

# BEIJING ENTERPRISES WATER GROUP LIMITED

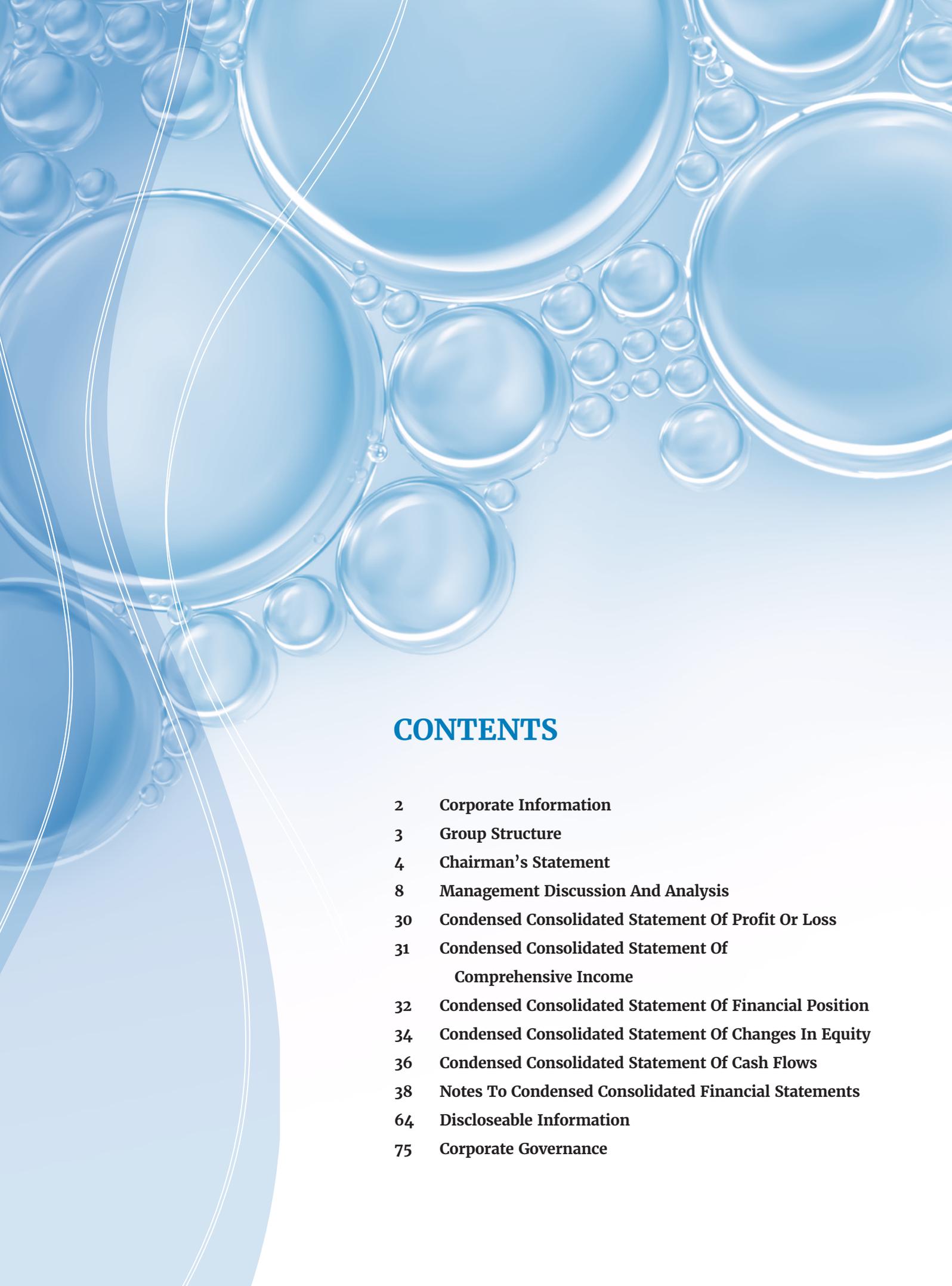


北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED  
Stock Code: 371

INTERIM  
REPORT  
**2017**





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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant  
Mr. Zhang Gaobo  
Mr. Guo Rui  
Mr. Wang Kaijun  
Dr. Lee Man Chun Raymond

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

## STOCK CODE

371

## WEBSITE

[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

Rooms 6706-07  
67th Floor  
Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong  
Tel: (852) 2105 0800  
Fax: (852) 2796 9972

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITOR

Ernst & Young

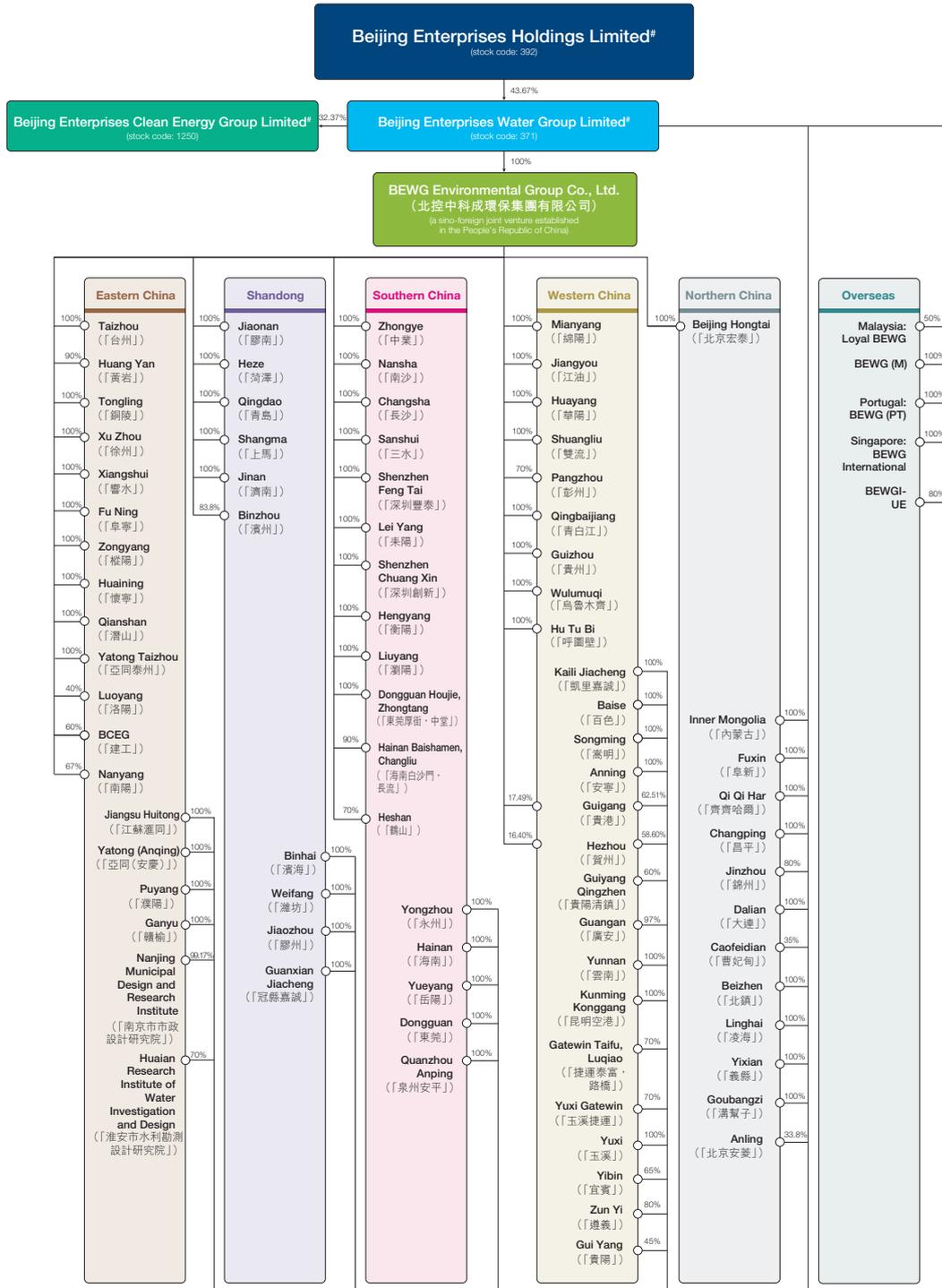
## PRINCIPAL BANKERS

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

In Mainland China:  
Agricultural Bank of China Limited  
Bank of Beijing Co., Limited  
Bank of China Limited  
Bank of Communications Co., Limited  
Bank of Jiangsu Co., Limited  
China Construction Bank Corporation  
China Industrial Bank Co., Ltd  
Industrial and Commercial Bank of China Limited

# GROUP STRUCTURE

30 June 2017



<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, associates and joint ventures

# CHAIRMAN'S STATEMENT

## Dear shareholders,

In the first half of 2017, the economy in China experienced a stable development with positive signs of increasing growth momentum. Following the promulgation of a number of policies by the government authorities in China for further promoting the public-private partnership (PPP) model, the PPP market has geared up for a promising future. Under such background, Beijing Enterprises Water Group Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group" or "BEWG") pursued its yearly business goals and carried out its work tasks. Its efforts to actively promote the change of development model with the implementation of ecological strategies fostered both its core businesses and emerging businesses and delivered a satisfactory growth in operating results.

## PERFORMANCE REVIEW

For the six months ended 30 June 2017, the Group recorded a revenue of HK\$9,126.0 million, which grew by 16% year-on-year. Profit attributable to shareholders of the Company amounted to HK\$1,914.1 million, which increased by 22% year-on-year. Basic earnings per share for the period was HK21.88 cents. In recognition of the continuous support of the shareholders, the board of directors of the Company (the "Board") resolved to make an interim distribution of HK8.0 cents per share to the shareholders.

In the first half of 2017, BEWG continued its approach of expanding and strengthening the two core businesses, namely urban water services and water environment comprehensive renovation, in an extraordinary time of opportunity brought by the favourable PPP policies for environmental improvement. The business of urban water services maintained a rapid growth. As at 30 June 2017, the Group's total daily design capacity was 29,651,194 tons, with the net increase in daily treatment capacity of 2,483,150 tons. The water environment comprehensive renovation business has focused on certain major cities and gained an edge by developing its own water environment comprehensive renovation projects. For instance, BEWG has secured major projects in Beijing, Fujian and Inner Mongolia, among others, and a joint venture setting up by BEWG which had signed a contract in July 2017 regarding comprehensive improvement of urban water ecology PPP projects in Baotou.

As to the new businesses, the Group has integrated internal and external resources in order to expand its coverage on the market of the industrial and rural water services. Various overseas projects, such as the project in Changi, Singapore and the project in Pantai, Malaysia, have commenced its formal operation and received warm response from market and have become as an exemplary model of the country's One Belt, One Road initiative. Beijing Enterprises Clean Energy Group Limited, an associate of the Company, has seen rapid growth in operating performance with major operation indicators showing positive results.

# CHAIRMAN'S STATEMENT

## PERFORMANCE REVIEW *(Continued)*

BEWG determined its strategic direction as an ecological enterprise and strived to set up its own ecological system during the first half of the year. It has signed strategic co-operation agreements with various major state-owned enterprises for the co-operation in market expansion and project implementation, and commenced equity co-operation with local water enterprises by subscribing shares in Luzhou Xinglu Water (Group) Co., Ltd. (stock code: 2281) and Kunming Dianchi Water Treatment Co., Ltd. (stock code: 3768). On the technical front, an ecological system emphasising “operational technology” has been established to enhance the integration of technological resources. On the operational front, brand-building efforts have been strengthened so as to be conducive to providing smart water services and achieving lean operations. With respect to financing, BEWG has established fund management companies by way of private capital partnership with banks and insurance companies and set up a series of funds for financing those the PPP projects especially located in cities such as Tongzhou, Chifeng and Taizhou. In May 2017, the Chifeng Huancheng Water Project Fund LP was formally launched by BEWG and Shanghai Sunvision Equity Investment and Management Co., Ltd under Fosun Group. This was the first investment by way of equity funds into PPP projects of BEWG and represented a breakthrough in the Group’s strategies of setting up private equity fund.

While maintaining fast business growth, the Group was swift to respond to the challenges in the industry in the first half of the year. Competition has intensified, and the increase in the number of large-scale projects with greater complexity has called for higher requirements for the comprehensive strength of environmental enterprises. The PPP model framework needs to be improved and the potential risks are under further assessment. In response to these changes, BEWG has adjusted its market expansion strategy and identify the type of business and selection criteria for onward investment. The Group shifted the focus of the water environment comprehensive renovation business to prosperous cities with a low risk level so as to boost quality and efficiency through curtailing business volume.

## CORPORATE MANAGEMENT AND CONTROL

Regional reform was furthered during the first half of the year, with an aim to promote better integration of the regional network and refine the group structure. The Group has, based on the geographic locations, set up five regional segments which operate independently from each other with the existing “regional divisions”, “business regions” and “regional companies” being integrated under the management of the regional network which covers the eastern, southern, western, northern and central part of China. Meanwhile, the Group’s organisational structure was refined by establishing three lines of function, namely business, management support, and control. Through streamlined procedures and delegation of authority as well as a “negative list” management mode, the Group has essentially supported its regional segments to familiarize themselves with the lists and enhance supervision following approval from headquarter, thereby speeding up our own strategic management and control model as “large group with small headquarter”.

With respect to the construction of our soft strength, the Group has formulated its mid-term to long-term philosophy and strategy for human resources by acknowledgement of the importance of the role of talent workforce in its growth. On the other hand, the Group promotes its corporate culture by embedding it into the daily operations and spreading it among employees. Efforts have also been made to upgrade the brand image of BEWG so as to exhibit our brand influence to support our business success. The safety management system was enhanced as health, safety and environment (HSE) management also plays a significant role in our operation.

# CHAIRMAN'S STATEMENT

## SUSTAINABLE DEVELOPMENT

In the second half of 2017, BEWG will grasp the opportunities brought by the PPP projects and further embark on various major works under the direction of its ecological strategies.

BEWG will co-ordinate the resources on the external and internal fronts to ensure the smooth implementation of its ecological strategies. It continues to engage in extensive co-operation with different levels within the industry chain and boost the value of the whole industry by developing a business ecosystem of water and environmental services which is dynamic, favourable and beneficial by using BEWG's business value in the industry chain. It will also seek opportunities in business expansion through various channels in order to create synergy in exploring the market.

BEWG will further gain an edge by creating and developing its own water environment comprehensive renovation projects and provide comprehensive solutions and services at all levels for environmental project implementation in the cities in which it operates. The reform of the organisational structure of the Group's five regional segments is measured in depth, and business investment will shift to a strategy-oriented approach with the further improvement in the investment system.

Strategic co-operation with financial institutions such as banks and insurance companies will be enhanced to maintain a normal co-operation. BEWG will also identify opportunities to co-operate with local government to set up regional sector funds for the launch and implementation of regional projects.

BEWG understands the importance of the staff, customers and partners for its sustainable development and success. The Group strives in concert with its staff and works closely with its joint venture partners in order to deliver quality services to its customers, with an ultimate aim to enabling a sustainable development of the enterprise.

## FUTURE DEVELOPMENT

In the first half of the year, since the regulatory authorities in China promulgated a number of PPP policies which strengthen regulations of the implementation of the PPP model and open up new financing channels for PPP projects, the development of PPP projects has enjoyed unprecedented prosperity. On the other hand, the water environment renovation market, which features black-and-malodorous water body treatment, water system renovation and sponge city, exhibits outstanding performance. In particular, the revision of the "Law on the Prevention and Control of Water Pollution" imposed further obligation with respect to treatment of the water system that would trigger an enormous potential for market growth. As such, the water environment comprehensive renovation will enjoy a period of ample development opportunities in the second half of the year and coming years.

# CHAIRMAN'S STATEMENT

## **FUTURE DEVELOPMENT** *(Continued)*

In the second half of 2017, towards the objective which focuses on transforming itself into an ecological enterprise as our core strategy and integration of our internal and external resources, BEWG will focus on the establishment of an ecological system and enhancing its capacity to offer integrated environmental solutions of local governments. It will also be dedicated to exploring innovative business models, as well as strengthening internal control and enhancing management capabilities so as to achieve yearly business goals and lay a solid groundwork for attaining a momentous and leapfrogging growth, with the ultimate aim of taking on the responsibility of carrying out environmental improvement.

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

**Li Yongcheng**

*Chairman*

30 August 2017

# MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the period attributable to shareholders of the Company increased by 22% to HK\$1,914.1 million. Revenue increased by 16% to HK\$9,126.0 million as a result of increase in revenue contribution from construction services for comprehensive renovation projects and water treatment services.

## 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>1. Water treatment services</b>					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,840.1	20%	59%	868.0	34%
– Joint ventures and associates				21.9	1%
				889.9	35%
Overseas					
– Subsidiaries	134.5	1%	28%	24.5	1%
	1,974.6	21%		914.4	36%
Water distribution services					
China					
– Subsidiaries	735.5	8%	52%	208.9	8%
– Joint ventures				65.9	3%
				274.8	11%
Overseas					
– Subsidiaries	103.8	1%	30%	21.0	1%
	839.3	9%		295.8	12%
Subtotal	2,813.9	30%		1,210.2	48%

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% <sup>§</sup>	2,888.6	32%	15%	651.9	25%
– Interest income	–	–	–	31.2	1%
	2,888.6	32%	15%	683.1	26%
Construction of BOT water projects					
– China	2,801.7	31%	24%	507.9	20%
– Overseas	–	–	–	–	–
	2,801.7	31%	24%	507.9	20%
Subtotal	5,690.3	63%		1,191.0	46%
<b>3. Technical services and sale of machineries for the water environmental renovation</b>	621.8	7%	65%	160.1	6%
<b>Business results</b>	9,126.0	100%		2,561.3	100%
Fair value gain on derivative financial instruments				39.6	
Others <sup>#</sup>				(686.8)	
<b>Total</b>				1,914.1	

<sup>#</sup> Others included head office and other corporate expense, net, of HK\$175.0 million, share of profit of an associate of HK\$195.8 million, equity-settled share option expense of HK\$10.0 million and finance costs of HK\$697.6 million.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$302.4 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>1. Water treatment services</b>					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,566.4	20%	60%	797.6	37%
– Joint ventures and associates				8.9	0%
				806.5	37%
Overseas					
– Subsidiaries	68.9	1%	14%	2.8	0%
	1,635.3	21%		809.3	37%
Water distribution services					
China					
– Subsidiaries	504.2	6%	53%	172.9	8%
– Joint ventures				78.7	4%
				251.6	12%
Overseas					
– Subsidiaries	94.0	1%	28%	18.7	1%
	598.2	7%		270.3	13%
Subtotal	2,233.5	28%		1,079.6	50%

# 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: *(Continued)*

	Revenue		GP ratio		Profit attributable to shareholders of the Company	
	HK\$'M	%	%	HK\$'M	%	
<b>2. Construction services for the water environmental renovation</b>						
Construction services for comprehensive renovation projects						
– Projects with completion rate more than 10% <sup>§</sup>	1,799.8	23%	24%	368.0	17%	
– Interest income	–	–	–	32.6	1%	
	1,799.8	23%	24%	400.6	18%	
Construction of BOT water projects						
– China	3,081.8	39%	24%	525.3	24%	
– Overseas	355.8	5%	5%*	26.2	1%	
	3,437.6	44%	23%	551.5	25%	
Subtotal	5,237.4	67%		952.1	43%	
<b>3. Technical services and sale of machineries for the water environmental renovation</b>	380.7	5%	65%	147.7	7%	
<b>Business results</b>	7,851.6	100%		2,179.4	100%	
<b>Fair value gain on derivative financial instruments</b>				203.5		
<b>Others<sup>#</sup></b>				(809.0)		
<b>Total</b>				1,573.9		

<sup>#</sup> Others included head office and other corporate expense, net, of HK\$189.2 million, share of profit of an associate of HK\$20.0 million, equity-settled share option expense of HK\$20.1 million and finance costs of HK\$619.7 million.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$7.6 million.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the six months ended 30 June 2017 and 2016 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)	
	2017 HK\$'M	2016 HK\$'M	HK\$'M	%	2017 HK\$'M	2016 HK\$'M	HK\$'M	%
<b>1. Water treatment services</b>								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	1,840.1	1,566.4	273.7	17%	868.0	797.6	70.4	9%
– Joint ventures and associates					21.9	8.9	13.0	146%
					889.9	806.5	83.4	10%
<i>GP ratio</i>	<i>59%</i>	<i>60%</i>		<i>(1%)</i>				
Overseas								
– Subsidiaries	134.5	68.9	65.6	95%	24.5	2.8	21.7	775%
<i>GP ratio</i>	<i>28%</i>	<i>14%</i>		<i>14%</i>				
	1,974.6	1,635.3	339.3	21%	914.4	809.3	105.1	13%
Water distribution services								
China								
– Subsidiaries	735.5	504.2	231.3	46%	208.9	172.9	36.0	21%
– Joint ventures					65.9	78.7	(12.8)	(16%)
					274.8	251.6	23.2	9%
<i>GP ratio</i>	<i>52%</i>	<i>53%</i>		<i>(1%)</i>				
Overseas								
– Subsidiaries	103.8	94.0	9.8	10%	21.0	18.7	2.3	12%
<i>GP ratio</i>	<i>30%</i>	<i>28%</i>		<i>2%</i>				
	839.3	598.2	241.1	40%	295.8	270.3	25.5	9%
Subtotal	2,813.9	2,233.5	580.4	26%	1,210.2	1,079.6	130.6	12%

# MANAGEMENT DISCUSSION AND ANALYSIS

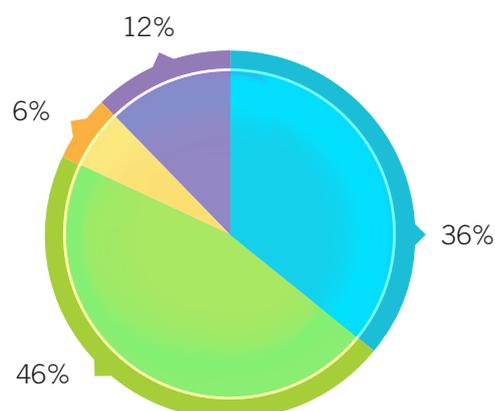
## 1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the six months ended 30 June 2017 and 2016 is set out in details below: *(Continued)*

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June				For the six months ended 30 June			
	2017 HK\$'M	2016 HK\$'M	Increase/(Decrease) HK\$'M	%	2017 HK\$'M	2016 HK\$'M	Increase/(Decrease) HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	2,888.6	1,799.8	1,088.8	60%	651.9	368.0	283.9	77%
– Interest income	–	–	–	–	31.2	32.6	(1.4)	(4%)
<i>GP ratio</i>	2,888.6 15%	1,799.8 24%	1,088.8	60% (9%)	683.1	400.6	282.5	71%
Construction of BOT water projects								
– China	2,801.7	3,081.8	(280.1)	(9%)	507.9	525.3	(17.4)	(3%)
– Overseas	–	355.8	(355.8)	(100%)	–	26.2	(26.2)	(100%)
<i>GP ratio</i>	2,801.7 24%	3,437.6 23%	(635.9)	(18%) 1%	507.9	551.5	(43.6)	(8%)
Subtotal	5,690.3	5,237.4	452.9	9%	1,191.0	952.1	238.9	25%
<b>3. Technical services and sale of machineries for the water environmental renovation</b>	621.8	380.7	241.1	63%	160.1	147.7	12.4	8%
<i>GP ratio</i>	65%	65%	–	–				
<b>Business results</b>	9,126.0	7,851.6	1,274.4	16%	2,561.3	2,179.4	381.9	18%
Fair value gain on derivative financial instruments					39.6	203.5	(163.9)	(81%)
Others					(686.8)	(809.0)	122.2	15%
<b>Total</b>					1,914.1	1,573.9	340.2	22%

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. FINANCIAL HIGHLIGHTS *(Continued)*



**Profit attributable to shareholders of the Company  
(Six months ended 30 June 2017)**

- Sewage and reclaimed water treatment services
- Construction services for the water environmental renovation
- Technical services and sale of machineries for the water environmental renovation
- Water distribution services

## 2. BUSINESS REVIEW

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 21 provinces, 4 autonomous regions and 2 municipalities all across Mainland China.

### 2.1 Water treatment services

As at 30 June 2017, the Group entered into service concession arrangements and entrustment agreements for a total of 544 water plants including 423 sewage treatment plants, 110 water distribution plants, 10 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for the period was 2,668,150 tons including Build-Operate-Transfer ("BOT") projects of 231,250 tons, Transfer-Operate-Transfer ("TOT") projects of 10,000 tons, Public-Private Partnership ("PPP") projects of 2,026,900 tons, entrustment operation projects of 30,000 tons, and 370,000 tons through mergers and acquisitions.

During the period, the Group completed the entrusted operation projects with aggregate daily design capacity of 185,000 tons. As such, the net increase in daily design capacity of the period was 2,483,150 tons. As at 30 June 2017, total daily design capacity was 29,651,194 tons.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
<b>China</b>					
In operation	10,294,750	577,200	5,889,400	–	16,761,350
Not yet commenced operation/ Not yet transferred	6,356,350	554,500	5,465,794	50,000	12,426,644
Subtotal	16,651,100	1,131,700	11,355,194	50,000	29,187,994
<b>Overseas</b>					
In operation	199,200	228,000	36,000	–	463,200
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	199,200	228,000	36,000	–	463,200
Total	16,850,300	1,359,700	11,391,194	50,000	29,651,194
<i>(Number of water plants)</i>					
<b>China</b>					
In operation	210	7	61	–	278
Not yet commenced operation/ Not yet transferred	188	2	36	1	227
Subtotal	398	9	97	1	505
<b>Overseas</b>					
In operation	25	1	13	–	39
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	25	1	13	–	39
Total	423	10	110	1	544

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

	Number of plants	Design capacity <i>(Tons/Day)</i>	Actual processing volume during the period* <i>(Tons (M))</i>	Revenue <i>(HK\$'M)</i>	Profit attributable to shareholders of the Company <i>(HK\$'M)</i>
<b>Sewage and reclaimed water treatment services:</b>					
Mainland China:					
– Southern China	44	3,276,700	528.8	465.1	242.7
– Western China	51	1,734,500	245.7	443.2	226.5
– Shandong	29	1,319,000	184.2	214.4	121.8
– Eastern China	51	3,075,750	475.4	416.3	160.6
– Northern China	42	1,466,000	211.5	301.1	138.3
	217	10,871,950	1,645.6	1,840.1	889.9
Overseas	26	427,200	70.6	134.5	24.5
Subtotal	243	11,299,150	1,716.2	1,974.6	914.4
<b>Water distribution services:</b>					
Mainland China	61	5,889,400	563.8	735.5	274.8
Overseas	13	36,000	6.0	103.8	21.0
Subtotal	74	5,925,400	569.8	839.3	295.8
Total	317	17,224,550	2,286.0	2,813.9	1,210.2

\* Excluded entrustment operation contracts

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

#### 2.1.1 Sewage and reclaimed water treatment services

##### 2.1.1a Mainland China

As at 30 June 2017, the Group had 210 sewage treatment plants and 7 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 10,294,750 tons (31 December 2016: 9,957,250 tons) and 577,200 tons (31 December 2016: 497,200 tons) respectively. The average daily processing volume is 9,143,953 tons and average daily treatment rate is 85%. The actual average contracted tariff charge of water treatment was approximately RMB1.06 per ton (31 December 2016: RMB1.01 per ton) for water plants. The actual aggregate processing volume for the period was 1,645.6 million tons, of which 1,608.9 million tons was contributed by subsidiaries and 36.7 million tons was contributed by joint ventures. Total revenue for the period was HK\$1,840.1 million. Net profit attributable to shareholders of the Company was HK\$889.9 million, of which HK\$868.0 million was contributed by subsidiaries and HK\$21.9 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

##### Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 30 June 2017, there were 44 sewage treatment plants with total daily design capacity of 3,276,700 tons, representing an increase of 17,500 tons or 1% as compared with last year. The actual aggregate processing volume for the period amounted to 528.8 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$465.1 million and HK\$242.7 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 2017, there were 51 sewage treatment plants with total daily design capacity of 1,734,500 tons, representing an increase of 110,000 tons per day or 7% as compared with last year. The actual processing volume for the period was 245.7 million tons. The operating revenue of HK\$443.2 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$226.5 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

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

##### 2.1.1a Mainland China *(Continued)*

###### Shandong

There were 29 plants in Shandong region. The total daily design capacity of Shandong region is 1,319,000 tons, representing an increase of 50,000 tons per day or 4% as compared with last year. The actual processing volume for the period was 184.2 million tons contributing operating revenue of HK\$214.4 million during the period. Profit attributable to shareholders of the Company was HK\$121.8 million.

###### Eastern China

There were 51 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui provinces. As at 30 June 2017, the total daily design capacity of Eastern China had increased by 125,000 tons to 3,075,750 tons or 4% as compared with last year. The actual processing volume for the period amounted to 475.4 million tons and operating revenue was HK\$416.3 million during the period. Profit attributable to shareholders of the Company was HK\$160.6 million.

###### Northern China

Currently, the Group has 42 plants under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 115,000 tons to 1,466,000 tons or 9% as compared with last year. The projects achieved actual processing volume of 211.5 million tons for the period. The operating revenue was HK\$301.1 million during the period. Profit attributable to shareholders of the Company was HK\$138.3 million.

##### 2.1.1b Overseas:

As at 30 June 2017, the Group had 24 sewage treatment plants in Portugal, a sewage treatment plant in Macau and a reclaimed water plant in Singapore. Total daily design sewage treatment capacity in operation was 427,200 tons. The actual processing volume for the period is 70.6 million tons, of which 39.9 million tons was contributed by subsidiaries and 30.7 million tons was contributed by a joint venture. Total revenue for the period was HK\$134.5 million. Profit attributable to shareholders of the Company was HK\$24.5 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 2. BUSINESS REVIEW *(Continued)*

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

#### 2.1.2 Water distribution services

##### 2.1.2a Mainland China:

As at 30 June 2017, the Group had 61 water distribution plants in operation. Total daily design capacity in operation was 5,889,400 tons (31 December 2016: 5,704,400 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province, Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB1.91 per ton (31 December 2016: RMB1.86 per ton). The aggregate actual processing volume is 563.8 million tons, of which 341.3 million tons was contributed by subsidiaries, which recorded revenue of HK\$735.5 million and 222.5 million tons was contributed by joint ventures. Imputed interest income of HK\$22.1 million was recognised for the receivables under service concession arrangement of Plant No. 9 in Beijing. Profit attributable to shareholders of the Company was HK\$274.8 million, of which profit of HK\$208.9 million was contributed by subsidiaries and a profit of HK\$65.9 million in aggregate was contributed by joint ventures.

##### 2.1.2b Overseas:

As at 30 June 2017, the Group had 13 water distribution plants in Portugal. Total daily design water distribution capacity in operation was 36,000 tons. The actual processing volume for the period is 6.0 million tons. Total revenue for the period was HK\$103.8 million. Profit attributable to shareholders of the Company was HK\$21.0 million.

### 2.2 Construction services for the water environmental renovation

#### 2.2.1 Construction services for comprehensive renovation projects

The Group had 15 comprehensive renovation projects under construction during the period. The projects mainly located in Henan Luoyang, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia, Chengdu Jianyang, Yunnan Ling Qiang and Malaysia Terengganu. Last period, the Group had 14 comprehensive renovation projects under construction in Beijing Liangshuihe, Beijing Xiaotaihouhe, Henan Luoyang, Foshan Gaoming, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia Wuhai and Malaysia Pantai.

Revenue from comprehensive renovation projects increased by HK\$1,088.8 million from last period of HK\$1,799.8 million to HK\$2,888.6 million this period. Revenue increased was mainly due to the new commencement of construction work for Inner Mongolia.

# 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)*

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 from water environmental renovation projects attributable to shareholders of the Company was HK\$31.2 million for this period (six months ended 30 June 2016: HK\$32.6 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK\$282.5 million from last period of HK\$400.6 million to HK\$683.1 million this period.

#### 2.2.2 Construction of BOT water projects

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

During the period, water plants under construction were mainly located in Guangdong, Shandong, Jiangsu, Ningxia and Henan provinces. Total revenue for construction of BOT water projects was HK\$2,801.7 million (six months ended 30 June 2016: HK\$3,437.6 million) and profit attributable to shareholders of the Company was HK\$507.9 million (six months ended 30 June 2016: HK\$551.5 million).

### 2.3 Technical services and sale of machineries for the water environmental renovation

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

Revenue from the provision of technical services and sale of machineries was HK\$621.8 million (six months ended 30 June 2016: HK\$380.7 million), representing 7% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$160.1 million (six months ended 30 June 2016: HK\$147.7 million).

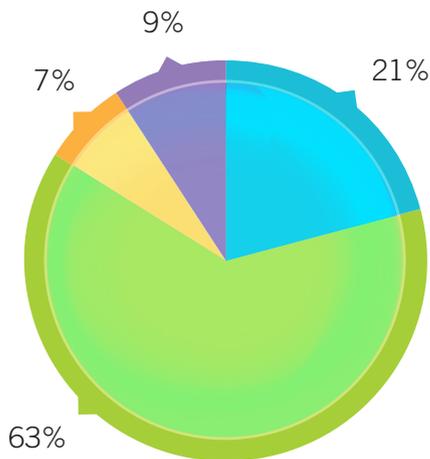
Increase in revenue was mainly due to the increase in contribution from provision of technical services.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS

### 3.1 Revenue

During the period, the Group recorded revenue of HK\$9,126.0 million (six months ended 30 June 2016: HK\$7,851.6 million). The increase was mainly due to the increase in revenue from construction services for comprehensive renovation projects and water treatment services. The increase in revenue from construction services was mainly due to the construction work for comprehensive renovation projects in Inner Mongolia and the increase in revenue from water treatment services was mainly due to the revenue contribution from TOT projects and projects acquired in the second half of last year.



**Revenue**  
**(Six months ended 30 June 2017)**

- Sewage and reclaimed water treatment services
- Construction services for the water environmental renovation
- Technical services and sale of machineries for the water environmental renovation
- Water distribution services

### 3.2 Cost of sales

Cost of sales for the period amounted to HK\$6,068.9 million, compared to last period of HK\$5,150.0 million. The increase was mainly due to the increase in construction costs and operating costs of water plants amounted to HK\$530.6 million and HK\$302.8 million respectively. Cost of sales mainly included construction costs of HK\$4,562.8 million and operating costs of water plants of HK\$1,285.6 million. The construction costs mainly consisted of subcontracting charges. The increase in construction costs was mainly due to the increase in construction works for comprehensive renovation projects during the period. The operating costs of water plants, mainly included electricity charges of HK\$348.6 million, staff costs of HK\$414.7 million and major overhaul charges of HK\$43.5 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.3 Gross profit margin

During the period, gross profit margin slightly decreased from last period of 34% to 33%.

#### *Gross margin for sewage and reclaimed water treatment services:*

Gross margin for sewage and reclaimed water treatment services in Mainland China was 59% (last period: 60%). Gross margin for sewage and reclaimed water treatment services in Overseas increased to 28% (last period: 14%). The increase was mainly due to the commencement of operation of a reclaimed water plant in Singapore in the second half of last year, which generated a relatively higher gross margin during this period.

#### *Gross margin for water distribution services:*

Gross margin for water distribution services in Mainland China was 52% (last period: 53%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was 51% (last period: 50%). Gross margin for water distribution services in Overseas was 30% (last period: 28%). The slight increase in gross margin for water distribution services in Overseas was due to tariff increment for the Portugal project in the second half of last year.

#### *Gross margin for construction services for comprehensive renovation projects:*

Gross margin for construction services for comprehensive renovation projects decreased from last period of 24% to 15% this period. Gross margin decreased as the major comprehensive renovation projects (e.g. projects in Inner Mongolia) for the period have a relatively lower average gross margin.

#### *Gross margin for construction of BOT water projects:*

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

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

Gross margin for the technical services and sale of machineries for the water environmental renovation was 65% (last period: 65%).

### 3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$433.5 million during the period, compared to last period of HK\$371.5 million. The amount for this period mainly included sludge treatment income of HK\$36.6 million, government grants and subsidies of HK\$17.0 million, pipeline installation income of HK\$85.2 million, fair value gain on investment property of HK\$12.1 million, disposal gains on receivables under operating concessions of HK\$52.5 million in relation to the issuance of an asset backed note and VAT refund of HK\$155.5 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.5 Fair value gain on derivative financial instruments

On 9 December 2014, the Group entered into a subscription agreement with Beijing Enterprises Clean Energy Group Limited (the “BE Clean Energy”). The Group shall subscribe 17,721,519,000 shares at subscription price of HK\$0.079. The total consideration is approximately HK\$1.4 billion, which shall be paid in five tranches within two years. After the completion of all the subscriptions and upon conversion of the preference shares into ordinary shares of BE Clean Energy, the Group shall hold equity interest of 34.95% in BE Clean Energy. The first tranche and second tranche of subscriptions with aggregate number of shares of 8,860,759,500 was completed during the year 2015. The third and fourth tranche of subscription with total number of shares of 7,088,607,600 was completed during the year 2016. The final tranche of subscription with total number of shares of 1,772,151,900 was completed during the period. 4,516,761,897 preference shares were converted into ordinary shares during the period.

According to the accounting policy, the potential subscription shares shall be treated as forward contracts to subscribe the shares of BE Clean Energy. The Group shall recognise the forward contracts as derivative financial instruments with net changes recognised in the consolidated statement of profit or loss of the Group. During the period, the Group recognised a fair value gain of HK\$39.6 million on the forward contracts.

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

### 3.6 Administrative expenses

Administrative expenses for the period increased to HK\$754.8 million, compared to last period of HK\$591.6 million. The increase was mainly due to the increase in staff related expenses of HK\$104.1 million as a result of business expansion during the period.

### 3.7 Other operating expenses, net

Other operating expenses increased from HK\$79.4 million to HK\$162.5 million in the period. The increase was mainly due to the increase in the cost of sludge treatment and the pipeline installation cost during the period.

### 3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$423.5 million (six months ended 30 June 2016: HK\$468.7 million) and interests on corporate bonds and notes payable of HK\$306.4 million (six months ended 30 June 2016: HK\$198.4 million). The increase in finance costs was mainly due to the issuance of corporate bonds with an aggregate principal amount of RMB4,700 million in the second half of last year. Also, there was an increase in market interest rate as compared with last period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.9 Share of profits of associates

Share of profits of associates increased to HK\$210.4 million, compared to last period of HK\$24.3 million. The increase was mainly due to increase in share of profits of BE Clean Energy of HK\$175.8 million.

### 3.10 Share of profits of joint ventures

Share of profits of joint ventures increased to HK\$404.8 million, compared to last period of HK\$109.9 million. The increase was mainly contributed by the fund set up during the period for Chifeng project.

### 3.11 Income tax expense

Income tax expense for the period included the current PRC income tax of HK\$260.8 million. The effective tax rate for the PRC operation was about 17% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the period, was HK\$236.1 million.

### 3.12 Profit attributable to holders of perpetual capital instruments

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

### 3.13 Property, plant and equipment

Property, plant and equipment increased by HK\$764.6 million which was mainly due to the acquisition of Build-Own-Operate (“BOO”) projects in Inner Mongolia in current period.

### 3.14 Investment property

Investment property represented a portion of a building located in Beijing which the Group held to earn rental income during the period. The investment property was stated at fair value. Fair value gain of HK\$12.1 million was recognised in the statement of profit or loss during the period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

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

The Group's total amounts due from contract customers, receivable under service concession arrangements and trade receivables of HK\$51,675.9 million (31 December 2016: HK\$46,247.7 million) included:

By accounting nature:

	30 June 2017			31 December 2016		
	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	19,215.3	916.0	20,131.3	16,204.4	1,100.7	17,305.1
(ii) Receivables under service concession arrangements	24,442.8	2,509.2	26,952.0	22,638.2	1,933.1	24,571.3
(iii) Trade receivables	1,270.9	3,321.7	4,592.6	1,347.1	3,024.2	4,371.3
<b>Total</b>	<b>44,929.0</b>	<b>6,746.9</b>	<b>51,675.9</b>	<b>40,189.7</b>	<b>6,058.0</b>	<b>46,247.7</b>

- (i) Amounts due from contract customers of HK\$20,131.3 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from comprehensive renovation projects during the phase of construction. Total balance increased by HK\$2,826.2 million (non-current portion increased by HK\$3,010.9 million and current portion decreased by HK\$184.7 million), which was mainly due to the recognition of construction revenue for projects in Chengdu Jianyang, Yunnan Yuxi and Inner Mongolia;
- (ii) Receivables under service concession arrangements of HK\$26,952.0 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The increase in balance by HK\$2,380.7 million (non-current portion increased by HK\$1,804.6 million and current portion increased by HK\$576.1 million) was mainly due to the recognition of construction revenue in accordance with HK(IFRIC)-Int 12 for the construction of water plants under the BOT Arrangements; and
- (iii) Trade receivables of HK\$4,592.6 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance increased by HK\$221.3 million (non-current portion decreased by HK\$76.2 million and current portion increased by HK\$297.5 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

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

By business nature:

	<b>30 June 2017 HK\$'M</b>	31 December 2016 HK\$'M
Water treatment services by BOT and TOT projects	<b>40,112.9</b>	36,432.7
Construction services of comprehensive renovation projects	<b>10,474.4</b>	8,852.1
Technical and consultancy services and other businesses	<b>1,088.6</b>	962.9
<b>Total</b>	<b>51,675.9</b>	46,247.7

Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 *Service Concession Arrangements* were HK\$40,112.9 million (31 December 2016: HK\$36,432.7 million). Total receivables for the construction service of comprehensive renovation projects were HK\$10,474.4 million (31 December 2016: HK\$8,852.1 million). Total receivables for technical and consultancy services and other businesses were HK\$1,088.6 million (31 December 2016: HK\$962.9 million).

### 3.16 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is a non-guarantee receipt right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The balance arises from BOT and TOT projects in operation. The increase was mainly due to commencement of operations of BOT and TOT project.

### 3.17 Investments in joint ventures

Investments in joint ventures increased by HK\$1,157.1 million, mainly due to the capital injection to the joint ventures of HK\$572.8 million and share of profit of HK\$404.8 million during the period.

### 3.18 Investments in associates

Investments in associates increased by HK\$693.3 million, mainly due to the subscriptions of preference shares and share of profit of BE Clean Energy during the period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.19 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$1,441.9 million (non-current portion decreased by HK\$340.2 million and current portion increased by HK\$1,782.1 million), mainly due to the increase in deposits for bidding and acquisition of projects during the period.

### 3.20 Cash and cash equivalents

Cash and cash equivalents decreased by HK\$3,384.1 million, mainly due to the payments for acquisition and construction of various water projects in PRC.

### 3.21 Bank and other borrowings

Bank and other borrowings increased by HK\$1,193.3 million. Increase in bank and other borrowings was mainly utilised to finance for the acquisition and construction of various water project in the PRC.

### 3.22 Trade payables

The increase in trade payables by HK\$806.4 million was mainly due to increase in trade payables to subcontractors for construction services of comprehensive renovation projects during the period.

### 3.23 Deferred Income

Deferred income increased by HK\$1,357.3 million which was mainly due to the recognition of deferred sewage water treatment income in relation to the issuance of an asset-backed note with a principal amount of RMB2.1 billion during the period.

### 3.24 Liquidity and financial resources

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

As at 30 June 2017, the Group's cash and cash equivalents amounted to HK\$7,537.0 million (31 December 2016: HK\$10,921.0 million).

The Group's total borrowings amounted to HK\$37,788.8 million (31 December 2016: HK\$36,170.9 million) comprised bank and other borrowings of HK\$22,668.2 million (31 December 2016: HK\$21,474.9 million), finance lease payables of HK\$259.3 million (31 December 2016: HK\$93.1 million), notes payable of HK\$2,992.1 million (31 December 2016: HK\$2,939.7 million) and corporate bonds of HK\$11,869.2 million (31 December 2016: HK\$11,663.2 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 90% of bank and other borrowings bear interest at floating rates.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. FINANCIAL ANALYSIS *(Continued)*

### 3.24 Liquidity and financial resources *(Continued)*

As at 30 June 2017, the Group had banking facilities amounting to HK\$26.1 billion, of which HK\$12.1 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$29,556.7 million (31 December 2016: HK\$26,767.3 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.02 as at 30 June 2017 (31 December 2016: 0.94). The increase in the gearing ratio as at 30 June 2017 was mainly due to the decrease in cash and cash equivalents during the period. The corresponding funds were mainly utilised for the acquisition and construction of various water projects in the PRC.

### 3.25 Capital expenditures

During the period, the Group's total capital expenditures were HK\$3,841.5 million (six months ended 30 June 2016: HK\$5,277.8 million), of which HK\$247.0 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$2,517.2 million was spent on construction and acquisition of water plants, HK\$1,077.3 million represented the consideration for acquisition of equity interests in an associate, subsidiaries and available-for-sale investments and capital injections in joint ventures.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group employed 15,234 employees. Total staff cost for the six months ended 30 June 2017 was HK\$987,195,000 (six months ended 30 June 2016: HK\$598,231,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted an independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. 19,462,000 share options were exercised, no share option was lapsed or cancelled during the six months ended 30 June 2017. As at 30 June 2017, the Company had 304,004,000 share options outstanding which were granted on 24 April 2013 and 2,000,000 share options outstanding which were granted on 28 March 2014. The total outstanding share options represented approximately 3.49% of the Company's ordinary shares in issue as at 30 June 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the six months ended 30 June 2017, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

## CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 30 June 2017 are secured by:

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

Save as disclosed above, at 30 June 2017, the Group did not have any charges on the Group's assets.

## FOREIGN EXCHANGE EXPOSURE

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

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
REVENUE	3	9,126,016	7,851,562
Cost of sales		(6,068,949)	(5,150,034)
Gross profit		3,057,067	2,701,528
Interest income		121,766	84,139
Other income and gains, net		433,514	371,506
Administrative expenses		(754,752)	(591,575)
Other operating expenses, net		(162,474)	(79,377)
PROFIT FROM OPERATING ACTIVITIES	4	2,695,121	2,486,221
Fair value gain on derivative financial instruments		39,555	203,480
Finance costs	5	(697,633)	(619,693)
Share of profits and losses of:			
Joint ventures		404,839	109,922
Associates		210,443	24,335
PROFIT BEFORE TAX		2,652,325	2,204,265
Income tax expense	6	(498,985)	(453,067)
PROFIT FOR THE PERIOD		2,153,340	1,751,198
ATTRIBUTABLE TO:			
Shareholders of the Company		1,914,125	1,573,915
Holders of perpetual capital instruments		116,444	–
Non-controlling interests		122,771	177,283
		2,153,340	1,751,198
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic		HK21.88 cents	HK18.08 cents
– Diluted		HK21.42 cents	HK17.73 cents

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	<b>2,153,340</b>	1,751,198
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	<b>879,054</b>	(615,769)
– Share of other comprehensive income of an associate	<b>9,521</b>	–
– Loss on revaluation of available-for-sale investments	<b>(86,757)</b>	–
	<b>801,818</b>	(615,769)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive loss of a joint venture	<b>(7,054)</b>	(16,718)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX	<b>794,764</b>	(632,487)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<b>2,948,104</b>	1,118,711
ATTRIBUTABLE TO:		
Shareholders of the Company	<b>2,465,474</b>	1,052,180
Holders of perpetual capital instruments	<b>262,725</b>	–
Non-controlling interests	<b>219,905</b>	66,531
	<b>2,948,104</b>	1,118,711

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

		30 June 2017 (Unaudited) <i>HK\$'000</i>	31 December 2016 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment	9	3,596,027	2,831,452
Investment property		784,968	755,326
Goodwill		3,529,198	3,312,200
Operating concessions		3,486,772	3,389,996
Other intangible assets		76,268	61,936
Investments in joint ventures	11	4,451,729	3,294,613
Investments in associates		3,083,326	2,390,062
Available-for-sale investments		1,127,772	693,611
Amounts due from contract customers		19,215,260	16,204,380
Receivables under service concession arrangements	10	24,442,805	22,638,167
Trade receivables	13	1,270,865	1,347,108
Prepayments, deposits and other receivables	14	1,706,616	2,046,779
Deferred tax assets		122,185	106,751
<b>Total non-current assets</b>		<b>66,893,791</b>	<b>59,072,381</b>
Current assets:			
Non-current assets held for sale		144,594	141,345
Inventories		104,659	90,847
Amounts due from contract customers		915,973	1,100,669
Receivables under service concession arrangements	10	2,509,174	1,933,078
Trade receivables	13	3,321,709	3,024,152
Prepayments, deposits and other receivables	14	6,197,207	4,415,085
Derivative financial instruments	12	–	214,150
Restricted cash and pledged deposits		78,591	134,526
Cash and cash equivalents		7,536,954	10,921,037
<b>Total current assets</b>		<b>20,808,861</b>	<b>21,974,889</b>
<b>TOTAL ASSETS</b>		<b>87,702,652</b>	<b>81,047,270</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	<i>Notes</i>	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the Company</b>			
Issued capital	15	<b>875,733</b>	873,787
Reserves		<b>17,618,243</b>	15,627,355
		<b>18,493,976</b>	16,501,142
<b>Perpetual capital instruments</b>		<b>6,567,750</b>	6,305,025
<b>Non-controlling interests</b>		<b>4,495,016</b>	3,961,173
		<b>11,062,766</b>	10,266,198
<b>TOTAL EQUITY</b>		<b>29,556,742</b>	26,767,340
<b>Non-current liabilities:</b>			
Other payables and accruals	16	<b>373,479</b>	344,625
Bank and other borrowings		<b>17,593,454</b>	16,662,637
Corporate bonds		<b>8,129,413</b>	11,663,212
Notes payable		<b>2,992,126</b>	2,939,743
Finance lease payables		<b>204,825</b>	40,906
Provision for major overhauls		<b>223,339</b>	187,759
Deferred income		<b>1,492,403</b>	135,115
Deferred tax liabilities		<b>1,982,354</b>	1,691,342
<b>Total non-current liabilities</b>		<b>32,991,393</b>	33,665,339
<b>Current liabilities:</b>			
Trade payables	17	<b>10,649,187</b>	9,842,824
Other payables and accruals	16	<b>5,047,854</b>	5,234,492
Income tax payables		<b>588,466</b>	672,844
Bank and other borrowings		<b>5,074,738</b>	4,812,255
Corporate bonds		<b>3,739,811</b>	–
Finance lease payables		<b>54,461</b>	52,176
<b>Total current liabilities</b>		<b>25,154,517</b>	20,614,591
<b>TOTAL LIABILITIES</b>		<b>58,145,910</b>	54,279,930
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>87,702,652</b>	81,047,270

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to shareholders of the Company														
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	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	Available-for-sale investment revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Perpetual capital instruments (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2017	873,787	4,900,042	2,623,862	271,022	(206,704)	14,989	(64,142)	(2,823,314)	996,671	-	9,916,929	16,501,142	6,305,025	3,961,173	26,767,340
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,914,125	1,914,125	116,444	122,771	2,153,340
Other comprehensive loss for the period:															
- Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	635,639	-	-	-	635,639	146,261	97,134	879,054
- Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	(7,054)	-	-	-	-	(7,054)	-	-	(7,054)
- Share of other comprehensive income of an associate	-	-	-	-	-	-	-	-	-	9,521	-	9,521	-	-	9,521
- Loss on revaluation of available-for-sale investments	-	-	-	-	-	-	-	-	-	(86,757)	-	(86,757)	-	-	(86,757)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(7,054)	635,639	-	(77,236)	1,914,125	2,465,474	262,725	219,905	2,948,104
Equity-settled share option arrangements	-	-	-	9,951	-	-	-	-	-	-	-	9,951	-	-	9,951
Exercise of share options (note 15)	1,946	57,879	-	(16,157)	-	-	-	-	-	-	-	43,668	-	-	43,668
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	115,445	115,445
Disposal of subsidiaries	-	-	-	-	-	-	-	(3,009)	-	-	-	(3,009)	-	(2,436)	(5,445)
Share of reserves of an associate	-	-	-	-	2,157	-	-	-	-	-	-	2,157	-	-	2,157
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,665)	(1,665)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	202,594	202,594
Final 2016 cash distributions	-	-	(525,407)	-	-	-	-	-	-	-	-	(525,407)	-	-	(525,407)
Transfer to reserves	-	-	-	-	-	-	-	-	89,436	-	(89,436)	-	-	-	-
At 30 June 2017	875,733	4,957,921*	2,098,455*	264,816*	(206,547)*	14,989*	(71,196)*	(2,190,684)*	1,086,107*	(77,236)*	11,741,618*	18,493,976	6,567,750	4,495,016	29,556,742

\* These reserve accounts comprise the consolidated reserves of HK\$17,618,243,000 (unaudited) (31 December 2016: HK\$15,627,355,000) in the condensed consolidated statement of financial position as at 30 June 2017.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to shareholders of the Company												Total equity (Unaudited) HK\$'000		
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	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	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000			
	At 1 January 2016	872,295	4,878,170	3,581,759	258,791	(231,487)	14,989	(49,536)	(827,735)	719,718	6,966,869	16,183,833		4,106,582	20,290,415
	Profit for the period	-	-	-	-	-	-	-	-	-	1,573,915	1,573,915		177,283	1,751,198
Other comprehensive loss for the period:															
- Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(505,017)	-	-	(505,017)	(110,752)	(615,769)		
- Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	(16,718)	-	-	-	(16,718)	-	(16,718)		
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(16,718)	(505,017)	-	1,573,915	1,052,180	66,531	1,118,711		
Equity-settled share option arrangements	-	-	-	20,067	-	-	-	-	-	-	20,067	-	20,067		
Shares repurchased and cancelled	(1,930)	(80,181)	-	-	-	-	-	-	-	-	(82,111)	-	(82,111)		
Exercise of share options	160	4,749	-	(1,319)	-	-	-	-	-	-	3,590	-	3,590		
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	126,522	126,522		
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	(13,477)	(13,477)		
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	90,058	90,058		
Final 2015 cash distributions	-	-	(443,948)	-	-	-	-	-	-	-	(443,948)	-	(443,948)		
Transfer to reserves	-	-	-	-	-	-	-	-	96,556	(96,556)	-	-	-		
At 30 June 2016	870,525	4,802,738*	3,137,811*	277,539*	(231,487)*	14,989*	(66,254)*	(1,332,752)*	816,274*	8,444,228*	16,733,611	4,376,216	21,109,827		

\* These reserve accounts comprise the consolidated reserves of HK\$15,863,086,000 (unaudited) (31 December 2015: HK\$15,311,538,000) in the condensed consolidated statement of financial position as at 30 June 2016.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash used in operations	(2,944,008)	(3,058,691)
Mainland China corporate income tax paid	(359,773)	(184,283)
Overseas taxes paid	(11,115)	(15,417)
Net cash flows used in operating activities	(3,314,896)	(3,258,391)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	(230,141)	(234,013)
Acquisition of subsidiaries	(138,701)	(285,443)
Acquisition of associates	(140,000)	(316,307)
Acquisition of available-for-sale investments	(515,307)	(545,223)
Increase in investments in joint ventures	(573,091)	(4,238)
Proceeds from disposal of subsidiaries	1,225,676	–
Other investing cash flows, net	158,122	54,509
Net cash flows used in investing activities	(213,442)	(1,330,715)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares repurchased	–	(82,111)
Issue of a corporate bond	–	2,338,824
Repayment of corporate bonds	–	(593,350)
New finance lease	170,497	–
New loans	3,509,940	8,604,384
Repayment of loans	(2,780,102)	(5,382,937)
Interest paid	(724,648)	(663,271)
Distributions paid	(525,407)	(443,948)
Other financing cash flows, net	232,851	70,430
Net cash flows from/(used in) financing activities	(116,869)	3,848,021
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of period	10,912,243	6,365,698
Effect of foreign exchange rate changes, net	232,401	(93,168)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7,499,437	5,531,445

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 (Unaudited) <i>HK\$'000</i>	2016 (Unaudited) <i>HK\$'000</i>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances:		
Placed in banks	<b>6,316,408</b>	4,367,172
Placed in a financial institution	<b>601,240</b>	495,812
Time deposits:		
Placed in banks	<b>694,961</b>	827,321
Less: Restricted cash and pledged deposits	<b>(75,655)</b>	(150,066)
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	<b>7,536,954</b>	5,540,239
Less: Time deposits with maturity of more than three months when acquired	<b>(37,517)</b>	(8,794)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<b>7,499,437</b>	5,531,445

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2017, 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 mainland (“Mainland China”) of the People’s Republic of China (the “PRC”) and Malaysia;
- provision of sewage and reclaimed water treatment services in Mainland China, the Republic of Singapore (“Singapore”) and the Portuguese Republic (“Portugal”);
- distribution and sale of piped water in Mainland China and Portugal;
- provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in Mainland China; and
- licensing of technical know-how related to sewage treatment in Mainland China.

## 1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2017 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 the unaudited interim condensed consolidated financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2016 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.

In preparing the unaudited interim condensed consolidated financial statements, the Directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s total current liabilities exceeded its total current assets as at 30 June 2017. Taking into account the Group’s internal financial resources, available banking facilities and new banking facilities currently under negotiation, the Directors of the Company considered that the Group will be able to continue as a going concern. Accordingly, the unaudited interim condensed consolidated financial statements have been prepared on a going concern basis.

The interim condensed consolidated financial statements have not been audited, but has been reviewed by the Company’s Audit Committee.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to a number of HKFRSs</i>

The adoption of these revised HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in the unaudited interim condensed consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

## 2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the 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 a loan to a joint venture, interest income from non-controlling equity holders of subsidiaries, fair value gain on derivative financial instruments, finance costs, share of profit of one associate, as well as head office and corporate income and expenses are excluded from such measurement.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

For the six months ended 30 June 2017

	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 and sale of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	7,664,857	839,312	621,847	9,126,016
Cost of sales	(5,423,558)	(424,835)	(220,556)	(6,068,949)
Gross profit	2,241,299	414,477	401,291	3,057,067
Segment results:				
The Group	2,205,506	331,476	194,465	2,731,447
Share of profits and losses of:				
Joint ventures	338,909	65,930	–	404,839
Associates	14,601	–	–	14,601
	2,559,016	397,406	194,465	3,150,887
Fair value gain on derivative financial instruments				39,555
Corporate and other unallocated income and expenses, net				(36,326)
Share of profit of an associate				195,842
Finance costs				(697,633)
Profit before tax				2,652,325
Income tax expense				(498,985)
Profit for the period				2,153,340
Profit for the period attributable to shareholders of the Company:				
Operating segments	2,105,375	295,790	160,098	2,561,263
Fair value gain on derivative financial instruments				39,555
Corporate and other unallocated items				(686,693)
				1,914,125

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

For the six months ended 30 June 2016

	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 and sale of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	6,872,651	598,231	380,680	7,851,562
Cost of sales	(4,713,180)	(301,807)	(135,047)	(5,150,034)
Gross profit	2,159,471	296,424	245,633	2,701,528
Segment results:				
The Group	2,245,165	230,648	212,472	2,688,285
Share of profits and losses of:				
Joint ventures	31,226	78,696	–	109,922
Associates	–	–	4,330	4,330
	2,276,391	309,344	216,802	2,802,537
Fair value gain on derivative financial instruments				203,480
Corporate and other unallocated income and expenses, net				(202,064)
Share of profit of an associate				20,005
Finance costs				(619,693)
Profit before tax				2,204,265
Income tax expense				(453,067)
Profit for the period				1,751,198
Profit for the period attributable to shareholders of the Company:				
Operating segments	1,761,409	270,248	147,717	2,179,374
Fair value gain on derivative financial instruments				203,480
Corporate and other unallocated items				(808,939)
				1,573,915

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

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

### 30 June 2017

	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 and sale of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
<b>Segment assets:</b>				
Operating segments	59,119,622	15,649,932	2,957,824	77,727,378
Corporate and other unallocated items				9,975,274
				<b>87,702,652</b>

### 31 December 2016

	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 and sale of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
<b>Segment assets:</b>				
Operating segments	54,910,017	12,197,966	2,797,705	69,905,688
Corporate and other unallocated items				11,141,582
				<b>81,047,270</b>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

### Geographical information

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from external customers:		
Mainland China	8,805,715	7,215,691
Elsewhere	320,301	635,871
	<b>9,126,016</b>	7,851,562

The above revenue information by geographical area is based on the locations of the customers.

### Information about major customers

During the six months ended 30 June 2017, revenue of approximately HK\$1,949,604,000 (six months ended 30 June 2016: Nil) was derived from sewage and reclaimed water treatment and construction services segment to a single customer from which over 10% of the Group's total revenue for the period was derived.

## 3. REVENUE

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 3. REVENUE *(Continued)*

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

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Sewage and reclaimed water treatment services	1,974,518	1,635,262
Construction services	5,690,339	5,237,389
Water distribution services	839,312	598,231
Technical and consultancy services and sale of machineries	621,847	380,680
	<b>9,126,016</b>	<b>7,851,562</b>

Imputed interest income under service concession arrangements amounting to HK\$788,187,000 (Six months ended 30 June 2016: HK\$687,569,000) is included in the above revenue.

## 4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Cost of sewage and reclaimed water treatment services rendered	797,111	645,734
Cost of construction services	4,562,830	4,032,265
Cost of water distribution services	407,158	271,308
Cost of technical and consultancy services rendered and machineries sold	220,556	135,047
Depreciation	104,673	68,302
Amortisation of operating concessions*	81,294	65,680
Amortisation of other intangible assets*	4,121	2,426

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank and other loans	<b>423,528</b>	468,681
Interest on corporate bonds	<b>222,808</b>	104,856
Interest on notes payable	<b>83,611</b>	93,510
Interest on finance leases	<b>4,534</b>	2,452
Total interest expense	<b>734,481</b>	669,499
Increase in discounted amounts of provision for major overhauls arising from the passage of time	<b>6,631</b>	5,570
Total finance costs	<b>741,112</b>	675,069
Less: Interest included in cost of construction services	<b>(43,479)</b>	(55,376)
	<b>697,633</b>	619,693

## 6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2017 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2016: Nil).

The income tax provisions in respect of operations in Mainland China and other countries are calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of Mainland China, a number of the Company's subsidiaries enjoy income tax exemptions and reductions, by reasons that (1) these companies are engaged in the operations of sewage and reclaimed water treatment; and/or (2) they have operations in the Western region of Mainland China that are qualified for a 15% concessionary corporate income tax rate for a prescribed period of time pursuant to the "Circular of the State Council on Policies and Measures Concerning the Large-scale Development of China's Western Regions" (Guo Fa [2000] No. 33) issued by the State Council of Mainland China.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 6. INCOME TAX EXPENSE *(Continued)*

	For the six months ended 30 June	
	2017	2016
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current – Mainland China	260,820	232,682
Current – Elsewhere	11,558	7,295
Underprovision/(overprovision) in prior periods	(9,460)	164
Deferred	236,067	212,926
Total tax expense for the period	498,985	453,067

## 7. INTERIM DISTRIBUTION

On 30 August 2017, the Board declared an interim cash distribution of HK8.0 cents per share (Six months ended 30 June 2016: HK5.9 cents) totalling approximately HK\$701,854,000 (Six months ended 30 June 2016: HK\$513,949,000).

## 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 2017 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 8,746,481,439 (Six months ended 30 June 2016: 8,706,460,800) ordinary shares in issue during the period.

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

*(Continued)*

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

	<b>For the six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Profit for the period attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	<b>1,914,125</b>	1,573,915
<b>Number of ordinary shares</b>		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	<b>8,746,481,439</b>	8,706,460,800
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	<b>190,693,745</b>	172,792,055
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<b>8,937,175,184</b>	8,879,252,855

## 9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's additions of property, plant and equipment amounted to HK\$230,141,000 (Six months ended 30 June 2016: HK\$1,862,169,000). There were disposals and/or write-off of property, plant and equipment with an aggregate carrying amount of HK\$106,000 (Six months ended 30 June 2016: HK\$2,931,000) during the six months ended 30 June 2017.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 10. 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 arising from the receivables.

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

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Billed:		
Within 3 months	<b>960,990</b>	747,658
4 to 6 months	<b>474,534</b>	256,118
7 to 12 months	<b>492,331</b>	285,860
Over 1 year	<b>362,928</b>	216,476
	<b>2,290,783</b>	1,506,112
Unbilled:		
Current portion	<b>218,391</b>	426,966
Non-current portion	<b>24,442,805</b>	22,638,167
	<b>24,661,196</b>	23,065,133
Total	<b>26,951,979</b>	24,571,245

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 11. INVESTMENTS IN JOINT VENTURES

During the six months ended 30 June 2017, the Group (as deferred limited partner) entered into two separate limited partnership agreements (the “Partnership Agreements”) with two trust companies (as preferential limited partners) and/or an independent third party and/or a joint venture (also as deferred limited partners) in relation to the establishment and management of two separate funds (the “Funds”). The Funds shall focus on investing in water and water environmental PPP project in certain cities in Mainland China.

Pursuant to the Partnership Agreements, the aggregate capital commitment of the Funds is expected to be approximately RMB1,398 million. As at 30 June 2017, the total investment made by the preferential limited partners in the Funds amounted to RMB1,058 million (equivalent to approximately HK\$1,216 million).

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

In connection with the Funds, deferred limited partners agree to procure, among other things: (i) the actual capital contribution in the Funds gradually to be divested by the preferential limited partners under the schedule stipulated in the Partnership Agreements; and (ii) the payment of the expected return to preferential limited partners by the Funds.

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
<b>Assets</b>		
Forward contracts	–	214,150
Portion classified as current assets	–	(214,150)
Non-current portion	–	–

As at 31 December 2016, the forward contracts were related to the subscription of the remaining 1,772,151,900 convertible preference shares in Beijing Enterprises Clean Energy Group Limited (“BE Clean Energy”) in May 2017 for a total cash consideration of HK\$140 million. During the six months ended 30 June 2017, the forward contracts were fully exercised.

As at 31 December 2016, the fair value of the forward contract was measured using Black-Scholes model with Binomial Tree method based on market observable inputs such as stock prices and hence the forward contract was classified as Level 2 of the fair value hierarchy. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and there was no transfer out from Level 3 as at 30 June 2017 (31 December 2016: there was transfer out from Level 3 to Level 2 of HK\$214 million).

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 13. TRADE RECEIVABLES

The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sale of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 6.85% to 12.98% per annum (31 December 2016: 6.85% to 12.98%), all other trade receivables are non-interest-bearing.

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

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Billed:		
Within 3 months	<b>828,395</b>	953,948
4 to 6 months	<b>534,625</b>	284,586
7 to 12 months	<b>656,144</b>	238,599
Over 1 year	<b>1,301,470</b>	1,545,968
Balance with extended credit period	<b>44,084</b>	43,094
	<b>3,364,718</b>	3,066,195
Unbilled*	<b>1,227,856</b>	1,305,065
	<b>4,592,574</b>	4,371,260
Portion classified as current assets	<b>(3,321,709)</b>	(3,024,152)
Non-current portion	<b>1,270,865</b>	1,347,108

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Prepayments	<b>161,073</b>	141,657
Deposits and other debtors	<b>5,202,931</b>	4,293,382
Advances to subcontractors and suppliers	<b>1,531,863</b>	1,325,117
Due from joint ventures	<b>699,246</b>	306,763
Due from associates	<b>223,237</b>	247,407
Due from related parties	<b>243,487</b>	299,719
	<b>8,061,837</b>	6,614,045
Impairment	<b>(158,014)</b>	(152,181)
	<b>7,903,823</b>	6,461,864
Portion classified as current assets	<b>(6,197,207)</b>	(4,415,085)
	<b>1,706,616</b>	2,046,779
Non-current portion	<b>1,706,616</b>	2,046,779

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 15. SHARE CAPITAL

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
<i>Issued and fully paid:</i>		
8,757,329,196 (31 December 2016: 8,737,867,196) ordinary shares of HK\$0.10 each	<b>875,733</b>	873,787

A summary of the movements in the Company's issued share capital during the six months ended 30 June 2017 is as follows:

	<b>Number of ordinary shares in issue (Unaudited)</b>	<b>Issued capital (Unaudited) HK\$'000</b>	<b>Share premium account (Unaudited) HK\$'000</b>	<b>Total (Unaudited) HK\$'000</b>
At 1 January 2017	8,737,867,196	873,787	4,900,042	5,773,829
Exercise of share options ( <i>Note</i> )	19,462,000	1,946	57,879	59,825
At 30 June 2017	8,757,329,196	875,733	4,957,921	5,833,654

*Note:*

During the period, the subscription rights attaching to 19,462,000 share options were exercised at the subscription price of HK\$2.244 per share, resulting in the issue of 19,462,000 shares of HK\$0.1 each for a total consideration, before expenses, of HK\$43,673,000. An amount of HK\$16,157,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 16. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Accruals	<b>473,410</b>	665,530
Other liabilities	<b>2,717,982</b>	2,644,205
Receipts in advance	<b>355,574</b>	369,001
Due to subcontractors	<b>626,151</b>	610,517
Due to joint ventures	<b>498,691</b>	602,833
Due to associates	<b>22,246</b>	–
Due to related parties	<b>497,127</b>	478,142
Other taxes payables	<b>230,152</b>	208,889
	<b>5,421,333</b>	5,579,117
Portion classified as current liabilities	<b>(5,047,854)</b>	(5,234,492)
	<b>373,479</b>	344,625

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 17. TRADE PAYABLES

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

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
Within 3 months	<b>2,163,607</b>	4,285,337
4 to 6 months	<b>1,148,558</b>	992,009
7 months to 1 year	<b>3,998,083</b>	1,687,788
1 to 2 years	<b>1,870,715</b>	1,389,036
2 to 3 years	<b>691,158</b>	855,638
Over 3 years	<b>503,144</b>	321,900
Balance with extended credit period	<b>273,922</b>	311,116
	<b>10,649,187</b>	9,842,824

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

## 18. CONTINGENT LIABILITIES

At 30 June 2017, a corporate guarantee at a maximum amount of HK\$89,382,000 (MYR49,162,000) (31 December 2016: HK\$85,743,000 (MYR49,162,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and 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. In addition, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK\$537,376,000 (31 December 2016: HK\$456,833,000) were outstanding as at 30 June 2017.

Save as disclosed above, at 30 June 2017, the Group did not have any significant contingent liabilities.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 19. CAPITAL COMMITMENTS

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

	<b>30 June 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
<hr/>		
Contracted, but not provided for		
New service concession arrangements on:		
TOT basis	<b>161,346</b>	187,294
BOT basis	<b>4,127,758</b>	5,435,050
Build-Own-Operate basis	<b>122,989</b>	581,221
Capital contribution to joint ventures	<b>162,763</b>	199,555
Acquisition of subsidiaries	<b>113,767</b>	111,211
Acquisition of further interest in an associate	–	140,000
	<b>4,688,623</b>	6,654,331
<hr/>		

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 2017 (Unaudited) HK\$'000</b>	31 December 2016 (Audited) HK\$'000
<hr/>		
Contracted, but not provided for	<b>195,435</b>	259,856
<hr/>		

Save as disclosed above, at 30 June 2017, the Group did not have any significant commitments.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 20. RELATED PARTY DISCLOSURES

- (a) The Group had the following material transactions during the six months ended 30 June 2017 and outstanding balances with related parties as at 30 June 2017:
- (i) Included in the amounts due from joint ventures of the Group as at 30 June 2017 was an advance to a joint venture of US\$26,390,000 (equivalent to HK\$205,831,000) (31 December 2016: US\$26,390,000 (equivalent to HK\$205,270,000)). The amount is unsecured, bearing floating interest rate at LIBOR plus 2.8% per annum, and repayable on demand. Interest income of HK\$3,961,000 (Six months ended 30 June 2016: Nil) was recognised in profit or loss during the six months ended 30 June 2017;
  - (ii) Included in the receivables under service concession arrangements of the Group as at 30 June 2017 was an amount due from Beijing Enterprises Holdings Limited (“BEHL”), a substantial beneficial owner of the Company, of HK\$606,052,000 (31 December 2016: HK\$784,017,000). In February 2013, the Group acquired from BEHL the estimated future net cash income (after deducting all state and local taxes in Mainland China and operating costs) generated from the service concession arrangement on the water purification and treatment operation of the Phase 1 of No. 9 water treatment plant in Beijing for the six years ending 31 December 2018 (the “Future Income”). Imputed interest income of HK\$22,148,000 (Six months ended 30 June 2016: HK\$32,646,000), which was measured at amortised cost using the effective interest rate method, was recognised in “Revenue” on the face of the condensed consolidated statement of profit or loss during the period. Further details of the transaction are set out in the Company’s circular and announcement dated 30 November 2012 and 5 February 2013, respectively;
  - (iii) The Group’s trade payables as at 30 June 2017 included, inter alia, the following:
    - (1) an amount of HK\$29,994,000 (31 December 2016: HK\$28,664,000) due to a joint venture of the Group, arising from the trading of construction materials and equipment carried out in the ordinary course of business of the Group. There were no purchase costs of the aforementioned balance (Six months ended 30 June 2016: HK\$10,000,000) charged at the published prices and conditions offered by the joint venture to its major customers, and included in “Cost of sales” on the face of the condensed consolidated statement of profit or loss during the period.
    - (2) an amount of HK\$74,119,000 (31 December 2016: HK\$79,550,000) due to an associate of the Group, arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. There were no construction costs (Six months ended 30 June 2016: HK\$282,454,000) charged at the published prices and conditions offered by the associate to its major customers and included in “Cost of sales” on the face of the condensed consolidated statement of profit or loss during the period.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

- (a) The Group had the following material transactions during the six months ended 30 June 2017 and outstanding balances with related parties as at 30 June 2017: *(Continued)*
- (iv) Pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, a 70% owned subsidiary and the non-controlling equity holders of the 70% owned subsidiary, the non-controlling equity holders shall pay interest to the Company at the benchmark 1-year interest rate for Renminbi loans as promulgated by the People's Bank of China over the same period in respect of intercompany advances provided by the Company to the 70% owned subsidiary;
  - (v) The Group had engaged a related company of the Group to provide sewage treatment engineering services for the Malaysia Project at a service fee of HK\$17,529,000 (MYR9,618,000) (Six months ended 30 June 2016: HK\$45,112,000 (MYR22,839,000)), which was charged at the published prices and conditions offered by the related company to its major customers;
  - (vi) The Group had provided construction services for a sewage water plant located in Singapore to an associate of the Group for HK\$64,683,000 (SGD11,997,000) which was charged at the published prices and conditions offered by the Group to its major customers during the six months ended 30 June 2016; and

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

(a) The Group had the following material transactions during the six months ended 30 June 2017 and outstanding balances with related parties as at 30 June 2017: *(Continued)*

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

The term of the Deposit Agreement and the Supplemental Agreement shall commence on the date of the Deposit Agreement and continue up to and including 31 December 2017. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the term of the Deposit Agreement and the Supplemental Agreement shall not exceed HK\$2,350,000,000.

The deposits placed by the Group with BG Finance as at the end of the reporting period amounted to HK\$601,240,000 (31 December 2016: HK\$1,016,744,000). The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK\$240,230,000 (31 December 2016: HK\$125,843,000) and bear interest at floating rates ranging from 4.66% to 4.75% per annum. The related interest income and interest expenses recognised in profit or loss during the period were not significant to the Group.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

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

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “Other SOEs”). During the 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 a material related party transaction that would require separate disclosure.

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

	For the six months ended 30 June	
	2017 (Unaudited) HK\$’000	2016 (Unaudited) HK\$’000
Short-term employee benefits	9,937	12,320
Equity-settled share option expenses	2,860	11,098
Pension scheme contributions	18	62
Total compensation paid to key management personnel	12,815	23,480

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Except as disclosed in note 12, the carrying amounts of other financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values largely due to the short term maturities of these instruments, and accordingly, no disclosure of the fair values of these financial instruments is made.

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

Assets measured at fair value:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
At 30 June 2017 (Unaudited)				
Investment property	-	-	784,968	784,968
Available-for-sale investments:				
Listed equity investments, at fair value	804,570	-	-	804,570
<b>Total</b>	<b>804,570</b>	<b>-</b>	<b>784,968</b>	<b>1,589,538</b>
At 31 December 2016 (Audited)				
Investment property	-	-	755,326	755,326
Available-for-sale investments:				
Listed equity investments, at fair value	545,533	-	-	545,533
<b>Total</b>	<b>545,533</b>	<b>-</b>	<b>755,326</b>	<b>1,300,859</b>

During the period, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurements (31 December 2016: Nil). Fair value and fair value hierarchy of derivative financial instruments were disclosed in note 12.

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 22. EVENTS AFTER THE REPORTING PERIOD

1. On 9 August 2017, Cash Capital (Beijing) Investment Management Company Limited (“Cash Capital”) as a general partner, China Life Insurance Company Limited (“China Life”), 北控水務(中國)投資有限公司 (Beijing Enterprises Water (China) Investment Co., Ltd.\*, “BEWG (China) Investment” a wholly-owned subsidiary of the Company) and 北控衡石(天津)投資管理有限公司 (Bei Kong Hengshi (Tianjin) Investment Management Company Limited, “Bei Kong Hengshi” a joint venture of the Group) collectively as the limited partners entered into a limited partnership agreement (the “Limited Partnership Agreement”) in relation to the establishment and management of 北控國壽水務基金合夥企業(有限合夥) (Beijing Enterprises China Life Water Fund L.P.\*, the “Fund”). The Fund shall focus on investing in water and water environmental projects and infrastructure projects in relation to water and water environment industries.

Pursuant to the Limited Partnership Agreement, the aggregate capital commitment of the Fund is expected to be RMB24.0024 billion (equivalent to approximately HK\$27.7780 billion), of which RMB12.0 billion (equivalent to approximately HK\$13.9 billion) is to be contributed by China Life, RMB9.0 billion (equivalent to approximately HK\$10.4 billion) is to be contributed by BEWG (China) Investment, RMB3.0 billion (equivalent to approximately HK\$3.5 billion) is to be contributed by Bei Kong Hengshi and RMB0.0024 billion (equivalent to approximately HK\$0.0028 billion) is to be contributed by Cash Capital.

Further details of this transaction are set out in the Company’s announcement dated 9 August 2017. As at the date of this report, the establishment of the Fund has been completed.

\* For identification purpose only

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

## 22. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

- On 24 July 2017, BEWG (China) Investment entered into a joint venture agreement (the “JV Agreement A”) with 包頭市住房發展建設集團有限公司 (Baotou City Housing Development and Construction Group Co., Ltd\*, “Baotou City Housing”) in relation to the establishment of a joint venture company (“Joint Venture A”) in Baotou city, the PRC for the purpose of comprehensive improvement of urban water ecology Public-Private Partnership (“PPP”) projects, including Daqingshan water purification project as well as Xiaobaihe reclaimed water treatment plant works and other water plants in Baotou city. On the same date, BEWG (China) Investment entered into a joint venture agreement (the “JV Agreement B”) with Baotou City Housing in relation to the establishment of a joint venture company (“Joint Venture B”) in Baotou city, the PRC for the purpose of comprehensive improvement of urban water ecology PPP projects, including water safety upgrading project, water connected projects, water storage lake project, new water supply pipeline, pressurized pumping station, upgrading water environment projects (including river interception pipe network, the initial rainwater storage pool, pumping stations of Xiaobaihe and ancillary works from Xiaobaihe reclamation water plant to Daqingshan reclaimed water plant), water landscape engineering and other water projects.

Pursuant to the JV Agreement A, the registered capital of Joint Venture A is RMB180,000,000 (equivalent to approximately HK\$206,550,000). BEWG (China) Investment will inject RMB162,000,000 (equivalent to approximately HK\$185,895,000), representing 90% of the registered capital of Joint Venture A. Baotou City Housing will inject RMB18,000,000 (equivalent to approximately HK\$20,655,000), representing 10% of the registered capital of Joint Venture A. Pursuant to the JV Agreement B, the registered capital of Joint Venture B is RMB4,000,000,000 (equivalent to approximately HK\$4,590,000,000). BEWG (China) Investment will inject RMB3,600,000,000 (equivalent to approximately HK\$4,131,000,000), representing 90% of the registered capital of Joint Venture B. Baotou City Housing will inject RMB400,000,000 (equivalent to approximately HK\$459,000,000), representing 10% of the registered capital of Joint Venture B.

Further details of this transaction are set out in the Company’s announcement dated 24 July 2017. As at the date of this report, the formation of joint ventures has been completed.

## 23. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 30 June 2017 amounted to HK\$4,345,656,000 (unaudited) (31 December 2016: HK\$1,360,298,000) and HK\$62,548,135,000 (unaudited) (31 December 2016: HK\$60,432,679,000), respectively.

## 24. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved and authorised for issue by the Board on 30 August 2017.

\* For identification purpose only

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS

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

As at 30 June 2017, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"), were as follows:

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

Name of Directors	Number of ordinary shares				Total	Approximate percentage of the Company's issued share capital (Note 2)
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Zhou Min	400,000	-	307,676,110 (Note 1)	-	308,076,110	3.5179%
Mr. Li Haifeng	80,000	-	-	-	80,000	0.0009%
Mr. Li Li	10,000	-	-	-	10,000	0.0001%

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

Associated Corporation	Directors	Number of ordinary shares				Total	Approximate percentage of the associated corporation's issued share capital (Note 5)
		Personal interests	Family interests	Corporate interests	Other interests		
Beijing Enterprises Clean Energy Group Limited ("BECEG")	Mr. Zhou Min	-	-	1,596,075,950 (Note 3)	-	1,596,075,950	2.9155%
	Mr. Li Haifeng	-	-	1,127,175,080 (Note 4)	-	1,127,175,080	2.0590%

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

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

*(Continued)*

Notes:

1. 307,676,110 ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") as at 30 June 2017 are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
2. The percentage represented the number of Shares over the total issued Shares of the Company as at 30 June 2017 of 8,757,329,196 Shares.
3. This represented the number of ordinary shares of BECEG of HK\$0.001 each ("BECEG Ordinary Shares") held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
4. This represented the number of BECEG Ordinary Shares held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
5. The percentage represented the number of BECEG Ordinary Shares over the total issued shares of BECEG as at 30 June 2017 of 54,744,337,810 shares.

#### *(iii) Long positions in share options of the Company*

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

Save as disclosed above, as at 30 June 2017, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

#### **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 Transactions, Arrangements or Contracts of Significance**

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

# DISCLOSEABLE INFORMATION

## DISCLOSURE OF INTERESTS *(Continued)*

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

As at 30 June 2017, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of Shareholders	Capacity in which Shares were held	Long positions in the Shares	Approximate percentage of the Company's issued share capital <i>(Note 2)</i>
Beijing Enterprises Group Company Limited ("BEGCL") <i>(Note 1)</i>	Interest of controlled corporation	3,827,377,831	43.70%
Beijing Enterprises Holdings Limited ("BEHL") <i>(Note 1)</i>	Interest of controlled corporation	3,824,367,831	43.67%

#### Notes:

1. BEGCL is deemed to be interested in 3,827,377,831 shares as a result of its indirect holding of such shares through the following entities including its wholly-owned subsidiaries:

Name	Long positions in Shares
Beijing Enterprises Environmental Construction Limited ("BE Environmental")	3,824,367,831
BEHL	3,824,367,831
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	3,827,377,831
BEGCL	3,827,377,831

BE Environmental beneficially holds 3,824,367,831 Shares (representing approximately 43.67%) in the share capital of the Company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 41.06% by BE Group (BVI), which in turn held as to 100% by BEGCL.

2. The percentage represented the number of Shares over the total issued shares of the Company as at 30 June 2017 of 8,757,329,196 shares.

Save as disclosed above, as at 30 June 2017, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME

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

The total number of shares available for issue under the Scheme is 597,227,469 shares, representing approximately 6.82% of the Company’s ordinary Shares in issue as at 30 June 2017. The maximum number of ordinary Shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

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

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

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

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

Share options granted must be taken up within 28 days from the date of offer. An aggregate of HK\$1 is payable by each eligible grantee on acceptance of the offer.

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

During the six months ended 30 June 2017, no option was granted under the Scheme, the movements in the share options of the Company during the period are set out as follows:

Name/ Category of Participants	Number of Share Options					As at 30 June 2017	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing Price per Share HK\$
	As at 1 January 2017	Granted	Exercised	Lapsed	Cancelled					
<b>Directors</b>										
Zhou Min	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	56,000,000	-	-	-	-	56,000,000				
Li Haifeng	5,200,000	-	-	-	-	5,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	22,600,000	-	-	-	-	22,600,000				
Tung Woon Cheung Eric	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	9,000,000	-	-	-	-	9,000,000				

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

Name/ Category of Participants	Number of Share Options					As at 30 June 2017	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing Price per Share HK\$
	As at 1 January 2017	Granted	Exercised	Lapsed	Cancelled					
Li Li	1,180,000	-	-	-	-	1,180,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	12,700,000	-	-	-	-	12,700,000				
Shea Chun Lok Quadrant	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	800,000	-	-	-	-	800,000				
Zhang Gaobo	400,000	-	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	1,200,000	-	-	-	-	1,200,000				
Guo Rui	400,000	-	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	1,600,000	-	-	-	-	1,600,000				
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>	105,900,000	-	-	-	-	105,900,000				

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

Name/ Category of Participants	Number of Share Options					As at 30 June 2017	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing Price per Share HK\$
	As at 1 January 2017	Granted	Exercised	Lapsed	Cancelled					
<b>Eligible Participants including Employees</b>										
In aggregate <i>(Notes 1 &amp; 3)</i>	15,146,000	-	(2,624,000)	-	-	12,522,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	6.043 <i>(Note 2)</i>
	43,440,000	-	(6,576,000)	-	-	36,864,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	6.051 <i>(Note 2)</i>
	51,160,000	-	(9,970,000)	-	-	41,190,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	5.934 <i>(Note 2)</i>
	53,910,000	-	(292,000)	-	-	53,618,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	6.110 <i>(Note 2)</i>
	53,910,000	-	-	-	-	53,910,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	2,000,000	-	-	-	-	2,000,000	28/3/2014	1/6/2016 – 27/3/2024	5.180	-
<b>Sub-total</b>	219,566,000	-	(19,462,000)	-	-	200,104,000				
<b>Total</b>	325,466,000	-	(19,462,000)	-	-	306,004,000				

*Notes:*

- Ms. Hang Shijun resigned as an independent non-executive director of the Company on 30 March 2017. In this respect, the options granted to Ms. Hang Shijun were re-classified from the category of "Directors" to the category of "Eligible Participants including Employees".
- These represented the weighted average closing price per Share immediately before the dates of the share options exercised by Employees during the period.
- Employees were vested on 24 April 2014, 24 April 2015, 24 April 2016 and 24 April 2017 each for 20% of the share options granted and the remaining will be vested on 24 April 2018 for 20% of the share options granted.

# DISCLOSEABLE INFORMATION

## SHARE OPTION SCHEME *(Continued)*

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the six months ended 30 June 2017.

As at 30 June 2017, there were total 306,004,000 share options outstanding under the Scheme, representing approximately 3.49% of the Company's ordinary Shares in issue. As at the date of this report, there were total 290,156,000 share options outstanding under the Scheme, representing approximately 3.31% of the Company's ordinary Shares in issue.

The Company recognised the fair value of the share options, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. Upon the exercise of share options, the resulting Shares issued are recorded by the Company as additional share capital at the nominal value of the Shares, and the excess of the exercise price per Share over the nominal value of the Shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account. When the share options are forfeited/lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves. For further details, please refer to the "Summary of Significant Accounting Policies" in the 2016 annual report of the Company (the "Annual Report 2016").

# DISCLOSEABLE INFORMATION

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

During the period under review:

- Ms. Hang Shijun resigned as an independent non-executive director of the Company on 30 March 2017; and
- Dr. Lee Man Chun Raymond was appointed as an independent non-executive director of the Company on 30 June 2017.

Changes in information of directors since the date of the Annual Report 2016 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:

- Mr. Li Haifeng, an executive director of the Company, was appointed as the chief executive officer of Carry Wealth Holdings Limited (stock code: 643) on 1 April 2017; and
- Mr. Shea Chun Lok Quadrant, an independent non-executive director of the Company, was appointed as an executive director of Asia Allied Infrastructure Holdings Limited (stock code: 711) on 13 July 2017.

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

Save as disclosed above, since the issue date of the Annual Report 2016, there has been no change in the Board, and there has been no change in directors' information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

# 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 constituted disclosure obligation pursuant to Rules 13.18 and 13.21 of the Listing Rules are as follows:

<b>Date of the Agreement(s)</b>	<b>Nature of the Agreement(s)</b>	<b>Aggregate amount (million)</b>	<b>Final Maturity</b>	<b>Specific performance obligations</b>
26 April 2013	Subscription agreement for issuance of bonds	US\$480	May 2018	<i>Note 2</i>
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	<i>Note 2</i>
17 September 2014	Term loan facility with a bank	EUR40	September 2019	<i>Note 2</i>
9 October 2014	Term loan facility with a bank	US\$100 US\$234	January 2024 October 2021	<i>Note 1</i> <i>Note 1</i>
29 April 2015 and 5 July 2017	Term loan facility with a bank	HK\$1,172	April 2020	<i>Note 2</i>
8 May 2015	Note purchase agreement with an institutional investor	HK\$700	May 2020	<i>Note 2</i>
19 June 2015	Term loan facility with a bank	HK\$700	June 2018	<i>Note 1</i>
27 November 2015	Term loan facility with a bank	HK\$3,000	November 2020	<i>Note 3</i>
28 December 2015	Term loan facilities with three banks	HK\$1,760	December 2020	<i>Note 3</i>

# DISCLOSEABLE INFORMATION

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

Notes:

1. BEHL owns, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company or is the single largest shareholder of the Company.
2. (i) BEHL owns or controls more than 35% of the voting rights of the issued share capital of the Company, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; and/or (iv) the nominees of BEHL comprise the majority of the members of the Board.
3. (i) BEHL owns, directly or indirectly, more than 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company, free from any security; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; (iv) BEGCL owns, directly or indirectly, at least 40% of the beneficial shareholding carrying at least 40% of the voting rights in BEHL, free from any security; (v) BEGCL is directly or indirectly the single largest shareholder of BEHL or supervises BEHL; and (vi) BEGCL is effectively wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality\* (北京市人民政府國有資產監督管理委員會).

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 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

## INTERIM DISTRIBUTION

The directors of the Company have resolved to pay interim cash distribution of HK8.0 cents per ordinary Share out of the contributed surplus of the Company, payable on or before 20 October 2017 to shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 4 October 2017 for their continuous supports to the Company.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 29 September 2017 to Wednesday, 4 October 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim cash distribution, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 28 September 2017.

\* For identification purposes only

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE

During the six months ended 30 June 2017, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules, with deviation mentioned below.

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

## 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 the directors of the Company, the Company confirms that during the six months ended 30 June 2017, all the directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by the directors of the Company.

## AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive directors of the Company, 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, risk management and internal control systems of the Company. The unaudited interim results for the six months ended 30 June 2017 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.

# CORPORATE GOVERNANCE

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that may be exposed to the Group and ensuring that the Group maintains sound and effective risk management and internal control systems in order to safeguard the interest of shareholding and Group's assets. The Board had delegated such responsibility to the Audit Committee which shall oversee management in designing, implementing and monitoring the risk management and internal control systems.

The Audit Committee, on behalf of the Board, reviews and monitors the effectiveness of the Group's risk management and internal control systems in accordance with the Company's policies and practices and receives reports on the effectiveness of these systems periodically.

The Group has a risk management center and supervision and audit center in place which report to the management of the Company and the Audit Committee. The risk management center has set up a risk management mechanism towards the corporate objectives in terms of identifying, controlling, ensuring and managing the risks faced by the Group. In particular, the Group applies for strict guidelines and procedures that control over the operating units for every investment which are targeted at mitigating risks in terms of exposure and external impacts and ensures the processes in which risks are managed are fit for purpose. On the other hand, supervision and audit center carries out an independent review of key business processes and controls in accordance with its normal procedures. Their recommendations and remedial measures will be taken to rectify the deficiencies accordingly. The Company from time to time handles inside information in accordance with the procedures and guidelines, updates the internal control system when there are changes to business environment or regulatory guidelines; and follows up with various departments and business segments to ensure the timely implementation of the recommendations.

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

The Board considers that the Group's enhanced risk management and internal control systems were effective and adequate for the six months ended 30 June 2017. No significant areas of concern that may affect the financial, operational and compliance control functions of the Group have been identified.