



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

BEIJING ENTERPRISES WATER GROUP LIMITED



water

Annual Report 2015

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Yongcheng (*Chairman*)
Mr. E Meng (*Vice Chairman*)
Mr. Jiang Xinhao
Mr. Hu Xiaoyong (*Chief Executive Officer*)
(*Resigned as Executive Director and
Chief Executive Officer on 30 March 2016*)
Mr. Zhou Min
(*Appointed as Chief Executive Officer on 30 March 2016*)
Mr. Li Haifeng
Mr. Zhang Tiefu
Ms. Qi Xiaohong
Mr. Ke Jian
Mr. Tung Woon Cheung Eric
Mr. Li Li

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Ms. Hang Shijun
Mr. Wang Kaijun
Mr. Yu Ning

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

STOCK CODE

371

WEBSITE

www.bewg.com.hk

REGISTERED OFFICE

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Bermuda

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Wanchai
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Fax: (852) 2796 9972

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

Ernst & Young

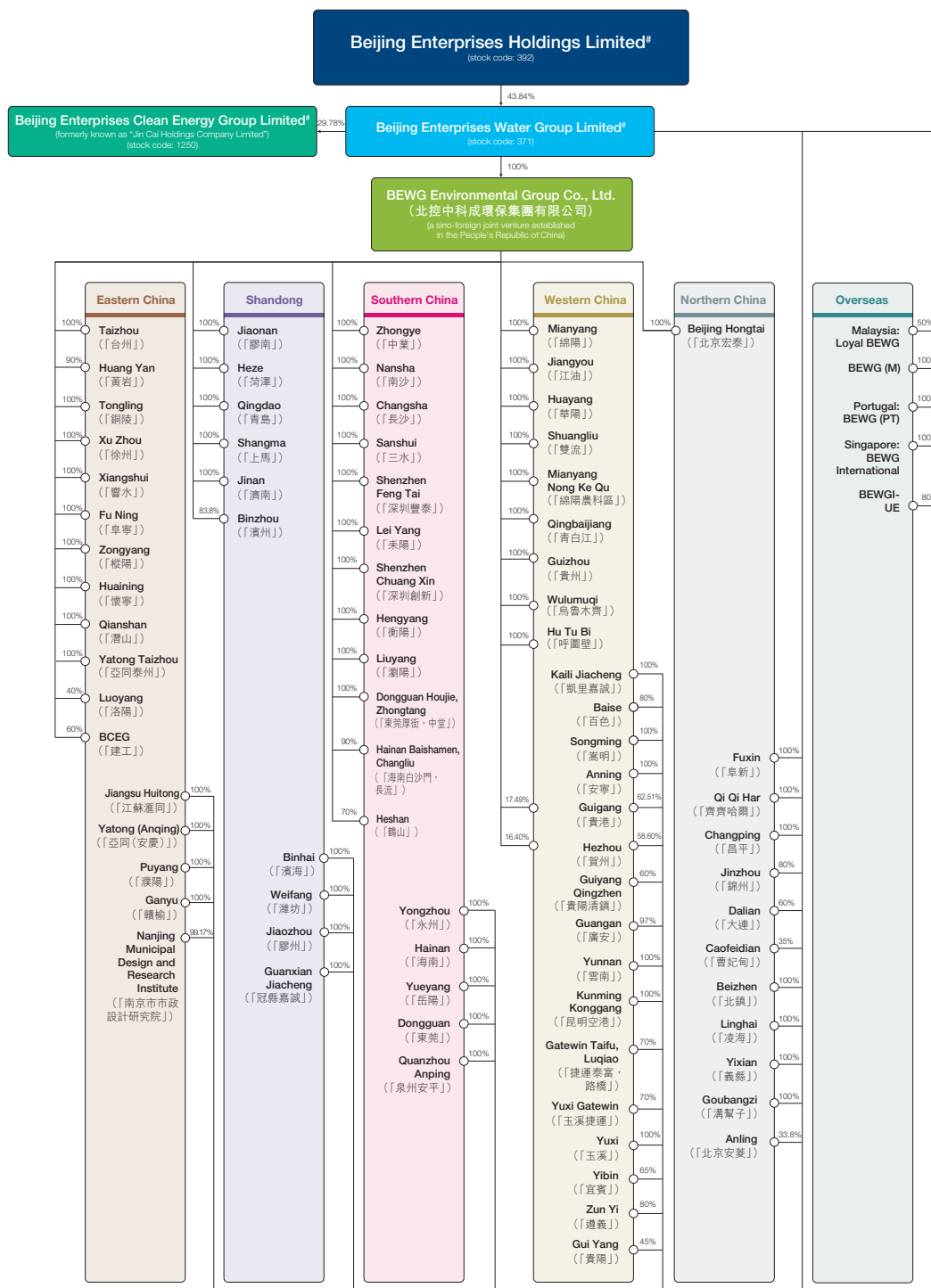
PRINCIPAL BANKERS

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

In Mainland China:
Bank of Beijing
Bank of China
Bank of Communications
China Construction Bank
The Industrial and Commercial Bank of China

GROUP STRUCTURE

31 December 2015



[#] 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



Li Yongcheng
Chairman

Dear Shareholders,

In 2015, the global economic condition was complicated. The economic growth in China has comparatively slowed down under downward pressure. Meanwhile, the economy in China has consistently been undergoing structural changes with new growth engines. Driven by the promulgation of the “Water Ten” plan and the implementation of the Public–Private–Partnership (“PPP”) model, the prosperity index of the water service and environmental protection industry are persistently high. Under such background, Beijing Enterprises Water Group Limited (the “Company”, together with its subsidiaries collectively referred to as the “Group” or “BEWG”) pursued its yearly business goals and carried out its work tasks. By expanding its business scope, market coverage and internal reform, it managed to maintain a rapid growth in operating results, which has laid a sound foundation for the Group’s new five-year strategy.

PERFORMANCE REVIEW

For the year ended 31 December 2015, the Group recorded a revenue of HK\$13,503.0 million, which grew by 51% year-on-year. Profit attributable to shareholders of the Company amounted to HK\$2,455.4 million, which increased by 37% year-on-year. Basic earnings per share for the year was HK28.17 cents. In recognition of the continuous support of the shareholders, the board of directors of the Company (the “Board”) resolved to make a final distribution of HK5.1 cents per share to the shareholders.

The water service and environmental protection industry has been boosted in 2015 by a number of environmental protection policies, including the “Water Ten” plan. The PPP model of environmental protection industry advocated by the central government is opened for third party operators’ participation. In view of the new impetus and momentum within the environmental protection industry, the Group has poured additional resources to PPP projects and gained synergies from the development of the urban water service and water environment renovation businesses so as to speed up the establishment of the whole industry chain. The Group has exceeded its growth targets with respect to urban water service. The water environment renovation business has also been on the rise to prominence by successfully expanding into seven major regions including Sichuan, Central China, Southern China and the Beijing-Tianjin-Hebei region. In respect of the overseas markets, the Group further increased its brand influence in Malaysia as well as the whole Southeast Asia by acquiring the Build-Transfer (“BT”) water supply project in Terengganu, Malaysia. As at 31 December 2015, the total daily design capacity of the Group amounted to 24,623,250 tons.

CHAIRMAN'S STATEMENT

In terms of new businesses, 北控環境投資(中國)有限公司 Beijing Enterprises Environmental Investment (China) Limited* was formally established in 2015 as an investment platform for the environmental and hygiene segment. The Group invested in Beijing Enterprises Clean Energy Group Limited (stock code: 1250), which is a Hong Kong-listed company principally engaging in photovoltaic power generation. Through this investment perform which engages in professional photovoltaic power generation, the Group is able to lower the electricity expenses of its water plants and thus enhance its investment and capital return. To implement a “Capital + Technology” dual growth model with advanced technological capacity and qualifications, BEWG has further acquired 淮安水利院 Huaian Institute of Water Resources Research* and integrated Nanjing Municipal Design and Research Institute Co., Ltd so as to complete the construction of its technology system.

Despite the fact that the Group achieved an outstanding business performance for the year, there still exposes to certain potential risks in the industry. On the one hand, the comparative low price wars have started in the industry as market competition has intensified. On the other hand, the environmental protection industry is flooded by all sorts of external funds and has become a capital battlefield. The PPP model is still at its initial stage with plenty of room for regulatory improvements. All these factors require due response from the Group.

CORPORATE MANAGEMENT AND CONTROL

In order to enhance its strategic management and ensure effective and efficient decision-making in a methodical and professional way, the Group has put in place “1+6” decision-making structure which comprises an executive office and six professional committees.

The Group stepped up its reform on regional business management by setting up four geographical segments of Shandong, Guangxi, Central China and Eastern China and two integrated segments of Central China and Sichuan to give fresh impetus to, and unleash the potential of, the Group through maximum decentralization. In response to the national strategy for the integration development of Beijing, Tianjin and Hebei, we have set up the Beijing-Tianjin-Hebei segment in order to promote business development in this region.

We further refined the management system on incremental investment and initiated the establishment of a system covering all aspects of risk management. The commencement of the operation of thirteen regional finance information sharing centres has facilitated information exchanges. We also upgraded the human resources management for key positions and remuneration management system, which have resulted in notable improvements in human resources management. The ultimate goals of these initiatives were to adhere to and promote BEWG's corporate philosophy and to harness the power of corporate culture.

* For identification purpose only

CHAIRMAN'S STATEMENT

SUSTAINABLE DEVELOPMENT

In 2016, the Group continues to reform and simplify the management structure aiming at revitalising its inherent vitality. We change the current organizational structure from a relatively interventionist mode with centralised control to a decentralised and horizontal mode, in order to facilitate the comprehensive development of our regional division. Being persistent in quantitative strategic growth, we will gradually lead to a resource-conscious, rather than opportunity-led, and strategy-oriented expansion that will be the new order of the day. Having adopted the open policy on cooperation with other ventures, we could bring up the ecosystem to a whole industry chain. We target to best utilise all kinds of resources and ensure better allocation of resources to each segment.

To achieve its yearly goals, the Group will coordinate and speed up the growth of its core businesses, namely urban water service and water environment renovation, by pouring resources into and securing new PPP projects, so as to integrate these businesses into an integrated investment and business unit. Delicacy management of projects in hand will be reinforced so as to improve their efficiency. We continue to nurture and boost new businesses such as overseas operations, membrane technology and industrial wastewater treatment, and clean energy. The environmental hygiene business will be expanded on a nationwide scale while the seawater desalination project in Beijing will enter preliminary planning. The Group will not only enhance the competitiveness in design capability as well as technology and its application but also build up its culture, human resources, branding as well as other intangible strengths.

In early 2016, the Group joined Beijing Capital Co., Ltd to invest in Zhejiang Kaichuang Environment Technology Co., Ltd with the aim of strengthening its membrane technology segment.

The Group proactively observes national regulations and policies on environmental protection and keeps abreast of industry developments in order to achieve rapid growth. The official promulgation of the “Water Ten” plan has prompted a full-scale renovation work covering pollutant emissions control as well as sewage and industrial effluent treatment. The PPP model actively advocated by the Ministry of Finance and other government authorities presents ample room for collaboration between local governments and enterprises on environmental renovation projects. These policies are not only highly conducive to the environmental protection industry, but also provide strong stimulus to the sustainable growth of BEWG. As such, the Company will formulate future plans accordingly.

BEWG is fully aware of the importance of its staff, customers and joint venture partners to its sustainable and stable growth. The Group strives in concert with its staff and works closely with its joint venture partners in order to deliver quality services to its customers and achieve sustainable business growth.

CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT

During the Thirteenth Five-Year Plan phase, the central government aims at improving the development of ecological civilisation in China. Driven by the environmental renovation policies, there continues to be room for exponential growth for the environmental protection industry. The nationwide implementation of the PPP model will continue to promote government procurement of and social participation in utility services, which will further fuel the environmental protection industry. As the assessment of environmental renovation project will focus on effectiveness, technical requirements for environmental protection enterprises and emission standards will continue to raise.

The water service and environmental protection market will undergo a transformation. Upcoming new environmental policies will present ample market opportunities and bring an exponential growth for the black-and-malodorous water body treatment and the creation of "Sponge City". On the other hand, competition in the water service and environmental protection market will intensify due to more mergers and acquisitions as well as an influx of capital. The ability to offer turnkey solutions to local governments with an integrated industry-chain will be the key to corporate success.

Looking forward to 2016, the Group will grasp the growth opportunity in the industry provided by favourable national policies and actively adapt to market changes by focusing on reforms, quality growth and external cooperation. The Group will formulate a market investment system, maintain rapid growth, perfect its business structure, implement aggressive strategy, establish integrated industry-chain and thus achieve its yearly goals and lay the solid foundation for the next five-year plan.

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

Li Yongcheng
Chairman

30 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company increased by 37% to HK\$2,455.4 million. Revenue increased by 51% to HK\$13,503.0 million as a result of increase in revenue contribution from water treatment services and construction services for BOT projects.

1. FINANCIAL HIGHLIGHTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

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

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

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$8.3 million.

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The 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	3,066.2	34%	64%	1,390.1	46%
– Joint ventures and associates				15.1	1%
				1,405.2	47%
Overseas					
– Subsidiaries	183.7	2%	13%	6.7	1%
	3,249.9	36%		1,411.9	48%
Water distribution services					
China					
– Subsidiaries	590.0	7%	59%	246.7	8%
– Joint ventures				86.7	3%
				333.4	11%
Overseas					
– Subsidiaries	222.6	2%	26%	38.4	1%
	812.6	9%		371.8	12%
Subtotal	4,062.5	45%		1,783.7	60%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The analysis of the Group's financial results during the 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						
– Project with completion rate under 10%	–	–	–	–	–	–
– Project with completion rate more than 10% [§]	2,124.9	24%	16%		424.5	15%
– Interest income	–	–	–		158.0	5%
	2,124.9	24%	16%		582.5	20%
Construction of BOT water projects	2,457.8	28%	24%		485.9	16%
Subtotal	4,582.7	52%			1,068.4	36%
3. Technical services for the water environmental renovation	280.7	3%	70%		114.1	4%
Business results	8,925.9	100%			2,966.2	100%
Others[#]					(1,171.8)	
Total					1,794.4	

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the years ended 31 December 2015 and 2014 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2015 HK\$'M	2014 HK\$'M	Increase/(Decrease) HK\$'M	%	2015 HK\$'M	2014 HK\$'M	Increase/(Decrease) HK\$'M	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	3,361.6	3,066.2	295.4	10%	1,592.3	1,390.1	202.2	15%
– Joint ventures and associates					17.9	15.1	2.8	19%
<i>GP ratio</i>	64%	64%		–	1,610.2	1,405.2	205.0	15%
Overseas								
– Subsidiaries	153.5	183.7	(30.2)	(16%)	6.1	6.7	(0.6)	(9%)
<i>GP ratio</i>	15%	13%		2%				
	3,515.1	3,249.9	265.2	8%	1,616.3	1,411.9	204.4	14%
Water distribution services								
China								
– Subsidiaries	691.3	590.0	101.3	17%	298.1	246.7	51.4	21%
– Joint ventures and associates					76.3	86.7	(10.4)	(12%)
<i>GP ratio</i>	57%	59%		(2%)	374.4	333.4	41.0	12%
Overseas								
– Subsidiaries	189.8	222.6	(32.8)	(15%)	34.9	38.4	(3.5)	(9%)
<i>GP ratio</i>	27%	26%		1%				
	881.1	812.6	68.5	8%	409.3	371.8	37.5	10%
Subtotal	4,396.2	4,062.5	333.7	8%	2,025.6	1,783.7	241.9	14%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the years ended 31 December 2015 and 2014 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2015 HK\$'M	2014 HK\$'M	Increase/(Decrease) HK\$'M	%	2015 HK\$'M	2014 HK\$'M	Increase/(Decrease) HK\$'M	%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Project with completion rate under 10%	–	–	–	–	–	–	–	–
– Projects with completion rate more than 10%	1,889.7	2,124.9	(235.2)	(11%)	291.6	424.5	(132.9)	(31%)
– Interest income	–	–	–	–	104.6	158.0	(53.4)	(34%)
	1,889.7	2,124.9	(235.2)	(11%)	396.2	582.5	(186.3)	(32%)
<i>GP ratio</i>	24%	16%		8%				
Construction of BOT water projects								
– China	5,912.6	2,457.8	3,454.8	141%	879.1	485.9	393.2	81%
– Overseas	528.7	–	528.7	N/A	15.6	–	15.6	N/A
	6,441.3	2,457.8	3,983.5	162%	894.7	485.9	408.8	84%
<i>GP ratio</i>	23%	24%		(1%)				
Subtotal	8,331.0	4,582.7	3,748.3	82%	1,290.9	1,068.4	222.5	21%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the years ended 31 December 2015 and 2014 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	2015 <i>HK\$'M</i>	2014 <i>HK\$'M</i>	Increase/(Decrease) <i>HK\$'M</i>	%	2015 <i>HK\$'M</i>	2014 <i>HK\$'M</i>	Increase/(Decrease) <i>HK\$'M</i>	%
3. Technical services and sale of machineries for the water environmental renovation	775.8	280.7	495.1	176%	264.4	114.1	150.3	132%
<i>GP ratio</i>	<i>59%</i>	<i>70%</i>		<i>(11%)</i>				
Business results	13,503.0	8,925.9	4,577.1	51%	3,580.9	2,966.2	614.7	21%
Fair value gain on derivative financial instruments					253.7	–	253.7	N/A
Others					(1,379.2)	(1,171.8)	(207.4)	(18%)
Total					2,455.4	1,794.4	661.0	37%

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW

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

2.1 Water treatment services

As at 31 December 2015, the Group entered into service concession arrangements for a total of 388 water plants including 285 sewage treatment plants, 94 water distribution plants, 8 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for this year was 4,734,400 tons including Build-Operate-Transfer ("BOT") projects of 535,900 tons, Transfer-Operate-Transfer ("TOT") projects of 55,000 tons, Public-Private Partnership Project ("PPP") of 1,172,000 tons, entrustment operation projects of 45,000 tons and 2,926,500 tons* through mergers and acquisitions.

During the year, the Group disposed or completed the entrusted operation of 4 sewage treatment projects and 1 water supply project with aggregate daily design capacity of 261,200 tons. As such, the net increase in total daily design capacity for this year was 4,473,200 tons.

As at 31 December 2015, total daily design capacity was 24,623,250 tons, representing an increase of 22% as compared with the capacity of 20,150,050 tons as at 31 December 2014.

* Daily design capacity of 1,211,000 tons is obtained through the acquisition of Golden State Water Group Corporation. On 9 December 2015, the Company entered into a sale and purchase agreement with Beijing Enterprises Holdings Limited ("BEHL"). Since BEHL is a connected person of the Company, this transaction is subject to independent shareholders' approval. As at the date of this report, the above acquisition has not been completed.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
China					
In operation	8,467,450	497,200	3,961,000	–	12,925,650
Not yet commenced operation/ Not yet transferred	4,530,400	312,500	6,485,500	50,000	11,378,400
Subtotal	12,997,850	809,700	10,446,500	50,000	24,304,050
Overseas					
In operation	55,200	–	36,000	–	91,200
Not yet commenced operation/ Not yet transferred	–	228,000	–	–	228,000
Subtotal	55,200	228,000	36,000	–	319,200
Total	13,053,050	1,037,700	10,482,500	50,000	24,623,250
<i>(Number of water plants)</i>					
China					
In operation	193	5	32	–	230
Not yet commenced operation/ Not yet transferred	68	2	49	1	120
Subtotal	261	7	81	1	350
Overseas					
In operation	24	–	13	–	37
Not yet commenced operation/ Not yet transferred	–	1	–	–	1
Subtotal	24	1	13	–	38
Total	285	8	94	1	388

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

	Number of plants	Design capacity <i>(Tons/Day)</i>	Actual processing volume during the year* <i>(Tons (M))</i>	Revenue <i>(HK\$'M)</i>	Profit attributable to shareholders of the Company <i>(HK\$'M)</i>
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	46	3,077,900	1,012.5	1,019.1	562.7
– Western China	46	1,565,500	457.2	659.5	337.6
– Shandong	28	1,192,000	322.8	513.0	261.3
– Eastern China	48	2,023,250	526.6	680.8	215.1
– Northern China	30	1,106,000	299.8	489.2	233.5
Overseas	198	8,964,650	2,618.9	3,361.6	1,610.2
	24	55,200	21.3	153.5	6.1
Subtotal	222	9,019,850	2,640.2	3,515.1	1,616.3
Water distribution services:					
Mainland China	32	3,961,000	646.4	691.3	374.4
Overseas	13	36,000	12.6	189.8	34.9
Subtotal	45	3,997,000	659.0	881.1	409.3
Total	267	13,016,850	3,299.2	4,396.2	2,025.6

* Excluded entrustment operation contracts

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services

2.1.1a Mainland China:

As at 31 December 2015, the Group had 193 sewage treatment plants and 5 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 8,467,450 tons (31 December 2014: 7,523,950 tons) and 497,200 tons (31 December 2014: 418,000 tons) respectively. The average daily processing volume is 7,284,548 tons and average daily treatment rate is 83%. The average daily processing volume is 7,284,548 tons and average daily treatment rate is 83%. The actual average contracted tariff charge of water treatment was approximately RMB1.03 per ton (2014: RMB1.00 per ton) for water plants. The actual aggregate processing volume for the year was 2,618.9 million tons, of which 2,552.4 million tons was contributed by subsidiaries and 66.5 million tons was contributed by joint ventures. Total revenue for the year was HK\$3,361.6 million. Net profit attributable to shareholders of the Company was HK\$1,610.2 million, of which HK\$1,592.3 million was contributed by subsidiaries and HK\$17.9 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:



Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province, Shaanxi Province and Hainan Province. As at 31 December 2015, there were 46 sewage treatment plants with total daily design capacity of 3,077,900 tons, representing an increase of 64,200 tons or 2% as compared with last year. The actual aggregate processing volume for the year amounted to 1,012.5 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$1,019.1 million and HK\$562.7 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 2015, there were 46 sewage treatment plants with total daily design capacity of 1,565,500 tons, representing an increase of 83,500 tons per day or 6% as compared with last year. The actual processing volume for the year was 457.2 million tons. The operating revenue of HK\$659.5 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK\$337.6 million.

Shandong

There were 28 plants in Shandong region. The total daily design capacity of Shandong region is 1,192,000 tons, representing an increase of 165,000 tons per day or 16% as compared with last year. The actual processing volume for the year was 322.8 million tons contributing operating revenue of HK\$513.0 million during the year. Profit attributable to shareholders of the Company was HK\$261.3 million.



Eastern China

There were 48 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 31 December 2015, the total daily design capacity of Eastern China had increased by 400,000 tons to 2,023,250 tons or 25% as compared with last year. The actual processing volume for the year amounted to 526.6 million tons and operating revenue was HK\$680.8 million during the year. Profit attributable to shareholders of the Company was HK\$215.1 million.

Northern China

Currently, the Group has 30 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 310,000 tons to 1,106,000 tons or 39% as compared with last year. The projects achieved actual processing volume of 299.8 million tons for the year. The operating revenue was HK\$489.2 million during the year. Profit attributable to shareholders of the Company was HK\$233.5 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 2015, the Group had 24 sewage treatment plants in Portugal. Total daily design sewage treatment capacity in operation was 55,200 tons. The actual processing volume for the year is 21.3 million tons. Total revenue for the year was HK\$153.5 million. Profit attributable to shareholders of the Company was HK\$6.1 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2015, the Group had 32 water distribution plants in operation. Total daily design capacity in operation was 3,961,000 tons (31 December 2014: 3,420,000 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water distribution is approximately RMB1.78 per ton (2014: RMB1.81 per ton). The aggregate actual processing volume is 646.4 million tons, of which 351.3 million tons was contributed by subsidiaries, which recorded revenue of HK\$691.3 million and 295.1 million tons was contributed by joint ventures. Imputed interest income of HK\$86.0 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\$374.4 million, of which profit of HK\$298.1 million was contributed by subsidiaries and a profit of HK\$76.3 million in aggregate was contributed by joint ventures and associates.

2.1.2b Overseas:

As at 31 December 2015, the Group had 13 water distribution plants in Portugal. Total daily design water distribution capacity in operation was 36,000 tons. The actual processing volume for the year is 12.6 million tons. Total revenue for the year was HK\$189.8 million. Profit attributable to shareholders of the Company was HK\$34.9 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 13 comprehensive renovation projects under construction during the year. The projects mainly located in Beijing Liangshuihe, Henan Luoyang, Foshan Gaoming, Guangxi Beihai, Yunnan Kunming, Sichuan Jianyang and Malaysia Pantai. Last year, the Group had four comprehensive renovation projects under construction in Guangxi Guigang, Hunan Zhuhui, Yunnan Yuxi and Malaysia Pantai.

Revenue from comprehensive renovation projects decreased by HK\$235.2 million from last year of HK\$2,124.9 million to HK\$1,889.7 million this

year. Revenue decreased was mainly due to the decrease in construction work for Malaysia Pantai Project. The Malaysia Pantai Project was approaching completion during this year. As such, the revenue contribution from this project has decreased in 2015.

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\$104.6 million for this year (2014: HK\$158.0 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK\$186.3 million from last year of HK\$582.5 million to HK\$396.2 million this year.



MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

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

2.2.2 Construction of BOT water projects

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

During the year, water plants under construction were mainly located in Shandong, Xinjiang, Heilongjiang, Hebei, Jiangsu and Henan. Total revenue for construction of BOT water projects was HK\$6,441.3 million (2014: HK\$2,457.8 million) and profit attributable to shareholders of the Company was HK\$894.7 million (2014: HK\$485.9 million). The increase in contribution from BOT projects during this year was mainly due to the construction work performed for projects located in Shandong, Xinjiang, and Henan.

2.3 Technical services and sale 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 sale of machineries was HK\$775.8 million (2014: HK\$280.7 million), representing 6% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$264.4 million (2014: HK\$114.1 million).

The increase was mainly due to the contribution from sale of machineries. This year, the Group starts to engage in the sale of related facilities for the water environmental renovation which contributed revenue of HK\$246.1 million.

Apart from the sale of machineries, the increase was also due to the contribution from provision of technical services by 南京市市政設計研究院有限責任公司 (Nanjing Municipal Design and Research Institute Co., Ltd[^]) which was acquired in second half of year 2014.

[^] For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS

3.1 Revenue

During the year, the Group recorded revenue of HK\$13,503.0 million (2014: HK\$8,925.9 million). The increase was mainly due to the increase in revenue from water treatment and construction services. Increase in revenue from water treatment services was mainly due to revenue contribution from BOT projects which commenced operation in second half of Year 2014 and current year. Increase in revenue from construction services was mainly due to increase in construction work for BOT projects in Henan, Shandong and Xinjiang.

3.2 Cost of sales

Cost of sales for the year amounted to HK\$8,536.1 million, compared to last year of HK\$5,430.0 million. The increase was mainly due to the increase in construction costs and operating costs of water plants amounted to HK\$2,771.4 million and HK\$99.3 million respectively. Cost of sales mainly included construction costs of HK\$6,433.3 million and operating costs of water plants of HK\$1,782.8 million. The construction costs mainly consisted of subcontracting charges. The increase in construction costs was mainly due to the increase in construction works for BOT projects. The operating costs of water plants, mainly included electricity charges of HK\$637.5 million, staff costs of HK\$497.7 million and major overhaul charges of HK\$65.2 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the year, gross profit margin slightly decreased from last year of 39% to 37%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was 64% (2014: 64%).
Gross margin for sewage and reclaimed water treatment services in Overseas was 15% (2014: 13%).

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin *(Continued)*

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 57% (2014: 59%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was 51% (2014: 50%). Gross margin for water distribution services in Overseas was 27% (2014: 26%).

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects increased from last year of 16% to 24% this year. Gross margin increased as the major comprehensive renovation projects (i.e. projects in Henan Luoyang and Sichuan Jianyang) for this year have a relatively higher average gross margin of around 30%.

Gross margin for construction of BOT water projects:

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

Gross margin for construction of BOT water projects in Overseas was 4%. This represents BOT construction gross profit margin for a reclaimed water project in Singapore. The Group is responsible for overall management of the construction services. The design and construction works are carried out by the project partner. As such, the gross margin for this project is lower than those in China.

Gross margin for technical services and sale of machineries for the water environmental renovation:

Gross margin for the technical services and sale of machineries for the water environmental renovation was 59% (2014: 70%). Decrease in gross margin was mainly because of the sale of machineries during this year. The gross margin of sale of machineries is relatively lower than the one for the technical services.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$454.6 million during the year, compared to last year of HK\$608.2 million. The amount for this year mainly included sludge treatment income of HK\$51.6 million, government grants and subsidies of HK\$101.2 million and value-added tax refund of HK\$136.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.5 Fair value gain on derivative financial instruments

On 9 December 2014, the Group entered into a subscription agreement (“Subscription Agreement”) with Beijing Enterprises Clean Energy Group Limited (the “BE Clean Energy”, formerly known as “Jin Cai Holdings Company Limited”). The Group shall subscribe 17,721,519,000 shares at subscription price of HK\$0.079. The total consideration is approximately HK\$1.4 billion, which shall be paid in five tranches within two years. After the completion of all the subscriptions and upon conversion of the preference shares into ordinary shares of BE Clean Energy, the Group shall hold equity interest of 34.95% in BE Clean Energy. The first tranche and second tranche of subscriptions with aggregate number of shares of 8,860,759,500 was completed during the year. No conversion of preference shares was noted in current year.

According to the accounting policy, the remaining three tranches of subscriptions with total number of shares of 8,860,759,500 are treated as a forward contract to subscribe for shares in BE Clean Energy. The Group needs to recognise the forward contract as a derivative financial instrument and the related gain or loss due to changes in fair value is required to be recognised in the consolidated statement of profit or loss of the Group. During this year, the Group recognised a fair value gain of HK\$253.7 million on the forward contract.

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

3.6 Administrative expenses

Administrative expenses for the year increased to HK\$1,225.7 million, compared to last year of HK\$1,065.8 million. The increase was mainly due to the increase in the staff costs of HK\$101.4 million as a result of business expansion during the year. Excluded the equity-settled share option expense, the ratio of administrative expenses to total revenue decreased from 10.6% last year to 8.6%.

3.7 Other operating expenses, net

Other operating expenses increased from HK\$10.6 million to HK\$248.1 million this year. The increase was mainly due to the increase in the cost of sludge treatment and impairment of other receivables and amounts due from contract customers in current year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$805.1 million (2014: HK\$694.8 million) and interests on corporate bonds and notes payable of HK\$389.9 million (2014: HK\$410.4 million). The increase in finance costs was mainly due to increase in bank and other borrowings of HK\$6,661.9 million during this year.

3.9 Income tax expense

Income tax expense for the year included the current PRC income tax of HK\$337.8 million. The effective tax rate for the PRC operation was about 19% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the year was HK\$442.2 million.

3.10 Property, plant and equipment

Property, plant and equipment increased by HK\$136.8 million which was mainly due to the recognition for construction of Build-Own-Operate (“BOO”) projects in Guangxi in current year.

3.11 Investment property

Last year balance represented a portion of a building located in Beijing which the Group held to earn rental income. Such amount was transferred to non-current assets held for sale in this year as the Group intended to sell the building.

3.12 Non-current assets held for sale

Last year balance represented the cost of a piece of land located in Sichuan Province. In this year, the Group intended to sell certain buildings which were previously classified as investment property and property, plant and equipment. The carrying values of these buildings were classified as non-current assets held for sale in current year and resulted in the increase.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.13 Receivables

The Group's total receivables of HK\$35,122.6 million (2014: HK\$27,491.6 million) included:

By accounting nature:

	2015			2014		
	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	11,495.7	1,311.6	12,807.3	6,817.3	40.3	6,857.6
(ii) Receivables under service concession arrangements	16,977.7	1,712.9	18,690.6	15,639.6	1,600.6	17,240.2
(iii) Trade receivables	665.4	2,959.3	3,624.7	798.8	2,595.0	3,393.8
Total	29,138.8	5,983.8	35,122.6	23,255.7	4,235.9	27,491.6

- (i) Amounts due from contract customers of HK\$12,807.3 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\$5,949.7 million (non-current portion increased by HK\$4,678.4 million and current portion increased by HK\$1,271.3 million), which was mainly due to the recognition of construction revenue for projects in Xinjiang, Henan, Shandong and Liangshuihe;
- (ii) Receivables under service concession arrangements of HK\$18,690.6 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects in operation. The increase in balance by HK\$1,450.4 million (non-current portion increased by HK\$1,338.1 million and current portion increased by HK\$112.3 million) was mainly due to (i) acquisition of water treatment projects of which amounted for an increase in receivables of HK\$588 million and (ii) completion of TOT project in Luoyang which accounted for an increase in receivables of HK\$575 million; and

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.13 Receivables *(Continued)*

- (iii) Trade receivables of HK\$3,624.7 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. Increase in balance of HK\$230.9 million (non-current portion decreased by HK\$133.4 million and current portion increased by HK\$364.3 million) was mainly due to the reclassification of receivables for Guangxi and Guizhou project from amounts due from contract customers to trade receivables.

By business nature:

	2015 HK\$'M	2014 HK\$'M
Water treatment services by BOT and TOT projects	29,046.0	21,673.5
Construction services of comprehensive renovation projects	5,508.5	5,432.4
Technical and consultancy services and other businesses	568.1	385.7
Total	35,122.6	27,491.6

Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 *Service Concession Arrangements* were HK\$29,046.0 million (2014: HK\$21,673.5 million). Total receivables for the construction service of comprehensive renovation projects were HK\$5,508.5 million (2014: HK\$5,432.4 million). Total receivables for technical and consultancy services and other businesses were HK\$568.1 million (2014: HK\$385.7 million).

3.14 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.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.15 Investments in joint ventures

Investments in joint ventures increased by HK\$456.6 million, mainly due to the capital injection in a joint venture during the year.

3.16 Investments in associates

Investments in associates increased by HK\$900.5 million, mainly due to the acquisition of BE Clean Energy during the year.

3.17 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$2,478.8 million (non-current portion increased by HK\$1,755.2 million and current portion increased by HK\$723.6 million), mainly due to the payment of a deposit for purchasing a new office building in the PRC and increase in deposits for bidding of projects.

3.18 Cash and cash equivalents

Cash and cash equivalents increased by HK\$282.9 million, mainly due to drawdown of bank loans during the year. Please refer to Note 3.20.

3.19 Other payables and accruals

Other payables and accruals increased by HK\$1,421.8 million (non-current portion increased by HK\$74.8 million and current portion increased by HK\$1,347.0 million), mainly due to the consideration payables of HK\$241.9 million for the acquisition of projects and the increase in receipts in advance by HK\$822.0 million during the year.

3.20 Bank and other borrowings

Bank and other borrowings increased by HK\$6,661.9 million (non-current portion increased by HK\$4,591.4 million and current portion increased by HK\$2,070.5 million). Increase in bank and other borrowings was mainly utilised to finance for the acquisition and construction of various water projects in the PRC.

3.21 Corporate bonds and notes payable

The increase was mainly due to the issuance of notes payable with principal amount of HK\$700 million and the issuance of bond with principal amount of RMB200 million during the year.

3.22 Trade payables

The increase in trade payables by HK\$2,222.4 million was mainly due to increase in trade payables to subcontractors for construction services of BOT projects during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.23 Liquidity and financial resources

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

As at 31 December 2015, the Group's cash and cash equivalents amounted to HK\$6,373.8 million (31 December 2014: HK\$6,090.9 million). For details of the currencies in which cash and cash equivalents are made, please refer to note 29 to the financial statements.

The Group's total borrowings amounted to HK\$31,047.6 million (31 December 2014: HK\$23,490.4 million) and comprised bank and other borrowings of HK\$23,136.4 million (31 December 2014: HK\$16,474.5 million), finance lease payable of HK\$114.9 million (31 December 2014: Nil), notes payable of HK\$3,091.4 million (31 December 2014: HK\$2,523.6 million) and corporate bonds of HK\$4,704.9 million (31 December 2014: HK\$4,492.3 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 80% of bank and other borrowings bear interest at floating rates. For details of the currencies in which borrowings are made, please refer to the notes 33, 34 and 35 to the financial statements.

As at 31 December 2015, the Group had banking facilities amounting to HK\$23.8 billion, of which HK\$7.7 billion had not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$20,290.4 million (31 December 2014: HK\$19,088.7 million).

The net gearing ratio as defined as sum of bank and other borrowings, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.22 as at 31 December 2015 (31 December 2014: 0.91). The increase in the net gearing ratio as at 31 December 2015 was mainly due to the increase in bank and other borrowings. The corresponding proceeds were mainly utilised for the acquisition and construction of various water projects in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.24 Capital expenditures

During the year, the Group's total capital expenditures were HK\$7,788.5 million (2014: HK\$4,005.5 million), of which HK\$398.8 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$6,021.3 million was spent on construction and acquisition of water plants and HK\$1,368.4 million represented the consideration for acquisition of equity interests in associates, subsidiaries and an available for sale investment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group employed 7,905 employees. Total staff cost for the year ended 31 December 2015 was HK\$1,247,212,000 (2014: HK\$1,045,944,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted an independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. 15,524,000 share options were exercised and 5,160,000 share options were lapsed during the year ended 31 December 2015. No share option was cancelled during the year ended 31 December 2015. As at 31 December 2015, the Company had 357,680,000 share options outstanding which were granted on 24 April 2013 and 2,000,000 share options outstanding which were granted on 28 March 2014. The total outstanding share options represented approximately 4.12% of the Company's ordinary shares in issue as at 31 December 2015.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 2015, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 31 December 2015 are secured by:

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors;
- (ii) mortgages over a land use right and certain buildings of the Group;
- (iii) guarantees given by the Company and/or its subsidiaries;
- (iv) pledges over the Group's equity interests in certain subsidiaries; and/or
- (v) pledges over certain of the Group's bank balances.

Save as disclosed above, at 31 December 2015, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

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

Executive Directors

Mr. Li Yongcheng (*Chairman*)

Mr. E Meng (*Vice Chairman*)

Mr. Jiang Xinhao

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

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

Mr. Li Haifeng

Mr. Zhang Tiefu

Ms. Qi Xiaohong

Mr. Ke Jian

Mr. Tung Woon Cheung Eric

Mr. Li Li

Independent Non-executive Directors (the “INEDs”)

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Ms. Hang Shijun

Mr. Wang Kaijun

Mr. Yu Ning

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

Role and Function

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

According to the records maintained by the Company, the current Directors received the following training in respect of the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Listing Rules on continuous professional development during the year ended 31 December 2015.

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Board Meeting and General Meeting

The Company held three Board meetings and a general meeting during the financial year ended 31 December 2015. Directors present in those Board meetings were either in person or through electronic means of communication. Attendance records of the Board meetings and general meeting for the year ended 31 December 2015 are set out below:

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

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

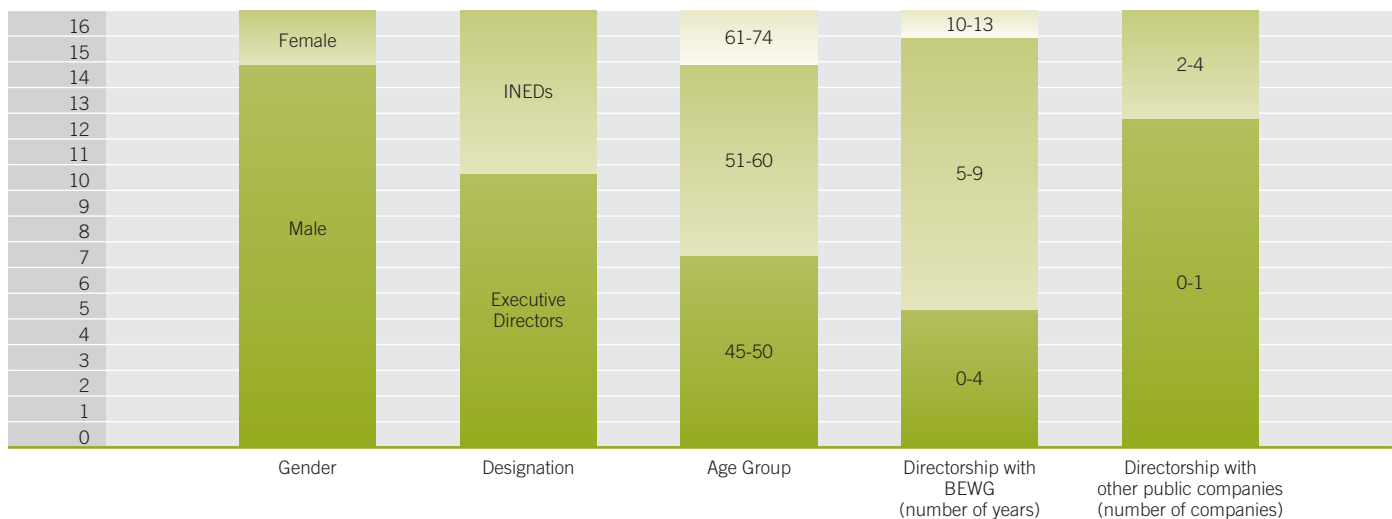
During the year, the Chairman held one meeting with the INEDs, without the Executive Directors present.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

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

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



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

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the financial year ended 31 December 2015, 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. Hu Xiaoyong. The segregation of duties of the chairman and the chief executive officer ensures a clear distinction in the chairman's responsibility to provide leadership for the Board and the chief executive officer's responsibility to manage the Company's business. Their roles are clearly defined to ensure their respective independence. There is no relationship between the chairman and chief executive officer of the Board in respect of financial, business, family or other material/relevant relationship.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD COMMITTEES

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

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 been delegated such responsibility to Audit Committee.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

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 2015 to 30 June 2015 and for the year ended 31 December 2015, considered and approved the audit work of the auditors, and reviewed the business and financial performance of the Company, the risk management and internal control systems and the Company's compliance with the CG Code and disclosure in the corporate governance report.

The Audit Committee held two meetings during the financial year ended 31 December 2015 with an attendance rate of 100%.

Nomination Committee

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

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

The Nomination Committee had reviewed the size, structure and composition of the Board during the financial year ended 31 December 2015 to complement the Group's corporate strategy.

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

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee

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

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

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

During the year, no Remuneration Committee meeting was held but by way of 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\$9.8 million and for non-audit service assignments was approximately HK\$2.5 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 2015 did not affect the independence of the external auditors.

INTERNAL CONTROL

The Board has overall responsibility for reviewing the effectiveness of internal control systems of the Company. The Board is committed to implementing an effective and sound internal control systems to safeguard the interest of shareholders and the Group's assets. During the year, the Board has delegated to the Audit Committee the responsibility for the implementation of the systems of internal control and review of all relevant financial, operational, compliance controls and risk management functions within an established framework beginning from the financial year ended 31 December 2016. The Audit Committee should convene meeting periodically to discuss financial, operational and risk management control.

During the year ended 31 December 2015, the Board reviewed the operational and financial reports, budgets and business plans provided by the management. The Board has conducted a review of the effectiveness of the systems of internal control of the Company.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2015, 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 70 to 71 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 financial year, Mr. Tung has compliance 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 45 in this annual report.

SHAREHOLDERS' RIGHTS

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

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

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

Procedures for directing shareholders' enquiries to the Board

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

Procedures for putting forward proposals at shareholders' meetings

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

1. A shareholder shall validly serve on the Company Secretary his/her written and signed notice of intention to propose a resolution at the AGM/SGM.
2. The foregoing documents shall be lodged at the Company's head office and principal place of business in Hong Kong at Rooms 6706-07, 67th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
3. The period for lodgment of the foregoing notices required under the Bye-Laws shall commence on the day after the despatch of the notice of the AGM/SGM and end no later than 7 days prior to the date of the AGM/SGM and such period shall be at least 7 days.
4. If the foregoing notices shall be received less than 10 business days prior to the date of such AGM/SGM, the Company needs to consider the adjournment of such AGM/SGM in order to allow shareholders of the Company 14 days' notice (the notice period must include 10 business days) of the proposal.
5. The foregoing notice of intention to propose a resolution will be verified by the Company's branch share registrar in Hong Kong (the "Branch Share Registrar"). Upon confirmation from the Branch Share Registrar, the Company Secretary will present to the board of Directors for their approval on the inclusion of the proposed resolutions in the AGM/SGM.

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

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Communication with shareholders

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

During the financial year ended 31 December 2015, the Company has proactively taken the following measures to ensure effective shareholders' communication and enhance our transparency:

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

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

Constitutional documents

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain the quality of corporate governance so as to ensure better transparency of the Company, protection of shareholders' and stakeholders' rights and enhance shareholder value. In the opinion of the Board, the Company had complied with all code provisions set out in the CG Code during the financial year ended 31 December 2015 and up to the date of publication of this annual report except Code Provision A.1.1.

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Li Yongcheng (“Mr. Li”), aged 54, was appointed as the chairman and an executive director of the Company on 29 October 2014. Mr. Li is also the chairman of nomination committee of the Company. He is currently vice chairman and executive deputy general manager of Beijing Enterprises Group Company Limited. He was re-designated as executive director and vice chairman of the board of directors of Beijing Enterprises Holdings Limited (Stock Code: 392) on 16 March 2016. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master’s degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd., and was vice president of Beijing Enterprises Holdings Limited (Stock Code: 392). Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations.

Mr. E Meng (“Mr. E Meng”), aged 57, was appointed as an executive director of the Company in February 2008 and the vice chairman of the Company in April 2013. He serves as a vice general manager and the chief financial officer of Beijing Enterprises Group Company Limited. He is also an executive director and an executive vice president of Beijing Enterprises Holdings Limited (Stock Code: 392) and the chairman and an executive director of Beijing Development (Hong Kong) Limited (Stock Code: 154). Mr. E Meng graduated from China Science and Technology University with a master’s degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. From September 2004 to August 2015, Mr. E Meng was an independent non-executive director of New Silkroad Culturaltainment Limited (formerly known as JLF Investment Company Limited) (Stock Code: 472). Mr. E Meng has extensive experience in economics, finance and enterprise management.

Mr. Jiang Xinhao (“Mr. Jiang”), aged 51, 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) and an executive director of Beijing Properties (Holdings) Limited (Stock Code: 925). Mr. Jiang is also a non-executive director of China Gas Holdings Limited (Stock Code: 384). Mr. Jiang graduated from Fudan University in 1987 with a bachelor’s degree in law, and then in 1992 with a master’s degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has many years of experience in economics, finance and corporate management.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. Hu Xiaoyong (“Mr. Hu”), aged 51, was appointed as an executive director and the chief executive officer of the Company in August 2008. He is also an executive director of Beijing Enterprises Medical and Health Industry Group Limited (formerly known as Genvon Group Limited) (Stock Code: 2389) and an executive director and chairman of Beijing Enterprises Clean Energy Group Limited (“BECEG”) (formerly known as Jin Cai Holdings Company Limited) (Stock Code: 1250), both of which are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Hu graduated with an EMBA from the Tsinghua University. He was the vice chairman of the China Environmental Service Industry Association (全國工商聯環境服務業商會).

Mr. Zhou Min (“Mr. Zhou”), aged 52, was appointed as an executive director of the Company in August 2008. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People’s Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now the chairman of BEWG Environmental Group Co., Ltd.

Mr. Li Haifeng, aged 45, was appointed as an executive director and a vice president of the Company in August 2008. He graduated with a bachelor’s degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). He is now the chairman of the Supervisory Committee of BEWG Environmental Group Co., Ltd., responsible for exploring business opportunities in water market in the PRC. He is currently the chairman and an executive director of Carry Wealth Holdings Limited (Stock Code: 643). During the period from April 2010 to April 2013, he was an independent non-executive director of Huarong International Financial Holdings Limited (formerly known as Simsen International Corporation Limited) (Stock Code: 993). Both Carry Wealth Holdings Limited and Huarong International Financial Holdings Limited are listed on The Stock Exchange of Hong Kong Limited.

Mr. Zhang Tiefu, aged 53, was appointed as an executive director and a vice president of the Company in April 2009. He graduated from Jilin Industrial Institute with a bachelor’s degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) in 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and is concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management. He joined the Group in April 2009.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Ms. Qi Xiaohong (“Ms. Qi”), aged 48, was appointed as an executive director of the Company in May 2008 and a member of remuneration committee of the Company. Ms. Qi graduated from Capital Normal University with a bachelor’s degree in legal studies and subsequently obtained a master degree in economic management at Capital University of Economics and Business. She has worked for the Beijing Municipal Government for many years. She joined Beijing Enterprises Holdings Limited in 1997 and is now a vice president of Beijing Enterprises Holdings Limited (Stock Code: 392), responsible for corporate administration and human resources management.

Mr. Ke Jian (“Mr. Ke”), aged 47, was appointed as an executive director of the Company in June 2011 and is the vice president of Beijing Enterprises Holdings Limited (Stock Code: 392) and a vice chairman, chief executive officer and an executive director of Beijing Development (Hong Kong) Limited (Stock Code: 154). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor’s degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.

Mr. Tung Woon Cheung Eric (“Mr. Tung”), aged 45, was appointed as an executive director of the Company in August 2011. Mr. Tung is the chief financial officer and company secretary of the Company. Mr. Tung is also the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of The Stock Exchange of Hong Kong Limited, the company secretary of Biosino Bio-Technology and Science Incorporation* (Stock Code: 8247), a company listed on growth enterprise market of The Stock Exchange of Hong Kong Limited 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 of Hong Kong Limited. 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 50, was appointed as an executive director of the Company in February 2014, he is a Senior Engineer and qualified Senior Project Manager. Mr. Li Li joined the Company in October 2010 and is currently an executive vice president of the Company. Mr. Li Li graduated from Xian Jiaotong University in mechanical engineering and is currently undertaking PhD study in engineering at School of Environment, Tsinghua University. Prior to joining the Company, Mr. Li Li was a senior engineer, a technical quality director and vice president of the First Design & Research Institute. Mr. Li Li served as various key positions of 北京桑德環保集團有限公司 (Beijing Sound Environmental Group Company Limited*) from 2001 to 2010. He has extensive experience in investment, construction and operation in water industry.

* For identification purpose only

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors

Mr. Shea Chun Lok Quadrant (“Mr. Shea”), aged 49, was appointed as an independent non-executive director of the Company in April 2002. He is also the chairman of audit committee of the Company. He is currently an independent non-executive director of Hi-Level Technology Holdings Limited (Stock Code: 8113). Mr. Shea graduated from Monash University of Australia with a bachelor’s degree in Business and later completed a postgraduate program of Public Finance (Taxation) and obtained a Master degree in Economics from Jinan University of China. He is also a fellow member of CPA Australia, a member of Chartered Institute of Management Accountants of United Kingdom, Institute of Singapore Chartered Accountant, Chartered Global Management Accountant, Hong Kong Institute of Certified Public Accountants and The Taxation Institution of Hong Kong. Mr. Shea is a Certified Tax Adviser of Hong Kong and China Tax Committee member of the Taxation Institute of Hong Kong and has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau. Mr. Shea currently serves as chief financial officer and company secretary of China City Construction Group Holdings Limited (Stock Code: 0711). Mr. Shea has been working as a company secretary and qualified accountant in various Hong Kong main board listed companies for many years. He has substantial experience as a financial controller of listed companies.

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

Mr. Guo Rui (“Mr. Guo”), aged 48, was appointed as an independent non-executive director of the Company in May 2008. He is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Guo is the president of Paragon Investment Co. Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceuticals, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was a former senior consultant of Arthur Andersen LLC from 1999 to 2001. Mr. Guo holds a bachelor’s degree of computer science (or engineering) from Peking University and a master degree of computer engineering from Northwestern University, U.S.A.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(Continued)*

Independent non-executive Directors *(Continued)*

Ms. Hang Shijun (“Ms. Hang”), aged 74, was appointed as an independent non-executive director of the Company in August 2008. She graduated from the Beijing Industrial University majored in Water Supply and Drainage in 1963 and then worked in Beijing Municipal Planning Authority (北京市規劃管理局) from 1963 to 1965. During the period from 1983 to 1985, Ms. Hang studied in department of environmental & sanitary engineering, graduate school of engineering (currently known as department of environmental engineering, graduate school of engineering) in Kyoto University in Japan. Ms. Hang has been working in the Beijing General Municipal Engineering Design & Research Institute Co., Ltd. (北京市市政工程設計研究總院有限公司) since 1966, served as various positions such as head of design department, chief engineer of design department and vice chief engineer of the institute, and is now the chief technology officer of its project center. Ms. Hang is an expert in sewage treatment, solid wastes treatment and disposal as well as recycled water (reused water) technology and project.

Mr. Wang Kaijun (“Mr. Wang”), aged 55, was appointed as an independent non-executive director of the Company in August 2008. Mr. Wang holds a Doctor degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang was previously appointed as the chief engineer of Beijing Municipal Environmental Protection Technology Research Centre (北京市環境保護科學研究院). He is now working as a professor in School of Environment, Tsinghua University (清華大學環境學院), a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Engineering Center for Technology Management and Evaluation. Mr. Wang has been engaged and experienced in the relevant research, development and industrialization of sewage pollution control technologies and the evaluation of policy-making over the years. Mr. Wang has unique and innovative opinions on the academic study and has made many achievements and demonstration cases on the hydrolysis-aerobic process theory, aerobic and anaerobic reactor theory and design, development and application of sewage sludge treatment and disposal technologies, planning and management of state environment protection administration system, etc. Mr. Wang also developed the research fields on municipal sewage hydrolysis-aerobic treatment process, high performance anaerobic reactors, sewage sludge treatment and disposal, livestock dejection treatment and rural environmental protection in mainland China.

Mr. Yu Ning (“Mr. Yu”), aged 62, was appointed as an independent non-executive director of the Company in December 2012. Mr. Yu is a qualified PRC lawyer. Mr. Yu graduated from the law department of Peking University with a bachelor degree in 1983 and obtained a master degree specialising in economic law from the law department of Peking University in 1996. Mr. Yu was a member of the Chinese People’s Political Consultative Conference. Mr. Yu was previously the president of All China Lawyers Association. Mr. Yu served as principal lawyer at Beijing Times Highland Law Firm, part-time professor at Peking University and mentor of master postgraduates at the Law School of Tsinghua University. He is an independent director of each of Bank of Beijing Co., Ltd. (Stock Code: 601169) and was an independent director of China CSSC Holdings Limited (Stock Code: 600150) and Sinolink Securities Co., Ltd. (Stock Code: 600109), all of which are listed on The Shanghai Stock Exchange. He is also an independent director of BOE Technology Group Co., Ltd.* (Stock Code: 000725), and was an independent director of United Science and Technology Co., Ltd. (formerly known as United Mechanical and Electrical Co., Ltd.) (Stock Code: 000925), both of which are listed on the Shenzhen Stock Exchange. Mr. Yu is also an independent non-executive director of Intime Retail (Group) Company Limited (formerly known as Intime Department Store (Group) Company Limited) (Stock Code: 1833), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

* For identification purpose only

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

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

RESULTS AND DISTRIBUTIONS

The Group's profit for the year ended 31 December 2015 and the Group's financial position at that date are set out in the consolidated financial statements on pages 72 to 210. An interim distribution of HK4.4 cents per ordinary share was paid on 12 October 2015. The Board recommended to make a final distribution of HK5.1 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 14 June 2016.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Thursday, 19 May 2016 to Monday, 23 May 2016 (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 Monday, 23 May 2016, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 18 May 2016.

For Entitlement to Proposed Final Distribution

The register of members will be closed from Friday, 27 May 2016 to Monday, 30 May 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final distribution, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 26 May 2016. 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 14 June 2016.

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 52 to the financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided on pages 8 to 31 of the Group's Management Discussion and Analysis. In addition, discussions on the Group's environmental policies, relationship with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the Chairman's Statement on page 6 and the corporate governance report on pages 33 to 42 of this Annual Report.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities and equity of the Group for the last five financial years, as extracted from the audited financial statements and the annual report of the Company for the year ended 31 December 2014, is set out on pages 211 to 212. 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 23% of the Group's revenue and aggregate purchases attributable to the Group's five largest suppliers accounted for 30% of the Group's total purchases for the year. Sales to the largest customer accounted for 8% of the Group's revenue and purchases from the largest supplier accounted for 11% 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 VENTURE

Details of the Company's principal subsidiaries, joint ventures and associates at 31 December 2015 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. Shares of the Company were issued during the year on exercises of share option of the Company.

REPORT OF THE DIRECTORS

DEBENTURE ISSUED

As at 31 December 2015, the outstanding principal amounts of bonds issued by the Company in June and September 2011 were RMB450,000,000 and RMB50,000,000 respectively, with both maturity dates in June 2016 and fixed interest rates at 5.00% per annum.

As at 31 December 2015, the outstanding principal amount of bonds guaranteed by the Company and issued by a wholly-owned subsidiary of the Company was US\$500,000,000, with a maturity date in May 2018 and a fixed interest rate at 4.625% per annum.

As at 31 December 2015, the outstanding principal amount of bonds guaranteed by a wholly-owned subsidiary of the Company and issued by a 60% owned subsidiary of the Company was RMB200,000,000, with a maturity date in December 2018 and a fixed interest rate at 5% per annum.

As at 31 December 2015, 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.

The above bonds and notes are included in notes 34 and 35 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2015, the Company's reserves available for distribution to shareholders amounted to HK\$7,175,455,000.

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

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

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Li Yongcheng (*Chairman*)

Mr. E Meng (*Vice Chairman*)

Mr. Jiang Xinhao

Mr. Hu Xiaoyong (*Chief Executive Officer*)

Mr. Zhou Min

Mr. Li Haifeng

Mr. Zhang Tiefu

Ms. Qi Xiaohong

Mr. Ke Jian

Mr. Tung Woon Cheung Eric

Mr. Li Li

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant

Mr. Zhang Gaobo

Mr. Guo Rui

Ms. Hang Shijun

Mr. Wang Kaijun

Mr. Yu Ning

After the reporting period, Mr. Hu Xiaoyong resigned as executive director and chief executive officer and Mr. Zhou Min, an executive director of the Company, was appointed as the chief executive officer of the Company on 30 March 2016.

In accordance with Bye-law 99(B), Mr. Jiang Xinhao, Mr. Zhou Min, Mr. Li Li, Mr. Shea Chun Lok Quadrant, Mr. Guo Rui and Ms. Hang Shijun 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.

REPORT OF THE DIRECTORS

BOARD CHANGES

Since the date of the Interim Report 2015 of the Company and up to the date of this annual report, there have changes to the Board all effective from 30 March 2016 as follow:

- (1) Mr. Hu Xiaoyong resigned as an executive director and the chief executive officer of the Company;
- (2) Mr. Zhou Min, an executive director of the Company, was appointed as an executive director and the chief executive officer of the Company; and
- (3) Mr. Li Li, an executive director of the Company, was appointed as an executive director and the chief operating officer 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 2015 of the Company and up to the date of this annual report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, is set out below:

Mr. Li Yongcheng, the chairman and an executive director of the Company, was re-designated on 16 March 2016 as executive director and vice chairman of the board of directors of Beijing Enterprises Holdings Limited (Stock Code: 392), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Zhou Min, an executive director of the Company, was appointed as an executive director and the chief executive officer of the Company.

Mr. Li Li, an executive director of the Company, was appointed as an executive director and the chief operating officer of the Company.

REPORT OF THE DIRECTORS

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

Mr. Shea Chun Lok Quadrant is currently an independent non-executive director of Hi-Level Technology Holdings Limited (Stock Code: 8113). Mr. Shea currently serves as chief financial officer and company secretary of China City Construction Group Holdings Limited (Stock Code: 0711).

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.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and the senior management of the Company are set out on pages 43 to 47 of this annual report.

The interests of director who is a director or employee of a company which has an interest in the shares and underlying shares of the Group which would fall to be disclosed under Part XV of the SFO are set out in the Disclosure of Interests on pages 54 to 60 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to 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 133 to 135 of this annual report.

Further details of the Company's remuneration committee are set out in the corporate governance report on page 39 of this annual report.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS

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

As at 31 December 2015, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"), were as follows:

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

Name of Directors	Number of ordinary shares				Total	Approximate percentage of the Company's issued share capital (Note 3)
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Hu Xiaoyong	100,000	–	310,336,456 (Note 1)	–	310,436,456	3.559%
Mr. Zhou Min	300,000	–	307,676,110 (Note 2)	–	307,976,110	3.531%

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

Associated Corporation	Directors	Number of ordinary shares					Total	Approximate percentage of the associated corporation's issued share capital (Note 7)
		Personal interests	Family interests	Corporate interests	Other interest	Number of underlying shares held (Note 8)		
Beijing Enterprises Clean Energy Group Limited ("BECEG")	Mr. Hu Xiaoyong	–	–	595,227,370	–	1,404,772,630	2,000,000,000 (Note 4)	11.295%
	Mr. Zhou Min	–	–	475,014,040	–	1,121,061,910	1,596,075,950 (Note 5)	9.013%
	Mr. Li Haifeng	–	–	391,976,590	–	925,088,490	1,317,065,080 (Note 6)	7.438%

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS *(Continued)*

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

Notes:

1. 310,336,456 ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") as at 31 December 2015 are held by Starry Chance Investments Limited which is wholly and beneficially owned by Mr. Hu Xiaoyong, the chief executive officer and an executive director of the Company.
2. 307,676,110 Shares as at 31 December 2015 are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, an executive director of the Company.
3. The percentage represented the number of Shares over the total issued shares of the Company as at 31 December 2015 of 8,722,949,196 Shares.
4. This represented the aggregate number of ordinary shares of BECEG of HK\$0.001 each ("BECEG Ordinary Shares") and underlying shares ("Underlying Shares") held by Zhihua Investments Limited which is wholly and beneficially owned by Mr. Hu Xiaoyong, the chief executive officer and an executive director of the Company.
5. This represented the aggregate number of BECEG Ordinary Shares and Underlying Shares held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, an executive director of the Company.
6. This represented the aggregate number of BECEG Ordinary Shares and Underlying Shares held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
7. The percentage represented the aggregate number of BECEG Ordinary Shares and Underlying Shares over the total issued shares of BECEG as at 31 December 2015 of 17,707,711,170 shares.
8. The number of Underlying Shares held includes convertible preference shares held by shareholders of BECEG and convertible preference shares to be subscribed by certain shareholders of BECEG under the Subscription Agreement.

(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 2015, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

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

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

The Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. However, the directors of the Company may, at their discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and/or any other conditions (including the subscription price) that must be fulfilled before any option can be exercised.

The exercise period of the share options commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options. The subscription price payable on exercise of share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company’s ordinary shares on the Stock Exchange on the date of grant of the share options; (ii) the average closing price of the Company’s ordinary share on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company’s ordinary shares. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company’s share capital.

Share options granted must be taken up within 28 days from the date of offer. An aggregate of HK1 is payable by each eligible grantee on acceptance of the offer.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

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

During the year ended 31 December 2015, no option was granted under the Scheme, the movements in the share options of the Company during the year are set out as follows:

Name/ Category of Participants	Number of Share Options					Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$	
	As at 1 January 2015	Granted	Exercised	Lapsed	Cancelled					As at
	31 December 2015									
Directors										
Hu Xiaoyong	12,800,000	–	–	–	–	12,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	–
	12,800,000	–	–	–	–	12,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	12,800,000	–	–	–	–	12,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	12,800,000	–	–	–	–	12,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	12,800,000	–	–	–	–	12,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	64,000,000	–	–	–	–	64,000,000				
Zhou Min	11,200,000	–	–	–	–	11,200,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	–
	11,200,000	–	–	–	–	11,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	11,200,000	–	–	–	–	11,200,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	11,200,000	–	–	–	–	11,200,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	11,200,000	–	–	–	–	11,200,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	56,000,000	–	–	–	–	56,000,000				
Li Haifeng	4,000,000	–	(2,200,000)	–	–	1,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	5.466 (Note 1)
	5,800,000	–	–	–	–	5,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	5,800,000	–	–	–	–	5,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	5,800,000	–	–	–	–	5,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	5,800,000	–	–	–	–	5,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	27,200,000	–	(2,200,000)	–	–	25,000,000				
Tung Woon Cheung Eric	1,800,000	–	–	–	–	1,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	–
	1,800,000	–	–	–	–	1,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	1,800,000	–	–	–	–	1,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	1,800,000	–	–	–	–	1,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	1,800,000	–	–	–	–	1,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	9,000,000	–	–	–	–	9,000,000				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name/ Category of Participants	Number of Share Options					As at 31 December 2015	Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$
	As at 1 January 2015	Granted	Exercised	Lapsed	Cancelled					
Li Li	3,840,000	–	–	–	–	3,840,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	–
	3,840,000	–	–	–	–	3,840,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	3,840,000	–	–	–	–	3,840,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	3,840,000	–	–	–	–	3,840,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	3,840,000	–	–	–	–	3,840,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	19,200,000	–	–	–	–	19,200,000				
Shea Chun Lok Quadrant	400,000	–	(400,000)	–	–	–	24/4/2013	24/4/2015 – 23/4/2023	2.244	6.540 (Note 1)
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	1,600,000	–	(400,000)	–	–	1,200,000				
Zhang Gaobo	400,000	–	(400,000)	–	–	–	24/4/2013	24/4/2015 – 23/4/2023	2.244	5.930 (Note 1)
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	1,600,000	–	(400,000)	–	–	1,200,000				
Guo Rui	400,000	–	–	–	–	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	1,600,000	–	–	–	–	1,600,000				
Hang Shijun	400,000	–	–	–	–	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	2,000,000	–	–	–	–	2,000,000				

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Name/ Category of Participants	Number of Share Options					Grant Date	Exercisable Period	Exercise Price HK\$	Closing price per share HK\$	
	As at 1 January 2015	Granted	Exercised	Lapsed	Cancelled					As at 31 December 2015
Wang Kaijun	400,000	–	–	–	–	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	400,000	–	–	–	–	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
	2,000,000	–	–	–	–	2,000,000				
Yu Ning	400,000	–	–	–	–	400,000	28/3/2014	24/4/2014 – 27/3/2024	5.180	–
	400,000	–	–	–	–	400,000	28/3/2014	24/4/2015 – 27/3/2024	5.180	–
	400,000	–	–	–	–	400,000	28/3/2014	24/4/2016 – 27/3/2024	5.180	–
	400,000	–	–	–	–	400,000	28/3/2014	24/4/2017 – 27/3/2024	5.180	–
	400,000	–	–	–	–	400,000	28/3/2014	24/4/2018 – 27/3/2024	5.180	–
	2,000,000	–	–	–	–	2,000,000				
Sub-total	186,200,000	–	(3,000,000)	–	–	183,200,000				
Eligible Employees										
In aggregate	26,764,000	–	(9,614,000)	(600,000)	–	16,550,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	6.181 (Note 2)
	41,850,000	–	(2,910,000)	(1,140,000)	–	37,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	6.336 (Note 2)
	41,850,000	–	–	(1,140,000)	–	40,710,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	–
	41,850,000	–	–	(1,140,000)	–	40,710,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	–
	41,850,000	–	–	(1,140,000)	–	40,710,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	–
Sub-total	194,164,000	–	(12,524,000)	(5,160,000)	–	176,480,000				
Total	380,364,000	–	(15,524,000)	(5,160,000)	–	359,680,000				

Notes:

- These represented the closing price/weighted average closing price of the Company's shares immediately before the dates of the share options exercised by the directors during the year.
- These represented the weighted average closing price of the Company's shares immediately before the dates of the share options exercised by Eligible Employees during the year.
- The share options granted are subject to a vesting scale in five tranches of 20% each per annum starting from the second anniversary and fully vested in the sixth anniversary of the date of grant i.e. 24 April 2013. Each tranche of the share options shall be exercisable on the condition that each participant has passed the performance assessment required by the Company.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the year ended 31 December 2015.

The Company recognised the fair value of the share options, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per Share over the nominal value of the Shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account. When the share options are forfeited/lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves. For further details, please refer to the “Summary of Significant Accounting Policies” set out in note 3.4 to the financial statements.

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

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

As at 31 December 2015, the Company had 359,680,000 share options outstanding under the Scheme. Should they be fully exercised, the Company will receive HK\$812,994,000 (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\$324,559,000.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in the Shares and/or underlying Shares of the Company

Name of Shareholders	Capacity in which Shares were held	Long position in the Shares	Approximate percentage of the Company's issued share capital (Note 5)
Beijing Enterprises Group Company Limited ("BEGCL") (Notes 1 & 2 & 3)	Interest of controlled corporation	3,824,877,831	43.85%
	Interest of controlled corporation	300,001,592	3.44%
Beijing Enterprises Holdings Limited ("BEHL") (Notes 1 & 2 & 4)	Interest of controlled corporation	3,824,367,831	43.84%
	Interest of controlled corporation	300,001,592	3.44%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

(Continued)

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

Notes:

1. BEGCL is deemed to be interested in an aggregate of 3,824,877,831 Shares as a result of its indirect holding of such Shares through the following entities including its wholly-owned subsidiaries:

Name	Long position in Shares
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	3,824,367,831
BEHL	3,824,367,831
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	3,824,877,831
BEGCL	3,824,877,831

BE Environmental beneficially holds 3,824,367,831 Shares (representing approximately 43.84%) in the share capital of the Company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 40.24% by BE Group (BVI), BE Group (BVI) directly holds 510,000 Shares in the share capital of the Company and is held as to 100% by BEGCL.

2. The Company and BEHL entered into a sale and purchase agreement dated 9 December 2015 whereby the Company has conditionally agreed to allot and issue 300,001,592 Shares to BEHL or BEHL nominee(s) at completion of the acquisition of entire interest in Golden State Water Group Corporation, which has not been completed as at the date of this annual report.
3. The long positions held by BEGCL include: (i) the 3,824,877,831 Shares as described in note 1 above; and (ii) 300,001,592 Shares as described in note 2 above; BEGCL is deemed to be interested in 300,001,592 Shares as its indirect holding of shares of BEHL as described in note 1 above.
4. The long positions held by BEHL include: (i) the 3,824,367,831 Shares as described in note 1 above; and (ii) 300,001,592 Shares as described in note 2 above.
5. The percentage represented the number of Shares over the total issued shares of the Company as at 31 December 2015 of 8,722,949,196 Shares.

Save as disclosed above, as at 31 December 2015, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

REPORT OF THE DIRECTORS

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

During the year ended 31 December 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

EMOLUMENT POLICY

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

RELATED PARTY TRANSACTIONS

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

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

(A) Connected transaction

On 9 December 2015, the Company entered into the sale and purchase agreement (the “Sale and Purchase Agreement”) with Beijing Enterprises Holdings Limited (“BEHL”), pursuant to which the Company has conditionally agreed to acquire, and BEHL has conditionally agreed to procure GSE Investment Corporation (“GSEI”) to sell, the entire issued share capital of Golden State Water Group Corporation (“GSWG”) at an aggregate consideration of RMB1,508,000,000 (equivalent to approximately HK\$1,824,009,676) (the “Acquisition”). GSWG is an investment holding company directly or indirectly holding majority or minority interests in ten water projects in Jiangsu, Henan, Shanghai and Beijing, the PRC. These water projects have a total design capacity of 1,711,000 tons per day (including 1,154,000 tons per day from completed projects in operation and 500,000 tons per day from projects under construction, and the remaining capacity of 57,000 tons per day from projects in preparation stage). Upon completion of the Acquisition, these new water plants and projects will be managed by the Group, and will create synergies with the Group’s existing portfolio, which will in turn increase revenue growth, generate more attractive returns to the shareholders of the Company and reduce costs in the long run.

Under the Sale and Purchase Agreement, the consideration shall be satisfied at completion by the allotment and issue by the Company of 300,001,592 Shares (the “Consideration Shares”) at the issue price of HK\$6.08 per Consideration Share to BEHL or BEHL nominee(s).

Since BEHL is the substantial shareholder of the Company and thus connected person of the Company as defined under Chapter 14A of the Listing Rules. The entering into of the Sale and Purchase Agreement and transactions contemplated thereunder constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. In addition, since the Acquisition involves the allotment and issue of Consideration Shares to BEHL or BEHL nominee(s), the Acquisition constitutes a non-exempt connected transaction which is subject to the reporting, announcement and independent shareholders’ of the Company approval requirements under Chapter 14A of the Listing Rules. Details of the Acquisition can be found on the websites of the Company and the Stock Exchange.

As at the date of this annual report, the Acquisition has not been completed.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transaction

(a) *Deposit Services Master Agreement*

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

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

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

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

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

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

(B) Continuing Connected Transaction *(Continued)*

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

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

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

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

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

PERMITTED INDEMNITY PROVISION

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

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

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$256,000.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

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

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount (million)	Final Maturity	Specific performance obligations
24 June 2011	Subscription agreement for issuance of bonds	RMB450	June 2016	<i>Note 2</i>
30 September 2011	Subscription agreement for issuance of bonds	RMB50	June 2016	<i>Note 2</i>
21 December 2012	Term loan facility with a bank	US\$100	December 2017	<i>Note 1</i>
26 April 2013	Subscription agreement for issuance of bonds	US\$500	May 2018	<i>Note 2</i>
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	<i>Note 2</i>
23 June 2014	Term loan facilities with four banks	RMB1,500	June 2017	<i>Note 2</i>
15 September 2014	Term loan facility with a bank	EUR55	September 2019	<i>Note 2</i>
17 September 2014	Term loan facility with a bank	EUR40	September 2019	<i>Note 2</i>
9 October 2014	Term loan facility with a bank	US\$120 US\$288	January 2024 October 2021	<i>Note 1</i> <i>Note 1</i>

REPORT OF THE DIRECTORS

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount (million)	Final Maturity	Specific performance obligations
29 April 2015	Term loan facility with a bank	US\$150	April 2020	<i>Note 2</i>
8 May 2015	Note purchase agreement with an institutional investor	HK\$700	May 2020	<i>Note 2</i>
19 June 2015	Term loan facility with a bank	HK\$1,550	June 2018	<i>Note 1</i>
27 November 2015	Term loan facility with a bank	HK\$3,000	November 2020	<i>Note 3</i>
18 December 2015	Term loan facility with an international financial institution	US\$253.5	January 2021	<i>Note 1</i>
		US\$46.5	December 2025	<i>Note 1</i>
28 December 2015	Term loan facilities with three banks	HK\$1,760	December 2020	<i>Note 3</i>

Notes:

1. BEHL owns, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company.
2. (i) BEHL owns or controls more than 35% of the voting rights of the issued share capital of the Company, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; (ii) BEHL supervises the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; and/or (iv) the nominees of BEHL comprise the majority of the members of the Board.
3. BEHL owns or controls more than 35% of the voting rights of the issued share capital of the Company, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; (ii) BEHL supervises the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; (iv) BEGCL does not or ceases to own, directly or indirectly, at least 40% of the beneficial shareholding carrying at least 40% of the voting rights in BEHL, free from any security; (v) BEGCL is not or ceases to be the, direct or indirect, single largest shareholder of BEHL or does not or ceases to supervise BEHL; and/or (vi) BEGCL is not or ceases to be effectively wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality* (北京市人民政府國有資產監督管理委員會).

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

REPORT OF THE DIRECTORS

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 2015, 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. 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 33 to 42 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

There is no significant events after the reporting period of the Group.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Group for the year ended 31 December 2015 were approved by the board of directors on 30 March 2016.

On behalf of the Board

Li Yongcheng
CHAIRMAN

Hong Kong
30 March 2016

INDEPENDENT AUDITORS' REPORT



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

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the “Company”) and its subsidiaries set out on pages 72 to 210, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

30 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
REVENUE	6	13,502,957	8,925,942
Cost of sales		(8,536,057)	(5,430,014)
Gross profit		4,966,900	3,495,928
Interest income	6	315,781	445,516
Other income and gains, net	6	454,638	608,156
Administrative expenses		(1,225,728)	(1,065,812)
Other operating expenses, net		(248,054)	(10,648)
PROFIT FROM OPERATING ACTIVITIES	7	4,263,537	3,473,140
Fair value gain on derivative financial instruments	7	253,714	–
Finance costs	8	(1,146,708)	(1,084,225)
Share of profits and losses of:			
Joint ventures	19(e)	162,795	256,230
Associates	20(c)	12,221	22,032
PROFIT BEFORE TAX		3,545,559	2,667,177
Income tax expense	11	(777,766)	(593,855)
PROFIT FOR THE YEAR		2,767,793	2,073,322
ATTRIBUTABLE TO:			
Shareholders of the Company		2,455,370	1,794,413
Non-controlling interests		312,423	278,909
		2,767,793	2,073,322
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	13		
– Basic		HK28.17 cents	HK20.76 cents
– Diluted		HK27.50 cents	HK20.30 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
PROFIT FOR THE YEAR	2,767,793	2,073,322
OTHER COMPREHENSIVE LOSS		
<i>Item to be reclassified to profit or loss in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	(1,622,744)	(180,298)
<i>Item not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive loss of a joint venture	(35,107)	(25,668)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	(1,657,851)	(205,966)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,109,942	1,867,356
ATTRIBUTABLE TO:		
Shareholders of the Company	1,050,776	1,588,495
Non-controlling interests	59,166	278,861
	1,109,942	1,867,356

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	1,379,801	1,242,995
Investment property	15	–	55,821
Goodwill	16	2,967,365	2,524,701
Operating concessions	17	2,421,012	2,285,523
Other intangible assets	18	37,290	28,432
Investments in joint ventures	19	3,563,399	3,106,768
Investments in associates	20	902,774	2,292
Derivative financial instruments	21	42,404	–
Available-for-sale investments	22	153,664	126,363
Amounts due from contract customers	25	11,495,709	6,817,293
Receivables under service concession arrangements	17	16,977,664	15,639,617
Trade receivables	26	665,352	798,829
Prepayments, deposits and other receivables	27	5,609,924	3,854,676
Deferred tax assets	39	122,388	79,469
Total non-current assets		46,338,746	36,562,779
Current assets:			
Non-current assets held for sale	23	226,647	79,747
Inventories	24	99,083	57,775
Amounts due from contract customers	25	1,311,629	40,317
Receivables under service concession arrangements	17	1,712,947	1,600,565
Trade receivables	26	2,959,325	2,595,017
Prepayments, deposits and other receivables	27	5,033,177	4,309,629
Derivative financial instruments	21	167,174	–
Restricted cash and pledged deposits	29	269,189	304,126
Cash and cash equivalents	29	6,373,831	6,090,883
Total current assets		18,153,002	15,078,059
TOTAL ASSETS		64,491,748	51,640,838

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	30	872,295	870,743
Reserves	32(a)	15,311,538	14,913,705
		16,183,833	15,784,448
Non-controlling interests		4,106,582	3,304,290
TOTAL EQUITY		20,290,415	19,088,738
Non-current liabilities:			
Other payables and accruals	41	415,215	340,404
Bank and other borrowings	33	17,121,178	12,529,842
Corporate bonds	34	4,105,212	4,492,307
Notes payable	35	3,091,413	2,523,639
Finance lease payables	36	51,814	–
Provision for major overhauls	37	205,489	247,018
Deferred income	38	117,564	70,486
Deferred tax liabilities	39	1,320,597	929,578
Total non-current liabilities		26,428,482	21,133,274
Current liabilities:			
Trade payables	40	5,786,331	3,563,928
Other payables and accruals	41	4,817,755	3,470,715
Income tax payables		490,816	439,527
Bank and other borrowings	33	6,015,190	3,944,656
Corporate bonds	34	599,674	–
Finance lease payables	36	63,085	–
Total current liabilities		17,772,851	11,418,826
TOTAL LIABILITIES		44,201,333	32,552,100
TOTAL EQUITY AND LIABILITIES		64,491,748	51,640,838

Li Yongcheng
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Attributable to shareholders of the Company											Non-controlling interests HK\$'000	Total equity HK\$'000	
		Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000 (note 32(b))	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Defined benefit plan reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000 (note 32(c))	Retained profits HK\$'000			Total HK\$'000
	Notes													
At 1 January 2014		843,598	3,574,792	4,878,475	105,764	(285,502)	14,989	11,239	722,002	376,311	3,055,963	13,297,631	2,626,811	15,924,442
Profit for the year		-	-	-	-	-	-	-	-	-	1,794,413	1,794,413	278,909	2,073,322
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(180,250)	-	-	(180,250)	(48)	(180,298)
Share of other comprehensive loss of a joint venture		-	-	-	-	-	-	(25,668)	-	-	-	(25,668)	-	(25,668)
Total comprehensive income for the year		-	-	-	-	-	-	(25,668)	(180,250)	-	1,794,413	1,588,495	278,861	1,867,356
Equity-settled share option arrangements	31(a)	-	-	-	115,706	-	-	-	-	-	-	115,706	-	115,706
Exercise of share options	30(b)	1,859	54,162	-	(14,448)	-	-	-	-	-	-	41,573	-	41,573
Transfer of share option reserve upon the forfeiture or lapse of share options		-	-	-	(1,494)	-	-	-	-	-	1,494	-	-	-
Acquisition of subsidiaries	30(a), 44	25,286	1,203,603	-	-	-	-	-	-	-	-	1,228,889	92,906	1,321,795
Acquisition of non-controlling interests		-	-	-	-	7,004	-	-	-	-	-	7,004	(15,283)	(8,279)
Disposal of subsidiaries	45	-	-	-	-	-	-	-	-	-	-	-	(2,553)	(2,553)
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	(9,650)	(9,650)
Capital contributions from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	-	333,198	333,198
Final 2013 cash distributions paid		-	-	(233,702)	-	-	-	-	-	-	-	(233,702)	-	(233,702)
Interim 2014 cash distributions paid	12	-	-	(261,148)	-	-	-	-	-	-	-	(261,148)	-	(261,148)
Transfer to reserves		-	-	-	-	-	-	-	-	114,381	(114,381)	-	-	-
At 31 December 2014		870,743	4,832,557*	4,383,625*	205,528*	(278,498)*	14,989*	(14,429)*	541,752*	490,692*	4,737,489*	15,784,448	3,304,290	19,088,738

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

Notes	Attributable to shareholders of the Company										Non-controlling interests HK\$'000	Total equity HK\$'000	
	Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000 (note 32(b))	Capital reserve HK\$'000	Property revaluation reserve HK\$'000	Defined benefit plan reserve HK\$'000	Exchange fluctuation reserve HK\$'000	PRC reserve funds HK\$'000 (note 32(c))	Retained profits HK\$'000			Total HK\$'000
At 1 January 2015	870,743	4,832,557	4,383,625	205,528	(278,498)	14,989	(14,429)	541,752	490,692	4,737,489	15,784,448	3,304,290	19,088,738
Profit for the year	-	-	-	-	-	-	-	-	-	2,455,370	2,455,370	312,423	2,767,793
Other comprehensive income for the year:													
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(1,369,487)	-	-	(1,369,487)	(253,257)	(1,622,744)
Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	(35,107)	-	-	-	(35,107)	-	(35,107)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	(35,107)	(1,369,487)	-	2,455,370	1,050,776	59,166	1,109,942
Equity-settled share option arrangements	31(a)	-	-	68,637	-	-	-	-	-	-	68,637	-	68,637
Exercise of share options	30(c)	1,552	45,613	-	(12,338)	-	-	-	-	-	34,827	-	34,827
Transfer of share option reserve upon the forfeiture or lapse of share options		-	-	-	(3,036)	-	-	-	-	3,036	-	-	-
Acquisition of subsidiaries	44	-	-	-	-	-	-	-	-	-	-	164,424	164,424
Acquisition of non-controlling interests		-	-	-	-	17,661	-	-	-	-	17,661	(25,977)	(8,316)
Share of reserves of an associate		-	-	-	-	29,350	-	-	-	-	29,350	-	29,350
Disposal of subsidiaries	45	-	-	-	-	-	-	-	-	-	-	(17,606)	(17,606)
Dividends paid to non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	(17,572)	(17,572)
Capital contributions from non-controlling equity holders		-	-	-	-	-	-	-	-	-	-	639,857	639,857
Final 2014 cash distributions paid		-	-	(418,247)	-	-	-	-	-	-	(418,247)	-	(418,247)
Interim 2015 cash distributions paid	12	-	-	(383,619)	-	-	-	-	-	-	(383,619)	-	(383,619)
Transfer to reserves		-	-	-	-	-	-	-	229,026	(229,026)	-	-	-
At 31 December 2015	872,295	4,878,170*	3,581,759*	258,791*	(231,487)*	14,989*	(49,536)*	(827,735)*	719,718*	6,966,869*	16,183,833	4,106,582	20,290,415

* These reserve accounts comprise the consolidated reserves of HK\$15,311,538,000 (2014: HK\$14,913,705,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,545,559	2,667,177
Adjustments for:			
Bank interest income	6	(64,227)	(82,588)
Imputed interest income on trade and other receivables with extended credit periods	6	(118,667)	(173,674)
Interest income on loans to government authorities in Mainland China	6	(63,433)	(122,338)
Interest income from non-controlling equity holders of subsidiaries	6	(67,027)	(63,990)
Interest income on a loan to a joint venture	6	(2,427)	(2,926)
Fair value gain on investment property	6	(548)	(3,669)
Fair value gain on derivative financial instruments	7	(253,714)	–
Gain on bargain purchase of subsidiaries	6	(21,827)	(75,729)
(Gain)/loss on disposal of subsidiaries	6, 7	2,327	(100,944)
(Gain)/loss on disposal of items of property, plant and equipment	6, 7	115	(414)
Depreciation	7	76,840	68,297
Amortisation of operating concessions	7	125,493	137,538
Amortisation of other intangible assets	7	4,308	3,124
Impairment of receivables under service concession arrangements, net	7	16,088	30,218
Reversal of impairment of trade receivables, net	7	(10,540)	(13,775)
Impairment/(reversal of impairment) of other receivables, net	7	96,812	(30,925)
Impairment of an amount due from a contract customer	7	52,938	26,135
Provision for major overhauls	7	65,201	60,548
Equity-settled share option expenses	7	68,637	115,706
Finance costs	8	1,208,353	1,113,370
Share of profits and losses of joint ventures		(162,795)	(256,230)
Share of profits and losses of associates		(12,221)	(22,032)
Operating profit before working capital changes		4,485,245	3,272,879
Decrease in land held for sale		–	660,228
Increase in inventories		(12,279)	(3,521)
Increase in amounts due from contract customers		(6,822,007)	(1,085,567)
Increase in receivables under service concession arrangements		(2,378,115)	(959,567)
Increase in trade receivables		(296,524)	(1,100,728)
Increase in prepayments, deposits and other receivables		(1,107,294)	(375,842)
Increase in trade payables		2,417,959	368,916
Increase/(decrease) in other payables and accruals		1,444,778	(193,342)
Utilisation of amounts of provision for major overhauls	37	(105,758)	(42,223)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Cash generated from/(used in) operations		(2,373,995)	541,233
Mainland China corporate income tax paid		(241,593)	(245,743)
Overseas taxes paid		(11,517)	(25,275)
Hong Kong profits tax paid		–	(6,250)
Net cash flows from/(used in) operating activities		(2,627,105)	263,965
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	(383,947)	(634,312)
Additions of operating concessions	17	(194,857)	(50,815)
Purchases of other intangible assets	18	(14,800)	(5,646)
Acquisition of subsidiaries	44	(678,149)	(906,692)
Proceeds from disposal of subsidiaries	45	40,293	238,651
Proceeds from disposal of subsidiaries in prior years		376,909	–
Deposits paid for the acquisition of subsidiaries		(374,585)	(260,511)
Proceeds from disposal of items of property, plant and equipment		2,742	2,052
Deposits paid for the purchase of items of property, plant and equipment		(1,709,564)	–
Proceeds from disposal of other intangible assets		6	53
Proceeds from disposal of a joint venture in prior years		117,157	229,696
Increase in investments in joint ventures		(381,613)	(48,950)
Acquisition of/increase in investments in associates		(800,000)	(3,742)
Acquisition of non-controlling interests		(8,316)	(8,279)
Additions of available-for-sale investments		(30,492)	(63,033)
Increase in a loan to a joint venture		–	(2,942)
(Increase)/decrease in time deposits with maturity of more than three months when acquired		92,825	(55,129)
(Increase)/decrease in restricted cash and pledged deposits		34,937	(247,079)
Dividends received from joint ventures		92,586	–
Interest received		64,227	82,588
Net cash flows used in investing activities		(3,754,641)	(1,734,090)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		639,857	333,198
Issue of a note payable		697,550	–
Issue of a corporate bond		250,000	–
Repayment of corporate bonds		–	(1,835,443)
New bank and other borrowings		14,990,534	7,548,170
Repayment of bank and other borrowings		(7,647,018)	(2,369,317)
Proceeds from exercise of share options		34,827	41,573
Proceeds received under sale and leaseback transactions		131,250	–
Capital element of finance lease rental payments		(11,610)	(13,255)
Interest paid		(1,188,550)	(1,105,247)
Interest element of finance lease rental payments		(4,214)	(743)
Distributions paid		(801,866)	(494,850)
Dividends paid to non-controlling equity holders		(17,572)	(9,650)
Decrease in bank deposits that require approval of a bank for any withdrawal in excess of a threshold		–	101,283
Net cash flows from financing activities		7,073,188	2,195,719
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		5,989,925	5,365,923
Effect of foreign exchange rate changes, net		(315,669)	(101,592)
CASH AND CASH EQUIVALENTS AT END OF YEAR		6,365,698	5,989,925
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	29	6,373,831	6,090,883
Less: Time deposits with maturity of more than three months when acquired		(8,133)	(100,958)
Cash and cash equivalents as stated in the consolidated statement of cash flows		6,365,698	5,989,925

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
成都雙流中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島中科成污水淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
廣州中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
台州市路橋中科成污水淨化有限公司	PRC/Mainland China	RMB55,500,000	–	100	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/Mainland China	RMB27,600,000	–	100	Sewage treatment
菏澤中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
濟南中科成水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
彭州中科成污水淨化有限公司	PRC/Mainland China	RMB28,000,000	–	100	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/Mainland China	RMB76,000,000	–	100	Sewage treatment
永州市北控污水淨化有限公司 ²	PRC/Mainland China	HK\$85,630,000	100	–	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB20,000,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/ Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控城投水質淨化有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment
北控水務集團(海南)有限公司	PRC/Mainland China	RMB100,000,000	–	90	Sewage treatment
東莞市石排偉通水務有限公司	PRC/Mainland China	RMB83,350,000	–	100	Sewage treatment
百色中環水業有限公司 ²	PRC/Mainland China	HK\$20,000,000	–	80	Sewage treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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	
錦州市北控水務有限公司	PRC/Mainland China	RMB127,178,541	80	–	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB55,302,635	–	80	Sewage treatment and water distribution
Be Water S.A.	Portugal/Portuguese Republic	€11,987,000	–	100	Sewage treatment and water distribution
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
成都北控蜀都投資有限公司 ("Beikong Shudu")	PRC/Mainland China	RMB852,750,000	–	68.5	Construction services and sewage treatment
北京建工環境發展有限責任公司 ("BCEG Environmental")	PRC/Mainland China	RMB300,000,000	–	60	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	MYR50,000,000	–	100	Construction services
昆明捷運泰富環保工程有限公司 ^Q	PRC/Mainland China	RMB680,000,000	–	70	Construction services
昆明捷運路橋發展有限公司 ^Q	PRC/Mainland China	RMB1,200,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司 ^Q	PRC/Mainland China	RMB200,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司 ^Q	PRC/Mainland China	RMB150,000,000	–	100	Construction services
佛山北控水環境開發有限公司 ^Q	PRC/Mainland China	RMB100,000,000	–	70	Construction services
簡陽市鴻琛建設工程有限公司	PRC/Mainland China	RMB10,000,000	–	60	Construction services
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	–	83.8	Water distribution
遵義北控水務有限責任公司	PRC/Mainland China	RMB50,236,000	80	–	Water distribution

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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	
德清達閩制水有限公司 ^Q	PRC/Mainland China	US\$11,960,000	–	100	Water distribution
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD10	–	80	Reclaimed water treatment
泉州安平供水有限公司 ^Q	PRC/Mainland China	US\$6,600,000	–	100	Water distribution
廣西貴港北控水務環保有限公司	PRC/Mainland China	RMB50,000,000	–	100	Waste treatment
北控中科成環保集團有限公司	PRC/Mainland China	RMB417,969,071	–	100	Consultancy services and investment holding
南京市市政設計研究院有限責任公司 ("Nanjing MDRI")	PRC/Mainland China	RMB7,958,880	–	99.172	Consultancy services
北控(大連)投資有限公司 ("Beikong Dalian") ^Q	PRC/Mainland China	US\$353,630,000	60	–	Investment holding
北控水務(中國)投資有限公司 ^Q	PRC/Mainland China	US\$100,000,000	100	–	Investment holding
雲南北控水務有限公司	PRC/Mainland China	RMB400,000,000	–	100	Investment holding
上海北控亞同水務投資有限公司	PRC/Mainland China	RMB100,000,000	–	100	Investment holding
北控(鞍山)水務有限公司	PRC/Mainland China	RMB65,000,000	–	70	Sewage treatment
阜新市北控水務有限公司 ^Q	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
北控(洛陽)水務發展有限公司 ^Q	PRC/Mainland China	RMB771,363,446	–	70	Sewage treatment

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(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	
廣東鶴山北控水務有限公司 ^δ	PRC/Mainland China	RMB800,000	–	70	Water distribution
金堂北控水環境治理有限公司 ^δ	PRC/Mainland China	RMB24,360,000	–	83	Construction services
台州北控水務置業有限公司 ^δ	PRC/Mainland China	RMB98,000,000	–	100	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
錦州市小凌河北控水務有限公司	PRC/Mainland China	RMB33,250,000	–	100	Sewage treatment
衡陽市海朗水務有限公司	PRC/Mainland China	RMB37,000,000	–	100	Water distribution
廣安北控廣和水務有限公司	PRC/Mainland China	RMB70,000,000	–	100	Water distribution
北京稻香水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Reclaimed water treatment
東莞市德高水務有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment

[□] *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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2. BASIS OF PRESENTATION

Despite that the Group had capital commitments of approximately HK\$8.2 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2015, as detailed in note 50 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's profit forecast and cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

- (a) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group's principal bankers;
- (b) Beijing Enterprises Holdings Limited ("BEHL"), a substantial beneficial owner of the Company, has the intention to maintain directly or indirectly an equity interest in the Company of not less than 40% in the foreseeable future;
- (c) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2016 with reference to the terms of respective agreements and the current status of the projects; and
- (d) the Company will consider equity financing when necessary.

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

3.1 BASIS OF PREPARATION

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2015. 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 period. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*

Annual Improvements to HKFRSs 2010-2012 Cycle

Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

- (a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group.
- (b) The Annual Improvements to HKFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
 - HKFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.
 - HKAS 16 Property, Plant and Equipment and HKAS 38 Intangible Assets: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.
 - HKAS 24 Related Party Disclosures: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

(c) The Annual Improvements to HKFRSs 2011-2013 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 Business Combinations: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.
- HKFRS 13 Fair Value Measurement: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.
- HKAS 40 Investment Property: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the Group did not acquire any investment properties during the year.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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.

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

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

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

³ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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 as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group is in the process of making an assessment of the impact of this revised HKFRS upon initial application.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in 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 (2014: 30 June). For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

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

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

Fair value measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

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

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

Property, plant and equipment and depreciation

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment property

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

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

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

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

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

Leases

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

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.

Research and development costs

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

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

Impairment of non-financial assets

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Investments and other financial assets

Initial recognition and measurement

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement

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

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

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

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

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

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

(b) **Loans and receivables**

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

(c) Available-for-sale investments

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

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

Impairment

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment *(Continued)*

(a) Financial assets carried at amortised cost

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(b) Available-for-sale investments

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

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

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

Derecognition

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Derecognition (Continued)

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

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

Financial liabilities (loans and borrowings)

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial guarantee contracts

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

Offsetting of financial instruments

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

Non-current assets held for sale and inventories

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

Construction contracts

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

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

Contracts for services

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

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

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

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

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

Cash and cash equivalents

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

For the purpose of the 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

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

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to 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.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

Share-based payments

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

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

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

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

Other employee benefits

Defined contribution plans

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined benefit plan

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

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

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

Borrowing costs

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Percentage of completion of construction work and service contracts

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

Classification between operating concessions and receivables under service concession arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2015 were HK\$2,421,012,000 (2014: HK\$2,285,523,000) and HK\$18,690,611,000 (2014: HK\$17,240,182,000), respectively, further details of which are set out in note 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

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

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

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

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

Estimation of water consumption

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

The actual consumption could deviate from those estimates.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

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

The carrying amount of the provision for major overhauls carried as a liability in the consolidated statement of financial position as at 31 December 2015 was HK\$205,489,000 (2014: HK\$247,018,000), further details of which are set out in note 37 to the financial statements.

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

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment, and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment, and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of property, plant and equipment, and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2015 were HK\$1,379,801,000 (2014: HK\$1,242,995,000) and HK\$2,458,302,000 (2014: HK\$2,313,955,000) in aggregate, respectively, further details of which are set out in notes 14, 17 and 18 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 2015 was HK\$3,267,860,000 (2014: HK\$2,725,472,000) in aggregate, details of which are set out in notes 16, 19 and 20 to the financial statements.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

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

The policy for provision for impairment of receivables under service concession arrangements, amounts due from contract customers, trade receivables, and other receivables of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of receivables under service concession arrangements, amounts due from contract customers, trade receivables, and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2015 were HK\$18,690,611,000 (2014: HK\$17,420,182,000), HK\$12,807,338,000 (2014: HK\$6,857,610,000), HK\$3,624,677,000 (2014: HK\$3,393,846,000) and HK\$10,591,059,000 (2014: HK\$8,112,863,000), 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 2015 was HK\$446,110,000 (2014: HK\$355,337,000) and the Group's share of which, amounting to HK\$200,750,000 (2014: HK\$159,902,000), has been included in the Group's investments in joint ventures.

Current tax and deferred tax assets

The Group is subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia and Singapore. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2015 was HK\$490,816,000 (2014: HK\$439,527,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

Current tax and deferred tax assets *(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 2015 were HK\$122,388,000 (2014: HK\$79,469,000) and HK\$1,320,597,000 (2014: HK\$929,578,000), respectively, details of which are set out in note 39 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015 *(Continued)*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2014

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2014 *(Continued)*

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i>	Water distribution services <i>HK\$'000</i>	Technical and consultancy services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets:				
Operating segments	39,398,162	5,988,679	1,165,848	46,552,689
Corporate and other unallocated items				5,088,149
				51,640,838
Other segment information:				
Capital expenditure*				
– Operating segments	496,661	177,226	633	674,520
– Amount unallocated				16,253
				690,773
Depreciation				
– Operating segments	21,030	13,676	8,451	43,157
– Amount unallocated				25,140
				68,297
Amortisation of operating concessions	76,253	61,285	–	137,538
Amortisation of other intangible assets				
– Operating segments	520	–	897	1,417
– Amount unallocated				1,707
				3,124
Impairment/(reversal of impairment) of segment assets, net**	33,766	(3,715)	(18,398)	11,653
Provision for major overhauls	55,635	4,913	–	60,548

NOTES TO FINANCIAL STATEMENTS

31 December 2015

5. OPERATING SEGMENT INFORMATION *(Continued)*

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

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

Geographical information

	2015 HK\$'000	2014 HK\$'000
Revenue from external customers:		
Mainland China	12,110,629	7,676,405
Malaysia	412,853	709,815
Elsewhere	979,475	539,722
	13,502,957	8,925,942
Non-current assets:		
Mainland China	10,437,335	8,294,736
Portugal	754,438	874,539
Elsewhere	79,868	77,257
	11,271,641	9,246,532

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 and deferred tax assets.

Information about major customers

During the year ended 31 December 2015, the Group had no transaction with any single (2014: Nil) external customer which contributed over 10% of the Group's total revenue for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

Revenue represents: (1) revenue attributable to construction contracts and service contracts relating to sewage and reclaimed water treatment, net of value-added tax and government surcharges; (2) revenue attributable to other construction contracts, net of business tax and government surcharges; (3) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax and government surcharges; (4) revenue attributable to technical and consultancy service contracts and sale of machineries, net of value-added tax and government surcharges; and (5) the imputed interest income on service concession arrangements.

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

	2015 HK\$'000	2014 HK\$'000
Revenue		
Sewage and reclaimed water treatment services	3,515,103	3,249,895
Construction services	8,331,009	4,582,660
Water distribution services	881,024	812,641
Technical and consultancy services and sale of machineries	775,821	280,746
	13,502,957	8,925,942

Imputed interest income under service concession arrangements amounting to HK\$1,354,905,000 (2014: HK\$1,185,868,000) is included in the above revenue.

Interest income		
Bank interest income	64,227	82,588
Imputed interest income on trade and other receivables with extended credit periods	118,667	173,674
Interest income on loans to government authorities in Mainland China ^⑤	63,433	122,338
Interest income from non-controlling equity holders of subsidiaries ^⑥	67,027	63,990
Interest income on a loan to a joint venture ^⑦	2,427	2,926
	315,781	445,516

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

	2015 HK\$'000	2014 HK\$'000
Other income		
Gross rental income [#]	9,072	3,938
Government grants [§]	101,241	56,539
Sludge treatment income	51,630	63,714
Pipeline installation income	39,920	17,532
Investment income from an available-for-sale investment	5,307	3,366
VAT refunds for sewage and reclaimed water treatment services ^Q	136,338	–
Others	41,171	22,819
	384,679	167,908
Gains, net		
Fair value gain on investment property <i>(note 15)</i>	548	3,669
Gain on bargain purchase of subsidiaries <i>(note 44)</i>	21,827	75,729
Gain on disposal of subsidiaries <i>(note 45)</i>	–	100,944
Foreign exchange differences, net	47,584	95,239
Gain on disposal of land held for sale	–	164,253
Gain on disposal of items of property, plant and equipment	–	414
	69,959	440,248
Other income and gains, net	454,638	608,156

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

- ^δ The interest income recognised during the year was derived from loans to various government authorities in Mainland China, as further detailed in note 27(a)(ii) to the financial statements.
- [®] The interest income recognised during the year was derived from loans to non-controlling equity holders of subsidiaries, as further detailed in notes 28(i) and (ii) to the financial statements.
- ^π The interest income recognised during the year represented the interest income on a loan to Aqualyng-BEWG China Desalination Company Limited ("ABCD"), a 51%-owned joint venture of the Group, as further detailed in note 19(c) to the financial statements.
- [#] The Group leased a portion of its office premises and certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and reclaimed water treatment operations, to third parties under operating lease arrangements and, accordingly, earned rental income therefrom for the year. Further details of the operating lease arrangements are set out in note 49(a) 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.
- ^Ω The Group is entitled to refund 50% to 70% of the net VAT paid/payable under the Catalogue of Products and Services related to Recycling Businesses Qualified for Value-Added Tax (VAT) Preferential Treatment (Caishui [2015] No. 78) jointly issued by the PRC State Administration of Taxation and the Ministry of Finance.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2015 HK\$'000	2014 HK\$'000
Cost of sewage and reclaimed water treatment services rendered		1,240,158	1,199,906
Cost of construction services		6,433,300	3,661,892
Cost of water distribution services		417,140	346,019
Cost of technical and consultancy services rendered and machineries sold		319,966	84,659
Depreciation	14	76,840	68,297
Amortisation of operating concessions*	17	125,493	137,538
Amortisation of other intangible assets*	18	4,308	3,124
Minimum lease payments under operating leases		15,905	19,397
Auditors' remuneration		9,800	9,800
Employee benefit expense (including directors' remuneration (<i>note 9</i>)): - Salaries, allowances and benefits in kind - Equity-settled share option expense - Pension scheme contributions - Welfare and other expenses		846,369	688,650
	31(a)	68,637	115,706
		73,283	58,125
		258,923	183,463
		1,247,212	1,045,944
Impairment of receivables under service concession arrangements, net	17(b)	16,088	30,218
Impairment of an amount due from a contract customer	25	52,938	26,135
Reversal of impairment of trade receivables, net	26(c)	(10,540)	(13,775)
Impairment/(reversal of impairment) of other receivables, net	27(c)	96,812	(30,925)
Provision for major overhauls	37	65,201	60,548
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		384	395
(Gain)/loss on disposal of items of property, plant and equipment		115	(414)
(Gain)/loss on disposal of subsidiaries	45	2,327	(100,944)
Fair value gain on derivative financial instruments		(253,714)	–

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interest on bank and other loans	805,077	694,843
Interest on corporate bonds	217,334	253,596
Interest on notes payable	172,562	156,808
Interest on finance leases	4,214	743
Total interest expense	1,199,187	1,105,990
Increase in discounted amounts of provision for major overhauls arising from the passage of time (<i>note 37</i>)	9,166	7,380
Total finance costs	1,208,353	1,113,370
Less: Interest included in cost of construction services	(61,645)	(29,145)
	1,146,708	1,084,225

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 2015 HK\$'000	2014 HK\$'000
Fees	2,080	1,930
Other emoluments:		
Salaries, allowances and benefits in kind	16,645	15,897
Equity-settled share option expense	33,668	56,386
Pension scheme contributions	54	51
	50,367	72,334
	52,447	74,264

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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 2015					
Executive directors:					
Mr. Li Yongcheng (<i>Chairman</i>)	130	–	–	–	130
Mr. E Meng (<i>Vice Chairman</i>)	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong (<i>Chief Executive Officer</i>)*	120	5,922	11,548	18	17,608
Mr. Zhou Min [#]	120	4,085	10,104	18	14,327
Mr. Li Haifeng	120	2,599	4,511	18	7,248
Mr. Zhang Tiefu	120	1,893	–	–	2,013
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	1,624	–	1,744
Mr. Li Li	120	2,146	3,058	–	5,324
	1,330	16,645	30,845	54	48,874
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	217	–	337
Mr. Zhang Gaobo	150	–	217	–	367
Mr. Guo Rui	120	–	289	–	409
Ms. Hang Shijun	120	–	361	–	481
Mr. Wang Kaijun	120	–	361	–	481
Mr. Yu Ning	120	–	1,378	–	1,498
	750	–	2,823	–	3,573
Total	2,080	16,645	33,668	54	52,447

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

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

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31 December 2015

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

Notes:

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

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2015 and 2014 were all directors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax and Indonesia corporate tax has been made for the year ended 31 December 2015 as the Group did not generate any assessable profits arising in Hong Kong and Indonesia during the year (2014: 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 operation 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.

	2015 HK\$'000	2014 HK\$'000
Current – Mainland China	337,812	338,147
Current – Elsewhere	21,077	19,870
Underprovision/(overprovision) in prior years	(23,330)	22,634
Deferred (<i>note 39</i>)	442,207	213,204
Total tax expense for the year	777,766	593,855

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX EXPENSE *(Continued)*

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

Year ended 31 December 2015

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

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX EXPENSE *(Continued)*

Year ended 31 December 2014

	Hong Kong and overseas		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(427,817)		3,094,994		2,667,177	
Tax expense/(credit) at the statutory tax rate	(59,657)	13.9	773,749	25.0	714,092	26.8
Lower tax rates of specific provinces or enacted by local authorities	–	–	(49,006)	(1.6)	(49,006)	(1.8)
Tax concession	–	–	(102,318)	(3.4)	(102,318)	(3.8)
Adjustments in respect of current tax of previous periods	–	–	22,634	0.7	22,634	0.8
Profits and losses attributable to joint ventures and associates	(9,820)	2.3	(59,306)	(1.9)	(69,126)	(2.6)
Income not subject to tax	(30,040)	7.0	(21,336)	(0.7)	(51,376)	(1.9)
Expenses not deductible for tax	112,558	(26.2)	1,898	0.1	114,456	4.3
Effect of withholding tax at 5% on the distributable profit of a joint venture registered in the PRC	–	–	1,513	0.1	1,513	0.1
Tax losses utilised from previous periods	–	–	(4,532)	(0.1)	(4,532)	(0.2)
Tax losses not recognised as deferred tax assets	6,829	(1.6)	10,689	0.3	17,518	0.6
Tax expense at the Group's effective tax rate	19,870	(4.6)	573,985	18.5	593,855	22.3

The share of tax attributable to associates and joint ventures amounting to HK\$6,777,000 (2014: HK\$2,942,000) and HK\$32,935,000 (2014: HK\$111,962,000), 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

	2015 HK\$'000	2014 HK\$'000
Interim – HK4.4 cents (2014: HK3.0 cents) per ordinary share	383,619	261,148
Proposed final – HK5.1 cents (2014: HK4.8 cents) per ordinary share	443,886	417,989
	827,505	679,137

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.

NOTES TO FINANCIAL STATEMENTS

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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 2015 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 8,714,976,582 (2014: 8,642,996,316) ordinary shares in issue during the year.

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

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	2,455,370	1,794,413
	2015	2014
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	8,714,976,582	8,642,996,316
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	213,110,567	194,529,832
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	8,928,087,149	8,837,526,148

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000 (note)	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 2015							
At 1 January 2015:							
Cost	546,077	54,011	151,680	119,369	123,172	551,129	1,545,438
Accumulated depreciation	(102,047)	(10,683)	(45,880)	(79,231)	(64,602)	–	(302,443)
Net carrying amount	444,030	43,328	105,800	40,138	58,570	551,129	1,242,995
Net carrying amount:							
At 1 January 2015	444,030	43,328	105,800	40,138	58,570	551,129	1,242,995
Acquisition of subsidiaries (note 44)	–	–	481	1,368	1,717	–	3,566
Additions	70,269	3,072	83,814	18,434	23,153	185,205	383,947
Depreciation provided during the year	(28,870)	(1,415)	(17,443)	(13,177)	(15,935)	–	(76,840)
Disposal of subsidiaries (note 45)	–	–	–	(54)	(231)	–	(285)
Disposals	–	(843)	(4)	(1,302)	(708)	–	(2,857)
Transfers and reclassifications	335,485	–	165,154	3,043	1,147	(504,829)	–
Transfer to non-current assets held for sale	(97,551)	–	–	–	–	–	(97,551)
Exchange realignment	(37,045)	(2,180)	(14,647)	(2,559)	(3,857)	(12,886)	(73,174)
At 31 December 2015	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
At 31 December 2015:							
Cost	786,248	53,318	381,248	130,825	136,447	218,619	1,706,705
Accumulated depreciation	(99,930)	(11,356)	(58,093)	(84,934)	(72,591)	–	(326,904)
Net carrying amount	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801

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31 December 2015

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

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

Note: At 31 December 2015, a land use right and certain buildings situated in Mainland China with an aggregate carrying amount HK\$200,462,000 were pledged to secure certain bank loans granted to the Group *(note 33(c)(v))*.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

15. INVESTMENT PROPERTY

	2015 HK\$'000	2014 HK\$'000
Carrying amount at 1 January	55,821	52,152
Fair value gain on revaluation (<i>note 6</i>)	548	3,669
Exchange realignment	(2,903)	–
Transfer to non-current assets held for sale	(53,466)	–
Carrying amount at 31 December	–	55,821

Notes:

- (a) The Group's investment property is a portion of an office building situated in Mainland China and is held under a long term lease.
- (b) The investment property is leased to a third party under an operating lease arrangement, further summary details of which are included in note 49(a) to the financial statements.
- (c) The Group's investment property was revalued on 31 December 2015 by Beijing Northern Yashi Assets Appraisal Co., Ltd., independent professionally qualified valuers, at HK\$53,466,000. Each year, the management decides to appoint which external valuers to be responsible for the external valuations of the Group's property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Each year, the management has discussions with the valuers on the valuation assumptions and valuation results.

The fair value of the Group's investment property was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2014: Nil).

Fair value hierarchy disclosure

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

	Office building HK\$'000
Carrying amount at 1 January 2014	52,152
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	3,669
Carrying amount at 31 December 2014 and 1 January 2015	55,821
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	548
Transfer to non-current assets held for sale	(53,466)
Exchange realignment	(2,903)
Carrying amount at 31 December 2015	–

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31 December 2015

15. INVESTMENT PROPERTY *(Continued)*

Notes: *(Continued)*

(c) *(Continued)*

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

Valuation technique	Significant unobservable inputs	Range	
		31 December 2015	31 December 2014
Income capitalisation method	Daily estimated rental value (per s.q.m.)	RMB8.39 to	RMB7.95 to
		RMB8.71	RMB8.48
	Rent growth	3% every	3% every
		three years	three years
	Discount rate	6%	7%

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

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

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

16. GOODWILL

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	2,524,701	2,512,862
Acquisition of subsidiaries <i>(note 44)</i>	462,602	182,104
Disposal of subsidiaries <i>(note 45)</i>	–	(170,247)
Exchange realignment	(19,938)	(18)
At 31 December	2,967,365	2,524,701

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16. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	2015 HK\$'000	2014 HK\$'000
Sewage and reclaimed water treatment and construction services segment	2,022,761	1,924,659
Water distribution services segment	486,513	136,570
Technical and consultancy services and sale of machineries segment	458,091	463,472
	2,967,365	2,524,701

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by Greater China Appraisal Limited, independent professionally qualified valuers, using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections ranged from 12.12% to 13.24% (2014: 10.99%) 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% (2014: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2015 (2014: Nil).

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16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in estimations of the recoverable amounts

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

- **Budgeted revenue**
 - in respect of the revenue from the sewage and reclaimed water treatment and construction services segment and the water distribution services segment, the budgeted revenue is based on the projected sewage and reclaimed water treatment and water distribution volume, and the latest sewage and reclaimed water treatment and water tariff charges up to the date of valuation.
 - in respect of the revenue from the technical and consultancy services and sale of machineries segment, the budgeted revenue is based on the expected growth rate of the market.
- **Budgeted gross margins**
 - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the six months ended 30 June for the same year, increased for expected efficiency improvements.
- **Discount rates**
 - The discount rates used are after tax and reflect specific risks of respective segments.
 - The pre-tax discount rates implied in the cash flow projections ranged from 14.67% to 15.56% for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment.
- **Business environment**
 - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Singapore, Portugal and Malaysia.
 - Under the service concession arrangements, the Group has been granted with priority for renewal of operating rights of its sewage and reclaimed water treatment and water distribution plants. Given its historical performance record and its long-established relationship with the grantors, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of sewage and reclaimed water treatment and water distribution plants shall be renewed upon expiry, and therefore the sizes of the operations of the sewage and reclaimed water treatment and water distribution operations are expected to remain constant perpetually which will enable the Group to generate income perpetually.

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17. SERVICE CONCESSION ARRANGEMENTS

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

At 31 December 2015, the Group had 256, 8, 51 and 1 service concession arrangements on sewage treatment, reclaimed water treatment, water distribution and seawater desalination, respectively, with various governmental authorities in Mainland China, Singapore and Portugal and a summary of the major terms of the principal service concession arrangements is set out as follows:

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

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17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

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17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m ³ /day)	Service concession period
Subsidiaries: <i>(Continued)</i>							
27.	阜新市北控水務 有限公司	遼寧省阜新市 開發區污水 處理廠項目	Fuxin, Liaoning Province, the PRC	阜新市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
28.	北控(洛陽)水務發展 有限公司	澗西污水處理廠 項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
29.	北控(洛陽)水務發展 有限公司	瀘東污水處理廠 項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
30.	北控(洛陽)水務發展 有限公司	新區污水處理廠 項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
31.	廣東鶴山北控水務 有限公司	鶴山市沙坪鎮 第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045
Joint ventures:							
32.	唐山曹妃甸北控海水 淡化有限公司 ("ACSD")	曹妃甸海水淡化廠	Caofeidian, Hebei Province, the PRC	曹妃甸工業區 管委會	BOT on seawater desalination	50,000	30 years (Not yet started)
33.	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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the Facilities and related land, which are generally registered under the names of the relevant companies in the Group, during the Service Concession Periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. At 31 December 2015, 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 2015, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate carrying amount of HK\$9,303,850,000 (2014: HK\$9,388,473,000) were pledged to secure certain bank loans granted to the Group (note 33(c)(i)).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	Notes	2015 HK\$'000	2014 HK\$'000
At 1 January:			
Cost		2,730,011	2,853,747
Accumulated amortisation		(444,488)	(330,762)
Net carrying amount		2,285,523	2,522,985
Net carrying amount:			
At 1 January		2,285,523	2,522,985
Acquisition of subsidiaries	44	228,009	356,080
Additions		194,857	50,815
Amortisation provided during the year		(125,493)	(137,538)
Disposal of subsidiaries	45	–	(387,295)
Exchange realignment		(161,884)	(119,524)
At 31 December		2,421,012	2,285,523
At 31 December:			
Cost		2,958,933	2,730,011
Accumulated amortisation		(537,921)	(444,488)
Net carrying amount		2,421,012	2,285,523

NOTES TO FINANCIAL STATEMENTS

31 December 2015

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2015 HK\$'000	2014 HK\$'000
Receivables under service concession arrangements	18,738,392	17,274,280
Impairment <i>(note (b))</i>	(47,781)	(34,098)
Portion classified as current assets	18,690,611 (1,712,947)	17,240,182 (1,600,565)
Non-current portion	16,977,664	15,639,617

Notes:

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

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

	2015 HK\$'000	2014 HK\$'000
Billed:		
Within 3 months	662,753	615,957
4 to 6 months	211,827	211,904
7 to 12 months	221,404	169,100
Over 1 year	160,781	122,591
	1,256,765	1,119,552
Unbilled:		
Current portion	456,182	481,013
Non-current portion	16,977,664	15,639,617
	17,433,846	16,120,630
Total	18,690,611	17,240,182

NOTES TO FINANCIAL STATEMENTS

31 December 2015

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Notes: (Continued)

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	34,098	25,342
Acquisition of subsidiaries	–	20,036
Impairment during the year recognised in profit or loss, net (note 7)	16,088	30,218
Amount written off as uncollectible	(6)	–
Disposal of subsidiaries	–	(41,498)
Exchange realignment	(2,399)	–
At 31 December	47,781	34,098

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2015 was a provision for individually impaired receivables of HK\$13,248,000 (2014: HK\$10,521,000) with an aggregate carrying amount before provision of HK\$86,409,000 (2014: HK\$92,407,000). The individually impaired receivables relate to those amounts which have remained long outstanding and only a portion of the receivables is expected to be recovered.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2015 and 2014 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.

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

	2015 HK\$'000	2014 HK\$'000
Neither past due nor impaired	317,919	263,403
Less than 1 month past due	189,617	243,441
1 to 3 months past due	328,567	275,839
4 to 6 months past due	143,034	115,843
7 months to 1 year past due	141,715	128,952
Over 1 year past due	135,913	92,074
	1,256,765	1,119,552

NOTES TO FINANCIAL STATEMENTS

31 December 2015

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Notes: (Continued)

(b) *(Continued)*

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

(c) Included in the receivables under service concession arrangements of the Group as at 31 December 2015 was an amount due from BEHL, a substantial beneficial owner of the Company, of HK\$999,915,000 (2014: HK\$1,207,778,000). In February 2013, the Group acquired from BEHL the estimated future net cash income (after deducting all state and local taxes in Mainland China and operating costs) generated from the service concession arrangement on the water purification and treatment operation of the Phase 1 of No. 9 water treatment plant in Beijing for the six years ending 31 December 2018 (the "Future Income"). Imputed interest income of HK\$85,981,000 (2014: HK\$103,050,000), which was measured at amortised cost using the effective interest rate method, was recognised in "Revenue" on the face of the consolidated statement of profit or loss during the year. Further details of the transaction are set out in the Company's circular and announcement dated 30 November 2012 and 5 February 2013, respectively.

NOTES TO FINANCIAL STATEMENTS

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18. OTHER INTANGIBLE ASSETS

	Patents HK\$'000	Computer software HK\$'000	Total HK\$'000
Year ended 31 December 2015			
At 1 January 2015:			
Cost	788	36,041	36,829
Accumulated amortisation	(680)	(7,717)	(8,397)
Net carrying amount	108	28,324	28,432
Net carrying amount:			
At 1 January 2015	108	28,324	28,432
Acquisition of subsidiaries (<i>note 44</i>)	–	266	266
Additions	–	14,800	14,800
Amortisation provided during the year	(56)	(4,252)	(4,308)
Disposal	–	(6)	(6)
Exchange realignment	(4)	(1,890)	(1,894)
At 31 December 2015	48	37,242	37,290
At 31 December 2015:			
Cost	747	48,644	49,391
Accumulated amortisation	(699)	(11,402)	(12,101)
Net carrying amount	48	37,242	37,290

NOTES TO FINANCIAL STATEMENTS

31 December 2015

18. OTHER INTANGIBLE ASSETS *(Continued)*

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

19. INVESTMENTS IN JOINT VENTURES

	Notes	2015 HK\$'000	2014 HK\$'000
Investments in joint ventures, included in non-current assets:			
Unlisted shares or investments, at cost		—	—
Share of net assets		3,305,306	2,846,412
Goodwill on acquisition	(b)	199,211	200,771
		3,504,517	3,047,183
Loans to a joint venture	(c)	58,882	59,585
		3,563,399	3,106,768
Due from joint ventures, included in current assets	(d), 27	236,136	654,334
Due to joint ventures, included in current liabilities	(d), 41	(560,388)	(125,485)
Total interests in joint ventures		3,239,147	3,635,617

Notes:

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

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of				Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing		
Guiyang BEWG [#]	PRC/Mainland China	RMB1,456,162,145	45	45	45		Water distribution
洛陽北控水務集團有限公司 ("Luoyang BEWG")	PRC/Mainland China	RMB200,000,000	40	40	40		Water distribution, reclaimed water treatment and heating services
北京安菱水務科技有限公司 ("Anling Water") [*]	PRC/Mainland China	US\$79,500,000	33.8	33.8	33.8		Water distribution

[#] Directly held by the Company

^{*} In the opinion of the directors, the joint venture was not individually material to the Group in the current year (2014: was individually material to the Group). Hence, no disclosure of its separate financial information has been made.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

	2015 HK\$'000	2014 HK\$'000
Cost and net carrying amount:		
At 1 January	200,771	210,476
Disposal of a joint venture	–	(9,705)
Exchange realignment	(1,560)	–
At 31 December	199,211	200,771

During the year ended 31 December 2014, 25.5% of the Group's effective equity interest in a joint venture (which was 50% owned by ABCD and was conducting the construction and operation of a seawater desalination plant in Tangshan City, Hebei Province, the PRC) was disposed of by ABCD to a then joint venture partner for a consideration of HK\$117,597,000. As a result of the disposal, the goodwill of HK\$9,705,000 in relation to the Group's acquisition of the 25.5% effective equity interest in the joint venture in 2010 was derecognised. The gain on disposal of the joint venture amounted to HK\$31,858,000 and was recognised in the statement of profit or loss of ABCD, of which 51% of the gain amounting to HK\$16,248,000 was shared by the Group and recognised in "Share of profits and losses of joint ventures" on the face of the consolidated statement of profit or loss.

- (c) The loans to a joint venture as at 31 December 2015 are loans with principal amounts of RMB34,780,000 (equivalent to HK\$42,938,000, the "RMB Loan") and US\$100,000 (equivalent to HK\$776,000, the "US\$ Loan") advanced to ABCD to finance its investment in a 50% equity interest in ACSD, a joint venture of ABCD established in the PRC for the construction and operation of a seawater desalination plant in Tangshan City, Hebei Province, the PRC. The RMB Loan is unsecured, bears interest at the PRC 5-year or above bank loan rate and is repayable in 2030 while the US\$ Loan is unsecured, interest-free and repayable on demand. In the opinion of the directors, the loans are considered as investments in ABCD. Interest income of HK\$2,427,000 (2014: HK\$2,926,000) was recognised in the statement of profit or loss during the year ended 31 December 2015 in respect of the RMB Loan.
- (d) The amounts due from/to joint ventures included in current assets and current liabilities of the Group as at 31 December 2015 are unsecured, interest-free and have no fixed terms of repayment. The Group's trade payable balance with a joint venture is disclosed in note 40 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: *(Continued)*

(e) Material joint ventures disclosures

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

	Guiyang BEWG		Luoyang BEWG		Anling Water*
	2015	2014	2015	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and cash equivalents	278,054	170,846	1,099,263	880,653	48,177
Other current assets	301,896	515,026	623,297	710,446	151,651
Current assets	579,950	685,872	1,722,560	1,591,099	199,828
Operating concessions	1,767,928	1,938,641	929,358	874,513	–
Other non-current assets	1,465,453	1,193,669	102,315	104,102	1,249,190
Non-current assets	3,233,381	3,132,310	1,031,673	978,615	1,249,190
Financial liabilities, excluding trade and other payables	(504,269)	(707,121)	–	–	–
Other current liabilities	(1,326,267)	(1,085,550)	(541,047)	(470,736)	(79,436)
Current liabilities	(1,830,536)	(1,792,671)	(541,047)	(470,736)	(79,436)
Non-current financial liabilities, excluding trade and other payables and provisions	–	–	(92,664)	(13,438)	(516,151)
Other non-current liabilities	(503,702)	(409,896)	(572,244)	(441,459)	(83,687)
Non-current liabilities	(503,702)	(409,896)	(664,908)	(454,897)	(599,838)
Net assets	1,479,093	1,615,615	1,548,278	1,644,081	769,744
Reconciliation to the Group's investments in the joint ventures:					
Proportion of the Group's ownership	45%	45%	40%	40%	67%#
Group's share of net assets of the joint ventures, excluding goodwill	665,591	727,026	619,311	657,633	515,729
Goodwill on acquisition	150,586	150,586	27,623	29,126	–
Carrying amount of the investments	816,177	877,612	646,934	686,759	515,729

NOTES TO FINANCIAL STATEMENTS

31 December 2015

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

	Guiyang BEWG		Luoyang BEWG		Anling Water*
	2015	2014	2015	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	812,367	744,601	827,069	1,007,364	914,142
Interest income	–	–	33,300	–	–
Depreciation and amortisation	(158,835)	(157,265)	(44,311)	(33,201)	(539)
Interest expenses	(31,073)	(36,191)	–	(18,978)	–
Income tax expense	(24,837)	(32,733)	(41,238)	(42,182)	(83,688)
Profit for the year	66,519	59,067	93,113	127,001	146,999
Other comprehensive loss for the year	(78,016)	(57,040)	–	–	–
Total comprehensive income/(loss) for the year	(11,497)	2,027	93,113	127,001	146,999
Share of the joint ventures' profit for the year [®]	29,934	26,580	37,245	50,801	98,490
Share of the joint ventures' other comprehensive loss for the year	(35,107)	(25,668)	–	–	–
Dividend received	19,370	–	41,808	–	–

* In the opinion of the directors, the joint venture was not individually material to the Group in the current year (2014: was individually material to the Group). Hence, no disclosure of its separate financial information has been made.

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

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

	2015	2014
	HK\$'000	HK\$'000
Share of the joint ventures' profits and losses and total comprehensive income for the year [®]	95,616	80,359
Aggregate carrying amount of the Group's investments in the joint ventures	2,100,288	1,026,668

® Total share of the joint ventures' profit for the year was HK\$162,795,000 (2014: HK\$256,230,000).

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20. INVESTMENTS IN ASSOCIATES

	Notes	2015 HK\$'000	2014 HK\$'000
Investments in associates, included in non-current assets:			
Share of net assets		474,013	2,292
Preference shares in an associate	(d)	327,477	–
Goodwill on acquisition	(e)	101,284	–
	(c)	902,774	2,292
Due from associates, included in current assets	(b), 27	116	78
Due to associates, included in current liabilities	(b), 41	(171)	–
Total investments in associates		902,719	2,370

Notes:

- (a) Particulars of the Group's interest in a major associate, which was acquired during the year, are as follows:

Company name	Place of incorporation and operation	Issued capital/ paid-up capital	Percentage of				Principal activities
			Ownership interest attributable to the Group	Voting power	Profit sharing		
Beijing Enterprises Clean Energy Group Limited ("BE Clean Energy")*	Cayman Islands	HK\$26,949,669	29.78	32.88	29.78		Management of photovoltaic power plants and the design, printing and sale of cigarette packages

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

- (b) The balances with associates are unsecured, interest-free and have no fixed terms of repayment. The Group's trade payable balance with an associate is disclosed in note 40 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

	2015 HK\$'000	2014 HK\$'000
Share of the associates' profit for the year	12,221	22,032
Share of the associates' total comprehensive income	12,221	22,032
Aggregate carrying amount of the Group's investments in associates	902,774	2,292

- (d) In December 2014 and January 2015, the Company had signed several principal and supplemental subscription agreements with BE Clean Energy, pursuant to which, the Company had conditionally agreed to subscribe for, and BE Clean Energy had conditionally agreed to allot and issue 5,274,166,550 ordinary shares and 12,447,352,450 convertible preference shares in total between May 2015 and May 2017 for a total cash consideration of HK\$1,400 million.

The subscription of 5,274,166,550 ordinary shares and 3,586,592,950 convertible preference shares in BE Clean Energy by the Company was completed during the year for an aggregate cash consideration of HK\$700 million. At the date of approval of these financial statements, no conversion of the convertible preference shares into ordinary shares in BE Clean Energy by the Company has taken place.

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

	2015 HK\$'000	2014 HK\$'000
Cost and net carrying amount:		
At 1 January	–	–
Acquisition of associates	105,131	–
Exchange realignment	(3,847)	–
At 31 December	101,284	–

NOTES TO FINANCIAL STATEMENTS

31 December 2015

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 HK\$'000	2014 HK\$'000
Assets		
Forward contracts	209,578	–
Portion classified as current assets	(167,174)	–
Non-current portion	42,404	–

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

The fair value of the forward contracts 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.

Description of valuation techniques used and key inputs to valuation on forward contracts:

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

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

22. AVAILABLE-FOR-SALE INVESTMENTS

	2015 HK\$'000	2014 HK\$'000
Unlisted equity investments	153,664	126,363

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

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23. NON-CURRENT ASSETS HELD FOR SALE

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
Land use rights	(a)	75,630	79,747
Land and building	(b)	97,551	–
Investment property	(b)	53,466	–
		226,647	79,747

- (a) These land use rights are held under long term leases covering a total land area of approximately 11,409 square metres (2014: 11,409 square metres). The Group intends to hold these land use rights for disposal and hence they are classified as non-current assets held for sale.
- (b) During the year, some office buildings of the Group, which were classified as property, plant and equipment and investment property, were reclassified as non-current assets held for sale as the carrying amounts of the assets will be recovered principally through sale, and the Group intends to dispose of the buildings.

24. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Raw materials	93,528	51,207
Low value consumables	5,555	6,568
	99,083	57,775

NOTES TO FINANCIAL STATEMENTS

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25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2015 HK\$'000	2014 HK\$'000
Contract costs incurred plus recognised profits less recognised losses to date	12,907,054	6,909,146
Impairment (<i>note</i>)	(99,716)	(51,536)
Portion classified as current assets	12,807,338 (1,311,629)	6,857,610 (40,317)
Non-current portion	11,495,709	6,817,293

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	51,536	25,401
Impairment during the year recognised in profit or loss (<i>note 7</i>)	52,938	26,135
Exchange realignment	(4,758)	–
At 31 December	99,716	51,536

The above provision was made against amounts due from contract customers of HK\$245,711,000 (2014: HK\$479,516,000) which have remained long outstanding and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over the balance.

NOTES TO FINANCIAL STATEMENTS

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26. TRADE RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Trade receivables	3,631,921	3,412,101
Impairment (<i>note (c)</i>)	(7,244)	(18,255)
	3,624,677	3,393,846
Portion classified as current assets	(2,959,325)	(2,595,017)
Non-current portion	665,352	798,829

Notes:

- (a) The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sale of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 6.85% to 12.98% per annum (2014: 8.10% to 12.98% per annum), other trade receivables are non-interest-bearing.

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

	2015 HK\$'000	2014 HK\$'000
Billed:		
Within 3 months	674,939	177,068
4 to 6 months	61,879	17,199
7 to 12 months	52,169	76,068
Over 1 year	2,017,310	1,780,032
Balance with extended credit period	49,005	51,673
	2,855,302	2,102,040
Unbilled*	769,375	1,291,806
	3,624,677	3,393,846

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

- (b) Included in the trade receivables of the Group as at 31 December 2015 are (i) an aggregate amount of HK\$5,780,000 (2014: HK\$6,095,000) due from 北京北控環保工程技術有限公司, a wholly-owned subsidiary of BEHL which is a substantial beneficial owner of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (ii) an amount of HK\$2,240,000 (2014: HK\$2,362,000) due from ACSD, arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies are unsecured, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.
- (c) The movements in the Group's provision for impairment of trade receivables during the year are as follows:

	2015 HK\$'000	2014 HK\$'000
At 1 January	18,255	32,198
Acquisition of subsidiaries	–	(168)
Reversal of impairment during the year recognised in profit or loss, net (<i>note 7</i>)	(10,540)	(13,775)
Exchange realignment	(471)	–
At 31 December	7,244	18,255

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

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

	2015 HK\$'000	2014 HK\$'000
Neither past due nor impaired	397,843	146,081
Less than 1 month past due	186,830	8,444
1 to 3 months past due	185,678	89,406
4 to 6 months past due	39,491	70,051
7 months to 1 year past due	35,493	19,021
Over 1 year past due	2,009,967	1,769,037
	2,855,302	2,102,040

NOTES TO FINANCIAL STATEMENTS

31 December 2015

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

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

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

- (i) a customer of the construction service for a comprehensive renovation project has pledged the future receivables from its comprehensive renovation services on certain government reserve lands owned by a government authority in Mainland China in an aggregate amount of HK\$2,984,393,000 to secure the trade receivables due from it. As at 31 December 2015, the trade receivables owed by this customer amounted to HK\$796,480,000 (2014: HK\$767,029,000); and
- (ii) pursuant to a supplemental agreement entered into between a customer of the construction service for a comprehensive renovation project and the Group on 15 March 2013, the trade receivables owed by this customer amounted to HK\$916,539,000 were secured by 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\$1,363,246,000.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
Prepayments		52,042	51,442
Deposits and other debtors	<i>(a)</i>	7,101,476	4,217,363
Advances to subcontractors and suppliers	<i>(b)</i>	1,946,270	1,928,508
Due from joint ventures	<i>19(d)</i>	236,136	654,334
Due from associates	<i>20(b)</i>	116	78
Due from related parties	<i>28</i>	1,451,490	1,366,385
		10,787,530	8,218,110
Impairment	<i>(c)</i>	(144,429)	(53,805)
		10,643,101	8,164,305
Portion classified as current assets		(5,033,177)	(4,309,629)
		5,609,924	3,854,676
Non-current portion		5,609,924	3,854,676

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

Notes:

(a) The Group's deposits and other debtors as at 31 December 2015 included, inter alia, the following:

- (i) an instalment deposit with a gross amount of HK\$506,640,000 (2014: HK\$534,216,000) paid by the Group to a government authority in Mainland China in relation to the Group's acquisition of certain land use rights in Liaoning Province, the PRC. The balance is classified as a non-current asset.
- (ii) loans and related interest receivables of HK\$1,230,279,000 (2014: HK\$940,529,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. Most of these loans are interest bearing at 6.55% to 16% per annum.

Except for loans and corresponding interest receivables of HK\$513,530,000 (2014: HK\$88,629,000) in aggregate that are repayable within one year after the reporting period and are classified as current assets, the remaining balances of HK\$716,749,000 (2014: HK\$851,900,000) in aggregate are classified as non-current assets.

Included in the amounts classified as non-current assets was an aggregate amount of HK\$716,479,000 (2014: HK\$755,762,000), the repayment of which are dependent on (1) the sale of the corresponding land use rights of the comprehensive renovation projects by relevant government authorities; and (2) the sale of the 31.5% equity interest in Beikong Shudu held by two government authorities. The above balances are secured by:

- (1) proceeds from the disposals of certain land use rights owned by relevant government authorities in Mainland China; or
- (2) proceeds from the disposal of the 31.5% equity interest in Beikong Shudu held by two government authorities in Mainland China.

In respect of the loans and receivables, interest income of HK\$63,433,000 (2014: HK\$122,338,000) in aggregate was recognised in the consolidated statement of profit or loss as "Interest income" during the year.

- (iii) loan with a gross amount of HK\$480,192,000 provided to an immediate holding company of a joint venture partner of Dalian for capital injection of the joint venture. The balance is secured, interest bearing at 12% per annum and repayable on demand and is classified as a current asset.
- (iv) investment deposits of HK\$450,658,000 (2014: HK\$292,149,000) 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\$800,749,000 (2014: HK\$565,481,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations. HK\$410,318,000 of the balances are classified as current assets and HK\$390,431,000 of the balances are classified as non-current assets.
- (vi) consideration receivables amounting to HK\$728,454,000 (2014: HK\$432,570,000) in aggregate for the disposal of parcels of land. In the opinion of directors, HK\$355,176,000 is not expected to be paid by 2016. Hence, the balance is classified as non-current asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

Notes: (Continued)

(a) *(Continued)*

(vii) deposits amounting to HK\$1,641,838,000 for the acquisition of a new office building situated in Beijing City. The balances are classified as non-current assets.

(b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK\$962,410,000 (2014: HK\$1,259,078,000) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation projects entered into between the Group and government authorities in the PRC. The constructions of these projects were delayed and the subcontractors had returned an aggregate amount of HK\$949,221,000 (2014: HK\$1,102,866,000) 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 41(b)(i)*).

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	53,805	82,906
Acquisition of subsidiaries	442	2,077
Impairment/(reversal of impairment) during the year recognised in profit or loss, net (<i>note 7</i>)	96,812	(30,925)
Disposal of subsidiaries	–	(253)
Exchange realignment	(6,630)	–
At 31 December	144,429	53,805

Included in the provision for impairment of other receivables as at 31 December 2015 was a full provision on a performance bond of HK\$48,019,000 (2014: HK\$50,633,000) paid to a government agent in the PRC. The individually impaired receivables relate to those amounts which have remained long outstanding and only a portion of the receivables is expected to be recovered.

Apart from the foregoing, the above provision for impairment of other receivables as at 31 December 2015 and 2014 also included the provisions made against the remaining balances of certain other receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

28. BALANCES WITH RELATED PARTIES

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

- (i) an amount of HK\$1,274,467,000 (2014: HK\$1,208,135,000) due from a non-controlling equity holder of a 60% owned subsidiary of the Group, which, pursuant to relevant loan agreements entered into between the Group and the non-controlling equity holder, bears interest at the rate of the PRC 1-3 year bank loan rate per annum on the net loan amount, and secured by the 40% equity interest in the subsidiary held by the non-controlling equity holder. Net interest income of HK\$56,666,000 (2014: HK\$58,024,000) was recognised by the Group during the year; and
- (ii) pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, China International Construction Investment Holding (Hong Kong) Limited (“CICI”) (a 70% owned subsidiary of the Group) and the non-controlling equity holders of CICI, the non-controlling equity holders shall pay interest to the Company at the benchmark 1-year interest rate for Renminbi loans as promulgated by the People’s Bank of China over the same period in respect of intercompany advances provided by the Company to CICI. Net interest income of HK\$10,361,000 (2014: HK\$5,966,000) was recognised by the Group during the year.

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(c), 26(b), 27(a)(iii), 40 and 41 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

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

	2015 HK\$'000	2014 HK\$'000
Cash and bank balances other than time deposits	5,818,450	3,880,473
Time deposits	824,570	2,514,536
Total cash and bank balances	6,643,020	6,395,009
Less: Restricted cash and pledged deposits (<i>note (a)</i>)	(269,189)	(304,126)
Cash and cash equivalents	6,373,831	6,090,883

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2015 included the following:

- (i) bank deposits of MYR22,753,000 (equivalent to HK\$41,149,000) and RMB166,675,000 (equivalent to HK\$200,090,000) (2014: MYR91,073,000 (equivalent to HK\$201,873,000) and RMB66,954,000 (equivalent to HK\$84,752,000)) which could only be applied on the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and
- (ii) bank deposits of MYR165,000 (equivalent to HK\$298,000) and RMB13,034,000 (equivalent to HK\$15,647,000) (2014: RMB13,826,000 (equivalent to HK\$17,501,000)) pledged to banks to secure certain banking facilities granted to the Group (*note 33(c)(iv)*).

In addition, as at 31 December 2015, bank deposits of RMB10,000,000 (equivalent to HK\$12,005,000) (2014: Nil) were pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance of the duties by the Group under certain service concession agreements.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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:

	2015 HK\$'000	2014 HK\$'000
HK\$	303,522	132,332
RMB	5,860,533	5,073,662
US\$	43,690	640,499
MYR	256,015	515,454
EUR	164,379	26,612
SGD	14,654	6,215
TWD	227	235
	6,643,020	6,395,009

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

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

30. SHARE CAPITAL

Shares

	2015 HK\$'000	2014 HK\$'000
Issued and fully paid:		
8,722,949,196 (2014: 8,707,425,196) ordinary shares of HK\$0.10 each	872,295	870,743

NOTES TO FINANCIAL STATEMENTS

31 December 2015

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2015 and 2014 is as follows:

	<i>Notes</i>	Number of ordinary shares in issue	Issued capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014		8,435,981,324	843,598	3,574,792	4,418,390
Acquisition of subsidiaries	<i>(a)</i>	252,857,872	25,286	1,203,603	1,228,889
Exercise of share options	<i>(b)</i>	18,586,000	1,859	54,162	56,021
At 31 December 2014 and 1 January 2015		8,707,425,196	870,743	4,832,557	5,703,300
Exercise of share options	<i>(c)</i>	15,524,000	1,552	45,613	47,165
At 31 December 2015		8,722,949,196	872,295	4,878,170	5,750,465

Notes:

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes: (Continued)

- (b) During the prior year, the subscription rights attaching to 18,586,000 share options were exercised at a subscription price of HK\$2.244 per ordinary share during the year, resulting in the issue of 18,586,000 ordinary shares of the Company for a total cash consideration of HK\$41,573,000. At the time when the share options were exercised, the fair values of these share options in an aggregate amount of HK\$14,448,000 previously recognised in the share option reserve were transferred to the share premium account. Further details of the share options are set out in note 31 to the financial statements.
- (c) During the year, the subscription rights attaching to 15,524,000 share options were exercised at a subscription price of HK\$2.244 per ordinary share during the year, resulting in the issue of 15,524,000 ordinary shares of the Company for a total cash consideration of HK\$34,836,000 before issue expenses. At the time when the share options were exercised, the fair values of these share options in an aggregate amount of HK\$12,338,000 previously recognised in the share option reserve were transferred to the share premium account. Further details of the share options are set out in note 31 to the financial statements.

Share options

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

31. SHARE OPTION SCHEME

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

31. SHARE OPTION SCHEME *(Continued)*

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 Stock Exchange closing price of the Company's shares on the date of grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's ordinary shares of HK\$0.10. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

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

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

	2015		2014	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2.259	380,364	2.350	400,000
Granted during the year	–	–	5.180	2,000
Forfeited or lapsed during the year	2.244	(5,160)	2.244	(3,050)
Exercised during the year	2.244	(15,524)	2.244	(18,586)
At 31 December	2.261	359,680	2.259	380,364

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31. SHARE OPTION SCHEME *(Continued)*

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

2015 Number of options '000	Exercise price* HK\$ per share	Exercise periods
48,310	2.244	24-4-2014 to 23-4-2023
74,620	2.244	24-4-2015 to 23-4-2023
78,250	2.244	24-4-2016 to 23-4-2023
78,250	2.244	24-4-2017 to 23-4-2023
78,250	2.244	24-4-2018 to 23-4-2023
400	5.180	24-4-2014 to 27-3-2024
400	5.180	24-4-2015 to 27-3-2024
400	5.180	24-4-2016 to 27-3-2024
400	5.180	24-4-2017 to 27-3-2024
400	5.180	24-4-2018 to 27-3-2024
359,680		
2014 Number of options '000	Exercise price* HK\$ per share	Exercise periods
60,804	2.244	24-4-2014 to 23-4-2023
79,390	2.244	24-4-2015 to 23-4-2023
79,390	2.244	24-4-2016 to 23-4-2023
79,390	2.244	24-4-2017 to 23-4-2023
79,390	2.244	24-4-2018 to 23-4-2023
400	5.180	24-4-2014 to 27-3-2024
400	5.180	24-4-2015 to 27-3-2024
400	5.180	24-4-2016 to 27-3-2024
400	5.180	24-4-2017 to 27-3-2024
400	5.180	24-4-2018 to 27-3-2024
380,364		

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

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31 December 2015

31. SHARE OPTION SCHEME *(Continued)*

Notes:

- (a) The fair values of the share options granted during the year ended 31 December 2014 was HK\$4,287,000 (HK\$2.14 each). The Group recognised a share option expense of HK\$68,637,000 (2014: HK\$115,706,000) during the year ended 31 December 2015 in respect of the share options granted in prior years.

The fair value of equity-settled share options granted during the prior year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

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

The life of the options is the time to maturity of the options granted under the Scheme. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The exit rates of the grantees of the options granted under the Scheme were determined based on the historical data.

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

- (b) The 15,524,000 share options exercised during the year resulted in the issue of 15,524,000 ordinary shares of the Company and additional share capital of HK\$1,552,000, as further detailed in note 30 to the financial statements.
- (c) At the end of the reporting period, the Company had 359,680,000 share options outstanding under the Scheme which represented approximately 4.12% of the Company's shares in issue as at 31 December 2015. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 359,680,000 additional ordinary shares of the Company and additional share capital of HK\$35,968,000 and share premium of HK\$1,101,585,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2015 and the fair values of the unvested share options).

Subsequent to the end of the reporting period, 1,200,000 share options exercised resulted in the issue of 1,200,000 ordinary shares of the Company and additional share capital of HK\$120,000 and share premium of HK\$2,572,800 (before issue expenses).

At the date of approval of these financial statements, the Company has 358,480,000 share options outstanding under the Scheme, which represented approximately 4.12% of the Company's share in issue as at that date.

32. RESERVES

- (a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (b) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.
- (c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2015 were distributable in the form of cash dividends.

NOTES TO FINANCIAL STATEMENTS

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33. BANK AND OTHER BORROWINGS

	2015 HK\$'000	2014 HK\$'000
Bank loans:		
Secured	7,459,531	7,787,177
Unsecured	14,508,805	8,182,138
	21,968,336	15,969,315
Other loans:		
Secured	119,448	–
Unsecured	1,048,584	505,183
	1,168,032	505,183
Total bank and other borrowings	23,136,368	16,474,498
Analysed into:		
Bank loans repayable:		
Within one year or on demand	4,984,976	3,503,741
In the second year	3,351,202	3,516,405
In the third to fifth years, inclusive	10,784,553	6,329,481
Beyond five years	2,847,605	2,619,688
	21,968,336	15,969,315
Other loans repayable:		
Within one year or on demand	1,030,214	440,915
In the second year	9,576	39,088
In the third to fifth years, inclusive	39,166	24,029
Beyond five years	89,076	1,151
	1,168,032	505,183
Total bank and other borrowings	23,136,368	16,474,498
Portion classified as current liabilities	(6,015,190)	(3,944,656)
Non-current portion	17,121,178	12,529,842

NOTES TO FINANCIAL STATEMENTS

31 December 2015

33. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2015 HK\$'000	2014 HK\$'000
HK\$	5,285,822	2,908,366
RMB	11,541,269	8,759,012
US\$	5,382,897	3,919,573
EUR	798,405	887,547
SGD	127,975	–
	23,136,368	16,474,498

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

	2015	2014
Bank loans:		
Secured	2.68% – 6.98%	4.00% – 8.26%
Unsecured	1.46% – 5.60%	1.65% – 6.51%
Other loans:		
Secured	4.75%	–
Unsecured	1.66% – 5.70%	2.03% – 6.51%

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

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) in an aggregate carrying amount of HK\$9,303,850,000 (2014: HK\$9,388,473,000) as at 31 December 2015, 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) pledges over the Group's equity interests in certain subsidiaries;
- (iv) pledges over certain of the Group's bank balances of MYR165,000 (equivalent to HK\$298,000) and RMB13,034,000 (equivalent to HK\$15,647,000) (2014: RMB13,826,000 (equivalent to HK\$17,501,000)) (*note 29(a)(ii)*);
- (v) mortgages over a land use right and certain buildings in Mainland China in an aggregate carrying amount of HK\$200,462,000 (2014: HK\$130,918,000) (*note 14*).

- (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\$3,570,894,000 (2014: HK\$3,264,750,000) bearing interests at fixed rates ranging from 4% to 6.46% (2014: 4% to 6.46%) per annum; and
- (ii) two interest-free government loans in an aggregate principal amount of HK\$13,000,000 (2014: HK\$13,708,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

33. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

- (e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK\$12,088,360,000 (2014: HK\$10,379,050,000) as at 31 December 2015 include covenants imposing specific performance obligations on BEHL, a substantial beneficial owner of the Company, among which are 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 voting rights of the Company;
 - (ii) if Beijing Enterprises Group Company Limited ("BEGCL") 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.

34. CORPORATE BONDS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Unsecured corporate bonds, repayable:		
Within one year	599,674	–
In the second year	–	631,072
In the third to fifth years, inclusive	4,105,212	3,861,235
Total corporate bonds	4,704,886	4,492,307
Portion classified as current liabilities	(599,674)	–
Non-current portion	4,105,212	4,492,307

Corporate bonds of the Group as at 31 December 2015 and 2014 comprised:

- (i) corporate bonds with an aggregate principal amount of RMB1,450,000,000 (equivalent to HK\$1,740,696,000) (the "Bonds") issued by the Company to certain institutional investors on 30 June 2011 pursuant to the subscription agreement dated 24 June 2011, of which (a) RMB1,000,000,000 (equivalent to HK\$1,200,480,000) bore interest at a rate of 3.75% per annum and had been fully repaid in 2014; and (b) RMB450,000,000 (equivalent to HK\$540,216,000) is due on 30 June 2016 and bears interest at a rate of 5% per annum;

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31 December 2015

34. CORPORATE BONDS *(Continued)*

- (ii) corporate bonds with an aggregate principal amount of RMB500,000,000 (equivalent to HK\$600,240,000) (the “Further Bonds”) issued by the Company to certain institutional investors on 11 October 2011 pursuant to the subscription agreement dated 30 September 2011, of which (a) RMB450,000,000 (equivalent to HK\$540,216,000) bore interest at a rate of 3.75% per annum and had been fully repaid in 2014; and (b) RMB50,000,000 (equivalent to HK\$60,240,000) is due on 30 June 2016 and bears interest at a rate of 5% per annum;
- (iii) corporate bonds with an aggregate principal amount of US\$500,000,000 (equivalent to HK\$3,875,050,000) (the “US\$ Bonds”) issued by a wholly-owned subsidiary of the Company to certain institutional investors on 6 May 2013 pursuant to the subscription agreement dated 26 April 2013, which are due on 6 May 2018, bear interest at a rate of 4.625% per annum and are guaranteed by the Company; and
- (iv) corporate bonds with an aggregate principal amount of RMB200,000,000 (equivalent to HK\$240,096,000) (the “RMB Bonds”) issued by a 60% owned subsidiary of the Group to two institutional investors in December 2015 pursuant to the subscription agreement dated 16 December 2015, bear interest at a rate of 5% per annum and are guaranteed by a wholly-owned subsidiary of the Company. RMB Bonds are due for repayment on 16 December 2018 unless being redeemed one year prior to the maturity pursuant to the terms of the bond purchase agreement.

The corporate bonds 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 Bonds, the Further Bonds and the US\$ Bonds include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

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

Based on the 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.

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

NOTES TO FINANCIAL STATEMENTS

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35. NOTES PAYABLE

Notes payable of the Group as at 31 December 2015 and 2014 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 beyond five years from the end of the reporting period. The note payable is guaranteed by the Company, bears interest at a rate of 6.15% per annum and due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement; and
- (ii) a corporate note issued on 8 May 2015 with a principal amount of HK\$700,000,000 (the “HK\$ Note”) which is unsecured and bears interest at a rate of 3.9% per annum. The note payable is guaranteed by the Company and due for repayment on 15 May 2020 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement.

The notes payable include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

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

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.

Further details of the RMB Note and the HK\$ Note are set out in the Company’s announcements dated 8 November 2013 and 8 May 2015, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

36. FINANCE LEASE PAYABLES

The Group leases certain equipment for its sewage treatment service business under two finance lease arrangements. The leases are classified as finance leases and had remaining lease terms of eight years as at 31 December 2015.

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

	Minimum lease payments 2015 HK\$'000	Minimum lease payments 2014 HK\$'000	Present value of minimum lease payments 2015 HK\$'000	Present value of minimum lease payments 2014 HK\$'000
Amounts repayable:				
Within one year or on demand	75,833	–	63,085	–
In the second year	9,893	–	7,741	–
In the third to fifth years, inclusive	29,679	–	25,308	–
Over five years	19,786	–	18,765	–
Total minimum finance lease payments	135,191	–	114,899	–
Future finance charges	(20,292)	–		
Total net finance lease payables	114,899	–		
Portion classified as current liabilities	(63,085)	–		
Non-current portion	51,814	–		

The finance lease for an amount of HK\$55,696,000 as at 31 December 2015 included an on demand clause and therefore has been classified as a current liability accordingly. For the purpose of the above analysis, the finance lease is included within current finance lease payables and analysed into finance lease payable on demand.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

36. FINANCE LEASE PAYABLES *(Continued)*

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

	Minimum lease payments 2015 HK\$'000	Minimum lease payments 2014 HK\$'000	Present value of minimum lease payments 2015 HK\$'000	Present value of minimum lease payments 2014 HK\$'000
Amounts repayable:				
Within one year	20,068	—	14,852	—
In the second year	20,032	—	15,577	—
In the third to fifth years, inclusive	60,096	—	51,244	—
Over five years	34,995	—	33,226	—
Total minimum finance lease payments	135,191	—	114,899	—

37. PROVISION FOR MAJOR OVERHAULS

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

NOTES TO FINANCIAL STATEMENTS

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37. PROVISION FOR MAJOR OVERHAULS *(Continued)*

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

	Notes	2015 HK\$'000	2014 HK\$'000
At 1 January		247,018	197,760
Acquisition of subsidiaries	44	557	39,088
Provision for the year	7	65,201	60,548
Increase in discounted amounts arising from the passage of time	8	9,166	7,380
Amount utilised during the year		(105,758)	(42,223)
Disposal of subsidiaries	45	–	(15,535)
Exchange realignment		(10,695)	–
At 31 December		205,489	247,018

38. DEFERRED INCOME

Deferred income of the Group mainly represented (i) government subsidies of HK\$81,051,000 (2014: HK\$39,033,000) in aggregate in respect of the Group's construction of various facilities in Jiangsu Province and Hunan Province, the PRC and (ii) government subsidies of HK\$24,088,000 (2014: HK\$25,800,000) in respect of the Group's construction of a sewage treatment facility in Guangxi Province, the PRC. These subsidies are recognised in the statement of profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

39. DEFERRED TAX

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

	2015 HK\$'000	2014 HK\$'000
Deferred tax assets	122,388	79,469
Deferred tax liabilities	(1,320,597)	(929,578)
	(1,198,209)	(850,109)

NOTES TO FINANCIAL STATEMENTS

31 December 2015

39. DEFERRED TAX *(Continued)*

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

	Notes	Attributable to						Net deferred tax assets/ (liabilities) HK\$'000
		Fair value adjustments arising from acquisition of subsidiaries HK\$'000	Impairment provision HK\$'000	Provision for major overhauls HK\$'000	Temporary differences related to service concession arrangements HK\$'000	Revaluation of properties HK\$'000	Losses available for offsetting against future taxable profits HK\$'000	
At 1 January 2014		(122,419)	3,063	49,400	(398,761)	(9,363)	3,726	(474,354)
Acquisition of subsidiaries	44	(132,027)	4,053	–	–	–	–	(127,974)
Net deferred tax credited/(charged) to profit or loss	11	(570)	11,540	16,430	(239,687)	(917)	–	(213,204)
Disposal of subsidiaries	45	(34,159)	(1,513)	(742)	4,624	–	–	(31,790)
Exchange realignment		(2,567)	–	257	(477)	–	–	(2,787)
At 31 December 2014 and 1 January 2015		(291,742)	17,143	65,345	(634,301)	(10,280)	3,726	(850,109)
Acquisition of subsidiaries	44	42,814	–	–	–	–	–	42,814
Net deferred tax credited/(charged) to profit or loss	11	(2,305)	8,752	16,580	(465,097)	(137)	–	(442,207)
Exchange realignment		13,455	(347)	(4,163)	42,075	535	(262)	51,293
At 31 December 2015		(237,778)	25,548	77,762	(1,057,323)	(9,882)	3,464	(1,198,209)

Notes:

- At 31 December 2015, deferred tax assets have not been recognised in respect of unused tax losses of HK\$489,843,000 (2014: HK\$223,122,000) 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\$356,228,000 (2014: HK\$119,802,000) will expire in one to five years.
- Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$2,965,120,000 (2014: HK\$2,857,107,000) as at 31 December 2015.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

40. TRADE PAYABLES

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

	2015 HK\$'000	2014 HK\$'000
Within 3 months	2,129,973	758,432
4 to 6 months	870,743	698,993
7 months to 1 year	420,418	243,421
1 to 2 years	1,296,471	554,964
2 to 3 years	341,849	459,658
Over 3 years	197,788	175,083
Balance with extended credit period	529,089	673,377
	5,786,331	3,563,928

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

The Group's trade payables as at 31 December 2015 included, inter alia, the following:

- (a) an amount of HK\$2,385,000 (2014: HK\$114,999,000) due to a joint venture of the Group, arising from the trading of construction materials and equipment carried out in the ordinary course of business of the Group. Aggregated purchase costs of the aforementioned balance of HK\$100,254,000 (2014: HK\$154,978,000) were charged at the published prices and conditions offered by the joint venture to its major customers, and included in "Cost of sales" on the face of the consolidated statement of profit or loss during the year.
- (b) an amount of HK\$120,646,000 due to an associate of the Group arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. Construction costs of HK\$411,090,000 were charged at the published prices and conditions offered by the associate to its major customers and included in "Cost of sales" on the face of the consolidated statement of profit or loss during the year.

NOTES TO FINANCIAL STATEMENTS

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41. OTHER PAYABLES AND ACCRUALS

	Notes	2015 HK\$'000	2014 HK\$'000
Accruals		413,485	380,767
Other liabilities	(a)	1,247,128	889,521
Receipts in advance		1,378,743	556,787
Due to subcontractors	(b)	1,134,785	1,445,792
Due to joint ventures	19(d)	560,388	125,485
Due to associates	20(b)	171	–
Due to related parties	28	350,863	348,006
Other taxes payables	42	147,407	64,761
		5,232,970	3,811,119
Portion classified as current liabilities		(4,817,755)	(3,470,715)
Non-current portion		415,215	340,404

Notes:

- (a) The Group's other liabilities as at 31 December 2015 included, inter alia, the following:
- (i) outstanding considerations in an aggregate amount equivalent to HK\$340,846,000 (2014: HK\$291,641,000) payable to various governmental authorities in Portugal and Mainland China for the constructions or transfers 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\$241,866,000 (2014: HK\$157,714,000) payable to various independent third parties for the acquisition of subsidiaries and an associate, among which balances of HK\$56,180,000 (2014: HK\$33,701,000) were attributable to the acquisitions completed during the year.
- (b) The amounts due to subcontractors of the Group as at 31 December 2015 included the following:
- (i) refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of HK\$949,221,000 (2014: HK\$1,102,866,000), as further detailed in note 27(b) to the financial statements; and
 - (ii) performance bonds of HK\$20,648,000 (2014: HK\$272,405,000) in aggregate received from various subcontractors of the construction services for comprehensive renovation projects in Yunnan Province and Liaoning Province, the PRC. The balances are fully repayable upon the completion of the final inspection by the relevant government authorities.
- (c) Other payables are non-interest-bearing and have an average term of three months.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

42. OTHER TAXES PAYABLES

	2015 HK\$'000	2014 HK\$'000
Business tax	54,726	34,630
Value-added tax	64,390	3,737
Others	28,291	26,394
	147,407	64,761

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

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

	2015	2014
Percentage of equity interest held by non-controlling interests:		
Beikong Dalian and its subsidiaries ("Beikong Dalian Group")	40%	40%
BCEG Environmental and its subsidiaries ("BCEG Group")	40%	40%
CICI and its subsidiaries ("CICI Group")	N/A*	30%
Beikong Shudu	N/A*	31.5%

	2015 HK\$'000	2014 HK\$'000
Profit/(loss) for the year allocated to non-controlling interests:		
Beikong Dalian Group	(104,316)	103,556
BCEG Group	108,915	52,512
CICI Group	N/A*	30,019
Beikong Shudu	N/A*	10,782

Accumulated balances of non-controlling interests at the reporting dates:		
Beikong Dalian Group	1,078,531	1,268,465
BCEG Group	620,966	544,472
CICI Group	N/A*	278,226
Beikong Shudu	N/A*	418,672

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

(Continued)

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

	Beikong Dalian Group		BCEG Group		CICI Group*	Beikong Shudu*
	2015	2014	2015	2014	2014	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	30,150	329,500	1,295,365	628,220	319,893	29,510
Interest income	805	39,469	15,418	1,986	124,125	31,099
Total expenses	(291,746)	(110,079)	(1,038,495)	(498,927)	(343,955)	(26,380)
Profit/(loss) for the year	(260,791)	258,890	272,288	131,279	100,063	34,229
Total comprehensive income/(loss) for the year	(348,246)	258,890	231,110	131,279	100,063	34,229
Current assets	9,205,048	9,427,575	1,141,280	744,334	6,360,606	630,895
Non-current assets	1,844,690	1,057,268	2,936,884	2,190,178	451,449	745,356
Current liabilities	(8,217,090)	(7,132,165)	(1,415,512)	(924,668)	(5,882,325)	(28,137)
Non-current liabilities	(136,321)	(181,515)	(1,110,238)	(648,665)	(2,311)	(18,996)
Net cash flows from/(used in):						
Operating activities	(233,918)	968,818	(284,900)	123,198	(412,319)	459,899
Investing activities	(1,528,209)	(1,516,987)	2,243	2,080	9,181	(18,644)
Financing activities	1,119,877	661,905	590,096	(201,405)	215,060	(46,219)
Net increase/(decrease) in cash and cash equivalents	(642,250)	113,736	307,439	(76,127)	(188,078)	395,036

* In the opinion of the directors, the non-controlling interests of these partly-owned subsidiaries were not individually material to the Group in the current year (2014: were individually material to the Group). Hence, no disclosure of their separate financial information has been made.

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

NOTES TO FINANCIAL STATEMENTS

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44. BUSINESS COMBINATIONS

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

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
Property, plant and equipment	14	3,566	302,510
Operating concessions	17	228,009	356,080
Other intangible assets	18	266	176
Investments in joint ventures		184,136	–
Available-for-sale investments		–	5,000
Amounts due from contract customers	(c)	55,250	410,565
Receivables under service concession arrangements	(c)	74,892	3,562,323
Deferred tax assets	39	42,814	8,017
Inventories		33,838	7,261
Trade receivables		–	8,202
Prepayments, deposits and other receivables	(c)	185,688	33,907
Cash and cash equivalents		128,836	222,502
Trade payables		(6,249)	(443,529)
Other payables and accruals		(70,474)	(837,365)
Income tax receivables/(payables)		1,109	(11,087)
Bank and other borrowings		(77,125)	(961,932)
Provision for major overhauls	37	(557)	(39,088)
Deferred tax liabilities	39	–	(135,991)
Total identifiable net assets at fair value		783,999	2,487,551
Non-controlling interests		(164,424)	(92,906)
		619,575	2,394,645
Goodwill on acquisition	16	462,602	182,104
Gains on bargain purchase	6	(21,827)	(75,729)
		1,060,350	2,501,020

NOTES TO FINANCIAL STATEMENTS

31 December 2015

44. BUSINESS COMBINATIONS *(Continued)*

	2015 HK\$'000	2014 HK\$'000
Satisfied by:		
Cash	1,060,350	1,272,131
Allotment of new ordinary shares of the Company as consideration (<i>note 30(a)</i>)	–	1,228,889
	1,060,350	2,501,020
Revenue for the year since acquisition [#]	123,028	855,247
Profit for the year since acquisition	49,143	225,134

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

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

	2015 HK\$'000	2014 HK\$'000
Cash consideration	(1,060,350)	(1,272,131)
Cash and cash equivalents acquired	128,836	222,502
Amortised costs of outstanding cash consideration at end of year	56,180	33,701
Investment deposits paid in prior periods	197,185	109,236
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(678,149)	(906,692)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK\$2,842,128,000 (2014: HK\$2,140,072,000) and the Group's revenue (comprising revenue, interest income and other income and gains, net) would have been HK\$14,754,539,000 (2014: HK\$10,064,780,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2015

44. BUSINESS COMBINATIONS *(Continued)*

Notes:

- (a) Business combinations during the year ended 31 December 2015 included, inter alia, the following material transactions:
 - (i) in July 2015, the Group completed the acquisition of the 62% equity interest in a company engaged in waste treatment business located in Gansu Province, the PRC, for an aggregate cash consideration of HK\$240,313,000;
 - (ii) in August 2015, the Group completed the acquisition of certain water distribution operations in Guangdong Province, the PRC, for an aggregate cash consideration of HK\$544,102,000; and
 - (iii) in October 2015, the Group completed the acquisition of the 100% equity interest in a company engaged in sewage treatment business located in Sichuan Province, the PRC, for an aggregate cash consideration of HK\$78,750,000.
- (b) Business combinations during the year ended 31 December 2014 included, inter alia, the following material transactions:
 - (i) on 19 February 2014, the Group completed the acquisition of the SWL Operations, further details of which are set out in note 30(a) to the financial statements;
 - (ii) in February 2014, the Group completed the acquisition of certain sewage treatment and water distribution operations (the “2nd Salcon Group”) in Fujian Province and Shandong Province, the PRC, for an aggregate cash consideration of HK\$412,026,000. Further details of the acquisition are set out in the Company’s announcement dated 12 September 2013; and
 - (iii) in April 2014, the Group completed the acquisition of the 99.172% equity interest in Nanjing MDRI, a company engaged in consultancy business located in Jiangsu Province, the PRC, for an aggregate cash consideration of HK\$227,217,000.
- (c) The fair values of the amounts due from contract customers, receivables under service concession arrangements and deposits and other receivables as at the respective dates of acquisitions amounted to HK\$55,250,000, HK\$74,892,000 and HK\$185,688,000, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

45. DISPOSAL OF SUBSIDIARIES

	Notes	2015 HK\$'000 (notes (a), (b) and (c))	2014 HK\$'000
Net assets disposed of:			
Property, plant and equipment	14	285	700
Goodwill	16	–	170,247
Operating concessions	17	–	387,295
Investments in associates		–	150,182
Amounts due from contract customers		4,064	49
Receivables under service concession arrangements		–	120,606
Deferred tax assets	39	–	36,324
Land held for sale		–	346,768
Inventories		–	8,362
Prepayments, deposits and other receivables		54,147	444,935
Cash and cash equivalents		1,245	324
Trade payables		–	(3,913)
Other payables and accruals		(458)	(744,017)
Income tax payables		(596)	(16,981)
Bank and other borrowings		–	(50,633)
Provision for major overhauls	37	–	(15,535)
Deferred tax liabilities	39	–	(4,534)
Non-controlling interests		(17,606)	(2,553)
		41,081	827,626
Exchange fluctuation reserve realised		2,784	(71)
Elimination of unrealised gain on disposal of subsidiaries	(b)	–	46,261
Gain/(loss) on disposal of interests in subsidiaries	6, 7	(2,327)	100,944
		41,538	974,760
Satisfied by:			
Cash		41,538	928,041
Set-off of current accounts	(b)(iii)	–	46,719
		41,538	974,760

NOTES TO FINANCIAL STATEMENTS

31 December 2015

45. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

	2015 HK\$'000	2014 HK\$'000
Cash consideration	41,538	928,041
Cash and bank balances disposed of	(1,245)	(324)
Amortised costs of outstanding cash consideration at end of year	–	(689,066)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	40,293	238,651

- (a) During the year, the Group had disposed of its 70% equity interests in a subsidiary, which operated in the Republic of Indonesia, to an independent third party for an aggregate consideration of SGD7,000,000 (equivalent to HK\$41,538,000). Loss on disposal of the subsidiary of HK\$2,327,000 was included in “Other operating expenses, net” on the face of the consolidated statement of profit or loss.
- (b) The Group completed the following disposal of subsidiaries during the year ended 31 December 2014:
- (i) on 2 July 2014, Rich Peace Holdings Ltd (“Rich Peace”), a then wholly-owned subsidiary of the Company which holds a 40% equity interest in Beijing Enterprises Water Environmental Investment Limited (“BEWEI”, a then material associate of the Group with share of net assets of HK\$124,169,000 recognised in the Group’s consolidated financial statements as at 31 December 2013) was disposed of by the Group to an independent third party for a consideration of HK\$151,608,000. As a result of the transaction, a gain on disposal of the subsidiary of HK\$2,193,000 was recognised in the Group’s consolidated financial statements;
 - (ii) in December 2014, the Group disposed of 95% equity interests in three of the Group’s then subsidiaries which hold certain of the Group’s land held for sale in Liaoning Province, the PRC, to a 50% owned joint venture established on 30 December 2014 by the Group with an independent third party for an aggregate consideration of HK\$203,091,000. Gain on disposal of these subsidiaries of HK\$56,950,000 (after elimination of unrealised profits of HK\$46,261,000) was resulted, which was included in “Other income and gains, net” on the face of the consolidated statement of profit or loss; and
 - (iii) the Group completed the disposals of (i) a 99.67% equity interest in a waste-to-energy operation located in Jilin City, Liaoning Province, the PRC in September 2014; and (ii) a 100% equity interest in a sewage treatment operation located in Zhanhua Area, Binzhou City, Shandong Province, the PRC in December 2014, for an aggregate consideration of HK\$620,061,000 to independent third parties. Pursuant to the relevant sale and purchase agreements, part of the consideration of HK\$46,719,000 in aggregate was settled by way of offsetting the current accounts between the Group, the independent third parties and the subsidiaries disposed of.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

46. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

Save as disclosed above and the transactions detailed in notes 30(a) and 45(b)(iii) to the financial statements, the Group had no major non-cash transactions during the years ended 31 December 2015 and 2014.

47. CONTINGENT LIABILITIES

At 31 December 2015, a corporate guarantee for a maximum amount of MYR49,162,000 (equivalent to HK\$88,909,000) (2014: MYR49,162,000 (equivalent to HK\$108,972,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the “Malaysia Project”). The corporate guarantee remains in force and effective until 27 January 2019. Further details of the Malaysia Project are set out in the Company’s announcements dated 4 July 2011 and 3 November 2011.

Save as disclosed above, at 31 December 2015, the Group did not have any significant contingent liabilities.

48. PLEDGE OF ASSETS

Details of the Group’s bank and other borrowings, which are secured by the assets of the Group, are included in note 33 to the financial statements. In addition, the Group’s bank guarantee facility is secured by a pledged time deposit of the Group for RMB10,000,000 (equivalent to HK\$12,005,000) (2014: Nil).

NOTES TO FINANCIAL STATEMENTS

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49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a portion of its office buildings and certain buildings for which the Group was granted the rights to use pursuant to service concession arrangements under operating lease arrangements, with the leases negotiated for terms ranging from 2 to 13 years (2014: from 5 to 10.5 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

At 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:

	2015 HK\$'000	2014 HK\$'000
Within one year	22,073	4,926
In the second to fifth years, inclusive	47,440	17,849
After five years	10,191	11,044
	79,704	33,819

(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 to 46 years (2014: from 10 months to 46 years).

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	21,656	21,467
In the second to fifth years, inclusive	18,435	28,945
After five years	65,291	70,018
	105,382	120,430

NOTES TO FINANCIAL STATEMENTS

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50. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 49(b) above, the Group had the following capital commitments at the end of the reporting period:

	2015 HK\$'000	2014 HK\$'000
Contracted, but not provided for		
New service concession arrangements on:		
TOT basis	280,919	233,535
BOT basis	6,227,582	5,696,617
Build-Own-Operate basis	643,895	792,190
Capital contribution to joint ventures	96,038	111,906
Acquisition of subsidiaries	118,821	982,250
Acquisition of an associate	700,000	–
	8,067,255	7,816,498

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

	2015 HK\$'000	2014 HK\$'000
Contracted, but not provided for	105,618	249,417

Save as disclosed above, at 31 December 2015, the Group did not have any significant commitments.

51. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group had engaged a joint venture of the Group to provide sewage treatment engineering services for the Malaysia Project at a service fee of MYR47,888,000 (equivalent to HK\$96,614,000) (2014: MYR50,490,000 (equivalent to HK\$119,668,000)) which was charged at the published prices and conditions offered by the joint venture to its major customers.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

51. RELATED PARTY TRANSACTIONS *(Continued)*

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “Other SOEs”). During the 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.

(c) Compensation of key management personnel of the Group

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Short term employee benefits	18,725	17,827
Equity-settled share option expenses	33,668	56,386
Pension scheme contributions	54	51
Total compensation paid to key management personnel	52,447	74,264

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

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51. RELATED PARTY TRANSACTIONS *(Continued)*

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

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

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK\$775,888,000. Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK\$1,103,241,000 and bear interest at floating rates ranging from 4.13% to 5.70% per annum. The related interest income and interest expenses recognised in the consolidated statement of profit or loss during the year were not significant to the Group.

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

Save as disclosed above and the transactions and balances detailed elsewhere in the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2015 and 2014.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

NOTES TO FINANCIAL STATEMENTS

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

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

Interest rate risk

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

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

At 31 December 2015, it is 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 2015 by approximately HK\$115,260,000 (2014: increase/decrease the Group's profit before tax by approximately HK\$72,750,000).

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.

NOTES TO FINANCIAL STATEMENTS

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

Foreign currency risk

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

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

	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity HK\$'000
31 December 2015		
If Hong Kong dollar weakens against RMB by 5%	195,836	836,586
If Hong Kong dollar strengthens against RMB by 5%	(195,836)	(836,586)
31 December 2014		
If Hong Kong dollar weakens against RMB by 5%	148,536	661,594
If Hong Kong dollar strengthens against RMB by 5%	(148,536)	(661,594)

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

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31 December 2015

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

Credit risk

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

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

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

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK\$8.2 billion (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) in aggregate as at 31 December 2015 as detailed in note 50 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds, notes payable and finance lease payables, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2015. 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.

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

Liquidity risk *(Continued)*

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

	On demand <i>HK\$'000</i>	Within 1 year <i>HK\$'000</i>	More than 1 year but less than 2 years <i>HK\$'000</i>	More than 2 years but less than 5 years <i>HK\$'000</i>	More than 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2015						
Bank borrowings	–	5,678,035	3,895,937	11,077,774	2,948,939	23,600,685
Other borrowings	6,002	1,055,153	15,944	44,367	93,339	1,214,805
Corporate bonds	–	805,432	190,767	4,179,203	–	5,175,402
Notes payable	–	174,440	174,440	1,203,286	2,522,453	4,074,619
Finance lease payable	65,904	9,929	9,893	29,679	19,786	135,191
Trade payables	–	5,786,331	–	–	–	5,786,331
Other liabilities	560,559	3,345,441	336,847	78,368	–	4,321,215
Due to related parties	350,863	–	–	–	–	350,863
	983,328	16,854,761	4,623,828	16,612,677	5,584,517	44,659,111
31 December 2014						
Bank borrowings	–	4,083,604	3,948,831	6,976,303	2,674,122	17,682,860
Other borrowings	6,329	448,836	41,109	26,176	1,176	523,626
Corporate bonds	–	210,135	825,431	4,102,225	–	5,137,791
Notes payable	–	155,204	155,204	465,612	2,968,840	3,744,860
Trade payables	–	3,563,928	–	–	–	3,563,928
Other liabilities	125,485	2,551,696	233,595	87,946	18,863	3,017,585
Due to related parties	348,006	–	–	–	–	348,006
	479,820	11,013,403	5,204,170	11,658,262	5,663,001	34,018,656

Fair values

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

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31 December 2015

52. 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 2015 and 2014 were as follows:

	2015 HK\$'000	2014 HK\$'000
Net debt	24,673,735	17,399,561
Total equity	20,290,415	19,088,738
Gearing ratio	122%	91%

53. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the derivative financial instruments and the unlisted equity investments being classified as available-for-sale investments as disclosed in notes 21 and 22 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2015 and 2014 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

NOTES TO FINANCIAL STATEMENTS

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54. 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:

	2015 HK\$'000	2014 HK\$'000
ASSETS		
Non-current assets:		
Property, plant and equipment	3,501	1,035
Investments in subsidiaries	10,910,698	10,172,339
Investments in joint ventures	1,281,390	1,281,390
Prepayments, deposits and other receivables	1,392,746	1,303,833
Total non-current assets	13,588,335	12,758,597
Current assets:		
Trade receivables	5,234	5,518
Prepayments, deposits and other receivables	14,501,791	12,236,286
Cash and cash equivalents	337,085	1,867,567
Total current assets	14,844,110	14,109,371
TOTAL ASSETS	28,432,445	26,867,968

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

	2015 HK\$'000	2014 HK\$'000
EQUITY AND LIABILITIES		
Equity:		
Issued capital	872,295	870,743
Reserves <i>(note)</i>	7,434,246	8,528,133
TOTAL EQUITY	8,306,541	9,398,876
Non-current liabilities:		
Bank and other borrowings	9,785,309	6,169,574
Corporate bonds	–	631,072
Other payables and accruals	7,860,444	–
Total non-current liabilities	17,645,753	6,800,646
Current liabilities:		
Trade payables	377	398
Other payables and accruals	552,804	8,681,408
Bank and other borrowings	1,327,296	1,986,640
Corporate bonds	599,674	–
Total current liabilities	2,480,151	10,668,446
TOTAL LIABILITIES	20,125,904	17,469,092
TOTAL EQUITY AND LIABILITIES	28,432,445	26,867,968

NOTES TO FINANCIAL STATEMENTS

31 December 2015

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

Note:

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

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(a)</i>	Share option reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2014	3,574,792	4,939,734	105,764	(626,912)	7,993,378
Loss for the year and total					
comprehensive loss for the year	–	–	–	(329,418)	(329,418)
Exercise of share options	54,162	–	(14,448)	–	39,714
Equity-settled share option arrangements	–	–	115,706	–	115,706
Transfer of share option reserve upon the forfeiture or lapse of share options	–	–	(1,494)	1,494	–
Acquisition of subsidiaries	1,203,603	–	–	–	1,203,603
Final 2013 cash distributions paid	–	(233,702)	–	–	(233,702)
Interim 2014 cash distributions paid	–	(261,148)	–	–	(261,148)
At 31 December 2014 and 1 January 2015	4,832,557	4,444,884	205,528	(954,836)	8,528,133
Loss for the year and total					
comprehensive loss for the year	–	–	–	(393,933)	(393,933)
Exercise of share options	45,613	–	(12,338)	–	33,275
Equity-settled share option arrangements	–	–	68,637	–	68,637
Transfer of share option reserve upon the forfeiture or lapse of share options	–	–	(3,036)	3,036	–
Final 2014 cash distributions paid	–	(418,247)	–	–	(418,247)
Interim 2015 cash distributions paid	–	(383,619)	–	–	(383,619)
At 31 December 2015	4,878,170	3,643,018	258,791	(1,345,733)	7,434,246

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

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2016.

FIVE YEAR FINANCIAL SUMMARY

31 December 2015

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 2014, is set out below:

RESULTS

	Year ended 31 December				
	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2013 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	2,654,454	3,727,379	6,406,455	8,925,942	13,502,957
Operating profit	840,049	1,037,191	1,389,530	2,388,915	3,370,543
Share of profits and losses of:					
Joint ventures	20,798	56,011	84,515	256,230	162,795
Associates	–	(1,409)	23,115	22,032	12,221
Profit before tax	860,847	1,091,793	1,497,160	2,667,177	3,545,559
Income tax expense	(169,861)	(224,643)	(351,762)	(593,855)	(777,766)
Profit for the year	690,986	867,150	1,145,398	2,073,322	2,767,793
ATTRIBUTABLE TO:					
Shareholders of the Company	600,736	750,474	1,084,257	1,794,413	2,455,370
Non-controlling interests	90,250	116,676	61,141	278,909	312,423
	690,986	867,150	1,145,398	2,073,322	2,767,793

FIVE YEAR FINANCIAL SUMMARY

31 December 2015

ASSETS, LIABILITIES AND TOTAL EQUITY

	31 December				
	2011	2012	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	24,749,742	31,289,880	44,186,670	51,640,838	64,491,748
Total liabilities	(15,038,861)	(20,558,387)	(28,262,228)	(32,552,100)	(44,201,333)
NET ASSETS	9,710,881	10,731,493	15,924,442	19,088,738	20,290,415
Equity attributable to shareholders of the Company	8,081,989	8,467,124	13,297,631	15,784,448	16,183,833
Non-controlling interests	1,628,892	2,264,369	2,626,811	3,304,290	4,106,582
TOTAL EQUITY	9,710,881	10,731,493	15,924,442	19,088,738	20,290,415



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