of HK$2.244 (2017: HK$2.244) per ordinary share during the year, resulting in the issue 2,580,000 (2017: 55,950,000) ordinary shares of the Company for a total cash consideration of approximately HK$5,790,000 (2017: HK$125,552,000) (before expenses). At the time when the share options were exercised, the aggregate fair value of these share options of HK$2,199,000 (2017: HK$48,794,000) previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 31 to the financial statements.

(b) During the year, the Company repurchased 2,900,000 ordinary shares on the Stock Exchange for a total consideration of HK$12,510,000 (after expenses). 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$290,000. The premium and expenses paid on the repurchase of the shares of HK$12,220,000 were charged to the share premium of the Company.

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes: (Continued)

(c) 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 HK$2,655 million, before expenses.

On the same date, the Company entered into a subscription agreement with Beijing Enterprises Environmental Construction Limited (the "Subscriber"), a 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 subscription was completed on 4 April 2018 and the Group raised a total of approximately HK$1,000 million, before expenses.

(d) Pursuant to a resolution passed at the special general meeting held on 10 December 2018, an amount of approximately HK$8,617,313,000 was transferred from the share premium account to the contributed surplus. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

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 AND SHARE AWARD SCHEME

A. 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 directors and independent non-executive directors of the Company, 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, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary shares of the Company in issue at any time or with an aggregate value (based on the price ordinary shares of the Company 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.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of ordinary shares of the Company on Stock Exchange on the date of grant of the share options; (ii) the average closing price of ordinary shares of the Company on Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the ordinary shares of the Company 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 share capital of the Company.

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 upon expiry or the grantee ceases to be an employee of the Group pursuant to the terms of the Scheme.

31. SHARE OPTION SCHEME AND SHARE AWARD SCHEME *(Continued)*

A. SHARE OPTION SCHEME *(Continued)*

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

	2018 Weighted average exercise price *HK$ per share*	**2018** Number of options *'000*	2017 Weighted average exercise price *HK$ per share*	2017 Number of options *'000*
At 1 January	**2.266**	**269,516**	2.262	325,466
Exercised during the year	**2.244**	**(2,580)**	2.244	(55,950)
At 31 December	**2.266**	**266,936**	2.266	269,516

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

2018 Number of options *'000*	2017 Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise periods**
21,426	21,726	2.244	24-4-2014 to 23-4-2023
39,014	39,314	2.244	24-4-2015 to 23-4-2023
51,736	52,436	2.244	24-4-2016 to 23-4-2023
74,610	75,890	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
266,936	269,516		

* *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 share capital of the Company.*

Notes:

(a) The Group recognised a share option expense of HK$4,688,000 (2017: HK$19,903,000) during the year ended 31 December 2018 in respect of the share options granted in the prior years.

31. SHARE OPTION SCHEME AND SHARE AWARD SCHEME *(Continued)*

A. SHARE OPTION SCHEME *(Continued)*

Notes: (Continued)

(b) The 2,580,000 (2017: 55,950,000) share options exercised during the year resulted in the issue of 2,580,000 (2017: 55,950,000) ordinary shares of the Company and new share capital of HK$258,000 (2017: HK$5,595,000), as further detailed in note 30 to the financial statements.

(c) At the end of the reporting period, the Company had 266,936,000 share options outstanding under the Scheme which represented approximately 2.8% of the Company's shares in issue as at 31 December 2018. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 266,936,000 additional ordinary shares of the Company and additional share capital of HK$26,694,000 and share premium of HK$822,803,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2018 and the fair values of the unvested share options).

Subsequent to the end of the reporting period, no share options exercised.

At the date of approval of these financial statements, the Company has 266,936,000 share options outstanding under the share option scheme, which represented approximately 2.8% of the Company's share in issue as at that date.

B. SHARE AWARD SCHEME

The Company operates a share award scheme (the "Share Award Scheme") for the purpose of recognising the contributions by certain employees, directors and consultants of the Group and encourage them for the continual operation and development of the Group, and attract excellent talent for further development of the Group. The Share Award Scheme became effective on 17 December 2018 and shall be valid and effective for a term of 5 years commencing on the adoption date and ending on the expiry of the trust period which may be extend by the Board at its absolute discretion.

Pursuant to the Share Award Scheme, the Company shall cause to pay the trustee, the sum for the purchase of the existing awarded shares and the related expenses. The trustee shall purchase the existing Shares from the market and shall hold such Shares until they are vested in accordance with the scheme rules. Subject to the terms and conditions of the Share Award Scheme and the fulfillment of all vesting conditions to the vesting of the awarded shares, the awarded shares shall be held by the trustee on behalf of the selected participants until the end of the vesting period. The awarded shares will be transferred by the trustee to the selected participants.

The Company shall not make any further award of awarded shares which will result in the aggregate number of shares held by the trustee under the Share Award Scheme at any single point in time exceed 2% of the total issued share capital of the Company from time to time. Further details of the Share Award Scheme are set out in the announcement of the Company dated 17 December 2018.

During the year, no shares was acquired by the trustee and no shares had been awarded under the Share Award Scheme.

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 2018 were distributable in the form of cash dividends.

33. PERPETUAL CAPITAL INSTRUMENTS

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**6,623,082**	6,305,025
Share of profit for the year	**246,012**	240,291
Distribution for the year	**(246,012)**	(296,202)
Exchange realignment	**(272,182)**	373,968
At 31 December	**6,350,900**	6,623,082

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 2018, distributions with an aggregate of RMB206,650,000 (approximately HK$246,012,000) (2017: RMB254,734,000 (approximately HK$296,202,000)) were declared to the holders of the Perpetual Capital Instruments, of which RMB48,083,000 (approximately HK$54,889,000) (2017: RMB48,083,000 (approximately HK$57,242,000)) have not been paid and recorded in other payables as at 31 December 2018.

34. BANK AND OTHER BORROWINGS

	2018 *HK$'000*	2017 *HK$'000*
Bank loans:		
Secured	**13,541,222**	10,410,240
Unsecured	**16,834,240**	15,230,067
	30,375,462	25,640,307
Other loans:		
Secured	**45,656**	54,636
Unsecured	**1,652,281**	437,997
	1,697,937	492,633
Total bank and other borrowings	**32,073,399**	26,132,940
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**3,903,499**	4,634,429
In the second year	**6,294,130**	1,925,417
In the third to fifth years, inclusive	**15,704,650**	15,879,803
Beyond five years	**4,473,183**	3,200,658
	30,375,462	25,640,307
Other loans repayable:		
Within one year or on demand	**388,340**	54,915
In the second year	**54,016**	20,927
In the third to fifth years, inclusive	**298,738**	135,601
Beyond five years	**956,843**	281,190
	1,697,937	492,633
Total bank and other borrowings	**32,073,399**	26,132,940
Portion classified as current liabilities	**(4,291,839)**	(4,689,344)
Non-current portion	**27,781,560**	21,443,596

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:

	2018	2017
	HK$'000	*HK$'000*
HK$	**13,909,487**	12,911,247
RMB	**15,142,045**	11,722,828
US$	**23,664**	31,247
EUR	**848,911**	883,238
SGD	**563,000**	584,380
AUD	**1,586,292**	–
	32,073,399	26,132,940

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

	2018	2017
	HK$'000	*HK$'000*
Bank loans:		
Secured	**3.29% – 5.64%**	3.91% – 5.88%
Unsecured	**2.05% – 4.99%**	1.67% – 4.99%
Other loans:		
Secured	**1.20%**	1.20%
Unsecured	**1.20% – 6.5%**	1.20% – 8.00%

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

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising operating concessions and receivables under service concession arrangements) in an aggregate carrying amount of HK$10,878,619,000 (2017: HK$8,934,591,000) as at 31 December 2018, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors *(note 17)*;

(ii) guarantees given by the Company and/or its subsidiaries;

(iii) bank deposits of HK$8,489,000 (2017: HK$23,945,000) 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$1,738,343,000 (2017: HK$1,835,070,000) *(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$627,100,000 (2017: HK$2,320,696,000) bearing interest at fixed rates ranging from 1.2% to 6.12% (2017: 1.2% to 8.0%) per annum; and

(ii) three (2017: two) interest-free government loans in an aggregate principal amount of HK$27,555,000 (2017: HK$12,890,000).

(e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK$15,713,398,000 (2017: HK$13,794,485,000) as at 31 December 2018 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

	2018 HK$'000	2017 HK$'000
Secured corporate bonds, repayable:		
In the second year	**225,388**	–
In the third to fifth years, inclusive	**473,184**	556,081
Beyond five years	**56,848**	212,261
	755,420	768,342
Unsecured corporate bonds, repayable:		
Within one year	**4,341,192**	3,750,484
In the second year	**1,479,582**	2,375,209
In the third to fifth years, inclusive	**13,998,212**	7,351,813
	19,818,986	13,477,506
Total corporate bonds	**20,574,406**	14,245,848
Portion classified as current liabilities	**(4,341,192)**	(3,750,484)
Non-current portion	**16,233,214**	10,495,364

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

(ii) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the "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 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;

35. CORPORATE BONDS *(Continued)*

(iii) corporate bonds with an aggregate principal amount 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;

(iv) 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;

(v) corporate bonds with an aggregate principal amount of RMB200,000,000 (the "Second 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 2018. The subsidiary redeemed RMB190,000,000 from the principal amount in November 2018. The remaining portion of the principal amount, which is due on 15 November 2019, bears interest at a rate of 4% per annum and is guaranteed by a wholly-owned subsidiary of the Company;

(vi) 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;

(vii) 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 and are guaranteed by the Company. Trade receivables of MYR307,001,000 (equivalent to HK$581,461,000) *(note 26)* and amounts due from contract customers of MYR122,992,000 (equivalent to HK$232,947,000) *(note 25)* were designated as a charge for the repayment of the RM Bonds. The RM Bonds are due for repayment starting from 17 July 2020;

(viii) corporate bonds with an aggregate principal amount of US$500,000,000 (the "Second US$ Bonds") issued by a wholly-owned subsidiary to certain institutional investors in May 2018, bearing interest rate of 4.95% per annum and are guaranteed by the Company. The Second US$ Bonds are due for repayment in May 2023;

35. CORPORATE BONDS *(Continued)*

(ix) corporate bonds with an aggregate principal amount of RMB3,000,000,000 (the "Third Panda Bonds") issued by the Company to certain institutional investors in May 2018 pursuant to the announcement dated 28 May 2018, bearing interest at rates of 4.92% and 5.1% per annum. The Third Panda Bonds are due for repayment on 25 May 2023 and 25 May 2025. Two years prior to the maturity, 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

(x) corporate bonds with an aggregate principal amount of RMB3,000,000,000 (the "Forth Panda Bonds") issued by the Company to certain institutional investors in July 2018 pursuant to the announcement dated 16 July 2018, bearing interest at rates of 4.45% and 4.72% per annum. The Forth Panda Bonds are due for repayment on 20 July 2023 and 20 July 2025. Two years prior to the maturity, 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.

The corporate bonds at 31 December 2018 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 Second US$ Bonds, the Third Panda Bonds and the Forth Panda 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 supervise the Company;

(iii) if BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company; and/or

(iv) if the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors.

Based on the best belief and knowledge of the Company's directors, 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 2018 and 2017 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.

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 best belief and knowledge of the Company's directors, 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 four (2017: five) finance lease arrangements. The leases are classified as finance leases and had remaining lease terms ranging from four to eleven years (2017: five to twelve years) as at 31 December 2018.

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

	Minimum lease payments 2018 *HK$'000*	Minimum lease payments 2017 *HK$'000*	**Present value of minimum lease payments 2018 *HK$'000***	Present value of minimum lease payments 2017 *HK$'000*
Amounts repayable:				
Within one year or on demand	**107,842**	115,384	**89,714**	102,749
In the second year	**78,362**	86,155	**65,132**	58,342
In the third to fifth years, inclusive	**207,485**	249,388	**185,695**	216,505
Over five years	**67,209**	131,086	**60,591**	120,614
Total minimum finance lease payments	**460,898**	582,013	**401,132**	498,210
Future finance charges	**(59,766)**	(83,803)		
Total net finance lease payables	**401,132**	498,210		
Portion classified as current liabilities	**(89,714)**	(102,749)		
Non-current portion	**311,418**	395,461		

One of the finance leases with a carrying amount of HK$30,507,000 (2017: HK$39,988,000) as at 31 December 2018 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 payables 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 2018 *HK$'000*	Minimum lease payments 2017 *HK$'000*	**Present value of minimum lease payments 2018 *HK$'000***	Present value of minimum lease payments 2017 *HK$'000*
Amounts repayable:				
Within one year	**83,915**	80,451	**67,419**	59,883
In the second year	**87,933**	96,136	**73,738**	77,958
In the third to fifth years, inclusive	**221,841**	274,340	**199,384**	239,755
Over five years	**67,209**	131,086	**60,591**	120,614
Total minimum finance lease payments	**460,898**	582,013	**401,132**	498,210

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	2018 HK$'000	2017 HK$'000
At 1 January		**207,426**	187,759
Arising from acquisition	*45*	**37,423**	–
Provision for the year	*7*	**139,100**	126,038
Increase in discounted amounts arising from the passage of time	*8*	**17,054**	14,085
Amount utilised during the year		**(175,097)**	(105,585)
Disposal of subsidiaries	*46*	**(3,369)**	(25,620)
Deregistration of subsidiaries		**(2,367)**	–
Exchange realignment		**(9,221)**	10,749
At 31 December		**210,949**	207,426

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:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**277,075**	272,320
Deferred tax liabilities	**(2,543,849)**	(2,103,997)
	(2,266,774)	(1,831,677)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

40. DEFERRED TAX *(Continued)*

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

	Notes	Attributable to: 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 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 and 1 January 2018		(395,541)	20,528	70,881	(1,520,115)	(9,800)	2,370	(1,831,677)
Acquisition of subsidiaries	45	115,770	–	–	–	–	–	115,770
Disposal of subsidiaries	46	317	–	19,933	–	–	–	20,250
Deregistration of subsidiaries		4,069	–	–	–	–	–	4,069
Net deferred tax credited/ (charged) to profit or loss	11	10,155	(13,372)	1,464	(709,683)	–	–	(711,436)
Exchange realignment		11,769	(294)	(2,973)	127,442	403	(97)	136,250
At 31 December 2018		(253,461)	6,862	89,305	(2,102,356)	(9,397)	2,273	(2,266,774)

Notes:

(a) At 31 December 2018, deferred tax assets have not been recognised in respect of unused tax losses of HK$346,144,000 (2017: HK$502,393,000) 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$14,308,000 (2017: HK$270,311,000) 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 2018, 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$4,611,810,000 (2017: HK$3,929,525,000) as at 31 December 2018.

41. TRADE PAYABLES

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

	2018	2017
	HK$'000	*HK$'000*
Within 3 months	**7,734,850**	5,375,901
4 to 6 months	**2,369,676**	1,194,027
7 months to 1 year	**3,150,924**	1,967,296
1 to 2 years	**2,569,605**	1,206,914
2 to 3 years	**916,981**	966,760
Over 3 years	**974,504**	819,153
Balance with extended credit period	**156,105**	157,466
	17,872,645	11,687,517

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 2018 and 2017 included, inter alia, the following:

(a) an amount of HK$31,598,000 due to a joint venture of the Group as at 31 December 2017, arising from the trading of construction materials and equipment carried out in the ordinary course of business of the Group. The amount was settled by the Group during the year. No purchases were made by the Group from the joint venture in 2017 and 2018, respectively.

(b) an amount of HK$5,229,000 (2017: HK$30,676,000) 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 were charged at the published prices and conditions offered by the associate to its major customers and were included in "Cost of sales" on the face of the consolidated statement of profit or loss during the year ended 31 December 2017. No construction service was provided and charged during the year.

42. OTHER PAYABLES AND ACCRUALS

	Notes	2018 HK$'000	2017 HK$'000
Accruals		**1,157,784**	884,420
Other liabilities	(a)	**3,839,479**	2,984,304
Receipts in advance	(b)	**–**	574,645
Contract liabilities		**633,670**	–
Due to subcontractors	(c)	**1,072,231**	906,429
Due to joint ventures	19(e)	**1,318,709**	1,187,697
Due to associates	20(b)	**432,491**	48,312
Due to related parties	(d)	**699,339**	397,069
Other taxes payables	43	**327,226**	357,267
		9,480,929	7,340,143
Portion classified as current liabilities		**(8,885,441)**	(6,769,636)
Non-current portion		**595,488**	570,507

Notes:

(a) The Group's other liabilities as at 31 December 2018 included, inter alia, the following:

(i) outstanding considerations in an aggregate amount of HK$950,376,000 (2017: HK$837,097,000) 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$706,262,000 and HK$279,011,000 (2017: HK$783,615,000 and nil) payable to various independent third parties and an associate, respectively, for the acquisition of subsidiaries and an associate, of which nil and HK$279,011,000 (2017: HK$227,851,000 and nil), respectively, was attributable to the acquisition completed during the year.

(b) Contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Contract liabilities	**633,670**	574,645

The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the provision of construction, technical and consultancy services at the end of the year.

42. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes: (Continued)

(c) The amounts due to subcontractors of the Group as at 31 December 2018 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$360,126,000 (2017: HK$375,560,000), as further detailed in note 27 to the financial statements.

(d) Included in the amounts due to related parties of the Group as at 31 December 2018 was an advance from a related party of SGD29,684,000 (equivalent to HK$170,534,000) (31 December 2017: SGD30,155,000 (equivalent to HK$176,114,000)). The amount is unsecured, bearing fixed interest rate at 2.5% per annum and repayable by quarterly instalments. Interest expense of HK$4,366,000 (2017: HK$3,915,000) was recognised in profit or loss during the year ended 31 December 2018.

(e) Other payables are non-interest-bearing and have an average credit term of three months.

43. OTHER TAXES PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Business tax	**7,595**	28,837
Value-added tax	**229,175**	271,536
Others	**90,456**	56,894
	327,226	357,267

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:

	2018	2017
Percentage of equity interest held by non-controlling interests:		
BCEG Environmental and its subsidiaries ("BCEG Group")	**40%**	40%

	2018	2017
	HK$'000	*HK$'000*
Profit for the year allocated to non-controlling interests:		
BCEG Group	**66,053**	28,584
Accumulated balances of non-controlling interests at the reporting date:		
BCEG Group	**687,838**	694,430

44. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

(Continued)

The following table illustrates the summarised financial information of the above group. The amounts disclosed are before any inter-company eliminations:

	BCEG Group	
	2018	2017
	HK$'000	*HK$'000*
Revenue	**447,670**	26,618
Interest income	**26,299**	34,710
Total expenses	**(80,604)**	(125,475)
Profit for the year	**165,133**	71,460
Total comprehensive income for the year	**262,561**	126,065
Current assets	**1,281,801**	1,171,418
Non-current assets	**2,944,354**	2,903,053
Current liabilities	**(1,301,784)**	(1,137,343)
Non-current liabilities	**(882,315)**	(1,085,586)

	BCEG Group	
	2018	2017
	HK$'000	*HK$'000*
Net cash flows used in:		
Operating activities	**(40,684)**	(12,949)
Investing activities	**(13,463)**	(8,088)
Financing activities	**(16,223)**	(307,588)
Net decrease in cash and cash equivalents	**(70,370)**	(328,625)

45. BUSINESS COMBINATIONS

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2018 as at their respective dates of acquisition are set out as follows:

		2018		
		TRILITY	Others	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment		109,193	203,324	312,517
Operating concessions		135,441	–	135,441
Other intangible assets		–	1,658	1,658
Investments in joint ventures		168,023	–	168,023
Amount due from contract customers		–	3,917,821	3,917,821
Receivables under service concession arrangements	*(c)*	766,184	–	766,184
Deferred tax assets		115,770	–	115,770
Inventories		24,530	13,250	37,780
Trade receivables	*(c)*	182,778	9,168	191,946
Prepayments, deposits and other receivables	*(c)*	12,475	88,309	100,784
Cash and cash equivalents		202,679	21,749	224,428
Trade payables		(16,813)	(463,178)	(479,991)
Other payables and accruals		(267,431)	(1,831,656)	(2,099,087)
Provision for major overhauls		(37,423)	–	(37,423)
Income tax payables		(364)	(123,540)	(123,904)
Bank and other borrowings		(483,492)	(1,104,762)	(1,588,254)
Deferred income		–	(794)	(794)
Total identifiable net assets at fair value		911,550	731,349	1,642,899
Non-controlling interests		–	(63,432)	(63,432)
		911,550	667,917	1,579,467
Goodwill on acquisition		302,895	342,484	645,379
Gains on bargain purchase		–	(115,463)	(115,463)
		1,214,445	894,938	2,109,383

45. BUSINESS COMBINATIONS *(Continued)*

	2018		
	TRILITY	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Satisfied by:			
Cash	**1,214,445**	**362,345**	**1,576,790**
Reclassified from an investment in a joint venture	**–**	**532,593**	**532,593**
	1,214,445	**894,938**	**2,109,383**
Revenue for the year since acquisition#	**543,620**	**1,603,115**	**2,146,735**
Profit for the year since acquisition	**24,569**	**166,212**	**190,781**

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

45. BUSINESS COMBINATIONS *(Continued)*

The fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year ended 31 December 2017 as at their respective dates of acquisition are set out as follows:

		2017			
		Mongolia	Dingzhou	Others	Total
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment		584,062	317,627	548	902,237
Operating concessions		–	–	5,913	5,913
Other intangible assets		–	–	17	17
Receivables under service concession arrangements	*(c)*	–	–	375,652	375,652
Deferred tax assets		14,167	–	–	14,167
Inventories		2,071	473	745	3,289
Trade receivables	*(c)*	58,261	72	217	58,550
Prepayments, deposits and other receivables	*(c)*	37,412	5,358	17,393	60,163
Cash and cash equivalents		1,636	1,359	3,228	6,223
Trade payables		(19,524)	(1,905)	(2,583)	(24,012)
Other payables and accruals		(199,487)	(120,178)	(7,955)	(327,620)
Income tax payables		(3,291)	1	(470)	(3,760)
Bank and other borrowings		(175,506)	–	(112,251)	(287,757)
Deferred income		(20,466)	(26,178)	–	(46,644)
Deferred tax liabilities		–	(44,270)	(21,493)	(65,763)
Total identifiable net assets at fair value		279,335	132,359	258,961	670,655
Non-controlling interests		(92,181)	(26,472)	(32,866)	(151,519)
		187,154	105,887	226,095	519,136
Goodwill on acquisition		–	28,540	12,776	41,316
Gains on bargain purchase		(7,282)	–	(1,991)	(9,273)
		179,872	134,427	236,880	551,179

45. BUSINESS COMBINATIONS *(Continued)*

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

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:

	2018	2017
	HK$'000	*HK$'000*
Cash consideration	**(1,576,790)**	(551,179)
Cash and cash equivalents acquired	**224,428**	6,223
Amortised costs of outstanding cash consideration at end of year	**279,011**	227,851
Investment deposits paid in prior periods	**–**	18,147
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(1,073,351)**	(298,958)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$5,206,058,000 (2017: HK$4,454,845,000) and the Group's revenue would have been HK$25,149,671,000 (2017: HK$21,227,424,000).

45. BUSINESS COMBINATIONS *(Continued)*

Notes:

(a) Business combinations during the year ended 31 December 2018 included, inter alia, the following material transactions:

(i) in March 2018, the Group completed the acquisition of the 99.5% equity interest in a company and its subsidiaries which engaged in the provision for construction services in Inner Mongolia, the PRC, at an aggregate cash consideration of HK$83,334,000 from a joint venture;

(ii) in April 2018, the Group completed the acquisition of the 100% equity interest in a company and its subsidiaries which engaged in the provision of sewage and reclaimed water treatment and seawater desalination services, water distribution services, construction services and sales of goods business in Australia and New Zealand, at a cash consideration of HK$1,214,445,000; and

(iii) in June 2018, the Group completed the acquisition of the 62% equity interest in a company which engaged in waste treatment business in Gansu Province, the PRC, at a cash consideration of HK$279,011,000 from an associate.

(b) 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 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.

(c) The fair values of amounts due from contract customers, receivables under service concession arrangements, trade receivables, deposits and other receivables as at the respective dates of acquisitions during the year ended 31 December 2018 amounted to HK$3,917,821,000, HK$766,184,000, HK$191,946,000 and HK$91,710,000, respectively.

The gross contractual amounts of due from contract customers receivables under service concession arrangements, trade receivables, deposits and other receivables were HK$3,917,821,000, HK$766,184,000, HK$191,946,000 and HK$91,710,000, respectively, of which none of them are expected to be unallocatable.

46. DISPOSAL OF SUBSIDIARIES

	2018 HK$'000 (note (a))	2017 HK$'000 (note (b))
Net assets disposed of:		
Property, plant and equipment	53,498	100,018
Goodwill	64,625	96,240
Operating concessions	354,978	183,594
Other intangible assets	–	4,294
Amounts due from contract customers	231,311	4,562,434
Receivables under service concession arrangements	3,628,258	2,145,850
Trade receivables	47,605	106,897
Deferred tax assets	2,753	4,050
Inventories	1,979	6,105
Prepayments, deposits and other receivables	162,395	1,383,025
Cash and cash equivalents	58,601	1,146,200
Deferred income	–	(23,810)
Trade payables	(267,220)	(2,792,508)
Other payables and accruals	(2,280,370)	(1,088,883)
Income tax payables	(11,594)	(93,465)
Bank and other borrowings	(936,416)	(613,358)
Provision for major overhauls	(3,369)	(25,620)
Deferred tax liabilities	(23,003)	(150,421)
Non-controlling interests	(91,466)	(20,542)
	992,565	4,930,100
Exchange fluctuation reserve realised	46	(12,478)
Elimination of retained interests in the subsidiaries through investments in joint ventures and associates	–	(595,750)
Loss on disposal of subsidiaries, net	(67,159)	(45,746)
	925,452	4,276,126

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

	Notes	2018 HK$'000 (note (a))	2017 HK$'000 (note (b))
Satisfied by:			
Cash		**878,458**	3,717,410
Reclassified to equity investment designated at fair value through other comprehensive income	*(a)(ii)*	**46,994**	–
Reclassified to an available-for-sale investment	*(b)(i)*	**–**	5,013
Reclassified to joint ventures	*(b)(ii)*	**–**	531,749
Reclassified to an associate		**–**	21,954
		925,452	4,276,126

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

	2018 HK$'000	2017 HK$'000
Cash consideration	**878,458**	3,717,410
Cash and bank balances disposed of	**(58,601)**	(1,146,200)
Consideration receivable as at year end	**(828,458)**	(222,583)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	**(8,601)**	2,348,627

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

Notes:

(a) The Group completed the following disposal of subsidiaries during the year ended 31 December 2018:

(i) in January 2018, the Group disposed of a 99% equity interest in a subsidiary engaging in the construction services in the PRC, for a cash consideration of HK$50,000,000 to a joint venture;

(ii) in December 2018, the Group disposed of a 85% equity interest in a subsidiary engaging in sewage treatment operations located in the PRC, for a cash consideration of HK$844,814,000 to a joint venture. The remaining interest in the company is reclassified to equity investment designated at fair value through other comprehensive income; and

(iii) in December 2018, the Group disposed of a 100% equity interest in a subsidiary operating in the consultancy services in the PRC, for a cash consideration of HK$30,638,000 to an associate.

(b) 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 was reclassified to an 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 interests 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) a 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 interests ranging from 85% to 100% in 15 subsidiaries operating in the sewage treatment and water supply service 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; and

(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.

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 2018	**26,132,940**	**498,210**	**14,245,848**	**3,074,932**
Changes from financing cash flows	**6,058,989**	**(96,078)**	**6,719,976**	**–**
New finance lease	**–**	**16,190**	**–**	**–**
Interest expense	**–**	**–**	**23,667**	**1,734**
Increase arising from acquisition of subsidiaries	**1,588,254**	**–**	**–**	**–**
Decrease arising from disposal of subsidiaries	**(936,416)**	**–**	**–**	**–**
Foreign exchange movement	**(770,368)**	**(17,190)**	**(415,085)**	**(97,709)**
At 31 December 2018	**32,073,399**	**401,132**	**20,574,406**	**2,978,957**
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 2018, a corporate guarantee at a maximum amount of HK$93,113,000 (MYR49,162,000) (2017: HK$89,382,000 (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 remained 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$1,099,570,000 (2017: HK$793,076,000) were outstanding and corporate guarantees of HK$3,071,511,000 (2017: HK$2,064,409,000) were given to banks in connection with facilities granted to certain associates, joint ventures and independent third parties as at 31 December 2018.

Save as disclosed above, at 31 December 2018, 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(a)(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 9 months to 21 years (2017: 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:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**16,518**	11,855
In the second to fifth years, inclusive	**2,472**	2,160
After five years	**1,158**	192
	20,148	14,207

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 1 month to 50 years (2017: from 3 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:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**23,888**	25,118
In the second to fifth years, inclusive	**36,051**	38,645
After five years	**113,486**	111,941
	173,425	175,704

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:

	2018 ***HK$'000***	2017 *HK$'000*
Contracted, but not provided for:		
New service concession arrangements on:		
TOT basis	**544,417**	359,008
BOT basis	**6,458,483**	4,712,366
Build-Own-Operate basis	**214,840**	4,185
Capital contribution to joint ventures	**11,450,776**	11,264,214
Acquisition of subsidiaries	**–**	1,152,570
	18,668,516	17,492,343

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:

	2018	2017
	HK$'000	*HK$'000*
Contracted, but not provided for	**554,854**	770,972

Save as disclosed above, at 31 December 2018, the Group did not have any significant commitments.

52. RELATED PARTY TRANSACTIONS

(a) The Group had engaged a related company of the Group to provide sewage treatment engineering services for the Malaysia Project with service fees HK$148,840,000 (MYR76,609,000) (2017: HK$132,092,000 (MYR72,862,000)), which was charged at the published prices and conditions offered by the related company to its major customers.

Total net interest income from the non-controlling equity holders of HK$31,000 was recognised by the Group during the year ended 31 December 2017, and, 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) which was charged at the published prices and conditions offered by the Group to its major customers during the year ended 31 December 2017.

(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

	2018	2017
	HK$'000	*HK$'000*
Short term employee benefits	**21,489**	19,120
Equity-settled share option expenses	**1,525**	5,667
Pension scheme contributions	**36**	36
Total compensation paid to key management personnel	**23,050**	24,823

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 commenced on the date of the Deposit Agreement and continued 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 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$2,737,338,000 (2017: HK$2,235,610,000). The related interest income recognised in profit or loss during the year was not significant to the Group.

The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK$551,598,000 (2017: HK$827,619,000) and bear interest at floating rates ranging from 4.35% to 4.75% per annum (2017: from 4.13% 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.

(g) The Group had provided management services to joint ventures of the Group for HK$35,396,000 (RMB29,732,000) (2017: Nil) which was charged based on terms mutually agreed between the Group and the joint ventures.

(h) The Group had provided technical and consultancy services for comprehensive renovation projects located in Beijing and Baotou City in the PRC to joint ventures of the Group for HK$100,020,000 (RMB84,017,000) (2017: Nil) and HK$52,186,000 (RMB43,836,000) (2017: Nil), respectively, which were charged based on terms mutually agreed between the Group and the joint ventures.

52. RELATED PARTY TRANSACTIONS *(Continued)*

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 2018 and 2017.

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.

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)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018				
Investment properties	**–**	**–**	**1,052,492**	**1,052,492**
Financial assets at fair value through profit or loss	**–**	**–**	**97,854**	**97,854**
Equity investments designated at fair value through other comprehensive income	**908,331**	**62,279**	**392,069**	**1,362,679**
Total	**908,331**	**62,279**	**1,542,415**	**2,513,025**
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

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 2017: 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, 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 and liquidity 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 2018, 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 2018 by approximately HK$174,090,000 (2017: HK$122,080,000).

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 2018		
If Hong Kong dollar weakens against RMB by 5%	386,614	2,296,050
If Hong Kong dollar strengthens against RMB by 5%	(386,614)	(2,296,050)
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)

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.

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

Maximum exposure as at 31 December 2018

From 1 January 2018, upon the adoption of HKFRS 9, management groups financial instruments on basis of shared credit risk characteristics, such as instrument type and credit risk ratings for the purpose of determining significant increase in credit risk and calculation of impairment. The gross carrying amount of each financial asset in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets as at 31 December 2018.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the debtor;
– a breach of contract such as a default or past due event;
– it is probable that the debtor will enter bankruptcy or other financial reorganisation.

To manage credit risk arising from debtors and contract assets, the credit quality of the debtors is assessed, taking into account their financial position, historical settlement records, past experience and other factors. The Group applies the general approach to provide for ECL prescribed by HKFRS 9. The ECLs also incorporated forward looking information.

The Group has established a policy to perform an assessment as at 31 December 2018, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group groups its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1 When the financial assets are first recognised, the Group recognised an allowance based on 12 months' ECL.

Stage 2 When the financial assets have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.

Stage 3 The financial assets considered credit-impaired. The Group records an allowance for the lifetime ECLs.

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

Maximum exposure as at 31 December 2018 *(Continued)*

Management also makes periodic collective assessments for the financial assets as well as individual assessment on the recoverability of the financial assets based on historical settlement records, past experience and other factors. The Group classified the financial assets into different stages by risk and continuously monitored their credit risk. Management believes that there is no material credit risk inherent in the Group's outstanding balances as at 31 December 2018.

As at 31 December 2018, all restricted cash and pledged deposits and cash and cash equivalents were deposited with creditworthy financial institutions without significant credit risk.

The Group does not provide any guarantees which would expose the Group or the Company to credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from the financial assets are set out in notes 17, 25, 26 and 27 to the financial statements.

Maximum exposure as at 31 December 2017

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

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK$19.2 billion in aggregate (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) as at 31 December 2018 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.

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

Liquidity risk *(Continued)*

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

	Within 1 year or on demand *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 2018					
Bank and other borrowings	**5,443,906**	**7,295,419**	**16,520,446**	**5,639,056**	**34,898,827**
Corporate bonds	**5,140,163**	**2,182,847**	**15,107,400**	**820,965**	**23,251,375**
Notes payable	**167,477**	**849,495**	**2,542,800**	**–**	**3,559,772**
Finance lease payable	**107,842**	**78,362**	**207,485**	**67,209**	**460,898**
Trade payables	**17,872,645**	**–**	**–**	**–**	**17,872,645**
Other liabilities	**6,377,383**	**285,527**	**–**	**–**	**6,662,910**
Due to related parties	**699,339**	**–**	**–**	**–**	**699,339**
	35,808,755	**10,691,650**	**34,378,131**	**6,527,230**	**87,405,766**
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

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

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 2018 and 2017 were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Net debt	**43,090,247**	34,013,101
Total equity	**37,812,137**	33,041,323
Gearing ratio	**114%**	103%

55. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss (2017: 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 2018 and 2017 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

56. EVENTS AFTER THE REPORTING PERIOD

(a) On 18 January 2019, the Company entered into a subscription agreement with China Yangtze Power International (Hongkong) Co., Limited (the "CYPI Subscriber"), pursuant to which, the Company agreed to allot and issue, and the CYPI Subscriber agreed to subscribe for 470,649,436 new ordinary shares of the Company at a price of HK$4.29 per share. The subscription was completed on 18 March 2019 and the Group raised a total of approximately HK$2,019.1 million, before expenses.

(b) On 18 January 2019, the Company entered into a subscription agreement with Beijing Enterprises Environmental Construction Limited (the "BEECL Subscriber"), a controlling shareholder of the Company, pursuant to which, the Company agreed to allot and issue, and the BEECL Subscriber agreed to subscribe for 127,747,714 new ordinary shares of the Company at a price of HK$4.29 per share. The subscription was completed on 18 March 2019 and the Group raised a total of approximately HK$548.0 million, before expenses.

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:

	2018	2017
	HK$'000	*HK$'000*
ASSETS		
Non-current assets:		
Property, plant and equipment	**1,929**	2,671
Investments in subsidiaries	**10,439,471**	10,387,093
Investments in joint ventures	**1,281,390**	1,281,390
Investments in associates	**441,500**	441,500
Prepayments, deposits and other receivables	**113,934**	235,700
Available-for-sale equity investments	**–**	975,806
Equity investments designated at fair value through other comprehensive income	**1,056,748**	–
Total non-current assets	**13,334,972**	13,324,160
Current assets:		
Trade receivables	**7,602**	13,622
Prepayments, deposits and other receivables	**26,179,131**	18,241,707
Cash and cash equivalents	**2,207,959**	282,348
Total current assets	**28,394,692**	18,537,677
TOTAL ASSETS	**41,729,664**	31,861,837

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

	2018	2017
	HK$'000	*HK$'000*
EQUITY AND LIABILITIES		
Equity:		
Issued capital	**941,299**	879,382
Reserves *(note)*	**5,551,688**	4,104,294
TOTAL EQUITY	**6,492,987**	4,983,676
Non-current liabilities:		
Bank and other borrowings	**14,260,356**	12,995,222
Corporate bonds	**11,593,471**	7,116,545
Other payables and accruals	**6,005,474**	5,331,206
Total non-current liabilities	**31,859,301**	25,442,973
Current liabilities:		
Trade payables	**359**	374
Other payables and accruals	**826,139**	635,552
Bank and other borrowings	**498,042**	799,262
Corporate bonds	**2,052,836**	–
Total current liabilities	**3,377,376**	1,435,188
TOTAL LIABILITIES	**35,236,677**	26,878,161
TOTAL EQUITY AND LIABILITIES	**41,729,664**	31,861,837

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

Note:

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

	Share premium account HK$'000	Contributed surplus HK$'000 (a)	Fair value reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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
Effect of adoption of HKFRS 9	–	–	132,168	–	–	132,168
At 1 January 2018 (restated)	5,068,783	1,457,815	38,474	242,131	(2,570,741)	4,236,462
Loss for the year	–	–	–	–	(578,788)	(578,788)
Other comprehensive loss for the year:						
Changes in fair value of equity investments at fair value through other comprehensive income	–	–	(56,865)	–	–	(56,865)
Transfer to contributed surplus	(8,617,313)	8,617,313	–	–	–	–
Issue of shares	3,553,021	–	–	–	–	3,553,021
Shares repurchased and cancelled	(12,220)	–	–	–	–	(12,220)
Exercise of share options	7,729	–	–	(2,199)	–	5,530
Equity-settled share option arrangements	–	–	–	4,688	–	4,688
Final 2017 cash distributions paid	–	(705,944)	–	–	–	(705,944)
Interim 2018 cash distributions paid	–	(894,196)	–	–	–	(894,196)
At 31 December 2018	–	8,474,988	(18,391)	244,620	(3,149,529)	5,551,688

(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 27 March 2019.

FIVE YEAR FINANCIAL SUMMARY

31 December 2018

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 2017, is set out below:

RESULTS

	Year ended 31 December				
	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	**2018** ***HK$'000***
Revenue	8,925,942	13,502,957	17,354,833	21,192,372	**24,596,857**
Operating profit	2,388,915	3,370,543	4,269,210	4,237,109	**5,864,681**
Share of profits and losses of:					
Joint ventures	256,230	162,795	192,172	521,629	**454,565**
Associates	22,032	12,221	182,373	556,578	**459,664**
Profit before tax	2,667,177	3,545,559	4,643,755	5,315,316	**6,778,910**
Income tax expense	(593,855)	(777,766)	(970,773)	(874,772)	**(1,548,890)**
Profit for the year	2,073,322	2,767,793	3,672,982	4,440,544	**5,230,020**
ATTRIBUTABLE TO:					
Shareholders of the Company	1,794,413	2,455,370	3,227,013	3,717,227	**4,471,265**
Holders of perpetual capital instruments	–	–	56,570	240,291	**246,012**
Other non-controlling interests	278,909	312,423	389,399	483,026	**512,743**
	2,073,322	2,767,793	3,672,982	4,440,544	**5,230,020**

FIVE YEAR FINANCIAL SUMMARY

31 December 2018

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2014 *HK$'000*	2015 *HK$'000*	2016 *HK$'000*	2017 *HK$'000*	**2018** ***HK$'000***
Total assets	51,640,838	64,491,748	81,047,270	100,461,072	**126,380,708**
Total liabilities	(32,552,100)	(44,201,333)	(54,279,930)	(67,419,749)	**(88,568,571)**
NET ASSETS	19,088,738	20,290,415	26,767,340	33,041,323	**37,812,137**
Equity attributable to shareholders of the Company	15,784,448	16,183,833	16,501,142	20,784,723	**25,489,537**
Perpetual capital instruments	–	–	6,305,025	6,623,082	**6,350,900**
Other non-controlling interests	3,304,290	4,106,582	3,961,173	5,633,518	**5,971,700**
TOTAL EQUITY	19,088,738	20,290,415	26,767,340	33,041,323	**37,812,137**

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