



2013 INTERIM REPORT



BEIJING ENTERPRISES  
WATER GROUP LIMITED



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



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhang Honghai (*Chairman*)  
Mr. E Meng (*Vice Chairman*)  
Mr. Jiang Xinhao  
Mr. Hu Xiaoyong (*Chief Executive Officer*)  
Mr. Zhou Min  
Mr. Li Haifeng  
Mr. Zhang Tiefu  
Mr. Hou Feng  
Ms. Qi Xiaohong  
Mr. Ke Jian  
Mr. Tung Woon Cheung Eric

### 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. Guo Rui  
Mr. Zhang Gaobo

## NOMINATION COMMITTEE

Mr. Zhang Honghai (*Chairman*)  
Mr. Zhang Gaobo  
Mr. Guo Rui

## REMUNERATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

## STOCK CODE

371

## WEBSITE

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

## REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

66th Floor  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2796 9963  
Fax: (852) 2796 9972

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Butterfield Fulcrum Group (Bermuda) Limited  
26 Burnaby Street  
Hamilton HM 11  
Bermuda

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## AUDITORS

Ernst & Young

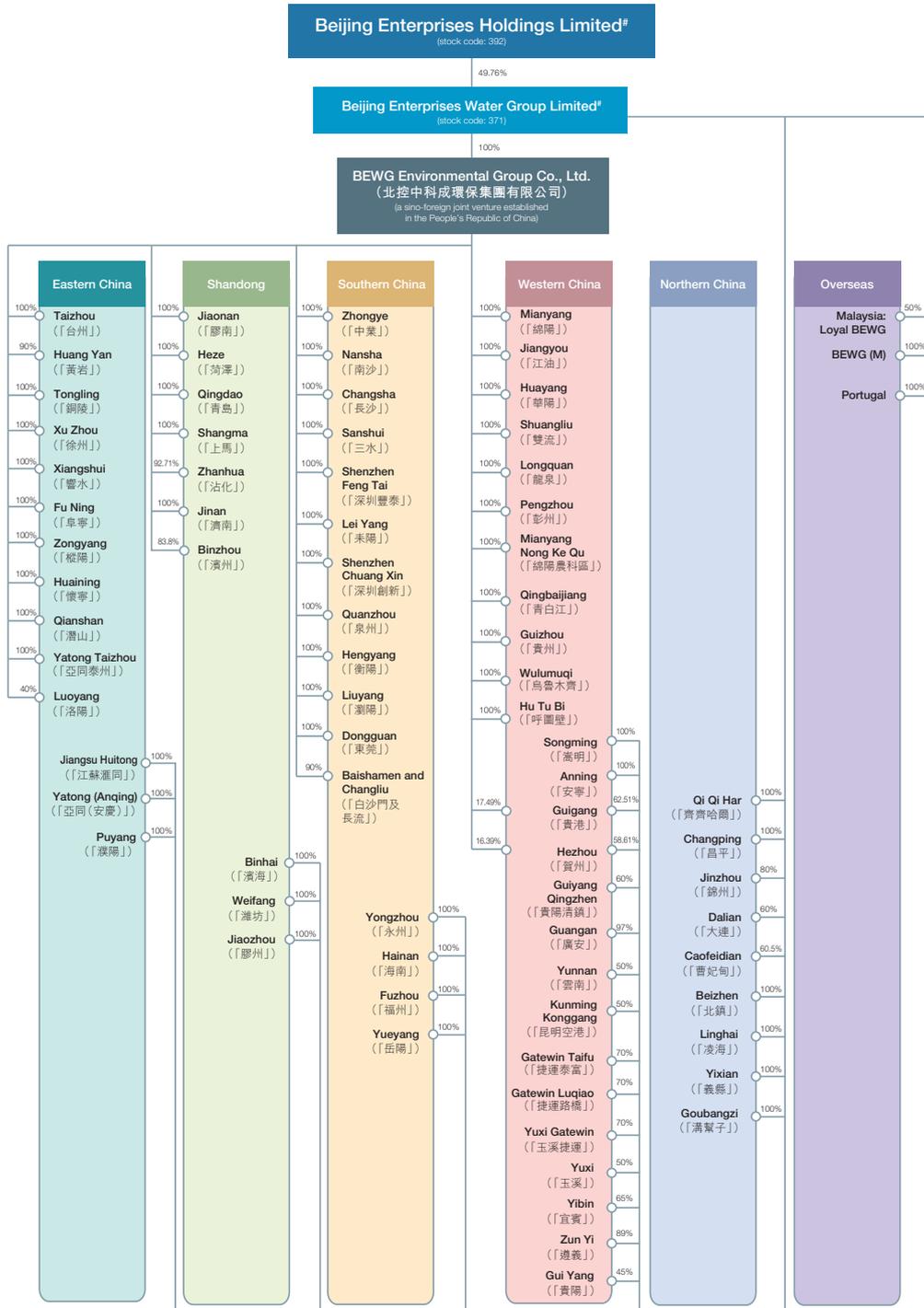
## PRINCIPAL BANKERS

In Hong Kong:  
Agricultural Bank of China Ltd., Hong Kong Branch  
China Development Bank Corporation, Hong Kong Branch  
DBS Bank Ltd., Hong Kong Branch  
Mizuho Corporate Bank Ltd., Hong Kong Branch  
Standard Chartered Bank (Hong Kong) Ltd

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

# GROUP STRUCTURE

30 June 2013



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

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

# CHAIRMAN'S STATEMENT

**Dear Shareholders,**

In the first half of 2013, despite the continuous slowdown in domestic economy, dropping investment growth rate and increasingly intense industry competition, the support under macroeconomic policy to water industry was further intensified. Under these backgrounds, Beijing Enterprises Water Group Limited (the “Company” and its subsidiaries, collectively referred to as the “Group” or “BEWG”) adhered to its “1+5” strategy, and with the key tasks of “maintaining targets and keeping on growth” as well as its annual operation targets that were formulated in the beginning of the year, the Group strengthened its internal management and expanded its oversea markets. We monitor various projects progress with an aim at achieving more than an half of our annual missions. As a result of the stable growth in operating results of the Group, we can gradually strengthen our competitiveness and influence in the industry, thereby laying a solid foundation for achieving the annual targets and sustainable development of the Group.

## **BUSINESS REVIEW**

For the six months period ended 30 June 2013, the revenue of the Group recorded from its principal business was HK\$2,763.7 million, representing a significant increase of 97% over the corresponding period of previous year, and achieved an accumulated net profit of HK\$514.3 million, representing an increase of 33% over the corresponding period of previous year. Basic earnings per share for the period was HK6.89 cents. The board (the “Board”) of directors (the “Director(s)”) of the Company resolved to pay interim distribution of HK2.5 cents per share to shareholders reciprocating their continuous support to the Company.

In the first half year, the Group conducted in depth the analysis on industry policy and market research. On the premise that our investment project is under control and safe with secured gains, the Group could further increase its resources into its operation as well as merger and acquisition of projects so as to speed up the expansion of its scale of core businesses. As at 30 June 2013, the Group increased 49 new water plants, and the net increase in terms of total daily design capacity for the period was amounted to 2.13 million tons.

During the period, the Group further improved its management control system in its business development. In term of our business framework under the Group’s strategy, we not only continued to explore, perfect and integrate the business model and profit model between “traditional water business and water environmental comprehensive renovation business”, but also supplemented with each other by way of assurance of gaining long or short term profit from both business segments in order to achieve a balanced and sustainable growth in the profit of the Group.

At the beginning of the year, the Group once again achieved a significant breakthrough in implementing its international strategy in which it had successfully acquired from Veolia Eau – Compagnie Générale des Eaux, S.C.A., its wholly-owned subsidiary in Portugal. The acquisition was laid a platform foundation for the development of the Group’s water business in Portugal and even in Europe. Furthermore, the construction of the second sewage treatment plant project in Pantai, Malaysia has been progressing steadily.

# CHAIRMAN'S STATEMENT

The Group continues to push forward the preliminary stage of work as well as actively promote and coordinate with the initial work in million-ton seawater desalination project which could be designed to supply water to Beijing.

The sewage sludge treatment and disposal project is one of the key projects of the Group for the year. The Group continues to run business and operation in its high-end industrial development direction and actively cultivated and developed its technology in the market for sewage sludge treatment and disposal project. We had achieved notable results in the development of its sewage sludge projects. In the first half year, the Group increased its additional sewage sludge disposal capacity of 50 tons/day.

## MANAGEMENT CONTROL

The Group will further enhance the management and control in respect of its target, budget, risks and responsibility. It will uphold the business philosophy and management policy of “centralising approval, having own responsibility, enhancing coordination and evaluating performance” and perfect its ancillary mechanism, thereby further consolidate its management control effectiveness to improve operation efficiency. The Group will not only strengthen the management and control of the whole project process in terms of its project targets and budget, but will also stringently enforce its self-accountability of each corporate entity. We highlight direction of value-based thinking and efficiency and perfect the systems of target accountability and performance assessment. The Group will comprehensively promote risk management and internal control and continue to perfect comprehensively the corporate risk management system and policy by way of regulating the criteria of norms, optimising the management control procedures as well as improving management control system. In consideration of optimising procedures for determination of any project invested, the Group will apply for the stringent standards in order to control of its quality of projects invested and its post-evaluation management.

Regarding the strengthening of fund management, the Group will perfect the internal fund management system and monitor the building of fund flow information system so as to further improve the standard for centralisation of fund management. The Group has established pilot finance-sharing service center and optimised the financial management control system. The Group will not only co-operate in depth with financial institutes, but also vigorously explore the fund raising channels and optimise fund raising structure with an aim to locate low-cost fund to satisfy for those large scale projects in pursuit of the Group's ongoing business development.

At the same time, the Group will strengthen its compliance management in order to minimise legal risks and intensify investor relationship management as well as perfect disclosure policy and strengthen the active communication with capital markets to increase the Group's management more transparent and efficient.

# CHAIRMAN'S STATEMENT

## DEVELOPMENT STRATEGY

The Group will consistently adhere to the development strategy of “grasping the opportunities to ongoing development, leading by the dual drivers in assets and capital operation, attaching equal importance to external expansion and internal growth balancing with its pace and quality”.

In the second half year, we will actively facilitate our invested project and industry mergers in consideration of its quality. We continue to take comprehensively cautious measures for the risk management and monitor the revenues from our invested project portfolio, thereby taking assurance of sound development of our core business.

The Group will strive to achieve breakthroughs in acquiring major projects and exploring major markets through the acquisition of large scale sewage/water projects, purchasing equity interests of middle and small scale water companies as well as integrating the regional small scale sewage treatment projects as a whole investment package, in addition to the traditional single sewage and water projects.

We will not only accelerate the facilitation of water environmental comprehensive renovation projects which are anticipated in our annual investment plans, but also focus on promoting contracted projects as well as monitoring their progress and smooth repurchase. On the other hand, we will continue to implement the internationalisation strategy in a stable manner, orderly put forward seawater desalination projects and increase the efforts in the research and development, industrialisation and market expansion of the sludge treatment business.

## FUTURE OUTLOOK

For macro environment, it is expected that there will be no significant adjustment on macroeconomic policy in the second half year in China. However, it is probable that the domestic economy will be downward endogenously. It appears that the usual trend will be staying stable in monetary policy, going upward in market interest rate and tightening money supply in the second half year. Enterprises will be facing pressure and difficulty in fund raising and increase of financing costs. Meanwhile, it will also bring the opportunities for those enterprises with financial strengths and smooth fund raising channels to connect local governments and participate in investments.

For industrial environment, it is expected that ongoing support from the government to the water industry development remains the key tone in the second half year of 2013 and even in the next 3 to 5 years. Since 2012, there are a number of features specially in higher standards, higher requirements, broader scopes and more stringent regulations, upholding higher requirements for enterprises' professional services and create opportunities for the development of environmental protection industry. The seawater desalination market will be matured gradually while water environment rehabilitation business opportunities have emerged, and the sludge treatment and disposal is expected to be the new market focus. Specialised water investment operators running in their whole industrial chain are going to boost their development rapidly toward these strategic opportunities.

# CHAIRMAN'S STATEMENT

At the same time, as being the core element of energy conservation and environmental protection industry, the water industry is dragging more and more attention from capital markets under the facilitation of national strategy. With the market competition increasingly intense and escalating, it has already stepped into the stage of merger and acquisition in the water industry. Those enterprises with industry advantages will explore opportunities to continue their rapid development and expand their market share.

In summary, the Group is in a better position of having greater opportunities than facing challenges.

The Group continues to keep on growth in pace of expansion in its core business under its anticipated targets, thereby enlarging rapidly and soundly its scope of business by taking account of its existing advantages.

We continue to leverage on the advantages of establishing a foothold in Hong Kong capital market and enhance the coordination among parties for the sake of fund raising for our local and overseas projects as well as actively broaden fund raising channels that could assure of the Group's ongoing business development. Meanwhile, we have to optimise our debt structure and equity structure to further increase the market confidence towards BEWG.

The Group will increase its investments in scientific research and development and endeavour to overcome core technological bottleneck, aiming at making breakthrough in various scope of business in respect of renovation projects in regional areas, water supply in small town, sludge treatment, upgrading higher standard of the water plants and seawater desalination.

The Group will strengthen its human resource management in terms of the mechanisms in personnel allocation, training, appraisal, rewards and punishment and incentive. BEWG always keeps on absorbing brilliant talents to join. BEWG will actively enhance its established enterprise culture and fulfill its core operative philosophy of obtaining "government confidence, citizen satisfaction, corporate profit, mutual benefit to staff and partners, win-win situation" thereby bringing better returns to all our stakeholders through keeping on growth in financial results and excellent services.

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

**Zhang Honghai**

*Chairman*

29 August 2013

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group maintained a steady growth in the first half of year 2013. Profit for the period attributable to shareholders of the Company increased by 33% to HK\$514.3 million. Revenue increased by 97% to HK\$2,763.7 million as a result of increase in revenue contribution from water treatment services and construction services for the water environmental renovation.

## 1. FINANCIAL HIGHLIGHTS

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>Water treatment services</b>					
Sewage and reclaimed water treatment services					
– Subsidiaries	849.6	31%	64%	412.5	43%
– Joint ventures				1.2	1%
				413.7	44%
Water distribution services					
– Subsidiaries	118.2	4%	75%	76.4	8%
– Joint ventures				(4.9)	(1%)
				71.5	7%
Subtotal	967.8	35%		485.2	51%
<b>Construction services for the water environmental renovation</b>					
Construction services for comprehensive renovation projects					
– Project with completion rate under 10%	22.4	1%	–	–	–
– Project with completion rate more than 10% <sup>§</sup>	1,315.0	48%	28%	309.8	33%
– Interest income	–	–	–	82.9	9%
	1,337.4	49%	28%	392.7	42%
Construction of water plants under BOT contracts	401.1	14%	11%	31.0	3%
Subtotal	1,738.5	63%		423.7	45%
<b>Technical services for the water environmental renovation</b>	57.4	2%	86%	39.6	4%
<b>Business results</b>	2,763.7	100%		948.5	100%
<b>Others<sup>#</sup></b>				(434.2)	
<b>Total</b>				514.3	

<sup>#</sup> Others included head office and other corporate expenses, net, of HK\$91.8 million and finance costs of HK\$342.4 million.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures of HK\$0.9 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>Water treatment services</b>					
Sewage and reclaimed water treatment services					
– Subsidiaries	624.2	44%	64%	312.3	50%
– Joint ventures				23.2	4%
				335.5	54%
Water distribution services					
– Subsidiaries	53.5	4%	43%	10.9	2%
– Joint ventures				(2.1)	(1%)
				8.8	1%
<b>Subtotal</b>	<b>677.7</b>	<b>48%</b>		<b>344.3</b>	<b>55%</b>
<b>Construction services for the water environmental renovation</b>					
Construction services for comprehensive renovation projects					
– Project with completion rate under 10%	14.3	1%	–	–	–
– Project with completion rate more than 10% <sup>§</sup>	282.3	20%	14%	72.2	12%
– Interest income	–	–	–	55.4	9%
	296.6	21%	14%	127.6	21%
Construction of water plants under BOT contracts <sup>△</sup>	240.1	17%	10%	14.1	3%
<b>Subtotal</b>	<b>536.7</b>	<b>38%</b>		<b>141.7</b>	<b>24%</b>
<b>Technical services for the water environmental renovation</b>	187.1	14%	86%	128.6	21%
<b>Business results</b>	<b>1,401.5</b>	<b>100%</b>		<b>614.6</b>	<b>100%</b>
<b>Others<sup>#</sup></b>				(228.0)	
<b>Total</b>				<b>386.6</b>	

<sup>#</sup> Others included head office and other corporate expenses, net, of HK\$0.9 million and finance costs of HK\$227.1 million.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures of HK\$12.6 million.

<sup>△</sup> Profit attributable to shareholders of the Company included share of losses of joint ventures of HK\$4.0 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

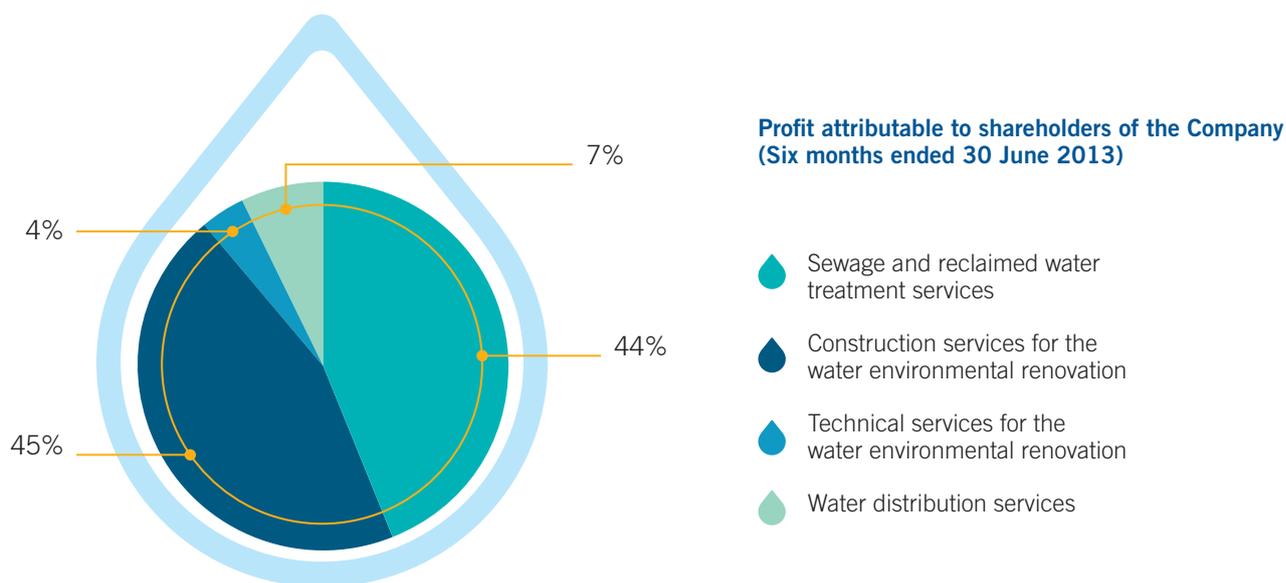
## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the six months ended 30 June 2013 and 2012 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June		Increase/(Decrease)		For the six months ended 30 June		Increase/(Decrease)	
	2013 HK\$'M	2012 HK\$'M	HK\$'M	%	2013 HK\$'M	2012 HK\$'M	HK\$'M	%
<b>Water treatment services</b>								
Sewage and reclaimed water treatment services								
– Subsidiaries	849.6	624.2	225.4	36%	412.5	312.3	100.2	32%
– Joint ventures					1.2	23.2	(22.0)	(95%)
<i>GP ratio</i>	64%	64%		–	413.7	335.5	78.2	23%
<b>Water distribution services</b>								
– Subsidiaries	118.2	53.5	64.7	121%	76.4	10.9	65.5	601%
– Joint ventures					(4.9)	(2.1)	(2.8)	(133%)
<i>GP ratio</i>	75%	43%		32%	71.5	8.8	62.7	713%
<b>Subtotal</b>	<b>967.8</b>	<b>677.7</b>	<b>290.1</b>	<b>43%</b>	<b>485.2</b>	<b>344.3</b>	<b>140.9</b>	<b>41%</b>
<b>Construction services for the water environmental renovation</b>								
Construction services for comprehensive renovation projects								
– Project with completion rate under 10%	22.4	14.3	8.1	57%	–	–	–	–
– Project with completion rate more than 10%	1,315.0	282.3	1,032.7	366%	309.8	72.2	237.6	329%
– Interest income	–	–	–	–	82.9	55.4	27.5	50%
<i>GP ratio</i>	28%	14%		14%	392.7	127.6	265.1	208%
Construction of water plants under BOT contracts	401.1	240.1	161.0	67%	31.0	14.1	16.9	120%
<i>GP ratio</i>	11%	10%		1%				
<b>Subtotal</b>	<b>1,738.5</b>	<b>536.7</b>	<b>1,201.8</b>	<b>224%</b>	<b>423.7</b>	<b>141.7</b>	<b>282.0</b>	<b>199%</b>
<b>Technical services for the water environmental renovation</b>								
<i>GP ratio</i>	57.4	187.1	(129.7)	(69%)	39.6	128.6	(89.0)	(69%)
	86%	86%		–				
<b>Business results</b>	<b>2,763.7</b>	<b>1,401.5</b>	<b>1,362.2</b>	<b>97%</b>	<b>948.5</b>	<b>614.6</b>	<b>333.9</b>	<b>54%</b>
<b>Others</b>					<b>(434.2)</b>	<b>(228.0)</b>	<b>(206.2)</b>	<b>(90%)</b>
<b>Total</b>					<b>514.3</b>	<b>386.6</b>	<b>127.7</b>	<b>33%</b>

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*



## 2. BUSINESS REVIEW

The principal businesses of the Group includes 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 20 provinces all across Mainland China.

### 2.1 Water treatment services

As at 30 June 2013, the Group enters into total of 204 water plants including 158 sewage treatment plants, 41 water distribution plants, 4 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for this period was 2,356,700 tons including Build-Operate-Transfer ("BOT") projects of 162,500 tons, Transfer-Operate-Transfer ("TOT") projects of 140,000 tons, entrustment operation projects of 135,700 tons, and 1,918,500 tons\* through mergers and acquisitions including water projects of 1,290,000 tons acquired from Beijing Enterprises Holdings Limited ("BEHL", a substantial shareholder of the Company).

During the period, the Group disposed the Inner Mongolia project with daily water supply capacity of 155,000 tons and daily sewage treatment capacity of 70,000 tons. The net increase in total daily design capacity for this period was 2,131,700 tons.

As at 30 June 2013, total daily design capacity was 12,626,150 tons, representing an increase of 20% as compared with last year.

\* On 28 June 2013, the Company signed an equity transfer agreement with 北京建工集團有限責任公司 (Beijing Construction Engineering Group Co., Ltd\*) which includes 26 sewage treatment plants under operation with daily treatment capacity of 937,500 tons. Such water plants have been under the Group's management. As the relevant legal procedure is still in progress, the daily treatment capacity of 937,500 tons has not been included in the Group's total daily design capacity as at 30 June 2013.

^ For identification purpose only

# 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>					
In operation	5,246,750	387,000	2,495,000	–	8,128,750
Not yet start operation	2,459,700	112,500	1,875,200	50,000	4,497,400
Total	7,706,450	499,500	4,370,200	50,000	12,626,150

*(Number of water plants)*

In operation	101	4	16	–	121
Not yet start operation	57	–	25	1	83
Total	158	4	41	1	204

	Number of plants	Design capacity <i>(Tons/Day)</i>	Actual processing capacity during the period <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:					
– Southern	30	2,235,000	341.2	355.1	200.2
– Western	39	1,621,500	216.1	196.6	95.3
– Shandong	9	452,000	67.9	95.9	34.9
– Eastern	16	600,250	48.3	85.9	30.9
– Northern	11	725,000	65.7	116.1	52.4
	105	5,633,750	739.2	849.6	413.7
Water distribution services	16	2,495,000	169.8	118.2	71.5
Total	121	8,128,750	909.0	967.8	485.2

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

#### 2.1.1 Sewage and reclaimed water treatment services

As at 30 June 2013, the Group had 101 sewage treatment plants and 4 reclaimed water plants in operation. Total daily design capacity in operation reached to 5,246,750 tons (31 December 2012: 4,777,250 tons) and 387,000 tons (31 December 2012: 387,000 tons) respectively. The average daily processing volume is 4,150,039 tons and average daily treatment rate is 74%. The actual average contracted tariff charge of water treatment was approximately HK\$1.18 per ton. The actual aggregate processing volume for the period was 739.2 million tons, of which 657.4 million tons was contributed by subsidiaries recorded a revenue of HK\$849.6 million for the period (31% of the Group's total revenue), and 81.8 million tons was contributed by joint ventures. Net profit attributable to shareholders of the Company was HK\$413.7 million, of which HK\$412.5 million was contributed by subsidiaries and HK\$1.2 million was contributed by joint ventures. 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 and Hainan Province. As at 30 June 2013, there were 30 sewage treatment plants with total daily design capacity of 2,235,000 tons, representing an increase of 270,000 tons per day or 14% as compared with last year. The actual aggregate processing volume for the period amounted to 341.2 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$355.1 million and HK\$200.2 million respectively during the period.

#### Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2013, there were 39 sewage treatment plants with total daily design capacity of 1,621,500 tons, representing an increase of 160,000 tons per day or 11% as compared with last year. The actual processing volume for the period was 216.1 million tons. The operating revenue of HK\$196.6 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$95.3 million.

#### Shandong

There were 9 plants in Shandong region. The total daily design capacity of Shandong region is 452,000 tons, representing an increase of 35,000 tons per day or 8% as compared with last year. The actual processing volume for the period was 67.9 million tons contributing operating revenue of HK\$95.9 million during the period. Profit attributable to shareholders of the Company was HK\$34.9 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)*

##### Eastern China

There were 16 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 30 June 2013, the total daily design capacity of Eastern China had increased by 19,500 tons to 600,250 tons or 3% as compared with last year. The actual processing volume for the period amounted to 48.3 million tons and operating revenue was HK\$85.9 million during the period. Profit attributable to shareholders of the Company was HK\$30.9 million.

##### Northern China

Currently, the Group has 11 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily design capacity of Northern China had decreased by 15,000 tons to 725,000 tons or 2% as compared with last year. Decrease in daily design capacity was mainly due to the disposal of Inner Mongolia project. The projects achieved actual processing volume of 65.7 million tons for the period. The operating revenue was HK\$116.1 million during the period. Profit attributable to shareholders of the Company was HK\$52.4 million.

#### 2.1.2 Water distribution services

As at 30 June 2013, the Group had 16 water distribution plants in operation. Total daily design capacity in operation was 2,495,000 tons (31 December 2012: 2,130,000 tons). The plants were located in Guizhou Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water distribution is approximately HK\$2.52 per ton. The aggregate actual processing volume is 169.8 million tons, of which 32.1 million tons was contributed by subsidiaries, which recorded revenue of HK\$118.2 million (4% of the Group's total revenue), and 137.7 million tons was contributed by joint ventures. Imputed interest income of HK\$60.6 million was recognised for the receivables under service concession arrangement of Plant No. 9 in Beijing which was acquired from BEHL during this period. Profit attributable to shareholders of the Company was HK\$71.5 million, of which profit of HK\$76.4 million was contributed by subsidiaries and a loss of HK\$4.9 million in aggregate was incurred by joint ventures.

### 2.2 Construction services for the water environmental renovation

#### 2.2.1 Construction services for comprehensive renovation projects

The Group had six comprehensive renovation projects under construction during the period. The projects located in Guangxi Guigang, Guangxi Beihai, Chengdu Tuojianghe, Chengdu Pixian, Guizhou Nanminghe and Malaysia Pantai. Last period, the Group had three comprehensive renovation projects under construction which located in Dalian Dengshahe, Dalian Yingkou and Malaysia Pantai.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

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

Revenue from comprehensive renovation projects increased by HK\$1,040.8 million from last period of HK\$296.6 million to HK\$1,337.4 million this period. The increase was mainly due to the commencement of construction of Guangxi Beihai and Guizhou Nanminghe projects contributing revenue of HK\$1,120.5 million.

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to time of the receipt of the trade receivables. Interest income increased as there was an increase in receivables from water environmental renovation projects.

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK\$265.1 million from last period of HK\$127.6 million to HK\$392.7 million this period. The increase was mainly due to the commencement of construction of Guangxi Beihai and Guizhou Nanminghe projects contributing profit of HK\$285.3 million during this period.

Trade and bills receivables of HK\$726.1 million (equivalent to RMB573.6 million) for construction of comprehensive renovation projects in Kunming were settled during the period. As at 30 June 2013, the accumulated receipts from Kunming projects was HK\$4,021.3 million (equivalent to RMB3,217.0 million). As at 30 June 2013, the trade and bills receivables for these projects amounted to HK\$1,004.3 million (equivalent to RMB803.4 million).

#### 2.2.2 Construction of water plants

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

During the period, 24 water plants were under construction. These water plants were mainly located in Beijing, Sichuan, Shandong, Yunnan, Liaoning, Guangxi, and Hunan provinces. Total revenue for construction of water plants was HK\$401.1 million and profit attributable to shareholders of the Company was HK\$31.0 million. As at 30 June 2013, the total daily design capacity of these water plants in the construction stage was 2,622,700 tons, most of these projects are expected to commence operation in next year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

### 2.3 Technical services for the water environmental renovation

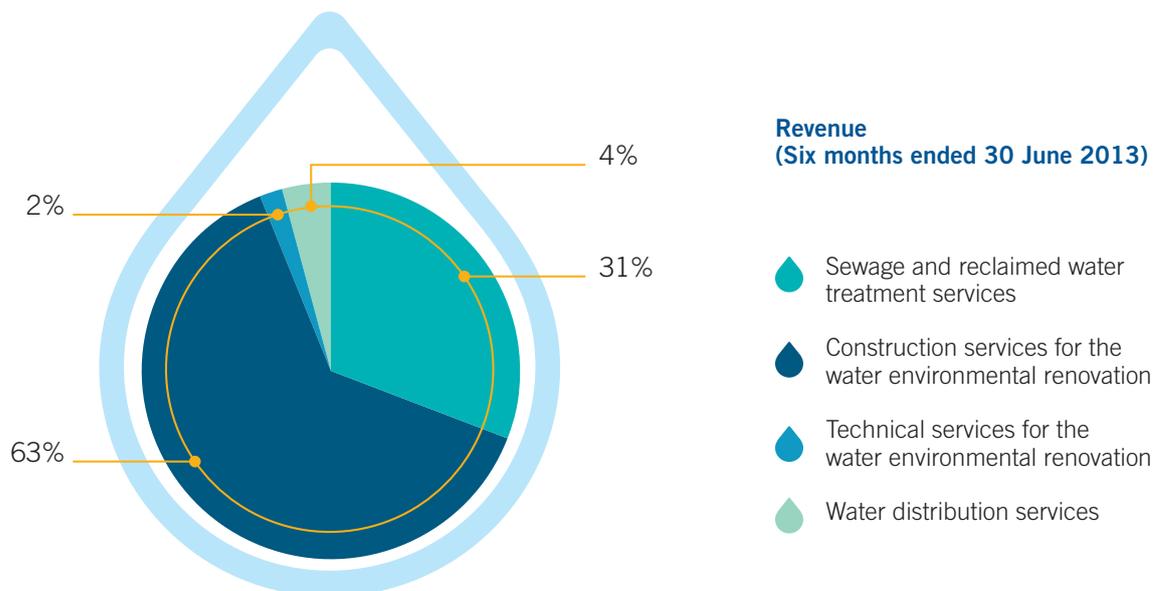
The Group has couples of qualification in engineering for consulting and design of water treatment plants. As an integrated water system solution provider, the Group has not only acquired extensive experience in bidding, building and operating sewage water treatment projects, but also successfully marketed its treatment technology and experience in construction services to other operators and constructors.

Revenue from the provision of technical services was HK\$57.4 million, representing 2% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$39.6 million (Six months ended 30 June 2012: HK\$128.6 million).

## 3. FINANCIAL ANALYSIS

### 3.1 Revenue

During the period, the Group recorded revenue of HK\$2,763.7 million (Six months ended 30 June 2012: HK\$1,401.5 million). The increase was mainly due to the increase in revenue from water treatment services and construction revenue for the water environmental renovation. Increase in revenue from water treatment services was mainly due to an increase in actual water processing capacity. Increase in construction revenue for the water environmental renovation was mainly due to the commencement of construction of Guangxi Beihai and Guizhou Nanminghe projects during the period. For details, please refer to note 2.2 above.



# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.2 Cost of sales

Cost of sales for the period amounted to HK\$1,659.2 million, compared to last period of HK\$755.5 million. The increase was mainly due to the increase in construction costs and operating costs amounted to HK\$842.3 million and HK\$79.3 million respectively. Cost of sales mainly included construction costs of HK\$1,313.3 million and operating costs of water plants of HK\$337.9 million. The construction costs mainly consisted of subcontracting charges. The increase in construction costs was mainly due to the increase in construction works for Guangxi Beihai and Guizhou Nanminghe projects. The operating costs of water plants, mainly included electricity charges of HK\$153.3 million, staff costs of HK\$56.7 million and major overhaul charges of HK\$33.2 million; while the increase in operating costs was mainly due to increase in actual water processing capacity. 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 income statement based on amortisation method during the service concession periods.

### 3.3 Gross profit margin

During the period, gross profit margin decreased from 46% to 40%. The decrease was mainly due to the change in mix of revenue during the period. The revenue contribution from construction services for comprehensive renovation projects increased from last period of 21% to 49% this period. The gross margin of construction services for comprehensive renovation projects is 28%, which is lower than the average of other business sectors (i.e. water treatment services and technical services for water environmental renovation) of 51% and therefore the overall gross margin of the Group decreased. Although average gross margin decreased as a result of change in mix of revenue, gross margin for each segment either increased or remained unchanged. Gross margin for sewage treatment services was 64% which was same as last period. Gross margin for water distribution services increased from 43% last period to 75% this period as there was imputed interest income of HK\$60.6 million for the Plant No. 9. Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was 49% which slightly increased compared to last period of 43%. The increase was mainly due to the increase in actual water processing capacity whereas the operating costs are relatively fixed. Gross margin for construction services for water environmental renovation the increased from last period of 14% to 28% this period which was mainly because of the Nanminghe projects with a higher gross margin of 34%. Gross margin for construction of water plants under BOT projects slightly increased from last period of 10% to 11% this period. Gross margin for the technical services for the water environmental renovation was 86% which was same as last period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$77.1 million during the period, compared to last period of HK\$15.7 million. The amount for this period included sludge treatment income of HK\$26.7 million, gains on disposal of a joint venture and subsidiaries of HK\$16.6 million and fair value gains on investment properties of HK\$14.2 million. There were no such items during last period.

### 3.5 Administrative expenses

Administrative expenses for the period was HK\$269.7 million, compared to last period of HK\$148.8 million. The increase was mainly due to the increase in staff costs of HK\$27.8 million, business development expenses of HK\$6.7 million, land use tax expenses of HK\$10.9 million and equity-settled share option expense of HK\$25.9 million. Staff costs and business development expenses increased as a result of the business expansion during this period. Increase in land use tax expenses were due to the lands located in Dalian acquired in second half of 2012, hence no such expense in last period. Also, there was no equity-settled share option expense during last period since the share option was issued during this period. Although there was an increase in administrative expenses as a result of the business expansion, the Group managed to control administrative expenses effectively. The ratio of administrative expenses to total revenue decreased from 10.6% last period to 9.8% this period.

### 3.6 Other operating expenses, net

Other operating expenses for the period included the exchange loss in a RMB note payable and RMB corporate bonds of HK\$45.5 million as a result of the appreciation of RMB against HK\$ during the period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$212.6 million (Six months ended 30 June 2012: HK\$172.6 million) and interests on corporate bonds and a note payable of HK\$126.3 million (Six months ended 30 June 2012: HK\$51.9 million). The increase in finance costs was mainly due to the issuance of a RMB note on 1 August 2012. Also, there was an increase in interest rate as compared with last period.

### 3.8 Income tax

Income tax expense for the period included the current PRC income tax of HK\$127.7 million. The effective tax rate for the PRC operation was about 18% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the period was HK\$29.1 million.

### 3.9 Property, plant and equipment

Property, plant and equipment decreased by HK\$244.6 million which was mainly due to the disposal of 內蒙古北控西部水業股份有限公司 (Inner Mongolia Beijing Enterprises Western Water Industry Co., Ltd<sup>^</sup>).

### 3.10 Investment properties

Investment properties represent a portion of a building located in Beijing which the Group held to earn rental income and reclassified from property, plant and equipment to investment properties during this period. The investment properties are stated at fair value. Fair value gain of HK\$14.2 million was recognised in income statement during this period. There was no such item in last period.

### 3.11 Goodwill

Increase in goodwill of HK\$666.6 million was mainly due to acquisition of seven companies in Dongguan and asset injection from BEHL. For details, please refer to “Significant Investments and Acquisitions” section.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.12 Receivables

The Group's total receivables of HK\$16,395.8 million (31 December 2012: HK\$12,128.3 million) included:

By accounting nature:

	30 June 2013			31 December 2012		
	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	4,380.8	49.4	4,430.2	2,762.0	31.6	2,793.6
(ii) Receivables under service concession arrangements	9,284.9	969.9	10,254.8	6,469.5	382.5	6,852.0
(iii) Trade and bills receivables	97.2	1,613.6	1,710.8	97.2	2,385.5	2,482.7
<b>Total</b>	<b>13,762.9</b>	<b>2,632.9</b>	<b>16,395.8</b>	<b>9,328.7</b>	<b>2,799.6</b>	<b>12,128.3</b>

- (i) Amounts due from contract customers of HK\$4,430.2 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK\$1,636.6 million (non-current portion increased by HK\$1,618.8 million and current portion increased by HK\$17.8 million), which was mainly due to the recognition of construction revenue for a water environmental renovation project in Nanminghe;
- (ii) Receivables under service concession arrangements of HK\$10,254.8 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects in operation. The increase in balance by HK\$3,402.8 million (non-current portion increased by HK\$2,815.4 million and current portion increased by HK\$587.4 million) was mainly due to the acquisition of various TOT projects in Portugal, Chengdu, Dongguan, Jilin, Hainan, Shandong and Yunnan which accounted for an increase in receivable balance of around HK\$2,129.4 million; and a receivable under service concession arrangements related to the Plant No. 9 in Beijing acquired from BEHL; and
- (iii) Trade and bills receivables of HK\$1,710.8 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance decreased by HK\$771.9 million (non-current portion remained unchanged and current portion decreased by HK\$771.9 million), mainly due to settlement of receivables for construction services of comprehensive renovation projects in Kunming of HK\$726.1 million (equivalent to RMB573.6 million) during the period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.12 Receivables *(Continued)*

By business nature:

	<b>30 June 2013 HK\$'M</b>	31 December 2012 HK\$'M
Water treatment services by BOT and TOT projects	<b>12,312.1</b>	8,433.3
Construction services of comprehensive renovation projects	<b>3,750.5</b>	3,246.6
Technical and consultancy services and other businesses	<b>333.2</b>	448.4
<b>Total</b>	<b>16,395.8</b>	12,128.3

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* was HK\$12,312.1 million (31 December 2012: HK\$8,433.3 million). Total receivables for the construction service of comprehensive renovation projects were HK\$3,750.5 million (31 December 2012: HK\$3,246.6 million). Total receivables for technical and consultancy services and other businesses were HK\$333.2 million (31 December 2012: HK\$448.4 million).

### 3.13 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is a non-guarantee receipt right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The balance arises from BOT and TOT projects in operation. The balance increased by HK\$900.5 million was mainly due to the acquisition of operating concessions in Portugal of HK\$850.9 million during this period.

### 3.14 Investments in joint ventures

Investments in joint ventures increased by HK\$347.3 million, mainly due to the acquisition of BJA Holdings Company Ltd. from BEHL. BJA Holdings Company Ltd. holds a joint venture namely 北京安菱水務科技有限公司 (Beijing Anling Water Technology Company Limited<sup>^</sup>) which has a concession right for the Plant No.10 in Beijing.

### 3.15 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$95.1 million (non-current portion increased by HK\$2.1 million and current portion increased by HK\$93.0 million), mainly due to the increase in construction prepayments.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.16 Cash and cash equivalents

Cash and cash equivalents increased by HK\$587.2 million, mainly due to increase in corporate bonds.

Under Hong Kong Financial Reporting Standards, part of the cash flows related to BOT, TOT and comprehensive renovation projects are classified as cash flows of operating activities. Such part of cash flows are adjusted and reclassified as cash flows of investing activities as follows:

	For the six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
<b>Net cash flows used in operating activities per unaudited interim financial statements</b>	<b>(661,687)</b>	(259,986)
Net cash flows used in BOT projects	408,517	287,713
Net cash flows used in TOT projects	572,501	51,245
Net cash flows used in comprehensive renovation projects	151,353	270,954
<b>Net cash flows from operating activities per management</b>	<b>470,684</b>	349,926
<b>Net cash flows used in investing activities per unaudited interim financial statements</b>	<b>(1,501,750)</b>	(812,164)
Net cash flows used in BOT projects	(408,517)	(287,713)
Net cash flows used in TOT projects	(572,501)	(51,245)
Net cash flows used in comprehensive renovation projects	(151,353)	(270,954)
<b>Net cash flows used in investing activities per management</b>	<b>(2,634,121)</b>	(1,422,076)
<b>Net cash flows from financing activities per unaudited interim financial statements</b>	<b>3,351,586</b>	943,453
<b>Net increase/(decrease) in cash and cash equivalents per unaudited interim financial statements</b>	<b>1,188,149</b>	(128,697)

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.17 Other payables and accruals

Other payables and accruals decreased by HK\$14.6 million (non-current portion increased by HK\$1.5 million and current portion decreased by HK\$16.1 million).

### 3.18 Corporate bonds

The increase in corporate bonds was mainly due to the issuance of a corporate bond denominated in US\$ in a principal amount of US\$500 million (equivalent to HK\$3,855.6 million) on 6 May 2013.

### 3.19 Liquidity and financial resources

As at 30 June 2013, the Group's cash and cash equivalents amounted to HK\$4,878.0 million (31 December 2012: HK\$4,290.9 million).

The Group's total borrowings amounted to HK\$17,398.2 million (31 December 2012: HK\$13,294.5 million) comprised bank and other borrowings of HK\$9,602.8 million (31 December 2012: HK\$9,403.7 million), finance lease payable of HK\$16.6 million (31 December 2012: HK\$19.7 million), a note payable of HK\$1,495.3 million (31 December 2012: HK\$1,476.6 million) and corporate bonds of HK\$6,283.5 million (31 December 2012: HK\$2,394.5 million).

As at 30 June 2013, the Group had banking facilities amounting to HK\$6.59 billion, of which HK\$1.34 billion have not been utilised. The banking facilities are of 1 to 5 years term.

The gearing ratio as defined as sum of bank and other borrowings, finance lease payable, note payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 0.98 as at 30 June 2013 (31 December 2012: 0.84). The increase in the gearing ratio as at 30 June 2013 was mainly due to the issuance of the corporate bond as detailed in section 3.18. The bond proceeds were utilised for the acquisition of various water projects in the PRC and Portugal.

### 3.20 Capital expenditures

During the period, the Group's total capital expenditures were HK\$2,003.2 million (Six months ended 30 June 2012: HK\$356.0 million), of which HK\$10.1 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$452.1 million was spent on construction and acquisition of water plants and HK\$1,541.0 million represented the consideration for acquisition of equity interests in subsidiaries. The increase was mainly due to the increase in capital expenditure on the acquisition of equity interests in subsidiaries.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2013, the Group employed 3,154 employees. 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.

## SIGNIFICANT INVESTMENTS AND ACQUISITIONS

- (a) On 5 February 2013, the Group completed acquisitions of the following assets from BEHL and certain of its subsidiaries (the "Assets Vendors"):
- (i) the estimated future net cash income (after deducting all state and local taxes in the PRC 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;
  - (ii) the entire equity interests in 濰坊北控水務有限公司 (Beijing Enterprises Water (Weifang) Company Limited<sup>^</sup>) which is engaged in a service concession arrangement on water supply in Shandong Province, the PRC; and
  - (iii) the entire beneficial shareholding interests in Beijing Enterprises Water Company Limited, an investment holding company holding an interest in a joint venture which is engaged in a service concession arrangement on water supply in Beijing.

The above acquisitions were made pursuant to a master agreement dated 26 September 2012 entered into between the Group and the Assets Vendors, and the total consideration of HK\$1,066,539,552 in respect of the above acquisitions was satisfied by way of the issuance of 658,357,748 ordinary shares of the Company at HK\$1.62 per share to Beijing Enterprises Environmental Construction Limited ("BE Environmental"), a wholly-owned subsidiary of BEHL.

On 24 May 2013, the Group completed the acquisition of a 90% equity interest in 北控水務集團(海南)有限公司 (Beijing Enterprises Water Group (Hainan) Company Limited<sup>^</sup>), which is principally engaged in sewage treatment operation in Hainan Province, the PRC. The consideration of RMB157,000,000 (equivalent to approximately HK\$191,894,006) was settled by way of the issuance of 118,453,090 ordinary shares of the Company at HK\$1.62 per share to BE Environmental.

Further details of the acquisition transactions are set out in the Company's circular dated 30 November 2012 and announcements dated 5 February 2013 and 24 May 2013, respectively.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## SIGNIFICANT INVESTMENTS AND ACQUISITIONS *(Continued)*

- (b) On 6 February 2013, the Company and three independent third parties (collectively the “Dongguan Vendors”) entered into an equity transfer agreement, pursuant to which the Company conditionally agreed to acquire, and the Dongguan Vendors conditionally agreed to sell, the entire equity interests in seven companies established in Mainland China and principally engaged in the sewage treatment operations in Dongguan City, Guangdong Province at an aggregate consideration of RMB514,721,000 (equivalent to approximately HK\$642,962,000).

Further details of the transaction are set out in the Company’s announcement dated 6 February 2013.

- (c) On 21 March 2013 the Company and Veolia Eau – Compagnie Générale des Eaux, S.C.A. (“Veolia Water”) entered into a sale and purchase agreement, pursuant to which the Company, or a wholly-owned subsidiary of the Company, acquired from Veolia Water the entire share capital of Compagnie Générale des Eaux (Portugal) – Consultadoria e Engenharia, S.A., (a company incorporated and operating under the laws of Portugal) together with related quasi-capital contributions and shareholder loan. The aggregate consideration is €95,515,000 (equivalent to approximately HK\$963,679,000).

Further details of the transaction are set out in the Company’s announcement dated 21 March 2013.

- (d) On 28 June 2013, BEWG Environmental Group Co., Ltd., a wholly-owned subsidiary of the Company (“BEWG Environmental”) and an independent third party (the “BCEG vendor”) entered into an equity transfer agreement, pursuant to which, BEWG Environmental has conditionally agreed to acquire, and the BCEG Vendor has conditionally agreed to sell, the 60% equity interest of 北京建工環境發展有限責任公司 (BCEG Environment Development Co., Ltd<sup>^</sup>) at a consideration of RMB270,000,000 (equivalent to approximately HK\$340,956,000). As at the date of this report, the transaction has not been completed.

Further details of the transaction are set out in the Company’s announcement dated 28 June 2013.

Save as disclosed above, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the six months ended 30 June 2013.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, and a finance lease payable of the Group as at 30 June 2013 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) guarantees given by the Company and/or its subsidiaries;
- (iii) pledges over certain of the Group's equity interests in subsidiaries; and/or
- (iv) pledges over certain of the Group's bank balances.

Save as disclosed above, at 30 June 2013, 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 the transactions denominated and settled in RMB. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013

	Notes	For the six months ended 30 June	
		2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
REVENUE	3	2,763,692	1,401,506
Cost of sales		(1,659,209)	(755,490)
Gross profit		1,104,483	646,016
Interest income		172,001	179,055
Other income and gains, net		77,054	15,659
Administrative expenses		(269,735)	(148,762)
Other operating expenses, net		(49,139)	(28,321)
PROFIT FROM OPERATING ACTIVITIES	4	1,034,664	663,647
Finance costs	5	(342,407)	(227,065)
Share of profits and losses of:			
Joint ventures		(2,853)	29,695
Associates		(2,244)	–
PROFIT BEFORE TAX		687,160	466,277
Income tax	6	(156,829)	(69,274)
PROFIT FOR THE PERIOD		530,331	397,003
ATTRIBUTABLE TO:			
Shareholders of the Company		514,300	386,593
Non-controlling interests		16,031	10,410
		530,331	397,003
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic and diluted		HK6.89 cents	HK5.60 cents

Details of the cash distributions declared for the period are disclosed in note 7.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	530,331	397,003
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items to be reclassified to the consolidated income statement in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	155,330	(148,452)
<i>Items not to be reclassified to the consolidated income statement in subsequent periods:</i>		
– Share of other comprehensive income/(loss) of a joint venture	3,376	(3,776)
– Fair value gain on revaluation of a portion of a building upon transfer to investment properties, net of deferred tax of HK\$5,397,000	16,191	–
	19,567	(3,776)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX	174,897	(152,228)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	705,228	244,775
ATTRIBUTABLE TO:		
Shareholders of the Company	650,927	262,517
Non-controlling interests	54,301	(17,742)
	705,228	244,775

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

		30 June 2013 (Unaudited) <i>HK\$'000</i>	31 December 2012 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment		282,978	527,549
Investment properties		49,853	–
Goodwill		2,428,783	1,762,151
Operating concessions		1,873,810	973,357
Other intangible assets		17,518	17,295
Investments in joint ventures		2,665,057	2,317,740
Investments in associates		97,673	100,867
Available-for-sale investments		3,001	7,094
Amounts due from contract customers		4,380,804	2,761,981
Receivables under service concession arrangements	<i>9</i>	9,284,940	6,469,498
Trade and bills receivables	<i>10</i>	97,176	97,225
Prepayments, deposits and other receivables	<i>11</i>	2,549,311	2,547,230
Deferred tax assets		31,898	28,690
<b>Total non-current assets</b>		<b>23,762,802</b>	<b>17,610,677</b>
Current assets:			
Land held for sale		1,090,871	1,077,403
Inventories		52,030	30,453
Amounts due from contract customers		49,398	31,637
Receivables under service concession arrangements	<i>9</i>	969,853	382,464
Trade and bills receivables	<i>10</i>	1,613,562	2,385,500
Prepayments, deposits and other receivables	<i>11</i>	5,488,988	5,395,988
Restricted cash and pledged deposits		95,778	84,892
Cash and cash equivalents		4,878,016	4,290,866
<b>Total current assets</b>		<b>14,238,496</b>	<b>13,679,203</b>
<b>TOTAL ASSETS</b>		<b>38,001,298</b>	<b>31,289,880</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2013

	<i>Notes</i>	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the Company</b>			
Issued capital	<i>12</i>	768,598	690,917
Reserves		9,694,153	7,776,207
		<b>10,462,751</b>	8,467,124
<b>Non-controlling interests</b>		<b>2,308,538</b>	2,264,369
<b>TOTAL EQUITY</b>		<b>12,771,289</b>	10,731,493
Non-current liabilities:			
Other payables and accruals	<i>14</i>	234,699	233,217
Bank and other borrowings		7,680,266	6,593,424
Corporate bonds		6,283,519	2,394,530
Note payable		1,495,274	1,476,567
Finance lease payable		9,497	12,928
Provision for major overhauls		268,779	221,643
Deferred income		25,477	80,785
Deferred tax liabilities		322,510	287,010
Total non-current liabilities		<b>16,320,021</b>	11,300,104
Current liabilities:			
Trade and bills payables	<i>13</i>	2,462,097	1,919,238
Other payables and accruals	<i>14</i>	4,253,108	4,269,166
Income tax payables		265,194	252,802
Bank and other borrowings		1,922,518	2,810,313
Finance lease payable		7,071	6,764
Total current liabilities		<b>8,909,988</b>	9,258,283
<b>TOTAL LIABILITIES</b>		<b>25,230,009</b>	20,558,387
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>38,001,298</b>	31,289,880

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to shareholders of the Company													
	Issued capital (Unaudited) HK\$'000	Share		Share option reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Property revaluation reserve (Unaudited) HK\$'000	Defined benefit plan reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Distributions declared (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
		premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000											
At 1 January 2013	690,917	-	5,224,345	-	(277,108)	-	(397)	481,350	250,438	2,097,579	-	8,467,124	2,264,369	10,731,493
Profit for the period	-	-	-	-	-	-	-	-	-	514,300	-	514,300	16,031	530,331
Other comprehensive income for the period														
- Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	117,060	-	-	-	117,060	38,270	155,330
- Share of other comprehensive income of a joint venture	-	-	-	-	-	-	3,376	-	-	-	-	3,376	-	3,376
- Fair value gain on revaluation of a portion of a building upon transfer to investment properties	-	-	-	-	-	16,191	-	-	-	-	-	16,191	-	16,191
Total comprehensive income for the period	-	-	-	-	-	16,191	3,376	117,060	-	514,300	-	650,927	54,301	705,228
Equity-settled share option arrangements	-	-	-	25,933	-	-	-	-	-	-	-	25,933	-	25,933
Acquisition of a receivable and subsidiaries	77,681	1,394,815	-	-	-	-	-	-	-	-	-	1,472,496	105,840	1,578,336
Share of reserves of a joint venture	-	-	-	-	(9)	-	-	-	-	-	-	(9)	-	(9)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(123,567)	(123,567)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	7,595	7,595
Final 2012 distributions	-	-	(153,720)	-	-	-	-	-	-	-	-	(153,720)	-	(153,720)
Interim 2013 distributions declared	-	-	(192,150)	-	-	-	-	-	-	-	192,150	-	-	-
Transfer between reserves	-	-	-	-	-	-	-	-	24,809	(24,809)	-	-	-	-
At 30 June 2013	768,598	1,394,815*	4,878,475*	25,933*	(277,117)*	16,191*	2,979*	598,410*	275,247*	2,587,070*	192,150*	10,462,751	2,308,538	12,771,289

\* These reserve accounts comprise the consolidated reserves of HK\$9,694,153,000 (unaudited) (31 December 2012: HK\$7,776,207,000) in the condensed consolidated statement of financial position as at 30 June 2013.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2013

	Attributable to shareholders of the Company											
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Defined benefit plan reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	PRC reserve funds (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Distributions declared (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2012	690,917	5,809,534	(400)	(256,351)	(7,370)	487,447	191,874	1,166,338	-	8,081,989	1,628,892	9,710,881
Profit for the period	-	-	-	-	-	-	-	386,593	-	386,593	10,410	397,003
Other comprehensive loss for the period:												
- Exchange differences on translation of foreign operations	-	-	-	-	-	(120,300)	-	-	-	(120,300)	(28,152)	(148,452)
- Share of other comprehensive loss of a joint venture	-	-	-	-	(3,776)	-	-	-	-	(3,776)	-	(3,776)
Total comprehensive income/(loss) for the period	-	-	-	-	(3,776)	(120,300)	-	386,593	-	262,517	(17,742)	244,775
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	31,233	31,233
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	(18,519)	(18,519)
Final 2011 distributions	-	-	(207,275)	-	-	-	-	-	-	(207,275)	-	(207,275)
Interim 2012 distributions declared	-	-	(138,183)	-	-	-	-	-	138,183	-	-	-
Transfer between reserves	-	(5,809,534)	5,570,203	-	-	-	3,711	235,620	-	-	-	-
At 30 June 2012	690,917	-	5,224,345	(256,351)	(11,146)	367,147	195,585	1,788,551	138,183	8,137,231	1,623,864	9,761,095

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Net cash flows used in operating activities	(661,687)	(259,986)
Net cash flows used in investing activities	(1,501,750)	(812,164)
Net cash flows from financing activities	3,351,586	943,453
Net increase/(decrease) in cash and cash equivalents	1,188,149	(128,697)
Cash and cash equivalents at beginning of period	3,639,962	1,947,768
Effect of foreign exchange rate changes, net	48,287	(38,713)
Cash and cash equivalents at end of period	4,876,398	1,780,358
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	4,603,128	1,704,013
Time deposits	370,666	195,248
Less: Restricted cash and pledged deposits	(95,778)	(45,606)
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	4,878,016	1,853,655
Less: Time deposits with maturity of more than three months when acquired	(1,618)	(73,297)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	4,876,398	1,780,358

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2013, the Group was involved in the following principal activities:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the People's Republic of China (the "PRC") and Malaysia
- provision of sewage and reclaimed water treatment services in Mainland China and Portugal
- distribution and sale of piped water in Mainland China and Portugal
- provision of technical and consultancy services that are related to sewage treatment and construction of comprehensive renovation projects in Mainland China
- licensing of technical know-how that is related to sewage treatment in Mainland China

## 1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The accounting policies and basis of preparation adopted in the preparation of these unaudited interim financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2012 except for the changes in accounting policies made thereafter in adopting the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which became effective for the first time for the current period's financial statements, as further detailed in note 1.3 below.

These interim condensed consolidated financial statements have not been audited, but have been reviewed by the Company's audit committee.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 1.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
HKAS 19 (2011)	<i>Employee Benefits</i>
HKAS 27 (2011)	<i>Separate Financial Statements</i>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
<i>Annual Improvements 2009-2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012

The adoption of the revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements except for the following:

- presentation of the consolidated statement of comprehensive income has been modified to meet the requirements of HKAS 1 (Amendments) *Presentation of Items of Other Comprehensive Income*; and
- “jointly-controlled entities” has been superseded by “joint ventures” following the adoption of HKFRS 11 *Joint Arrangements*.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 2. OPERATING SEGMENT INFORMATION

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

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

For the six months ended 30 June 2013

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000	Water distribution services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	2,588,164	118,152	57,376	2,763,692
Cost of sales	(1,622,090)	(29,086)	(8,033)	(1,659,209)
Gross profit	966,074	89,066	49,343	1,104,483
Segment results				
The Group	1,022,093	80,469	40,386	1,142,948
Share of profits and losses of:				
– Joint ventures	2,080	(4,933)	–	(2,853)
– Associates	(2,244)	–	–	(2,244)
	1,021,929	75,536	40,386	1,137,851
Corporate and other unallocated income and expenses, net				(108,284)
Finance costs				(342,407)
Profit before tax				687,160
Income tax				(156,829)
Profit for the period				530,331
Profit/(loss) for the period attributable to shareholders of the Company:				
– Operating segments	837,505	71,424	39,569	948,498
– Corporate and other unallocated items				(434,198)
				514,300

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

For the six months ended 30 June 2012

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000	Water distribution services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	1,160,933	53,539	187,034	1,401,506
Cost of sales	(698,781)	(30,257)	(26,452)	(755,490)
Gross profit	462,152	23,282	160,582	646,016
Segment results				
The Group	495,627	11,823	153,539	660,989
Share of profits and losses of joint ventures	31,810	(2,115)	–	29,695
	527,437	9,708	153,539	690,684
Corporate and other unallocated income and expenses, net				2,658
Finance costs				(227,065)
Profit before tax				466,277
Income tax				(69,274)
Profit for the period				397,003
Profit/(loss) for the period attributable to shareholders of the Company:				
– Operating segments	477,278	8,777	128,552	614,607
– Corporate and other unallocated items				(228,014)
				386,593

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

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

### 30 June 2013

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water distribution services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment assets	30,828,440	4,248,256	496,269	35,572,965
Corporate and other unallocated items				2,428,333
Total assets				38,001,298

### 31 December 2012

	Sewage and reclaimed water treatment and construction services (Audited) <i>HK\$'000</i>	Water distribution services (Audited) <i>HK\$'000</i>	Technical and consultancy services (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets	25,682,292	2,464,787	646,251	28,793,330
Corporate and other unallocated items				2,496,550
Total assets				31,289,880

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

### Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the assets of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of these financial statements.

### Information about major customers

During the period ended 30 June 2013, the Group had a transaction with one (Six months ended 30 June 2012: Nil) external customer of the sewage and reclaimed water treatment and construction services segment which contributed over 10% of the Group's total revenue for the period. A summary of revenue from the major external customer is set out below:

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Customer 1	1,039,563	N/A*

\* The corresponding revenue of this customer is not disclosed as it did not contribute over 10% of the Group's total gross revenue for the last period.

## 3. REVENUE

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts and service contracts relating to sewage and reclaimed water treatment, net of value-added tax and government surcharges; (2) an appropriate proportion of contract revenue of 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) an appropriate proportion of contract revenue of technical and consultancy services contract, net of business tax and government surcharges; and (5) the imputed interest income on service concession arrangements.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 3. REVENUE *(Continued)*

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Sewage and reclaimed water treatment services*	849,628	624,245
Construction services*	1,738,536	536,688
Water distribution services	118,152	53,539
Technical and consultancy services	57,376	187,034
	<b>2,763,692</b>	<b>1,401,506</b>

\* *Imputed interest income under service concession arrangements amounting to HK\$308,785,000 (Six months ended 30 June 2012: HK\$205,195,000) are included in the revenue derived from "Sewage and reclaimed water treatment services" and "Construction services" above.*

## 4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of sewage and reclaimed water treatment services rendered	291,301	215,587
Cost of construction services	1,313,303	471,023
Cost of water distribution services	21,135	21,272
Cost of technical and consultancy services rendered	8,033	26,452
Depreciation	13,616	10,420
Amortisation of operating concessions*	25,437	21,156
Amortisation of other intangible assets*	827	524

\* *The amortisations of operating concessions and other intangible assets for the period are included in "Cost of sales" and "Administrative expenses" on the face of the condensed consolidated income statement, respectively.*

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	215,478	177,274
Interest on other loans	6,178	1,744
Interest on corporate bonds	80,286	51,943
Interest on a note payable	46,046	–
Interest on a finance lease	595	–
<b>Total interest expenses</b>	<b>348,583</b>	<b>230,961</b>
Increase in discounted amounts of provision for major overhauls arising from the passage of time	3,485	2,502
<b>Total finance costs</b>	<b>352,068</b>	<b>233,463</b>
Less: Interest included in cost of construction contracts	(9,661)	(6,398)
	<b>342,407</b>	<b>227,065</b>

## 6. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2013 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2012: Nil).

The income tax provisions in respect of operations in Mainland China and Malaysia are calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries enjoy income tax exemptions and reductions, by reason that these companies are engaged in the operations of sewage and reclaimed water treatment.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 6. INCOME TAX *(Continued)*

	For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Current – PRC:		
Hong Kong	–	–
Mainland China	121,488	66,028
Under/(over)-provision in prior periods	6,248	(8,332)
Current – Malaysia	–	(213)
Deferred	29,093	11,791
Total tax expense for the period	156,829	69,274

## 7. INTERIM DISTRIBUTION

On 29 August 2013, the Board declared interim cash distribution of HK2.5 cents per share (Six months ended 30 June 2012: HK2.0 cents) totalling HK\$192,150,000 (Six months ended 30 June 2012: HK\$138,183,000).

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

The calculation of basic earnings per share amount for the six months ended 30 June 2013 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 7,465,090,092 (Six months ended 30 June 2012: 6,909,170,486) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for these periods in respect of a dilution as the impact of the share options outstanding during the six months ended 30 June 2013 had an anti-dilutive effect on the basic earnings per share amount presented; and the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2012.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Billed:		
Within 3 months	<b>610,658</b>	205,531
4 to 6 months	<b>213,736</b>	52,362
7 to 12 months	<b>56,668</b>	43,436
Over 1 year	<b>88,791</b>	81,135
	<b>969,853</b>	382,464
Unbilled	<b>9,284,940</b>	6,469,498
	<b>10,254,793</b>	6,851,962
Portion classified as current assets	<b>(969,853)</b>	(382,464)
Non-current portion	<b>9,284,940</b>	6,469,498

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 10. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. 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 would 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 and bills receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 5.85% to 8.65%, trade and bills receivables are non-interest-bearing.

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

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Billed:		
Within 3 months	<b>217,956</b>	1,935,375
4 to 6 months	–	–
7 to 12 months	<b>1,048,959</b>	62,829
Over 1 year	<b>204,537</b>	255,915
Balance with extended credit period	<b>228,130</b>	217,768
	<b>1,699,582</b>	2,471,887
Unbilled*	<b>11,156</b>	10,838
	<b>1,710,738</b>	2,482,725
Portion classified as current assets	<b>(1,613,562)</b>	(2,385,500)
Non-current portion	<b>97,176</b>	97,225

\* *The unbilled balance was attributable to certain construction services rendered under contracts for comprehensive renovation projects which will be billed upon the completion of final inspection jointly by the Group, the contract customers and the independent surveyors.*

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2013 (Unaudited) <i>HK\$'000</i>	31 December 2012 (Audited) <i>HK\$'000</i>
Prepayments	60,229	28,790
Deposits and other debtors	3,510,333	3,405,113
Advances to subcontractors and suppliers	2,931,785	2,504,828
Due from joint ventures	88,977	554,032
Due from associates	27	–
Due from related parties	1,455,224	1,458,335
	<b>8,046,575</b>	7,951,098
Impairment	<b>(8,276)</b>	(7,880)
	<b>8,038,299</b>	7,943,218
Portion classified as current assets	<b>(5,488,988)</b>	(5,395,988)
	<b>2,549,311</b>	2,547,230

## 12. SHARE CAPITAL

	30 June 2013 (Unaudited) <i>HK\$'000</i>	31 December 2012 (Audited) <i>HK\$'000</i>
<i>Authorised:</i>		
15,000,000,000 ordinary shares of HK\$0.10 each	1,500,000	1,500,000
<i>Issued and fully paid:</i>		
7,685,981,324 (2012: 6,909,170,486) ordinary shares of HK\$0.10 each	768,598	690,917

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 12. SHARE CAPITAL *(Continued)*

A summary of the movements in the Company's issued share capital during the period ended 30 June 2013 is as follows:

	Number of ordinary shares in issue (Unaudited)	Issued capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2013	6,909,170,486	690,917	–	690,917
Issue of new shares for acquisition of a receivable and certain businesses <i>(note)</i>	776,810,838	77,681	1,394,815	1,472,496
At 30 June 2013	7,685,981,324	768,598	1,394,815	2,163,413

*Note:* During the period, the Group completed the acquisition of a receivable and certain businesses from Beijing Enterprises Holdings Limited, a substantial shareholder of the Company. Further details of the acquisition are set out in section "Significant Investments and Acquisitions" of "Management Discussion and Analysis".

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 13. TRADE AND BILLS PAYABLES

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

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Within 3 months	<b>697,231</b>	610,163
4 to 6 months	<b>471,192</b>	271,075
7 months to 1 year	<b>430,494</b>	72,105
1 to 2 years	<b>68,247</b>	105,980
2 to 3 years	<b>114,578</b>	148,764
Over 3 years	<b>134,882</b>	88,415
Balance with extended credit period	<b>545,473</b>	622,736
	<b>2,462,097</b>	1,919,238

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 14. OTHER PAYABLES AND ACCRUALS

	30 June 2013 (Unaudited) <i>HK\$'000</i>	31 December 2012 (Audited) <i>HK\$'000</i>
Accruals	193,109	241,557
Other liabilities	793,883	795,335
Receipt in advance	811,664	813,790
Due to subcontractors	2,222,771	2,166,809
Due to joint ventures	239,349	296,863
Due to an associate	–	49,995
Due to related parties	164,223	82,840
Other taxes payables	62,808	55,194
	<b>4,487,807</b>	4,502,383
Portion classified as current liabilities	<b>(4,253,108)</b>	(4,269,166)
	<b>234,699</b>	233,217

## 15. CONTINGENT LIABILITIES

At 30 June 2013 and 31 December 2012, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK\$120,629,000) was given by a subsidiary of the Group, through financial institutions, to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the “Malaysia Project”). The corporate guarantee remains in force and effects until 27 January 2019. Further details of the Malaysia Project are set out in the Company’s announcements dated 4 July 2011 and 3 November 2011.

Save as disclosed above, at 30 June 2013 and 31 December 2012, the Group did not have any significant contingent liabilities.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 16. CAPITAL COMMITMENTS

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

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
<hr/>		
New service concession arrangements on a TOT basis:		
Authorised, but not contracted for	<b>206,893</b>	204,338
Contracted, but not provided for	<b>254,250</b>	411,926
	<b>461,143</b>	616,264
<hr/>		
New service concession arrangements on a BOT basis:		
Authorised, but not contracted for	<b>122,185</b>	76,341
Contracted, but not provided for	<b>4,767,428</b>	3,848,311
	<b>4,889,613</b>	3,924,652
<hr/>		
New service concession arrangements on a Build-Own-Operate basis:		
Contracted, but not provided for	<b>960,219</b>	983,017
<hr/>		
Capital contribution to joint ventures:		
Contracted, but not provided for	<b>33,653</b>	33,766
<hr/>		
Acquisition of subsidiaries:		
Contracted, but not provided for	<b>562,749</b>	1,642,197
<hr/>		
Total capital commitments	<b>6,907,377</b>	7,199,896

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 16. CAPITAL COMMITMENTS *(Continued)*

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

	<b>30 June 2013 (Unaudited) HK\$'000</b>	31 December 2012 (Audited) HK\$'000
Authorised, but not contracted for	<b>556,288</b>	595,962
Contracted, but not provided for	<b>1,616,007</b>	497,442
	<b>2,172,295</b>	1,093,404

## 17. EVENT AFTER THE REPORTING PERIOD

On 17 July 2013, the Company entered into a memorandum of understanding (the "MOU") with Standard Water Ltd. (the "Vendor") in relation to the proposed acquisition (the "Proposed Acquisition") of 100% issued share capital of two wholly-owned subsidiaries of the Vendor in order to acquire 36 water projects in Mainland China. The consideration for the Proposed Acquisition is RMB1,350,000,000 (equivalent to approximately HK\$1,697,760,000) (the "Consideration"). A range from 40% to 60% of the Consideration will be settled by way of issue of consideration shares ("Consideration Shares") and the price of the Consideration Shares shall be fixed at HK\$2.82 per share. As at the date of this report, no sales and purchase agreement has been signed in respect of the Proposed Acquisition.

Further details of the Proposed Acquisition are set out in the Company's announcement dated 17 July 2013.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

## 18. RELATED PARTY DISCLOSURES

(a) The Group entered into the following material transactions with related parties during the period:

Name of the related party	Nature of transaction	Notes	For the six months ended 30 June	
			2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
<b>Non-controlling equity holders of the Group</b>				
Meishi International Investment Group Limited	Interest income	(i)	31,817	56,779
Meishi International Investment Group Limited	Interest expenses	(i)	37,048	32,193
Mr. So King Yuk and Mr. Liang Jianhua	Interest income	(ii)	21,464	23,224
Mr. So King Yuk and Mr. Liang Jianhua	Interest expenses	(ii)	24,805	–

(i) The interest income and expenses were charged at the PRC 1-3 year bank loan rate and the PRC 5-year or above bank loan rate.

(ii) The interest income and expenses were charged at the PRC 1-3 year bank loan rate.

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

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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

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

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	7,708	7,991
Pension scheme contributions	23	79
Total compensation paid to key management personnel	7,731	8,070

## 19. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2013 amounted to HK\$5,328,508,000 (unaudited) (31 December 2012: HK\$4,420,920,000) and HK\$29,091,310,000 (unaudited) (31 December 2012: HK\$22,031,597,000), respectively.

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS

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

As at 30 June 2013, 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:

#### *Long positions in the shares and/or underlying shares of the Company*

Name of Directors	Personal interest	Family interest	Corporate interest	Other interest	Total	Approximate percentage of the Company's issued share capital (Note 2)
Mr. Hu Xiaoyong	100,000	–	682,193,919 (Note 1)	–	682,293,919	8.877%
Mr. Zhou Min	300,000	–	682,193,919 (Note 1)	–	682,493,919	8.880%
Mr. Li Haifeng	400,000	–	–	–	400,000	0.005%
Mr. Hou Feng	40,000	–	–	–	40,000	0.0005%

#### Notes:

- Messrs. Hu Xiaoyong, Zhou Min and Hou Feng, all being executive Directors at the date of this report, are interested in Tenson Investment Limited ("Tenson") as to 52.62%, 44.93% and 2.45%, respectively. Tenson holds 682,193,919 shares. The Company noted from the website of the Stock Exchange that on 29 May 2012, BEHL and Tenson entered into a share charge agreement whereby Tenson agreed to charge mortgaged shares of 400,000,000 ordinary shares of the Company ("Mortgaged Shares") beneficially owned by Tenson in favour of BEHL as security for the provision of guarantee entered into by BEHL on 29 May 2012 in favour of DBS Bank Ltd., Hong Kong Branch ("DBS") in respect of a loan facility granted to Tenson by DBS ("Guarantee").
- The percentage represented the number of shares over the total issued shares of the Company as at 30 June 2013 of 7,685,981,324 shares.

#### *Long positions in share options of the Company*

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

Save as disclosed above, as at 30 June 2013, there were no interest or short position of the directors or chief executives of the Company in the shares, the underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

### Directors' Rights to Acquire Shares

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

### Directors' Interests in Contracts of Significance

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

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

As at 30 June 2013, 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 <i>(Note 5)</i>
Beijing Enterprises Group Company Limited <i>(Notes 1, 2 &amp; 3)</i>	Interest of controlled corporation	3,824,367,831	49.76%
	Security Interest	400,000,000	5.20%
BEHL <i>(Notes 1, 2 &amp; 3)</i>	Interest of controlled corporation	3,824,367,831	49.76%
	Security Interest	400,000,000	5.20%
Tenson <i>(Notes 2 &amp; 4)</i>	Beneficial owner	682,193,919	8.88%

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

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

#### Long position in the shares and/or underlying shares of the Company *(Continued)*

Notes:

1. Beijing Enterprises Group Company Limited is deemed to be interested in 3,824,367,831 shares as a result of its indirect holding of such shares through the following entities including its wholly-owned subsidiaries:–

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

BE Environmental beneficially holds 3,824,367,831 shares of the Company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 35.26% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

2. The Company noted from the website of the Stock Exchange that on 29 May 2012, BEHL and Tenson entered into a share charge agreement whereby Tenson agreed to charge the Mortgaged Shares beneficially owned by Tenson in favour of BEHL as security for the provision of the Guarantee.
3. The long positions held by Beijing Enterprises Group Company Limited and BEHL include: (i) the 3,824,367,831 Shares as described in Note 1 above; and (ii) 400,000,000 Mortgaged Shares as described in Note 2 above. Beijing Enterprises Group Company Limited is deemed to be interested in 400,000,000 Mortgaged Shares as its indirect holding of shares of BEHL as described in Note 1 above.
4. The share capital of Tenson is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive Directors at the date of this report.
5. The percentage represented the number of shares over the total issued shares of the Company as at 30 June 2013 of 7,685,981,324 shares.

Save as disclosed above, as at 30 June 2013, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME

On 28 June 2011, a new share option scheme (the “Scheme”) was 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 Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, remains in force for 10 years from that date.

On 24 April 2013, the Company has granted certain eligible participants (the “Grantees”) 400,000,000 share options (the “Share Options”) to subscribe for an aggregate of 400,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company under the Scheme. Movements of the Share Options under the Scheme during the six months ended 30 June 2013 are as follows:

Name/ Category of Participants	Number of Share Options					As at 30 June 2013	Grant Date	Exercisable Period	Exercise Price HK\$
	As at 1 January 2013	Granted	Exercised	Lapsed	Cancelled				
<b>Directors</b>									
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	-	5,800,000	-	-	-	5,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	-	5,800,000	-	-	-	5,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	-	5,800,000	-	-	-	5,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	-	5,800,000	-	-	-	5,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	-	5,800,000	-	-	-	5,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	-	29,000,000	-	-	-	29,000,000			

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

Name/ Category of Participants	Number of Share Options					As at 30 June 2013	Grant Date	Exercisable Period	Exercise Price HK\$
	As at 1 January 2013	Granted	Exercised	Lapsed	Cancelled				
Hou Feng	-	6,400,000	-	-	-	6,400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	-	6,400,000	-	-	-	6,400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	-	6,400,000	-	-	-	6,400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	-	6,400,000	-	-	-	6,400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	-	6,400,000	-	-	-	6,400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	-	32,000,000	-	-	-	32,000,000			
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			
Shea Chun Lok Quadrant	-	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			
Zhang Gaobo	-	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			
Guo Rui	-	400,000	-	-	-	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	-	400,000	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	-	400,000	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	-	400,000	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	-	400,000	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	-	2,000,000	-	-	-	2,000,000			

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

Name/ Category of Participants	Number of Share Options					As at 30 June 2013	Grant Date	Exercisable Period	Exercise Price HK\$
	As at 1 January 2013	Granted	Exercised	Lapsed	Cancelled				
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			
Wang Kaijun	-	400,000	-	-	-	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	-	400,000	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	-	400,000	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	-	400,000	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	-	400,000	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	-	2,000,000	-	-	-	2,000,000			
<b>Sub-total</b>	-	200,000,000	-	-	-	200,000,000			
<b>Employees</b>									
<b>In aggregate</b>	-	40,000,000	-	-	-	40,000,000	24/4/2013	24/4/2014 – 23/4/2023	2.244
	-	40,000,000	-	-	-	40,000,000	24/4/2013	24/4/2015 – 23/4/2023	2.244
	-	40,000,000	-	-	-	40,000,000	24/4/2013	24/4/2016 – 23/4/2023	2.244
	-	40,000,000	-	-	-	40,000,000	24/4/2013	24/4/2017 – 23/4/2023	2.244
	-	40,000,000	-	-	-	40,000,000	24/4/2013	24/4/2018 – 23/4/2023	2.244
	-	200,000,000	-	-	-	200,000,000			
<b>Sub-total</b>	-	200,000,000	-	-	-	200,000,000			
<b>Total</b>	-	400,000,000	-	-	-	400,000,000			

# DISCLOSEABLE INFORMATION

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

Changes in information of Directors since the date of the Annual Report 2012 of the Company up to the date of this report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

During the period, pursuant to the Company's policies and practices and in consideration of the increasing level of duties and responsibilities as well as the market conditions, the remuneration packages of the Directors (including both the executive Directors and the independent non-executive Directors) were reviewed and revised. Accordingly, with effect from 1 January 2013, the directors' fees payable to the Directors per annum were revised as follows:

	<i>HK\$'000</i>
<b>Executive Directors</b>	130
Mr. Zhang Honghai ( <i>Chairman</i> )	120
Mr. E Meng ( <i>Vice Chairman</i> )	120
Mr. Jiang Xinhao	120
Mr. Hu Xiaoyong ( <i>Chief Executive Officer</i> )	120
Mr. Zhou Min	120
Mr. Li Haifeng	120
Mr. Zhang Tiefu	120
Mr. Hou Feng	120
Ms. Qi Xiaohong	120
Mr. Ke Jian	120
Mr. Tung Woon Cheung Eric	120
<b>Independent Non-executive Directors</b>	120
Mr. Shea Chun Lok Quadrant	120
Mr. Zhang Gaobo	150
Mr. Guo Rui	120
Ms. Hang Shijun	120
Mr. Wang Kaijun	120
Mr. Yu Ning	120

These revisions have been approved by the remuneration committee and the board of the Company, respectively.

# DISCLOSEABLE INFORMATION

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

Mr. Hu Xiaoyong, an executive director and chief executive officer of the Company, be granted housing allowance of HK\$80,000 per month with effect from 1 January 2013.

Mr. Li Haifeng, an executive director of the Company, ceased to be an independent non-executive director of Simsen International Corporation Limited (Stock Code: 993) on 9 April 2013.

Mr. Yu Ning, an independent non-executive director of the Company, ceased to be an independent director of Sinolink Securities Co., Ltd. (Shanghai Stock Exchange Stock Code: 600109). He is now an independent director of BOE Technology Group Co., Ltd.^ (Shenzhen Stock Exchange Stock Code: 000725), a company listed on the Shenzhen Stock Exchange.

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.

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

# DISCLOSEABLE INFORMATION

## SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

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

Date of the Agreement(s)	Nature of the Agreement(s)	Aggregate amount (million)	Final Maturity	Specific performance obligations
28 March 2011	Term loan facility with a syndicate of banks	HK\$1,300	March 2016	<i>Note 1</i>
18 April 2011	Term loan facility with a syndicate of banks	HK\$700	March 2016	<i>Note 1</i>
24 June 2011	Subscription agreement for issuance of bonds	RMB1,000	June 2014	<i>Note 2</i>
	Subscription agreement for issuance of bonds	RMB450	June 2016	<i>Note 2</i>
8 September 2011	Term loan facility with a bank	HK\$250	September 2015	<i>Note 1</i>
30 September 2011	Subscription agreement for issuance of bonds	RMB450	June 2014	<i>Note 2</i>
	Subscription agreement for issuance of bonds	RMB50	June 2016	<i>Note 2</i>
1 March 2012	Term loan facility with a bank	RMB950	March 2015	<i>Note 1</i>
1 August 2012	Note purchase agreement with an institutional investor	RMB1,200	August 2021	<i>Note 2</i>
21 December 2012	Term loan facility with a bank	US\$175	December 2017	<i>Note 1</i>
26 April 2013	Subscription agreement for issuance of bonds	US\$500	May 2018	<i>Note 2</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.

# DISCLOSEABLE INFORMATION

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

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

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

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

## **INTERIM DISTRIBUTION**

The Board resolved to pay interim distribution of HK2.5 cents per ordinary share out of the contributed surplus of the Company, payable on or before 11 October 2013 to shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 25 September 2013 for their continuous supports to the Company.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from Monday, 23 September 2013 to Wednesday, 25 September 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim distribution, all properly completed transfers forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 19 September 2013.

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE

During the six months ended 30 June 2013, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules except the Code Provision E.1.2. The chairman of the Company was unable to attend the annual general meeting of the Company held on 21 May 2013 (the “2013 AGM”) and has appointed the vice chairman of the Company to attend on his behalf to chair the 2013 AGM. The chairman of each of remuneration and nomination committees was also unable to attend the 2013 AGM due to other business engagements and has appointed the other directors of the Company to attend the 2013 AGM and to answer questions. Sufficient measures had been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all Directors, the Company confirms that during the six months ended 30 June 2013, all Directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by the Directors.

## AUDIT COMMITTEE

The audit committee of the Company (“Audit Committee”) comprises three independent non-executive Directors, namely Mr. Shea Chun Lok Quadrant (the chairman of the Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The unaudited interim results for the six months ended 30 June 2013 have been reviewed and approved by the Audit Committee. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

## INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. In view of strengthening the internal control system to meet with the continuous corporate and business development of the Company, the Board will conduct an internal company-wide study to review and enhance the internal control system.