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The information in this preliminary Offering Circular is not complete and may be changed. This preliminary Offering Circular is not an offer to sell these securities nor is it soliciting an offer to buy these securities in any jurisdiction where such offer or sale is not permitted.

SUBJECT TO COMPLETION

PRELIMINARY OFFERING CIRCULAR DATED 12 APRIL 2018

北控水務集團有限公司
BEIJING ENTERPRISES WATER GROUP LIMITED

Beijing Enterprises Water Capital Management Holdings Limited
北控水務資本管理控股有限公司

(incorporated in the British Virgin Islands with limited liability)

US$ per cent. Guaranteed Bonds due

unconditionally and irrevocably guaranteed by

Beijing Enterprises Water Group Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 371)

Issue price: per cent.

Beijing Enterprises Water Capital Management Holdings Limited (the "**Issuer**") will issue US$ per cent. guaranteed Bonds due (the "**Bonds**").

The Bonds (1) constitute the direct, unsubordinated, unconditional and (subject to Condition 4(a) of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer, (2) shall at all times rank *pari passu* and without any preference amongst themselves and (3) shall at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer. The Bonds will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by Beijing Enterprises Water Group Limited (the "**Guarantor**"), which is listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). The Issuer is a wholly-owned subsidiary of the Guarantor. For a more detailed description, see the section titled "Terms and Conditions of the Bonds".

Interest on the Bonds is payable semi-annually in arrear on and in each year at the rate of per cent. per annum, commencing on 2018. Payments on the Bonds will be made without deduction for or on account of taxes of the British Virgin Islands, the PRC (as defined in the Terms and Conditions of the Bonds) and Bermuda to the extent described under "Terms and Conditions of the Bonds — Taxation".

Beijing Enterprises Holdings Limited ("**BEHL**"), the largest shareholder of the Guarantor, has issued a letter of comfort dated 2018 in relation to the Bonds to the holders of the Bonds (the "**Letter of Comfort**"). **The Letter of Comfort does not constitute a guarantee by BEHL of the obligations of the Issuer and the Guarantor under the Bonds.**

Following the Circular of the National Development and Reform Commission (the "**NDRC**") on Promoting the Reform of the Administration on the Filing and Registration System for Foreign Debts Issued by Enterprises (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) (the "**NDRC Circular**") promulgated in September 2015 by the NDRC, the NDRC further issued the Official Reply of the National Development and Reform Commission on the Foreign Debt Scale of the Foreign Debt Scale Management Enterprises of 2018 (《國家發展改革委會關於2018年度外債規模管理企業外債規模的批復》) (發改外資[2018]307號) (the "**NDRC Annual Quota**") on 9 February 2018, according to which the NDRC granted an annual foreign debt amount to Beijing Enterprises Group Company Limited and the Issuer is authorised by Beijing Enterprises Group Company Limited to issue foreign debts without obtaining the pre-issuance registration certificate under the NDRC Circular, although it still has to make a post-issuance notification to the NDRC within 10 business days after the issuance of the foreign debts.

Unless previously redeemed or purchased and cancelled, the Bonds will mature on at their principal amount. The Bonds are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest to (but excluding) the date fixed for redemption, at the option of the Issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands, the PRC or Bermuda. Upon the occurrence of a Change of Control (as defined in the Terms and Conditions of the Bonds), the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds on the Change of Control Put Date (as defined in the Terms and Conditions of the Bonds) at 101 per cent. of their principal amount, together with accrued but unpaid interest to (but excluding) the Change of Control Put Date. In addition, the Issuer may at any time and from time to time redeem the Bonds, in whole but not in part, at a Make Whole Price (as defined in the Terms and Conditions of the Bonds) as of, and accrued and unpaid interest, if any, to (but excluding), the redemption date as specified in the Optional Redemption Notice (as defined in the Terms and Conditions of the Bonds). See "Terms and Conditions of the Bonds — Redemption and Purchase".

Application has been made to the Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) ("**Professional Investors**") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds are only suitable for Professional Investors.**

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Issuer, the Guarantor, BEHL or quality of disclosure in this Offering Circular.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange Limited for the purpose of giving information with regard to the Issuer, the Guarantor and BEHL. The Issuer, the Guarantor and BEHL accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

See "Risk Factors" beginning on page 11 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered only outside the United States in reliance on Regulation S under the Securities Act.

For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

The Bonds will be evidenced by a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee of, and deposited on or about 2018 (the "**Issue Date**") with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream. Except in the limited circumstances set out herein, certificates for the Bonds will not be issued in exchange for interests in the Global Certificate. See "Summary of Provisions Relating to the Bonds in Global Form".

The Bonds have not been and will not be rated.

Joint Global Coordinators, Lead Managers and Bookrunners
(in alphabetical order)

Deutsche Bank **Mizuho Securities** **UBS**

Offering Circular dated 2018

IMPORTANT NOTICE

This preliminary offering circular (the "Offering Circular") does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Offering Circular or that the information contained in this Offering Circular is correct as of any time after that date.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or reliance upon the whole or any part of the contents of this document.

MiFID II product governance/Professional investors and ECPs only target market — Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading. The Issuer and the Guarantor, having made all reasonable enquiries, confirm that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and their respective subsidiaries taken as a whole (collectively, the "**Group**"), BEHL and to the Bonds, the Guarantee and the Letter of Comfort, which is material in the context of the issue and offering of the Bonds; (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor and the Group are in every material particular true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; and (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Bonds, the Guarantee or the Letter of Comfort the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law.

Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, Deutsche Bank AG, Hong Kong Branch, Mizuho Securities Asia Limited and UBS AG Hong Kong Branch (the "**Joint Lead Managers**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in certain jurisdictions including the United States, the European Economic Area, the United Kingdom, the People's Republic of China, Hong Kong, Singapore, the British Virgin Islands and Bermuda and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group or the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents (the "Trustee" and the "Agents" in each case as defined in the Terms and Conditions of the Bonds). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase any of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular each investor agrees to these restrictions.

There has been no independent verification of any of the information contained herein. No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents or any person who controls any of them) as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents or any person who controls any of them). This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents or any person who controls any of them) accepts any responsibility for the contents of this Offering Circular or for any other statement in connection with the issue and offering of the Bonds, the Group, the Guarantee, the Guarantor or the Issuer made or purported to be made by the Joint Lead Managers or on their behalf. The Joint Lead Managers, the Trustee and the Agents (and each of their respective affiliates, directors, officers, employees, representatives, advisers, agents and each person who controls any of them) accordingly disclaim all and any liability whether arising in tort or contract or otherwise, which they might otherwise have in respect of this Offering Circular or any such statement.

Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group, the Bonds or the Guarantee. In making an investment decision, prospective investors must rely on their examination of the Issuer, the Guarantor, the Group and the terms of this offering, including the merits and risks involved. The Bonds have not been approved or recommended by any Hong Kong or other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this Offering Circular.

IN CONNECTION WITH THE ISSUE OF THE BONDS, UBS AG HONG KONG BRANCH AS THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGERS) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE FURTHER BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor and the Group and the terms of the offering, including the merits and risks involved. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Unless otherwise indicated, all references in this Offering Circular to "Terms and Conditions of Bonds" are to the terms and conditions governing the Bonds set out in "Terms and Conditions of the Bonds".

Unless otherwise indicated, all references in this Offering Circular to "**China**" or the "**PRC**" are to the People's Republic of China and the "**Government**" are to the government of the PRC, including all political sub-divisions (including central, provisional, municipal and other regional or local government entities) and, for the purpose of this Offering Circular only, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan, and all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of China.

Unless otherwise specified or the context requires, references herein to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC, references herein to "**Hong Kong dollars**", "**HK dollars**", "**HK$**", "**HK cents**" or "**HK¢**" are to the lawful currency of Hong Kong ; references herein to "**US dollars**", "**US$**", "**US cents**" or "**US¢**" are to the lawful currency of the United States of America and references to "**HKFRS**" are to Hong Kong Financial Reporting Standards.

Each of the Issuer and the Guarantor records and publishes its financial statements in Hong Kong dollars. Unless otherwise stated in this Offering Circular, all translations from Hong Kong dollars into US dollars were made at the rate of HK$7.8128 to US$1.00, the noon buying rate in New York City for cable transfers payable in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on 29 December 2017. All such translations in this Offering Circular are provided solely for your convenience and no representation is made that the Hong Kong dollar amounts referred to herein have been, could have been or could be converted into US dollars, or vice versa, at any particular rate, or at all. For further information relating to the exchange rates, see "*Exchange Rates*".

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains certain definitions of technical terms used in this Offering Circular as they relate to the Group and its business. Some of these definitions may not correspond to standard industry definitions.

BOO	Build-Own-Operate, a project in which an enterprise undertakes the financing, design, construction, operation and maintenance of facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period during which the enterprise can charge service fees to cover its costs of investment, operation and maintenance and obtain reasonable returns
BOT	Build-Operate-Transfer, a project in which the proprietor grants the rights to a contracted enterprise by concession agreement to undertake the financing, design, construction, operation and maintenance of facilities, which enterprise can charge a fee during the concession period to cover its costs of investment, operation and maintenance as well as reasonable returns, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor
CAGR	Compound Annual Growth Rate
Comprehensive renovation project	a project in which the proprietor grants the rights to a contracted enterprise by an agreement to undertake the financing, design, construction and renovation of facilities, and, upon completion of the construction of such facilities, the relevant facilities will be transferred back to proprietor and the proprietor will pay the enterprise the cost of investment over a period of time
oxidation ditch	machinery that increases the oxygen level in sewage
sedimentation	settling of suspended solids in a fluid through the natural process of gravity
sewage	water that has been used for domestic or industrial purposes which may contain organic and inorganic pollutants, bacteria, dissolved and/or suspended solids
sewage treatment	use of physical, chemical and biological processes to remove pollutants from sewage before discharging it into a water body
TOT	Transfer-Operate-Transfer, a project in which the proprietor transfers the rights to operate facilities to an enterprise for a consideration pursuant to concession agreement, in return, the enterprise can charge users a fee during the concession period, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor
water treatment	use of chemical and biological processes to treat raw water before supplying the water for general consumption

FORWARD-LOOKING STATEMENTS

There are statements in this Offering Circular which contain words and phrases such as "aim", "anticipate", "assume", "believe", "contemplate", "continue", "estimate", "expect", "future", "goal", "intend", "may", "objective", "plan", "predict", "positioned", "project", "risk", "seek to", "shall", "should", "will likely result", "will pursue", "plan" and words and terms of similar substance used in connection with any discussion of future operating or financial performance or the Group's expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings "Risk Factors" and "Description of the Group" regarding the Group's strategies and other future events or prospects are forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to the business of the Group discussed under "Risk Factors", other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- risks associated with global, regional or national business activities;
- general economic and political conditions, including those related to the water industry and the PRC;
- the business strategy and plan of operation;
- fluctuations in foreign currency exchange rates;
- changes in global, regional or national economic and social conditions;
- changes in economic and political conditions and increases in regulatory burdens in the PRC and other countries in which the Group operates, transacts business or has interests;
- accidents and natural disasters;
- changes in import controls or import duties, levies or taxes, either in international markets or in the PRC;
- changes in laws, regulations, taxation or accounting standards or practices;
- changes in prices or demand for products or raw materials produced or used by the Group, both in the PRC and in international markets, as a result of competitive actions or economic factors, such as inflation or exchange rate fluctuations;
- the risks of increased costs and the uncertainty of technological change;
- the ability of third parties to perform in accordance with contractual terms and specifications; and
- acquisitions or divestitures.

These forward-looking statements speak only as at the date of this Offering Circular. The Issuer and the Guarantor expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

TABLE OF CONTENTS

SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this Summary. Prospective investors should therefore read this Offering Circular in its entirety.

The Group

The Group is one of the leading integrated water and sewage treatment solutions providers in the PRC principally engaged in (i) water treatment services which include sewage and reclaimed water treatment services and water distribution services, mainly in the PRC, Macau, Singapore and Portugal, (ii) construction services for water environmental renovation projects including comprehensive renovation projects and BOT projects, mainly in the PRC, Malaysia and Portugal, and (iii) technical services and sale of machineries in relation to sewage treatment and water environmental renovation projects in the PRC. Leveraging upon its core technologies, strategic alliances with local governments, project management expertise, financing channels and engineering, consulting and project design capabilities, the Group enjoys a superior market position in the PRC and is continuing to expand its operations in the PRC and other parts of the world.

The Group was one of the four companies globally, and the only PRC company which won the "Water Company of the Year" award in the 2014 Global Water Summit held in Paris by Global Water Intelligence. In addition, the Group has continuously been ranked first among the "Top Ten Influential Enterprises in the Water Industry in China" (中國水業十大影響力企業) from 2010 to 2016 in survey conducted by h2o-China.com. The Group has also been recognised as "Flagship Enterprise in the Water Industry" (水務旗艦企業) in surveys jointly organised by Chinese Hydraulic Engineering Society, China Water Resources News and China Water Expo from 2012 to 2013 for its standing in the water industry in the PRC. In the 2016 Global Water Summit in Abu Dhabi held by the Global Water Intelligence, the Group's Second Changi NEWater Plant BOO Project in Singapore has won the first in the Water Deal of the Year category.

The coverage of the water plants of the Group and its joint ventures extends to 21 provinces, five autonomous regions and two municipalities across the PRC and Portugal, Malaysia, Macau and Singapore. The Group's operations are widely spread across the southern, western, Shandong, eastern and northern regions in the PRC.

As at 31 December 2017, the Group and its joint ventures entered into service concession arrangements for a total of 782 water plants including 655 sewage treatments plants, 112 water distribution plants, 14 reclaimed water treatment plants and one seawater desalination plant either in operation, under construction or ownership of which was being transferred from the proprietors to the Group and its joint ventures. As at the same date, out of the foregoing plants, 256 sewage treatment plants, 86 water distribution plants and eight reclaimed water treatment plants were in operation.

The total daily design water processing capacity of the operating water plants of the Group and its joint ventures reached approximately 18.7 million tonnes as at 31 December 2017, representing an increase of approximately 13.3 per cent. as compared with the total daily design water processing capacity as at 31 December 2016. For the year ended 31 December 2017, the Group and its joint ventures treated approximately 3,700.5 million tonnes of sewage and reclaimed water and supplied approximately 1,417.0 million tonnes of tap water. The construction projects of the Group and its joint ventures generally entail the construction services in respect of water environmental renovation such as river renovation, construction of water and sewage pipelines and sewage treatment and water supply plants.

As at 31 December 2017, the Guarantor's largest shareholder, BEHL (392.HK), held 43.49 per cent. of the Guarantor's issued share capital. As at 31 December 2017, the Group's total assets and total liabilities were HK$100.5 billion and HK$67.4 billion, respectively, and as at 31 December 2016, the Group's total assets and total liabilities were HK$81.0 billion and HK$54.3 billion, respectively. For the year ended 31 December 2017, the Group's total revenue, profit from operating activities and profit for the year were HK$21.2 billion, HK$5.7 billion and HK$4.4 billion, respectively, and for the year ended 31 December 2016, the Group's total revenue, profit from operating activities and profit for the year were HK$17.4 billion, HK$5.3 billion and HK$3.7 billion, respectively.

Key Competitive Strengths

The Group has the following principal strengths, which enable the Group to compete successfully in its principal business sectors:

- favourable industry dynamics and policy support;
- unique business scale and superior market position;
- solid profit growth;
- strong low-cost financing capability and healthy debt structure;
- strong shareholder support;
- advanced research and development capability; and
- experienced management team.

Strategies

The Group believes that increasing water consumption in the PRC and rapid industrialisation of the PRC economy will continue to create growth opportunities for the Group. The Group has leveraged its competitive advantages in, among others, advanced technologies, strong networks with local governments and project management expertise to become one of the leading integrated water system solution providers in the PRC. The Group intends to maintain its leading position in the PRC water industry by pursuing the following strategies:

- maintain an integrated business model to accelerate expansion of sewage treatment and water supply projects;
- develop new profit drivers; and
- maintain prudent financial policies.

Beijing Enterprises Holdings Limited

BEHL is a conglomerate backed by the Beijing Municipal Government focusing on managing strategic infrastructure, public utilities and other investments.

BEHL's broad portfolio of assets includes:

- natural gas business;
- brewery business;

- water and environmental business; and

- solid waste treatment business.

Leveraging on these businesses, BEHL seeks to achieve consistent financial performance and to attract international investment to further develop Beijing's municipal infrastructure and other businesses.

BEHL's portfolio of businesses, each with a leading market position and stable cash flows, enables it to manage volatility across its business segments, thereby positioning BEHL to capture growth opportunities in the utilities and consumer products sectors in Beijing and throughout the PRC.

BEHL is rated "Baa1" by Moody's Investors Service, Inc. and "BBB+" by Standard and Poor's Rating Services. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

BEHL has been listed on the Hong Kong Stock Exchange (stock code: 392) since 29 May 1997.

As at 31 December 2017, BEHL had a market capitalisation of approximately HK$58.6 billion.

THE ISSUE

The following summary contains some basic information about the Bonds. Some of the terms described below are subject to important limitations and exceptions. Phrases used in this summary and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Bonds". For a complete description of the terms and conditions of the Bonds, see "Terms and Conditions of the Bonds" in this Offering Circular.

Issuer	Beijing Enterprises Water Capital Management Holdings Limited (北控水務資本管理控股有限公司).
Guarantor	Beijing Enterprises Water Group Limited (北控水務集團有限公司).
Letter of Comfort Provider	Beijing Enterprises Holdings Limited.
Issue	US$ per cent. Guaranteed Bonds due .
Issue Price	per cent.
Form and Denomination	The Bonds will be issued in registered form in the specified denomination of US$200,000 and integral multiples of US$1,000 in excess thereof.
Interest	The Bonds will bear interest from and including 2018 at the rate of per cent. per annum, payable semi-annually in arrear in equal installments on and in each year, commencing on 2018.
Issue Date	2018.
Maturity Date	.
Status of the Bonds and the Guarantee	The Bonds constitute direct, unsubordinated, unconditional and (subject to Condition 4 (a) of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to Condition 4 (a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
Negative Pledge	The Bonds will contain a negative pledge provision as further described in the Terms and Conditions of the Bonds.

Events of Default	The Bonds will contain certain events of default provisions as further described in Condition 9 of the Terms and Conditions of the Bonds.
Taxation	All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, the PRC or Bermuda or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law, as further described in Condition 8 of the Terms and Conditions of the Bonds. In such event, the Issuer, or, as the case may be, the Guarantor, shall, subject to the limited exceptions specified in Condition 8 of the Terms and Conditions of the Bonds, pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.
Final Redemption	Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on .
Redemption for Taxation Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount, (together with interest accrued to (but excluding) the date fixed for redemption), at any time in the event of certain changes affecting taxes of the British Virgin Islands, the PRC or Bermuda, as further described in Condition 6(b) of the Terms and Conditions of the Bonds.
Redemption for Change of Control	At any time following the occurence of a Change of Control (as defined in the Terms and Conditions of the Bonds), the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds on the Change of Control Put Date (as defined in the Terms and Conditions of the Bonds), at 101 per cent. of their principal amount, together with accrued but unpaid interest to (but excluding) the Change of Control Put Date, as further described in Condition 6(c) of the Terms and Conditions of the Bonds.
Redemption at the Option of the Issuer	At any time and from time to time, the Issuer may redeem the Bonds, in whole but not in part, at a Make Whole Price as of, and accrued and unpaid interest, if any, to (but excluding), the redemption date, as further described in Condition 6(d) of the Terms and Conditions of the Bonds.

Clearing Systems	The Bonds will be represented by the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for Euroclear and Clearstream. Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.
Clearance and Settlement	The Bonds have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS1805357487 Common Code: 180535748 LEI Code: 3003009FUTGWDC8CUK89
Governing Law	Hong Kong law.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Trustee	The Bank of New York Mellon, London Branch.
Listing	Application has been made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Bonds by way of debt issues to professional investors only.
Further Issues	The Issuer may from time to time, without the consent of the Bondholders, create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them and the timing for complying with the NDRC Post-issue Reporting (as defined in the Terms and Conditions of the Bonds)) and so that such further issue shall be consolidated and form a single series with the Bonds or upon such terms as the Issuer may determine at the time of their issue, as further described in Condition 15 of the Terms and Conditions of the Bonds.
Use of Proceeds	See section entitled "Use of Proceeds".
Letter of Comfort	BEHL, the largest shareholder of the Guarantor, has issued a letter of comfort to holders of the Bonds on 2018 as set out in "The Letter of Comfort" on page 50.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Guarantor as at and for the years indicated.

The summary audited consolidated financial information as at and for the years ended 31 December 2015, 2016 and 2017 set forth below is derived from the Guarantor's published audited consolidated financial statements for the years ended 31 December 2016 and 2017 (which have been audited by Ernst & Young, certified public accountants registered in Hong Kong, and are included elsewhere in this Offering Circular) and should be read in conjunction with such published audited consolidated financial statements and the notes thereto.

The Guarantor's audited consolidated financial statements are prepared and presented in accordance with HKFRS.

Summary Financial Information

Consolidated Income Statement

	For the year ended 31 December		
	2015 (audited)	**2016 (audited)**	**2017 (audited)**
	(HK$'000)	**(HK$'000)**	**(HK$'000)**
Revenue	13,502,957	17,354,833	21,192,372
Cost of sales	(8,536,057)	(11,569,994)	(14,727,848)
Gross profit	4,966,900	5,784,839	6,464,524
Interest income	315,781	202,887	280,989
Other income and gains, net	454,638	1,121,589	1,006,587
Administrative expenses	(1,225,728)	(1,537,747)	(1,753,221)
Other operating expenses, net	(248,054)	(311,068)	(343,336)
Profit from operating activities	4,263,537	5,260,500	5,655,543
Fair value gain on derivative financial instruments	253,714	410,039	39,554
Finance costs	(1,146,708)	(1,401,329)	(1,457,988)
Share of profits and losses of:			
Joint ventures	162,795	192,172	521,629
Associates	12,221	182,373	556,578
Profit before tax	3,545,559	4,643,755	5,315,316
Income tax expense	(777,766)	(970,773)	(874,772)
Profit for the year	2,767,793	3,672,982	4,440,544
Attributable to:			
Shareholders of the Guarantor	2,455,370	3,227,013	3,717,227
Holders of perpetual capital instruments	—	56,570	240,291
Non-controlling interests	312,423	389,399	483,026
	2,767,793	3,672,982	4,440,544

Consolidated Statement of Financial Position

	As at 31 December		
	2015 (audited)	2016 (audited)	2017 (audited)
	(HK$'000)	(HK$'000)	(HK$'000)
ASSETS			
Non-current assets			
Property, plant and equipment	1,379,801	2,831,452	3,841,866
Investment properties	—	755,326	1,083,677
Goodwill	2,967,365	3,312,200	3,303,632
Operating concessions	2,421,012	3,389,996	4,190,771
Other intangible assets	37,290	61,936	101,899
Investments in joint ventures	3,563,399	3,294,613	6,468,569
Investments in associates	902,774	2,390,062	4,184,775
Derivative financial instruments	42,404	—	—
Available-for-sale investments	153,664	693,611	1,245,004
Amounts due from contract customers	11,495,709	16,204,380	15,059,884
Receivables under service concession arrangements	16,977,664	22,638,167	33,322,895
Trade receivables	665,352	1,347,108	1,731,053
Prepayments, deposits and other receivables	5,609,924	2,046,779	2,115,819
Deferred tax assets	122,388	106,751	272,320
Total non-current assets	46,338,746	59,072,381	76,922,164
Current assets			
Non-current assets held for sale	226,647	141,345	330,052
Inventories	99,083	90,847	135,370
Amounts due from contract customers	1,311,629	1,100,669	875,721
Receivables under service concession arrangements	1,712,947	1,933,078	2,614,866
Trade receivables	2,959,325	3,024,152	2,852,976
Prepayments, deposits and other receivables	5,033,177	4,415,085	6,744,944
Derivative financial instruments	167,174	214,150	—
Restricted cash and pledged deposits	269,189	134,526	46,150
Cash and cash equivalents	6,373,831	10,921,037	9,938,829
Total current assets	18,153,002	21,974,889	23,538,908
Total assets	64,491,748	81,047,270	100,461,072
EQUITY			
Equity attributable to shareholders of the Guarantor			
Issued capital	872,295	873,787	879,382
Reserves	15,311,538	15,627,355	19,905,341
	16,183,833	16,501,142	20,784,723
Perpetual capital instruments	—	6,305,025	6,623,082
Non-controlling interests	4,106,582	3,961,173	5,633,518
	4,106,582	10,266,198	12,256,600
Total equity	20,290,415	26,767,340	33,041,323

	As at 31 December		
	2015 (audited)	2016 (audited)	2017 (audited)
	(HK$'000)	(HK$'000)	(HK$'000)
LIABILITIES			
Non-current liabilities			
Other payables and accruals	415,215	344,625	570,507
Bank and other borrowings	17,121,178	16,662,637	21,443,596
Corporate bonds	4,105,212	11,663,212	10,495,364
Notes payable	3,091,413	2,939,743	3,074,932
Finance lease payables	51,814	40,906	395,461
Provision for major overhauls	205,489	187,759	207,426
Deferred income	117,564	135,115	1,435,088
Deferred tax liabilities	1,320,597	1,691,342	2,103,997
Total non-current liabilities	26,428,482	33,665,339	39,726,371
Current liabilities			
Trade payables	5,786,331	9,842,824	11,687,517
Other payables and accruals	4,817,755	5,234,492	6,769,636
Income tax payables	490,816	672,844	693,648
Bank and other borrowings	6,015,190	4,812,255	4,689,344
Corporate bonds	599,674	—	3,750,484
Finance lease payables	63,085	52,176	102,749
Total current liabilities	17,772,851	20,614,591	27,693,378
Total liabilities	44,201,333	54,279,930	67,419,749
Total equity and liabilities	64,491,748	81,047,270	100,461,072

Summary Consolidated Cash Flow Statement

	For the year ended 31 December	
	2016 (audited)	2017 (audited)
	(HK$'000)	(HK$'000)
Net cash flows used in operating activities	(2,500,323)	(6,714,432)
Net cash flows used in investing activities	(2,028,722)	(114,670)
Net cash flows from financing activities	9,468,745	3,968,397
Net increase/(decrease) in cash and cash equivalents	4,939,700	(2,860,705)
Effect of foreign exchange rate changes, net	(393,155)	544,318
Cash and cash equivalents at end of year	10,912,243	8,595,856

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider the following risk factors, along with the other matters set out in this Offering Circular. The following risk factors could affect the Group's actual results and could cause them to differ materially from estimates in any forward-looking statements given by or on behalf of the Group. Hong Kong and PRC laws and regulations may differ from the laws and regulations in other countries. Additional risks not described below or not currently known to the Issuer and the Guarantor or that the Issuer and the Guarantor currently deem immaterial may also adversely affect the value of the Bonds. These risks can be categorised into: (i) risks associated with the Group's business; (ii) risks relating to the PRC; and (iii) risks relating to the Bonds and the Guarantee.

Risks associated with the Group's business

The success of the Group's business depends heavily on the economic and environmental conditions in the geographic area surrounding its projects.

The Group is an integrated water and sewage treatment solutions provider in the PRC principally engaged in water treatment services and construction services for water environmental renovation projects including comprehensive renovation projects and BOT projects. The demand for the Group's water treatment and related construction services is dependent in part on the economic and environmental conditions in the geographic area surrounding the Group's projects. Any economic slowdown in the markets where the Group operates could reduce the demand for its services, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's business is significantly affected by the regulations and policies for water treatment and distribution in the PRC.

The demand for the Group's services is strongly influenced by applicable laws, regulations and Government policies. In recent years, the Government has adopted various policies favourable to the environmental protection industry. There can be no assurance that these policies will be implemented in the time frame or manner intended. In addition, the Group cannot predict the precise impact of these policies on specific industry sectors or local markets in which it operates. If the Government withdraws or suspends any policies favourable to the environmental protection industry in the future, the Group's business, results of operations, financial condition and prospects could be materially and adversely affected.

Besides, revenue from the Group's water distribution business consists primarily of tariff payments under the relevant concession agreements. Adjustments to tariffs are generally subject to approvals by the relevant Government authorities, and applications for upward adjustments to the tariffs may be made in the case of increases in key costs including raw material prices, labour costs and electricity charges. In the event that there is any increase in such key costs, there is no assurance that the relevant Government authorities will approve the Group's applications for increasing the tariffs to reflect such increase in costs. Furthermore, even if the relevant Government authorities agree to increase the tariff, there is no assurance that such increase will fully reflect the increase in the Group's actual costs. If there is an increase in the Group's costs but tariff is not allowed to increase, or tariff is allowed to increase but such increase could not fully reflect the increase in the Group's actual costs, the Group's business, results of operations, financial condition and prospects may be materially and adversely affected.

Water shortages and restrictions on the use or supply of water could adversely affect the Group's business.

Water shortages or restrictions on the use or supply of water may cause interruptions to the Group's business. In the event of extreme circumstances, such interruptions could affect the Group's water treatment services provided to its customers, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group may not be able to manage future rapid growth and expansion, which could put significant strain on its managerial, operational and financial resources.

The Group's business and operations have recently grown rapidly. The Group's revenue increased by approximately 22.1 per cent. from HK$17,354.8 million for the year ended 31 December 2016 to HK$21,192.4 million for the year ended 31 December 2017. The Group's fast business growth could put significant strain on its managerial, operational and financial resources. The Group's ability to manage future growth will depend on its ability to effectively implement and improve management, operational and financial information systems on a timely basis and to expand, train, motivate and manage its workforce. There is no assurance that the Group's personnel, systems, procedures and controls will be adequate to support its future growth.

When executing the Group's expansion plan, the Group may face difficulties such as inadequate information of and experience with local regulatory customs and policies, customer preferences and behaviour, business environment and competition with other existing service providers in the market. There is no assurance that the Group will execute its expansion plan successfully, or that the expansion plan will generate positive returns on its investment. Failure to manage the Group's expansion effectively may lead to increased costs, a decline in revenue and reduced profitability, which in turn will materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group will also face various issues arising from the acquisition after the relevant transaction is completed, such as integration of the business into its operations and allocation of internal resources. The successful integration of an acquired business may be affected by the size and complexity of the acquired business and the execution of the integration plan by local management. The Group may face unexpected delays or encounter difficulties that may require the Group to allocate additional resources to resolve such issues. Any such issue may materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group may not be able to successfully acquire, secure, develop and operate new projects to grow its business.

The Group's future growth largely depends on its ability to acquire, secure, develop and operate new projects. The Group intends to actively expand its business operations into various geographic markets that it believes to have strong demand for its services and growth potential. The Group's ability to acquire, secure, develop and operate new projects is dependent on a number of factors, many of which are beyond its control, including the following:

- global, national and local economic conditions, local government policies and regulatory requirements, including environmental standards, the effectiveness and level of government promulgation of environmental protection measures that affect its customers;

- the development of its target markets, including the development of local economies and local population growth and the resulting demand for water treatment and distribution services and construction services;

- its ability to identify feasible and attractive projects and successfully win bids or competitive negotiations and complete commercial negotiations for such projects;

- its ability to collaborate with local governments to construct and operate relevant projects;

- competition in the PRC's water treatment and distribution industries; and the availability and cost of suitable land, infrastructure, equipment and raw materials necessary for the development and operation of facilities or plants.

If the Group is unable to acquire, secure, develop and operate new projects to grow its business due to factors which are beyond its control, the Group's business, results of operations, financial condition and prospects could be materially and adversely affected.

The Group's customers may make claims against it and terminate their services in whole or in part prematurely should the Group breach terms of its agreements with them or fail to implement projects which satisfy their requirements and expectations.

The Group is engaged in various water treatment and distribution services projects and the provision of construction services for water environmental renovation projects including comprehensive renovation projects and BOT projects. No assurance can be given by the Group that the construction of the above projects will be completed on time or that these services or these projects will be delivered or completed to the requirements and expectations of its customers. Failure to complete projects on time or to meet the requirements and expectations of its customers, or the delivery by it of defective systems or services, may lead to claims brought against the Group by customers and/or termination of its services in whole or in part by the Group's customers prematurely and/or calls by customers for payment of the performance bonds provided to them by the Group. Unsatisfactory design or workmanship, staff turnover, human errors, failure to deliver services on time, default by its sub contractors or misinterpretation of or failure to adhere to regulations and procedures could result in delays or failures in the construction, testing or commissioning of any water plant. As a result, the Group could experience delays in the recognition of its revenue from such projects and it may not receive payments from its customers. This, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, the Group's reputation may be negatively affected, which could negatively affect its brand image and the ability to obtain new projects.

The performance of the Group is highly related to the performance of its construction services business, and the Group may not be able to secure new construction projects.

A substantial part of the Group's revenue is generated from its construction services for water environmental renovation projects including comprehensive renovation projects and BOT projects. For the years ended 31 December 2015, 2016 and 2017, revenue from the construction services accounted for approximately 61.7 per cent., 65.2 per cent. and 66.0 per cent., respectively, of the Group's total revenue. A customer that accounts for a significant portion of such revenue in a given period may not generate a similar amount of revenue, if any, in subsequent periods due to reasons beyond the control of the Group. As such, in order for the Group to maintain and increase its revenue and profitability, it needs to secure additional projects from other customers, and it may not be successful in doing so. In addition, any adverse development in the operations of the Group's construction services business or the Group's ability to develop new projects may substantially reduce the Group's revenue. If the Group fails to secure additional construction projects or if there is any adverse development in its construction services business, the Group's business, results of operations, financial condition and prospects may be materially and adversely affected.

Sewage and reclaimed water treatment and water distribution projects are capital intensive with long payback periods, and the Group may require additional funding for these and other investment projects.

The Group is engaged in sewage and reclaimed water treatment and water supply projects primarily on a BOT, BOO or TOT business model, which typically requires significant initial cash outlays and has long payback periods. These projects require the Group to make substantial financial investments during the construction phase of the projects, which typically lasts for 12 to 18 months. In connection with the projects operated on a BOT or BOO business model, the Group is responsible for the costs of construction of the sewage or reclaimed water treatment and water distribution facilities and the operation of the facilities during the concession period, which may be up to 40 years. During such periods, the Group bears the costs of maintenance and repair of the facilities. After the construction is completed and commercial operations of the relevant facilities have commenced (in the case of BOT or BOO projects) and upon obtaining the TOT Operation Right (in the case of TOT projects), the Group receives regular, typically monthly, tariff payments from its customers during the concession period.

Due to the capital intensive and long-term nature of BOT, BOO and TOT projects and other projects requiring substantial capital investment, there is no assurance that the Group will be able to secure adequate funding or refinancing for these projects on terms that are acceptable to it, or at all, or that these projects will achieve their initial expected returns. If the Group fails to obtain project financing or refinancing for these projects or other projects in the amount budgeted, or at all, it may need to finance these projects from its internal resources, which may strain its resources for developing or acquiring other projects and other corporate purposes. In addition, the Group has used certain assets, including equity interests in certain of its subsidiaries and certain sewage treatment and water distribution concession right, to secure certain of its financing. Such security will constrain its ability to dispose such assets when required.

In addition, failure to properly perform its obligations in respect of these projects may lead to a reduction in its returns and may even lead to a loss of all or part of its initial capital investments. As a result, the Group may not be able to undertake or acquire new projects, and its business, results of operations, financial condition and prospects may be materially and adversely affected.

Significant indebtedness may restrict the Group's business activities and increase the Group's exposure to various operational risks.

The Group relies on bank loans and proceeds from bond issuances to satisfy a portion of its capital requirements, and the Group has had a significant amount of outstanding indebtedness. As at 31 December 2017, the Group had total indebtedness (comprising long-term and short-term bank and other borrowings, finance lease payables, corporate bonds and notes payables) of approximately HK$44.0 billion, of which approximately HK$8.5 billion would become due within 12 months. If any of the Group companies defaults on its borrowings guaranteed by the Group, the lender may exercise its right under the guarantee to demand repayment from the Guarantor. As a result, the Group's business, results of operations, financial condition and prospects may be materially and adversely affected.

Substantial indebtedness could impact the Group's business in a number of ways, including:

- requiring the Group to dedicate part of its operating cash flow for its indebtedness before it receives the Government funding;
- increasing the Group's finance costs, thus affecting the overall profits of the Group;
- limiting the Group's flexibility in planning for or responding to changes in the Group's business and the industries in which it operates;
- limiting, together with the financial and other restrictive covenants of the Group's indebtedness, among others, the Group's ability to borrow additional funds; and
- increasing the Group's vulnerability to adverse general economic and industry conditions.

From time to time, the Group may need to obtain lenders' consent for any deviation from or non-compliance with certain financial and other restrictive covenants in its bank loan contracts. There is no assurance that the Group will always be able to comply with the restrictions and covenants in its current or future debt obligations and other agreements in the future. In the event of a default under such agreements, the lenders could terminate their commitments to the Group, accelerate the debt, declare all borrowed amounts due and payable or terminate the agreements, as the case may be. Some of the Group's financing arrangements including the Bonds, contain cross-acceleration or cross-default provisions. A default by the Group under another financing agreement may cause acceleration of the repayment of the debt outstanding or result in a default under the agreement containing a cross-acceleration or cross-default provision. If the Group defaults under a large amount of debts, there can be no assurance that its cash would be sufficient to remedy those debts or repay them in full as they become due, or that it would be able to find alternative financing on terms that are acceptable to it.

In addition, certain of the Group's bank borrowings are secured by certain assets, such as equity interests in certain of the Group's subsidiaries and certain sewage treatment and water distribution concession right. The third-party security rights may limit the Group's use of these assets and adversely affect its operational efficiency. If the Group fails to service its borrowings when due and the banks enforce their security rights under the relevant security agreements, the Group may lose part or all of the assets securing the borrowings, and its business, results of operations, financial condition and prospects may be materially and adversely affected.

The Group typically only receives payment in connection with the revenue recognised from the construction of its BOT projects on receipt of cash tariff payments during the operational phase of its BOT projects, and there may be a mismatch between the revenue recognition and underlying cash flows for the Group's projects.

For each of the Group's BOT projects, once the facility is operational, the Group receives regular, usually monthly, cash payments from the relevant customer based on the contractually agreed pricing formula and the volume of sewage treated or water supplied (or the contractually guaranteed minimum volume, if any). The Group usually does not receive payments from its customers during the construction phase of these projects. However, in accordance with HKFRS as supplemented by Hong Kong (International Financial Reporting Interpretations Committee) — Interpretation 12 on Service Concession Agreements ("**HK (IFRIC) — Interpretation 12 on Service Concession Agreements**"), the Group recognises revenue from these projects during both the construction phase and the operational phase. The Group records revenue during the construction phase on the basis of percentage of completion method, based on the cost of construction incurred plus the fair market value of a certain mark-up on the construction costs determined by an independent appraiser. There is a mismatch between the Group's revenue and the underlying cash flows for such projects, because the Group generally does not receive actual payments for its construction services and only receive payments for its operation services. Thus, the Group may need to rely on its internal resources and external financing to supplement cash flow from operations during the construction phase so as to meet its payment obligations in full and on time. If the Group fails to secure sufficient external financing or generate sufficient cash from its operations to finance its projects, or if its finance costs increase materially, the Group's business, results of operations, financial condition and prospects may be materially and adversely affected. Additionally, the Group may not receive sufficient cash payments from projects for which construction revenue had been recognised. If the relevant project does not materialise or if the actual cash receipts in the operation phase of the project are significantly smaller than expected, the Group may need to recognise impairment or write-offs in the subsequent period for the related intangible assets or receivables under service concession arrangements. There is no assurance that impairment or write-offs will not occur in the future, which may materially and adversely affect the Group's business, results of operations, financial condition and prospects.

A portion of revenue recognised from the construction phase of a BOT project is also recognised as a service concession receivable to be offset against the allocated amount after receipt of the cash tariff and other payments received related to the relevant project during the operational phase. Service concession receivables for BOT projects are settled during the concession periods of the relevant BOT projects, which can be up to 20 to 40 years. There is no assurance that the service concession receivables will be fully settled before the expiry of the relevant concession period, which may result in the impairment of the Group's financial assets and may materially and adversely affect its business, results of operations, financial condition and prospects.

Failure to achieve the projected utilisation of the facilities operated by the Group may adversely affect its earnings.

Each of the Group's BOT, BOO and TOT projects has been or will be built to a specific design water processing capacity in accordance with the terms of the relevant concession agreements. Depending on the growth in the population and level of industrialisation in the area serviced by the relevant facilities, there is no assurance that the facilities the Group operates will be able to achieve the forecast utilisation of their design water processing capacity. If the facilities operated by the Group are not utilised to their designed capacities, the Group may not generate the projected revenue and profit from the relevant projects, and its business, results of operations, financial condition and prospects may be materially and adversely affected.

The Group is subject to various completion risks with respect to its construction projects which could give rise to significant delays or additional costs.

The construction of water facilities involves many potential risks, including changes in construction design and oppositions by relevant interest groups to the development of land and construction of industrial areas, or delays caused by the discovery of historical artifacts during the land development process. Any such risks, if realised, could result in cost overruns, which may materially and adversely affect the Group's business, results of operations, financial condition and prospects.

In addition, protests and other forms of opposition by relevant interest groups, such as lawsuits or demonstrations, may delay the Group's construction projects. No assurance can be given that such activities in the future, including currently pending or future lawsuits, will not cause the Group to experience significant delays or additional costs.

The Group relies on the performance of its subcontractors.

The Group has arrangements with subcontractors that are essential to its operations. If any of these key counterparties fails to perform its obligations or if the credit-worthiness of any of these counterparties deteriorates, the Group's business, results of operations, financial condition and prospects may be materially and adversely affected.

Furthermore, there is a risk that the Group may not be able to find suitable alternative sub contractors at commercially reasonable contract terms if contracts with its current counterparties terminate. This may result in delays in the completion of the Group's projects or incurrence of additional costs, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group is exposed to credit risks and payment delays of its customers.

The Group is subject to credit risks of its customers, and the Group's profitability is dependent on its customers making prompt payments for the work performed. The Group's construction and service contracts provide for payments by instalment. If there is any delay in payments by the Group's customers, the Group's business, results of operations, financial condition and prospects may be materially and adversely affected.

The Group is exposed to risks associated with entering into contracts with the Government and other public organisations, and its performance may be significantly affected by Government spending on infrastructure and other projects.

The Group's customers include agencies or entities owned or otherwise controlled by the Government. To the extent that the Group's projects are funded by the Government, they may be subject to delays or changes as a result of the changes in the Government's budgets or for other policy considerations. Government spending on infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in the PRC's economic conditions and changes in the Government's policies. The revenue contributed by the Government and Government-controlled customers accounted for the majority of the Group's total revenue for 2016 and 2017. The Group therefore has significant exposure to risks associated with contracting with Government and other public organisations. In addition, any disputes with Government and other public organisations could potentially lead to contract termination if unresolved or may take a considerably longer period of time to resolve than disputes with counterparties in the private sector, and payments due to the Group from Government and other public organisations may be delayed as a result. In some circumstances, they may also require the Group to change its construction methods, equipment or other performance terms or direct it to reconfigure its designs or purchase specific equipment for the relevant project in connection with the Group's engineering and construction projects or undertake additional obligations or change other contractual terms, thereby subjecting the Group to additional costs. Resolution of any disagreement with them with respect to such changes may be time-consuming and may cause the Group to incur additional costs. Changes in Governmental budgets and policies relating to the Group's projects could also result in delays in project commencement or completion, adverse changes to such projects or a withholding of, or delay in, payment to the Group. If any of the Government and or other public organisations terminates a contract with the Group, its order book could be reduced, its business plans may be adversely affected, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group is subject to risks associated with technological changes.

As an established integrated water solutions provider, the Group must ensure that it is able to continually provide state of the art solutions to its customers that meet their needs in order to maintain its market share. However, there are rapid technological changes and improvements in sewage and reclaimed water treatment technology and equipment. The Group's products and technologies must pass rigorous testing and field trials, which can be time-consuming and expensive. The commencement and completion of the tests and field trials are subject to many factors such as delays in producing or failure to produce test results, data or analysis, inadequate or inconclusive results, changes in regulatory policies or industry standards or delays by government or regulatory authorities. Changes in regulations or standards for sewage and reclaimed water treatment in regions where the Group conducts its business may also necessitate the use of new technologies or the improvement of its existing technologies.

For example, after the outbreak of Severe Acute Respiratory Syndrome ("**SARS**") in 2003, higher standards for treatment of sewage discharged by hospitals and clinics were imposed by the State Environmental Protection Administration, currently the Ministry of Environmental Protection of the PRC, to prevent the spread of communicable diseases. The Ministry of Health of the PRC (the "**MOH**") and the Standardization Administration of the PRC has promulgated a total of more than 100 standards for drinking water with which the Group is required to comply. In addition, when the Group expands its business to overseas countries, it has to comply with the standards required by governments in different jurisdictions. The Group may need to develop new technologies or upgrade existing technologies or facilities to meet the standards imposed by the MOH or other regulatory authorities in the PRC or other countries. In the event that the Group is unable to develop or source new and enhanced sewage and reclaimed water treatment solutions to keep up with such technological changes or changes in regulatory requirements, its business, results of operations, financial condition and prospects may be materially and adversely affected.

The Group faces increasing competition from existing and new market participants in the industries in which it operates.

The competition in the water and sewage treatment market in the PRC has evolved significantly over the past decade, and is believed to be increasingly intense in the future. The Group primarily competes with major state-owned and private water and sewage solution providers and a number of international environmental services companies. As a result of the PRC's accession to the World Trade Organisation, the Government has opened up domestic markets to foreign competition, and foreign invested companies are now allowed to participate in water-related projects. Competitors may have greater financial, marketing or other resources and may have more advanced technologies, greater brand recognition, economies of scale, longer track records or more established relationships in certain markets in which the Group operates. In addition, as the Group expands into new geographical markets or introduces new products and services, it may be subject to competition from other market players.

Whether the Group will successfully compete depends on its ability to anticipate and respond to many competitive factors, including project execution capabilities, technology capabilities, treatment solutions quality and customer services, the needs of local customers and familiarity with local regulations. There can be no assurance that the Group's current or potential competitors will not offer services comparable or superior to those that it offers at the same or lower prices or adapt more quickly than the Group does to evolving industry trends or changing market conditions. If the Group fails to compete effectively or if the competition with respect to the Group's products or services continues to increase, there would be an adverse effect on the Group's financial results and return on capital expenditures, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's expansion into overseas markets will be affected by economic conditions and political and other risks in such countries where it operates, and the Group may not be successful in managing the Group's expansion into new countries.

The Group has expanded its sewage and reclaimed water treatment and construction services to overseas countries such as Singapore, Portugal, Macau and Malaysia since 2010 by acquiring local entities or projects and through investing and forming joint ventures. The Group will selectively pursue suitable opportunities in overseas markets from time to time and strategically expand its overseas business.

Such overseas business may be affected by the changes in, and the instability of, international economic and political conditions as well as the regional conditions of the jurisdictions where it operates. The political and economic conditions in such regions are often subject to instability. As a result of the Group's overseas operation, it is exposed to risks associated with expanding and conducting business in foreign countries and regions, including but not limited to:

- political and legal risks, such as civil unrest, acts of terrorism, war, coups, civil war, local or global political or military tensions, diplomatic relations tensions or changes, confiscation or nationalisation of the Group's assets or the imposition of restrictions, penalties or other sanctions in relation to any dealings in certain high risk regions;

- changes in foreign currency controls and foreign exchange policy;

- fluctuations in the economy and financial markets, as well as credit risk;

- changes in foreign government regulations or policies and the lack of a well-developed or independent legal system in foreign countries, which may create difficulties for the Group to enforce its contractual rights;

- dependence on foreign governments or entities controlled by such foreign governments for utility or infrastructure;

- possible unfavourable labour conditions or employee strikes;

- inadequate understanding of local operating and market conditions, lack of understanding of local taxation (including any adverse tax policies), customs, preferential treatment, corrupt business practices and other laws, regulations, standards and other requirements;

- risks of increased costs, prolonged construction periods, and contradictions with anticipated targets caused by violation of laws and regulations of the host country or improper handling of the legal issues in the host country;

- anti-PRC sentiments or protectionism, anti-dumping and others measures against PRC companies; and

- the cyclical nature and the demand of local market, and competition from other international and local companies.

In addition, the Group may need to allocate management resources and employees to high risk regions where its overseas projects are situated. The Group may purchase insurance and adopt other measures to protect employees and assets that may incur significant expenses. However, the sufficiency and effectiveness of such measures cannot be assured. The Group's exposure to such risks varies depending on the projects and the specific stage of each project. In addition, due to lack of managerial experience or resources in the new markets, the Group may need to rely on local management team and their expertise. Any loss of the services of key personnel and failure to recruit and retain a sufficient number of experienced personnel could materially and adversely affect operation of the Group in these new markets. The above scenarios may therefore disrupt the Group's projects, result in a loss of staff and assets and may adversely affect its business, results of operations, financial condition and prospects or overseas expansion plan.

The Group's operations is subject to extensive regulatory requirements, including environmental regulations, and any such non-compliance may result in a material adverse effect on the Group's results of operations.

The Group's operations are subject to extensive national and local laws and regulations governing environmental protection, workplace safety and product quality, among others. Moreover, environmental laws and regulations are becoming increasingly stringent and may in the future impose onerous obligations on the Group or significant penalties for non-compliance. While the Group intends to comply with applicable legislation and regulatory requirements, the liabilities, costs, obligations and requirements associated with the compliance with these laws and regulations may be substantial and may delay the commencement of or cause interruptions to the Group's operations. Non-compliance with the relevant laws and regulations applicable to the Group's operations may result in substantial penalties or fines, suspension or revocation of the Group's relevant licences or permits, termination of government contracts or suspension of the Group's operations. Such events could materially and adversely affect the Group's businesses, financial condition, results of operations and reputation.

Changes in laws or regulations, including environmental laws and regulations, may result in the Group having to incur substantial capital expenditure to upgrade or supplement its existing facilities or becoming subject to any fines or penalties. If the Group was to incur significant fines or penalties or become involved in protracted litigation, or if any of its facilities are closed or are required to temporarily suspend operations or upgrade to comply with the applicable laws and regulations, the Group's business, results of operations, financial condition and prospects may be materially and adversely affected.

The Group's operations may be exposed to risks relating to environmental, health and safety issues.

The Group's water treatment and distribution and construction operations could expose it to the risk of substantial liability relating to environmental, health and safety issues, such as those resulting from discharge of pollutants into the environment, handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. The Group may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated construction sites. The Group may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the Government or private litigants as a result of the Group's or its subcontractors' activities. In the course of the Group's operations, hazardous wastes may be generated at third-party-owned or operated sites, and hazardous wastes may be disposed of or treated as third-party-owned or operated disposal sites. If those sites become contaminated, the Group could be held responsible for the cost of investigation and remediation of such sites, any associated natural resource damage, and civil or criminal fines or penalties, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group is exposed to significant risks relating to its operations, including natural disasters and other disruptive events, and its insurance policies may not provide adequate coverage.

Significant damage or other impediments to water treatment or distribution systems managed by the Group as a result of, among others:

- natural disasters, such as earthquakes, floods, prolonged droughts and typhoons;
- human-errors in operating the water supply and sewage treatment systems; or
- protests and other forms of opposition by environmental interest groups, such as lawsuits and demonstrations,

may materially and adversely affect the Group's business, results of operations, financial condition and prospects. The Group maintains insurance against some, but not all, of these events, but no assurance can be given that its insurance will be adequate to cover any direct or indirect losses or liabilities it may suffer.

The Group's ability to grow will be harmed if it does not retain the continued services of its key technical and management personnel and identify, hire and retain additional qualified personnel.

There is a strong competition for qualified technical and management personnel in the sectors in which the Group competes. The Group may not be able to continue to attract and retain qualified technical and management personnel, such as engineers, architects and project managers, who are necessary for the development of its business or to replace qualified personnel. The Group's planned growth may place increased demands on its resources and will likely require the addition of technical and management personnel and the development of additional expertise by existing personnel. Loss of the services of, or failure to recruit, key technical and management personnel could limit the Group's ability to complete existing projects successfully and to engage in new projects, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

Work stoppage and other labour relations matters may have an adverse effect on the Group's financial results.

The Group believes that it has good working relationships with its employees and has not experienced any material work stoppage, strike or other labour problems in the past. However, there is no assurance that any of such events will not arise in the future. If the Group's employees were to engage in a strike or other work stoppage, the Group could experience a significant disruption of operations and/or higher ongoing labour costs, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

The Group may be involved from time to time in material disputes, administrative, legal and other proceedings arising out of its operations and may face liabilities or damages to its reputation as a result.

The Group may be involved from time to time in material disputes with various parties involved in its operation, including subcontractors, suppliers, partners and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to the Group's reputation, substantial costs and diversion of resources and management's attention and may have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, the Group may have disagreements with regulatory bodies or encounter additional compliance issues in the course of its operations, which may subject the Group to administrative proceedings and unfavourable decrees.

Risks relating to the PRC

Changes in PRC political and economic policies and conditions could adversely affect the Group's business and prospects.

The PRC has been, and will continue to be, a significant operating base for the Group's business. The economy of the PRC differs from the economies of most developed countries in many respects, including:

- structure;
- level of Government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

The Government has been pursuing economic reforms to transform its economy from a planned economy to a market economy since 1978 emphasising utilisation of market forces in the development of the PRC economy. However, a substantial part of the PRC economy is still being operated under various controls of the Government, and the Government continues to play a significant role in regulating industries by imposing industrial policies. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the Government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the Government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on the Group's operations and business development. For example, the Government has in the past implemented a number of measures intended to slow down certain segments of the economy that the Government believed to be overheating, such as raising benchmark interest rates of commercial banks, reducing currency supply and placing additional limitations on the ability of commercial banks to make loans by raising bank reserves against deposits. The Group's business, results of operations or financial condition may be adversely affected by changes in the PRC political, economic and social conditions, laws, regulations and policies and by changes in the rates or method of taxation and the imposition of additional restrictions on currency conversion.

These limitations on the cash flow between the Group and its PRC subsidiaries could restrict the Group's ability to act in response to changing market conditions and transfer the proceeds from the issue of the Bonds to its onshore subsidiaries and to make dividend payments from its PRC subsidiaries, thus affecting the Group's ability to pay the interest due and payable under the Bonds on each interest payment date, or to pay the principal of the outstanding Bonds on the maturity date.

The implementation of the Labour Contract Law of the PRC may significantly increase the Group's operating expenses and adversely affect its business, results of operations, financial condition and prospects.

The Labour Contract Law of the PRC (the "**Labour Contract Law**") imposes liabilities on employers and significantly increases the cost to an employer for workforce reduction. It formalises workers' rights concerning layoffs, employment contracts and the role of trade unions and provides for specific standards and procedures for the termination of an employment contract. In addition, the Labour Contract Law requires a statutory economic compensation upon the termination of an employment contract in most cases, including but not limited to in cases of the expiration of a fixed-term employment contract, unless such employee chooses not to renew the employment contract while the terms being offered are the same or more favourable than the existing employment contract. In the event that the Group decides to change or decrease its workforce, the Labour Contract Law could adversely limit the Group's ability to effect such changes in a timely and cost-effective manner, which may adversely affect its business, results of operations, financial condition and prospects.

PRC laws and regulations involve many uncertainties, and the current legal system in the PRC could have a negative impact on the Group's business and/or limit the legal protections available to the Bondholders.

A notable portion of the Group's business is conducted in the PRC, and several of its operating subsidiaries are located in the PRC. As such, these PRC subsidiaries are subject to PRC laws and regulations applicable to foreign investment in the PRC. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior cases have little precedent value in deciding subsequent cases in the civil law legal system. Additionally, such PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. When the Government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and overall economic orders of the country. The Government has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organisation and governance, commercial transactions, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have an adverse effect on the Group's business, results of operations, financial condition and prospects. Additionally, given the involvement of different enforcement bodies of the relevant rules and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of PRC laws and regulations involve significant uncertainties under the current legal environment. In addition, the enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. All of these uncertainties may limit the legal protections available to the Bondholders.

Government control over currency conversion may limit the Group's ability to utilise its cash effectively.

The Government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Guarantor receives a significant portion of its revenues in Renminbi. As a holding company incorporated in Bermuda, the Guarantor may rely on dividend payments from its PRC subsidiaries to fund any cash and financing requirements of the Group. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from State Administration of Foreign Exchange or its competent counterpart ("**SAFE**") by complying with certain procedural requirements. Therefore, the Group's PRC subsidiaries are able to pay dividends in foreign currencies to the Group without prior approval from SAFE. But approval from or registration with appropriate Government authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay for capital expenses, such as the repayment of loans denominated in foreign currencies. This could affect the ability of the Group's PRC subsidiaries to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from the Group. The Government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents the Group from obtaining sufficient foreign currencies to satisfy the Group's foreign currency demands, the Group may not be able to satisfy its obligations under the Bonds.

The Group's operations may be affected by rising inflation rates within the PRC.

Inflation rates within the PRC have been on an upward trend in recent years. The Government has taken numerous monetary tightening measures, including raising interest rates and reserve requirement ratios, and curbing bank lending, to slow down economic growth and control price increases. Increasing inflationary rates are due to many factors beyond the Group's control, such as rising food prices, rising production and labour costs, high lending levels, the PRC and foreign governmental policies and regulations, and movements in exchange rates and interest rates. It is impossible to accurately predict future inflationary trends. If inflation rates rise beyond the Group's expectations, the costs of its business operations may become significantly higher than the Group has anticipated for the future, and the Group may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover increasing operating costs. As a result, further inflationary pressures within the PRC may have an adverse effect on the Group's business, results of operations and financial condition, as well as its liquidity and profitability.

Under the EIT Law, the Guarantor and the Issuer may be classified as a "resident enterprise" of the PRC. Such classification could result in unfavourable tax consequences to the Guarantor and the Issuer.

Under the Enterprise Income Tax Law of the PRC ("**EIT Law**"), an enterprise established outside of the PRC with a "*de facto* management body" within the PRC is deemed a "resident enterprise", meaning that it is treated in a manner similar to a PRC enterprise for enterprise income tax purposes. Dividends paid from one resident enterprise to another may qualify as "tax-exempt income". The implementing rules of the EIT Law define "*de facto* management" as "substantial and overall management and control over the production and business operations, personnel, accounting, and properties etc." of the enterprise. A Circular issued by the State Administration of Taxation on 22 April 2009, provides that a foreign Chinese-funded enterprise controlled by a PRC company or a PRC company group will be classified as a "resident enterprise" with a "*de facto* management body" located within the PRC if all of the following requirements are satisfied: (i) the senior management and core management departments in charge of daily operations perform their duties are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management customarily reside within the PRC.

On 29 January 2014, the State Administration of Taxation issued an Announcement on the Determination of PRC Tax Resident Enterprise Subject to Criteria of "*de facto* management body", which requires a Chinese-funded offshore-incorporated enterprise that falls within the criteria of "*de facto* management body" to make an application for the classification as a "resident enterprise", which in turn will be confirmed by the province-level tax authority.

Since several members of the Group's management are currently based in the PRC, there is no assurance that the Guarantor or the Issuer will not be deemed to be a "resident enterprise" under the EIT Law and, therefore, be subject to enterprise income tax at a rate of 25 per cent. on its global income in the future.

If the Guarantor or the Issuer is treated as a PRC resident enterprise for purposes of the EIT Law, the interest that the Issuer (or the Guarantor, as the case may be) pays in respect of the Bonds may be subject to PRC withholding tax at a rate of 10 per cent. if paid to a non-PRC resident enterprise Bondholder (which has no establishment within the PRC or its income has no actual connection to its establishment inside the PRC) and 20 per cent. if paid to a non-PRC resident individual Bondholder, and any gain a Bondholder may realise from the transfer of the Bonds may be treated as income derived from sources within the PRC and may be subject to PRC withholding tax at a rate of 10 per cent. in the case of a non-PRC resident enterprise Bondholder (which has no establishment within the PRC or its income has no actual connection to its establishment inside the PRC) and 20 per cent. in the case of a non-PRC resident individual Bondholder (in each case unless an applicable treaty provides otherwise), which may materially and adversely affect the value of investment in the Bonds.

Interest payable by the Group to its foreign investors and gains on the sale of the Bonds may be subject to withholding tax under PRC tax laws.

Under the EIT Laws, if any of the Group's entities are deemed to be a PRC resident enterprise, the interest payable on the Bonds may be considered to be sourced within the PRC. In that case, unless an investor in the Bonds qualifies for a preferential withholding rate under a tax treaty, the PRC income tax at the rate of 10 per cent. would be withheld at source from interest paid by the Group to investors that are "non-resident enterprises" if such "non-resident enterprise" investors do not have an establishment or place of business in the PRC or if, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. Any gain realised on the transfer of the Bonds by such non-resident enterprise investors may be subject to a 10 per cent. PRC income tax if any of the Group's entities is treated as a PRC resident enterprise, and such gain is regarded as income derived from sources within the PRC. Furthermore, if any of the Group's entities is considered a PRC resident enterprise, and relevant PRC tax authorities consider interest that the Group's entities pay with respect to the Bonds, or any gains realised from the transfer of Bonds, to be income derived from sources within the PRC, such interest or gains earned by non-resident individuals may be subject to the PRC income tax (which, in the case of interest, may be withheld at source by the Group) at a rate of 20 per cent. It is uncertain whether the Group's entities will be considered a PRC "resident enterprise" and whether in that case interest payable to the Group's non-resident investors, or the gain that the Group's non-resident investors may realise from the transfer of the Bonds would be treated as income sourced within the PRC and be subject to PRC tax. In addition, if investors are required to pay PRC income tax on the transfer of the Bonds, the value of investment in the Bonds of the investors may be materially and adversely affected. It is unclear whether, if any of the Group's entities is considered a PRC "resident enterprise", the affected Bondholder might be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or areas.

The anti-monopoly law may subject the Group's future acquisitions to increased scrutiny, which could affect its ability to consummate acquisitions on terms favourable to the Group.

The anti-monopoly law of the PRC became effective on 1 August 2008. The law was enacted to guard against and cease monopolistic activities, and to safeguard and promote orderly market competition. Under the anti-monopoly law, monopolistic acts include monopolistic agreements among business operators, abuse of dominant market positions by business operators and concentration of business operators that eliminates or restricts competition or might be eliminating or restricting competition. The Regulations on the Thresholds for Reporting of Concentration of Business Operators ("**Reporting Threshold Regulations**") provide specific thresholds for reporting of concentration of business operators. Under the anti-monopoly law and the Reporting Threshold Regulations, parties to a concentration must report to the Ministry of Commerce in advance if, in the preceding accounting year the turnover in the aggregate achieved by all parties to the transaction exceeds RMB10,000 million worldwide or RMB2,000 million within the PRC, and the turnover achieved by at least two of the parties exceeds RMB400 million within the PRC. However, the Ministry of Commerce has the right to initiate investigation of a transaction not reaching the above-mentioned reporting thresholds if the Ministry of Commerce has evidence that the transaction has or may have the effect of excluding or restricting competition.

The anti-trust scrutiny procedures and requirements set forth in the anti-monopoly law and the Reporting Threshold Regulations grant the Government extensive authority of evaluation and control over the terms of acquisitions in the PRC by foreign investors, and their implementation involves significant uncertainties and risks. To the extent the Group's future concentration (including as a result of: (1) mergers; (2) control over other undertakings through acquiring their shares or assets; and (3) control over other undertakings or the ability to exert a decisive influence on the same through signing contracts or other means) meet the threshold requirements set forth in the law and the Reporting Threshold Regulations, or are deemed by the Ministry of Commerce to meet the thresholds, the Group will be subject to anti-monopoly review. The consummation of the Group's future acquisitions could therefore be much more time-consuming and complex, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or prevent the consummation of such acquisitions and prevent the Group from attaining its business objectives.

On 3 February 2011, the General Office of the PRC State Council issued the Circular of the General Office of the State Council on the Establishment of Security Review System Regarding Mergers and Acquisitions in the PRC by Foreign Investors with effect in March 2011, according to which, acquisitions by foreign investors of domestic PRC companies in the sectors such as military enterprises, key agricultural products, key energy and resources, key infrastructure, key transportation services, key technologies and key equipment manufacturing activities that raise national security concerns, shall be subject to security review where the foreign investor might acquire actual control of the target PRC company through acquisition. This regulation is unclear in certain aspects including the definition of key sectors which are expected to be further specified and therefore how it will be interpreted and implemented in practice remains to be seen. If the Group's future acquisitions fall within the security review scope, the consummation of such acquisitions could therefore be much more time-consuming and complex, and any required approval processes may delay or prevent the consummation of such acquisitions, and prevent the Group from attaining its business objectives.

The national and regional economies in the PRC and the Group's prospects may be adversely affected by natural disasters, acts of God or a recurrence of SARS or an outbreak of other epidemics, such as influenza A subtypes H1N1 and H7N9 and avian flu (H5N1).

The Group's business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God beyond the Group's control may adversely affect the economic infrastructure and people in the PRC. Some regions in the PRC, including the cities where the Group operates, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought or susceptible to epidemics such as SARS or the Ebola virus disease. Past occurrences of epidemics, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as influenza A subtypes H1N1 and H7N9 and avian flu (H5N1), especially in the cities where the Group has operations, may result in material disruptions to its supply chains, its sales and marketing, which in turn may adversely affect the Group's business, results of operations, financial condition and prospects.

The possible slowdown of the PRC economy could have an adverse effect on the Group's business results of operations and financial condition.

The economy of the PRC experienced rapid growth in the past 30 years. There has been a slowdown in the growth of the PRC's GDP since the second half of 2013, and this has raised market concerns that the historic rapid growth of the economy of the PRC may not be sustainable. According to the National Statistics Bureau of the PRC, the annual growth rate of the PRC's GDP in 2015 slowed down to 6.9 per cent. on a year-on-year basis compared to 7.3 per cent. in 2014, and it further decreased to 6.7 per cent. in 2016 on a year-on-year basis, representing the slowest growth in the past 20 years. A slight increase to 6.8 per cent. in 2017 on a year-on-year basis was recorded.

Most of the Group's business operations are conducted in the PRC. Accordingly, the Group's results of operations, financial condition and prospects are subject to a significant degree to economic developments in the PRC. A negative economic climate could impact the ability of the Group's customers to make capital expenditures, thereby affecting their ability to purchase the Group's products. The recurrence of adverse macroeconomic conditions may have an adverse effect on the Group's business, results of operations and financial condition.

Risks relating to the Bonds and the Guarantee

The Bonds and the Guarantee are unsecured obligations.

The Bonds and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Bonds and payment under the Guarantee may be adversely affected if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;

- there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or

- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor' assets may not be sufficient to pay amounts due on the Bonds or under the Guarantee.

The Issuer is a company with no material assets and will rely on remittances from the Guarantor and its subsidiaries to make payments under the Bonds.

The Issuer will not conduct business or any other activities other than the offering, sale or issuance of indebtedness and the lending of the proceeds thereof to the Guarantor and/or any company controlled, directly or indirectly, by the Guarantor and any other activities in connection therewith or related thereto. The Issuer does not and will not have any material assets other than amounts due to it from the Guarantor or its subsidiaries, and its ability to make payments under the Bonds will depend on its receipt of timely remittances from the Guarantor or its subsidiaries.

The insolvency laws of the British Virgin Islands, Bermuda and Hong Kong and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Bonds are familiar.

As the Issuer is incorporated under the laws of the British Virgin Islands, the Guarantor is incorporated under the laws of Bermuda, and BEHL is incorporated under the laws of Hong Kong, any insolvency proceedings relating to the Issuer, the Guarantor or BEHL would likely involve insolvency laws of the British Virgin Islands, Bermuda or Hong Kong, as applicable, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

A trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Although an application has been made to list the Bonds on the Hong Kong Stock Exchange, there can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. Although application has been made for the listing of the Bonds on the Hong Kong Stock Exchange, no assurance can be given as to the liquidity of, or trading marked for, the Bonds. None of the Joint Lead Managers is obligated to make a market in the Bonds, and if the Joint Lead Managers do so they may discontinue such market-making activity at any time without notice. Further, the Bonds may be allocated to a limited number of investors, in which case liquidity may be limited. In addition, the Bonds and the Guarantee are being offered and sold outside of the United States in reliance on Regulation S and, as a result, the Bonds may not be offered or sold within the United States. It is the investors' obligation to ensure that offers and sales of the Bonds within the United States and other countries comply with applicable securities laws. Please see "Subscription and Sale". None of the Joint Lead Managers, the Issuer, the Guarantor, the Trustee or the Agents can predict whether an active trading market for the Bonds will develop or be sustained.

Investors in the Bonds may be subject to foreign exchange risks.

The Bonds are denominated and payable in US dollars. An investor who measures investment returns by reference to a currency other than US dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among others, economic, political and other factors over which none of the Joint Lead Managers, the Issuer, the Guarantor, the Trustee or the Agents has any control. Depreciation of the US dollar against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

International financial markets and world economic conditions may adversely affect the market price of the Bonds.

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for Chinese securities is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the sub-prime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

Changes in market interest rates may adversely affect the value of the Bonds.

The Bonds will carry a fixed interest rate. The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Decisions that may be made on behalf of all holders of the Bonds may be adverse to the interests of individual holders of the Bonds.

The Terms and Conditions of the Bonds contain provisions for calling meetings of the holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of individuals holders.

The Issuer may not be able to redeem the Bonds upon the due date for redemption thereof.

The Issuer may be required to redeem all of the Bonds on the Maturity Date, following a Change of Control or an Event of Default or following service by the Issuer of a notice pursuant to Condition 6(b) or Condition 6(d) of the Terms and Conditions of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Bonds would constitute an event of default under the Bonds, which may also constitute a default under the terms of the Guarantor's or its subsidiaries' other indebtedness.

The liquidity and price of the Bonds following the offering may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in each of the Group's revenue, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies or any adverse change in the credit rating, revenues, earnings or results of operations could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There can be no assurance that these developments will not occur in the future.

The Issuer may issue additional securities in the future.

As set out in Condition 15 of the Terms and Conditions of the Bonds, the Issuer may from time to time and without the consent of the Bondholders create and issue further securities. There can be no assurance that any such future issuance will not adversely affect the market price of the Bonds.

The Letter of Comfort is neither legally binding nor a guarantee, and BEHL is not legally obligated to support the Guarantor and the Issuer in the manner contemplated by the Letter of Comfort.

The Letter of Comfort provided by BEHL to holders of the Bonds is not legally binding. It is not a guarantee provided by BEHL. Accordingly, there is no assurance that BEHL will provide support to the Guarantor and the Issuer in the manner contemplated by the Letter of Comfort. In addition, the holders of the Bonds will not be able to bring any action against BEHL to enforce the Letter of Comfort. Even if BEHL intends to provide direct financial support to the Guarantor and the Issuer to meet their respective outstanding debt obligations, such financial support will be subject to Government approvals which cannot be assured.

If any of the Guarantor or its subsidiaries, including the Issuer, is unable to comply with the restrictions and covenants in its respective debt agreements, or the Bonds, there could be a default under the terms of these agreements, or the Bonds, which could cause repayment of the relevant debt to be accelerated

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in the Terms and Conditions of the Bonds, or if any of the Guarantor or its subsidiaries, including the Issuer, is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements or the Bonds. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Guarantor or its relevant subsidiary, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the Group's debt agreements, and the Bonds, contain (or may in the future contain) cross-acceleration or cross-default provisions. As a result, the default by the Guarantor or any of its subsidiaries under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there can be no assurance that the assets and cash flows of the Guarantor and its subsidiaries would be sufficient to repay in full all of their indebtedness, or that they would be able to find alternative financing. Even if alternative financing could be obtained, there can be no assurance that it would be on terms that are favourable or acceptable to the Guarantor or its subsidiaries.

Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds and the Trust Deed by the Trustee or less than all of the holders of the Bonds.

The Terms and Conditions of the Bonds provide that the Trustee may, without the consent of the holders of the Bonds, agree to any modification (except as mentioned in the Trust Deed) of the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Bonds and to any modification of the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law.

In addition, the Trustee may, without the consent of the holders of the Bonds, authorise or waive any proposed breach or breach of the Trust Deed, the Terms and Conditions of the Bonds or the Agency Agreement (other than a proposed breach, or a breach relating to the subject of certain reserved matters) if, in the opinion of the Trustee, the interests of the holders of the Bonds will not be materially prejudiced thereby.

The Trustee may request the holders of the Bonds to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including without limitation the giving of notice to the Issuer and the Guarantor pursuant to Condition 9 of the Terms and Conditions of the Bonds and the taking of any actions, steps and/or proceedings pursuant to Condition 13 of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request the holders of the Bonds to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes any actions, steps and/or proceedings on behalf of the holders of the Bonds. The Trustee shall not be obliged to take any such actions if not first indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed constituting the Bonds, the Terms and Conditions of the Bonds or the Agency Agreement (as applicable) and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable laws and regulations, it will be for the holders of the Bonds to take such actions directly.

Gains on the transfer of the Bonds may be subject to income tax under PRC tax laws.

Under the new EIT law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the new EIT law as non-resident enterprises may be subject to PRC EIT if such gains are regarded as income derived from sources within the PRC (although non-PRC Bondholders who are Hong Kong tax residents may be exempt from paying income tax on gains derived from a sale or exchange of the Bonds in Hong Kong pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**Arrangement**") and the interpretation and implementation rules for the Arrangement). Under the new EIT law, a "non-resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised from the transfer of the Bonds would be treated as income derived from sources within the PRC and be subject to PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the EIT Law and its implementation rules. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. EIT rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. If holders of the Bonds are required to pay PRC income tax on the transfer of the Bonds, the value of their investment in the Bonds may be materially and adversely affected. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income.

The Bonds may not be a suitable investment for all investors.

Each potential investor in any Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the relevant Bonds, the merits and risks of investing in the relevant Bonds and the information contained or incorporated by reference in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Bonds and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Bonds;

- understand thoroughly the terms of the relevant Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in Bonds which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Bonds are legal investments for it, (b) Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Certain facts and statistics are derived from publications not independently verified by the Group or the Joint Lead Managers, the Trustee or the Agents.

Facts and statistics in this Offering Circular relating to the global economy and the relevant industry are derived from publicly available sources. While each of the Issuer, the Guarantor and the Guarantor has taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by any of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, advisers, agents or any person who controls any of them and, therefore, none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents or any of the aforementioned persons make any representation as to the accuracy of such facts and statistics. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, the Issuer cannot assure investors that such facts and statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

The Bonds will initially be represented by the Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System.

Bonds will initially be represented by the Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream (each of Euroclear and Clearstream, a "**Clearing System**"). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Bonds. See "Summary of Provisions Relating to the Bonds in Global Form". The relevant Clearing System will maintain records of their account holders credited with holding beneficial interests in the Global Certificate. While the Bonds are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Bonds are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

EXCHANGE RATES

The Hong Kong dollar is freely convertible into other currencies, including the US dollar. Since 17 October 1983, the Hong Kong dollar has been linked to the US dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on 1 July 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per US dollar to a rate range of HK$7.75 to HK$7.85 per US dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the US dollar. However, no assurance can be given that the Hong Kong government will maintain the link within the current rate range or at all.

The following table sets forth the exchange rate between Hong Kong dollar and the US dollar set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States for the periods indicated:

Period	Period end	Average(2)	High	Low
		(RMB per US$1.00)		
2010	7.7810	7.7692	7.8040	7.7501
2011	7.7663	7.7793	7.8087	7.7634
2012	7.7507	7.7556	7.7699	7.7493
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7554	7.7669	7.7495
2015	7.7507	7.7519	7.7686	7.7495
2016	7.7534	7.7618	7.8270	7.7505
2017				
January	7.7579	7.7560	7.7580	7.7540
February	7.7627	7.7596	7.7627	7.7575
March	7.7714	7.7655	7.7702	7.7611
April	7.7779	7.7737	7.7806	7.7687
May	7.7929	7.7864	7.7933	7.7775
June	7.8055	7.7984	7.8055	7.7908
July	7.8100	7.8091	7.8128	7.8034
August	7.8267	7.8217	7.8267	7.8121
September	7.8110	7.8127	7.8256	7.7995
October	7.8015	7.8053	7.8106	7.7996
November	7.8093	7.8052	7.8118	7.7955
December	7.8128	7.8128	7.8228	7.8050
2018				
January	7.8210	7.8190	7.8230	7.8161
February	7.8262	7.8222	7.8267	7.8183
March	7.8484	7.8413	7.8486	7.8275
April (through 6 April)	7.8482	7.8487	7.8490	7.8482

Note:

(1) Exchange rates between Hong Kong dollars and US dollars represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages have been calculated from month-end rates. Monthly averages have been calculated using the average of the daily rates during the relevant period.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to modification and other than the words in italics, is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of US$ per cent. guaranteed bonds due (the "**Bonds**", which term shall include, unless the context requires otherwise, any additional Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) was authorised by a resolution of the board of directors of Beijing Enterprises Water Capital Management Holdings Limited (the "**Issuer**") passed on 2018. The Bonds are guaranteed by Beijing Enterprises Water Group Limited (the "**Guarantor**"). The giving of the Guarantee (as defined in Condition 3(b)) was authorised by a resolution of the board of directors of the Guarantor on 2018. Beijing Enterprises Holdings Limited (the "**BEHL**"), the largest shareholder of the Guarantor, has issued a non-legally enforceable letter of comfort dated 2018 in connection with the issue of the Bonds. The Bonds are constituted by a trust deed dated on or about 2018 (the "**Issue Date**") between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the "**Trustee**" which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (as amended and/or supplemented from time to time, the "**Trust Deed**"). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. Copies of the Trust Deed and of the agency agreement dated on or about 2018 relating to the Bonds between the Issuer, the Guarantor, the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**"), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**") and as transfer agent (the "**Transfer Agent**") and any other agents named in it (as amended and/or supplemented from time to time, the "**Agency Agreement**"), are available for inspection at all reasonable times during usual business hours (being between 9:00 a.m. and 3:00 p.m.) at the principal office of the Trustee (being at the Issue Date at One Canada Square, London E14 5AL, United Kingdom) and at the specified office of the Principal Paying Agent following prior written request and proof of holding to the satisfaction of the Trustee or, as the case may be, the Principal Paying Agent. References herein to "**Paying Agents**" include the Principal Paying Agent, and "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time under the Agency Agreement with respect to the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions of the Agency Agreement applicable to them.

All capitalised terms that are not defined in these terms and conditions (these "**Conditions**") will have the meanings given to them in the Trust Deed.

1 FORM, SPECIFIED DENOMINATION AND TITLE

The Bonds are issued in the specified denomination of US$200,000 and integral multiples of US$1,000 in excess thereof.

The Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Bond shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Bondholder**" (in relation to a Bond) and "**holder**" mean the person in whose name a Bond is registered.

Upon issue, the Bonds will be represented by a global certificate (the "Global Certificate") registered in the name of a nominee of, and deposited with, a common depository for Euroclear Bank SA/NV and Clearstream Banking S.A.. These Conditions are modified by certain provisions contained in the Global Certificate while any of the Bonds are represented by the Global Certificate. See "Summary of Provisions relating to the Bonds in Global Form".

2 TRANSFERS OF BONDS

(a) **Transfer**: A holding of Bonds may, subject to Condition 2(d), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may require. In the case of a transfer of part only of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder following written request and satisfactory proof of holding.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(b) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) or Condition 2(b) shall be available for delivery within seven business days of receipt of a duly completed form of transfer. Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(b), "**business day**" means a day, other than a Saturday or Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(c) **Transfer or Exercise Free of Charge**: Certificates, on transfer, exercise of an option or redemption, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of any tax, duty or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the Registrar or the relevant Transfer Agent may require).

(d) **Closed Periods**: No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Bond, (ii) during the period of 15 days prior to (and including any date on which Bonds may be called for redemption by the Issuer at its option pursuant to Condition 6(b) or Condition 6(d), (iii) after a Change of Control Put Exercise Notice has been deposited in respect of such Bonds pursuant to Condition 6(c), or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)(ii)).

3 STATUS AND GUARANTEE

(a) **Status**: The Bonds constitute direct, unsubordinated, unconditional and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.

(b) **Guarantee**: The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed (the "**Guarantee**") are contained in the Trust Deed (and any supplement thereto). The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4 COVENANTS

(a) Negative Pledge:

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and each of the Issuer and the Guarantor shall procure that none of their respective Subsidiaries (as defined in Condition 4(d) below) will, create or have outstanding any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders.

(b) Notification to NDRC

The Issuer undertakes that it will within 10 Registration Business Days after the Issue Date report or cause to be reported to the NDRC the requisite information and documents in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and effective as of 14 September 2015 and any implementation rules as issued by the NDRC from time to time (the "**NDRC Post-issue Reporting**").

(c) Notification of the NDRC Post-issue Reporting

The Issuer shall within 10 Business Days after the submission of the NDRC Post-issue Reporting, provide the Trustee with (i) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory (as defined in the Trust Deed) of the Issuer confirming the completion of the NDRC Post-issue Reporting, and (ii) copies of the relevant documents evidencing the NDRC Post-issue Reporting (if any), each certified in English by an Authorised Signatory of the Issuer as a true and complete copy of the original (the items specified in (i) and (ii) together, the

"**Registration Documents**"). In addition, the Issuer shall, within five Registration Business Days after the documents comprising the Registration Documents are delivered to the Trustee, give notice to the Bondholders (in accordance with Condition 16) confirming the completion of the NDRC Post-issue Reporting.

The Trustee shall have no obligation to monitor or ensure the NDRC Post-issue Reporting is made as required by Condition 4(b) or to assist with the NDRC Post-issue Reporting or to verify the accuracy, validity and/or genuineness of any Registration Documents or to give notice to the Bondholders confirming the completion of the NDRC Post-issue Reporting, and shall not be liable to Bondholders or any other person for not doing so.

(d) Definitions: In these Conditions:

"**NDRC**" means the National Development and Reform Commission of the PRC or its local counterparts;

"**person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organisation or government or any agency or political subdivision thereof;

"**PRC**" means the People's Republic of China, which shall for the purpose of these Conditions only, exclude the Hong Kong Special Administrative Region of the People's Republic of China, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

"**Registration Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in Beijing;

"**Relevant Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market, provided that the Relevant Indebtedness shall not include any indebtedness issued in the PRC; and

a "**Subsidiary**" means (a) any company or other business entity of which the Guarantor owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any entity whose financial statements at any time are required by Hong Kong law or in accordance with generally accepted accounting principles applicable to Hong Kong to be fully consolidated with those of the Guarantor.

5 INTEREST

The Bonds bear interest on their outstanding principal amount from and including 2018 at the rate of per cent. per annum, payable semi-annually in arrear in equal instalments of US$ per Calculation Amount (as defined below) on and in each year (each an "**Interest Payment Date**").

Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including 2018 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Bond shall be calculated per US$1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall (save as provided above in relation to equal instalments) be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 REDEMPTION AND PURCHASE

(a) **Final Redemption**: Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on (the "**Maturity Date**"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) **Redemption for Tax Reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to (but excluding) the date fixed for redemption), if the Issuer (or, if the Guarantee was called, the Guarantor) satisfies the Trustee immediately prior to the giving of such notice that (i) it has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, Bermuda or the PRC or, in any such case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 2018, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee (A) a certificate signed by an Authorised Signatory (as defined in the Trust Deed) of the Issuer (or of the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b) without further enquiry and without liability to any Bondholder, in which event the same shall be conclusive and binding on the Bondholders.

(c) **Redemption for Change of Control:** At any time following the occurrence of a Change of Control, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Bonds on the Change of Control Put Date at 101 per cent. of their principal amount, together with accrued but unpaid interest to (but excluding) the Change of Control Put Date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Change of Control Put Exercise**

Notice"), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer or the Guarantor in accordance with Condition 16. The "**Change of Control Put Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date.

The Issuer or the Guarantor shall give notice to the Bondholders (in accordance with Condition 16) and to the Principal Paying Agent and the Trustee in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 6(c).

For the purposes of these Conditions:

a "**Change of Control**" occurs when:

(i) any Person or Persons acting together (other than BEHL or BE Group or any of their respective Subsidiaries) acquires Control of the Guarantor if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Guarantor on the Issue Date;

(ii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person (other than BEHL or BE Group or any of their respective Subsidiaries), unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Guarantor or the successor entity;

(iii) one or more other Persons (other than BEHL or BE Group or any of their respective Subsidiaries) acquires the legal or beneficial ownership of all or substantially all of the Guarantor's issued share capital;

(iv) (a) BEHL does not or ceases to own or hold more than 35 per cent. of the voting rights of the issued share capital of the Guarantor, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise, (b) BEHL does not or ceases to supervise the Guarantor, (c) BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Guarantor, and/or (d) the nominees of BEHL cease to comprise the majority of the members of the Guarantor's board of directors;

(v) the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality does not, directly or indirectly, through BE Group or other companies under its supervision and control, hold at least 50.1 per cent. of BEHL's issued and outstanding capital stock or does not Control BEHL; or

(vi) the Issuer ceases to remain a directly or indirectly wholly-owned Subsidiary of the Guarantor;

"**BE Group**" means Beijing Enterprises Group Company Limited, a company incorporated under the laws of the PRC;

"**Control**" means the ownership or control of more than 50 per cent. of the voting rights of the issued share capital of the Guarantor or BEHL (as the case may be) or the right to appoint and/or remove all or the majority of the members of the board of directors of the Guarantor or BEHL (as the case may be) or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; and

a "**Person**", as used in this Condition 6(c), includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of state (in each case whether or not being a separate legal entity) but does not include the Guarantor's wholly owned direct or indirect Subsidiaries.

(d) **Redemption at the Option of the Issuer**: On giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and the Principal Paying Agent in writing and to the Bondholders in accordance with Condition 16, the Issuer may at any time and from time to time redeem the Bonds, in whole but not in part, at a Make Whole Price as of, and accrued and unpaid interest, if any, to (but excluding), the redemption date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice.

In this Condition 6(d):

"**Adjusted Treasury Rate**" means, with respect to any Optional Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date;

"**Comparable Treasury Issue**" means the U.S. Treasury security having a maturity comparable to that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to ;

"**Comparable Treasury Price**" means, with respect to any Optional Redemption Date:

(i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such Optional Redemption Date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(ii) if such release (or any successor release) is not published or does not contain such prices on such business day, (a) the average of the Reference Treasury Dealer Quotations for such Optional Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations;

"**Make Whole Price**" means, with respect to a Bond at any redemption date, the amount calculated by the Quotation Agent and notified to the Issuer that is the greater of (i) the present value of the principal amount of the Bonds, assuming a scheduled repayment thereof on the Maturity Date plus all required remaining scheduled interest payments due on such Bond through to and including the Maturity Date (but excluding accrued and unpaid interest to the Optional Redemption Date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, and (ii) the principal amount of such Bonds;

"**Quotation Agent**" means the Reference Treasury Dealer selected by and at the cost of the Issuer;

"**Reference Treasury Dealer**" means each of any three investment banks of recognised standing that is a primary U.S. Government securities dealer in New York City, selected by the Issuer in good faith; and

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any Optional Redemption Date, the average as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Quotation Agent by such Reference Treasury Dealer at 5:00 p.m. (New York time) on the third business day preceding such Optional Redemption Date.

(e) **Notice of Redemption**: All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer pursuant to Condition 6(b) or Condition 6(d) and any Change of Control Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

(f) **Purchase**: The Guarantor, the Issuer and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Guarantor, the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Bondholders or for the purposes of Conditions 9, 12(a) and 13.

(g) **Cancellation**: All Certificates representing Bonds purchased by or on behalf of the Issuer, the Guarantor or their respective Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

7 PAYMENTS

(a) Method of Payment:

(i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 7(a) (ii) below.

(ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifth business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made in US dollars by transfer to the registered account of the holder of such Bond. For the purposes of this Condition 7, a Bondholder's "**registered account**" means the US dollar account maintained by or on behalf of it, details of which appear on the Register at the close of business on the fifth Payment Business Day before the due date for payment. In this Condition 7(a), "**business day**" means a day (other than a Saturday, Sunday or public holiday) on which the Registrar is open for business in the place of its specified office.

(iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium (if any) or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium (if any) or interest so paid.

Notwithstanding the forgoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or an Alternative Clearing System (as defined in the form of the Global Certificate), each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 1 January and 25 December.

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Payment Initiation**: Where payment is to be made by transfer to an account in US dollars, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders.

(e) **Delay in Payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(f) **Non-Payment Business Days**: If any date for payment in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**Payment Business Day**" means a day (other than a Saturday or a Sunday or public holiday) on which banks and foreign exchange markets are open for business in New York, London and the place in which the specified office of the Registrar is located and where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency.

8 TAXATION

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, Bermuda or the PRC or any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or the Guarantor (as the case may be) by or within the PRC at up to and including the aggregate rate applicable on 2018 (the "**Applicable Rate**"), the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by the Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or the Guarantor (as the case may be) is required to make a deduction or withholding (i) by or within Bermuda or (ii) by or within the British Virgin Islands or (iii) by or within the PRC in excess of the Applicable Rate, the Issuer, or as the case may be, the Guarantor shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable in respect of any Bond:

(a) **Other connection**: to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands, Bermuda or the PRC other than the mere holding of the Bond; or

(b) **Surrender more than 30 days after the Relevant Date**: in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days.

"**Relevant Date**" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

9 EVENTS OF DEFAULT

If any of the following events (each an "**Event of Default**") occurs, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, (provided in any such case that the Trustee shall first have been indemnified and/or secured and/or prefunded to its satisfaction), give written notice to the Issuer and the Guarantor declaring that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment**: the Issuer, or as the case may be, the Guarantor fails to pay the principal of or any interest on any of the Bonds when due and, in the case of interest, the default continues for a period of 14 days; or

(b) **Breach of Other Obligations**: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Bonds or under the Trust Deed which default is in the opinion of the Trustee incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 30 days after notice of such default shall have been given to the Issuer and the Guarantor by the Trustee; or

(c) **Cross-Default**: (i) any other present or future indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes entitled to be declared) due and payable prior to its stated maturity by reason of any actual default or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred equals or exceeds US$40,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or

(d) **Enforcement Proceedings**: one of more final judgments or orders made in respect of all or a material part of the property, assets or revenues of the Issuer, the Guarantor or any of their respective Subsidiaries; or

(e) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of their respective Subsidiaries over all or a material part of the property, assets or revenue of the Issuer, the Guarantor or the relevant Subsidiary, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged or stayed within 60 days; or

(f) **Insolvency**: the Issuer, the Guarantor or any of their respective Subsidiaries is (or is deemed by law or a court of competent jurisdiction to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of or affecting all or any part of the debts of the Issuer, the Guarantor, or any of their respective Subsidiaries, as the case may be; or

(g) **Winding-up**: an order is made by a court of competent jurisdiction or an effective resolution passed for the winding-up or dissolution of the Issuer, the Guarantor or any of their respective Subsidiaries, or the Guarantor, the Issuer or any of their respective Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor or any of their respective Subsidiaries; or

(h) **Nationalisation**: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of their respective Subsidiaries; or

(i) **Authorisation and Consents**: any regulation, decree, consent, approval, license or other authority necessary to enable the Issuer and the Guarantor to perform their respective obligations under the Bonds and/or the Trust Deed or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified; or

(j) **Guarantee**: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(k) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Condition 9(d) to Condition 9(g) (all inclusive).

Each of the Issuer and the Guarantor has undertaken in the Trust Deed that it will send to the Trustee, within the applicable time periods set out in the Trust Deed, a certificate signed by an Authorised Signatory (as defined in the Trust Deed) of the Issuer or, as the case may be, the Guarantor to the effect that, as at a date not more than five days prior to the date of the certificate, no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred.

10 PRESCRIPTION

Claims against the Issuer and the Guarantor for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer or the Guarantor for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer or the Guarantor may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

(a) **Meetings of Bondholders**: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable in respect of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to cancel or amend the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than 66.66 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Modification of Agreements and Deeds**: The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Bondholders as soon as practicable thereafter.

(c) **Entitlement of the Trustee**: In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders, and the Trustee shall not be entitled to require on behalf of any Bondholders, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee (as the case may be) any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

13 ENFORCEMENT

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer and/or the Guarantor (as the case may be) as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it need not take any such steps and/or actions and/or institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds then outstanding, and (b) it shall first have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer and/or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless first indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and/or any entity related (directly or indirectly) to the Issuer or the Guarantor without accounting for any profit.

The Trustee shall not be under any obligation to ascertain whether any Event of Default or Potential Event of Default has occurred or to monitor compliance with the provisions of the Trust Deed, the Agency Agreement or these Conditions and shall not be liable to any person for any loss arising from any breach or any such event. Furthermore, none of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer and/or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has express written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed.

None of the Trustee or any Agent shall be liable to any Bondholder or any other person for any action taken by the Trustee or any Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Bondholders by way of an Extraordinary Resolution, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions or in the event that no such directions are received. The Trustee shall not be under any obligation to monitor compliance with the provisions of the Trust Deed, the Agency Agreement or these Conditions.

The Trustee may rely without liability to Bondholders on any report, confirmation or certificate from or any advice or opinion of any legal advisers, accountants, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, advice or opinion, in which event such report, confirmation, certificate, advice or opinion shall be binding on the Issuer, the Guarantor and the Bondholders.

15 FURTHER ISSUES

The Issuer may from time to time without the consent of the Bondholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the first payment of interest on them and the timing for complying with the NDRC Post-issue Reporting) and so that such further issue shall be consolidated and form a single series with the Bonds or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any such other securities issued pursuant to this Condition 15 and forming a single series with the Bonds. Any further securities forming a single series with the Bonds constituted by the Trust Deed or any deed supplemental to it shall be constituted by a deed supplemental to the Trust Deed.

16 NOTICES

Notices to the holders of Bonds shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday or public holiday) after the date of mailing. Notices to the holders of Bonds shall also be published at the Issuer's expense in a leading English language daily newspaper having general circulation in Asia (which is expected to be *The Wall Street Journal Asia*). The Issuer shall also ensure that notices are duly published in a manner that complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

17 GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Trust Deed, the Agency Agreement, the Guarantee and the Bonds are governed by, and shall be construed in accordance with, the laws of Hong Kong.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Guarantee, the Trust Deed and the Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Guarantee, the Trust Deed or the Agency Agreement ("**Proceedings**") may be brought in the courts of Hong Kong. Pursuant to the Trust Deed, each of the Issuer and the Guarantor has irrevocably submitted to the jurisdiction of the courts of Hong Kong.

(c) **Agent for Service of Process**: The Issuer has irrevocably agreed to appoint the Guarantor of 66/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong as its agent in Hong Kong to receive service of process in any Proceedings in Hong Kong based on any of the Bonds. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason the Guarantor shall cease to have an office in Hong Kong, the Issuer and the Guarantor will promptly appoint a substitute process agent and shall notify the Bondholders and the Trustee of such appointment within 30 days of such cessation. Nothing herein shall affect the right to serve process in any other manner permitted by law.

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ORDINANCE (CAP 623)

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Ordinance (Cap 623) except and to the extent (if any) that the Bonds expressly provide for such Ordinance to apply to any of their terms.

The Global Certificate contains the following provisions which apply to the Bonds in respect of which they are issued while they are represented by the Global Certificate, some of which modify the effect of the Terms and Conditions of the Bonds. Terms defined in the Terms and Conditions of the Bonds have the same meaning in this section. Terms defined in the Terms and Conditions of the Bonds have the meaning in the paragraphs below.

The Bonds will be represented by the Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, will promise to pay such principal, interest and premium (if any) on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the Terms and Conditions of the Bonds.

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if either Euroclear or Clearstream or any other clearing system through which the Bonds are cleared (an "**Alternative Clearing System**") is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Individual definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate. Such exchange will be effected in accordance with the provisions of the Trust Deed, the Agency Agreement and the regulations concerning the transfer and registration of the Bonds scheduled thereto and, in particular, shall be effected without charge to any holder of the Bonds or the Trustee, but against such indemnity and/or security as the Registrar or the relevant Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

The Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Certificate. The following is a summary of certain of those provisions:

Payment

So long as the Bonds are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person shown as the holder of the Bonds in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the due date for such payments, where "Clearing System Business Day" means Monday to Friday, inclusive except 25 December and 1 January.

Calculation of Interest

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Bonds from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions of the Bonds, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by such Global Certificate.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to holders of the Bonds shall be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to accountholders entitled to an interest in the Bonds in substitution for notification as required by the Terms and Conditions of the Bonds.

Meetings

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by this Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each US$1,000 in principal amount of Bonds for which the Global Certificate is issued.

Bondholder's Redemption

The Bondholder's redemption option in Condition 6(c) (*Redemption for Change of Control*) of the Terms and Conditions of the Bonds may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions of the Bonds.

Issuer's Redemption

The options of the Issuer provided for in Condition 6(b) (*Redemption for Tax Reasons*) and Condition 6(d) (*Redemption at the Option of the Issuer*) of the Terms and Conditions of the Bonds shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Terms and Conditions of the Bonds.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Cancellation

Cancellation of any Bond by the Issuer following its redemption or purchase by the Issuer or its respective Subsidiaries will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obligated to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

The Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

THE LETTER OF COMFORT

Disclaimer: BEHL has issued the following letter to holders of the Bonds in connection with the issue of the Bonds. The letter does not, however, represent a guarantee or a legally binding obligation of BEHL in relation to the Bonds, the Guarantee or the offering of the Bonds. See "Risk Factors — Risks relating to the Bonds and the Guarantee — The Letter of Comfort is neither legally binding nor a guarantee, and BEHL is not legally obliged to support the Guarantor and the Issuer in the manner contemplated by the Letter of Comfort."

Form of the Letter of Comfort

To: Holders of the US$ per cent. Guaranteed Bonds due (the "**Bondholders**")

Copy to: Beijing Enterprises Water Group Limited (the "**Guarantor**")

From: Beijing Enterprises Holdings Limited (the "**Company**")

Dated:

Dear Sirs,

We, Beijing Enterprises Holdings Limited, a company incorporated under the laws of Hong Kong, with the registered office at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, are a diversified conglomerate with focus on natural gas business, brewery business, water and environmental business and solid waste treatment business. Being the flagship and sole platform of the Company in the water service market, the Guarantor has set its strategic object as to become a leading integrated water system solution provider.

We hereby confirm that we are aware that Beijing Enterprises Water Capital Management Holdings Limited (the "**Issuer**") proposes to issue US$ per cent. Guaranteed Bonds due (the "**Bonds**", which expression shall, if the context so admits, include the global certificate to be initially delivered in respect of the Bonds and shall include any additional Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith), which will be guaranteed (the "**Guarantee**") by the Guarantor pursuant to a trust deed (the "**Trust Deed**") dated 2018 between the Issuer, the Guarantor and the Trustee.

The Company intends for Bondholders to be the beneficiaries under this Letter as provided herein.

1 Interpretation

1.1 Definitions: The following expression has the following meanings:

"**Subsidiary**" of any person means (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time, should have its accounts consolidated with those of that person;

1.2 The Trust Deed: In this Letter, unless the context requires or the same are otherwise defined, words and expressions defined in the Trust Deed and not otherwise defined herein shall have the same meaning in this Letter.

2 Undertakings

The Company undertakes, so long as any Bonds are outstanding, that it shall:

(i) cause each of the Issuer and the Guarantor to remain solvent and a going concern at all times under the applicable accounting standards;

(ii) cause the Guarantor to procure that the Issuer will not carry on any business activity whatsoever other than in connection with the Bonds (such activities in connection with the Bonds shall, for the avoidance of doubt, include (a) the offering, sale or issuance of the Bonds; (b) the offering, sale or issuance of Relevant Indebtedness as permitted under the terms and conditions of the Bonds; and (c) the activities directly related to the establishment and/or maintenance of the Issuer's corporate existence);

(iii) unless required to dispose of any or all such shares pursuant to a court decree or order of any governmental or regulatory authority, which, in the opinion of a legal adviser to the Company, may not be successfully challenged, that (a) the Company and/or its Subsidiaries shall directly or indirectly together own and hold more than 35 per cent. (the "**Restricted Shares**") of all the issued shares and/or voting rights of the Guarantor; (b) the Company will not directly or indirectly pledge or in any way encumber or otherwise dispose of any Restricted Shares in the Guarantor; and (c) the Company shall cause the Issuer to remain a wholly-owned Subsidiary of the Guarantor;

(iv) promptly take any and all action necessary to comply with its obligations under this Letter; and

(v) use its reasonable efforts to do all such things and take all such actions as may be necessary or desirable to give effect to this Letter.

3 Communications

Any communication shall be by letter or fax:

in the case of the Issuer at:

BEIJING ENTERPRISES WATER CAPITAL MANAGEMENT HOLDINGS LIMITED
c/o Rooms 6706-07, 67/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Telephone no.:	+852 2105 0800
Fax no.:	+852 2796 9972
Attention:	Mr. Eric Tung

in the case of the Company at:

BEIJING ENTERPRISES HOLDINGS LIMITED
66/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Telephone no.:	+852 2915 2898
Fax no.:	+852 2857 5084
Attention:	The Directors

in the case of the Guarantor at:

BEIJING ENTERPRISES WATER GROUP LIMITED
Rooms 6706-07, 67/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Telephone no.:	+852 2105 0800
Fax no.:	+852 2796 9972
Attention:	Mr. Eric Tung

Communications will take effect, in the case of a letter, when delivered, and in the case of fax, when the relevant delivery receipt is received by the sender; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Letter which is sent by fax will be written legal evidence.

For the avoidance of doubt, this letter is not treated as having any legally binding effect.

Yours faithfully,

For and on behalf of

Beijing Enterprises Holdings Limited

Name: ______________________

Title: Executive Director

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, which will be approximately US$ million after deducting expenses (including but not limited to the management and underwriting commission to be charged by the Joint Lead Managers), will be used by the Group for refinancing of existing borrowings and general working capital purpose.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated total borrowings (both current and non-current portions), equity and total capitalisation of the Group as at 31 December 2017 and as adjusted to give effect to the issue of the Bonds:

	As at 31 December 2017	
	Actual	As adjusted[1]
	(HK$'000)	(HK$'000)
Total borrowings — current portion		
Bank and other borrowings	4,689,344	4,689,344
Corporate bonds	3,750,484	—
Finance lease payables	102,749	102,749
Total	8,542,577	4,792,093
Total borrowings — non-current portion		
Bank and other borrowings	21,443,596	21,443,596
Corporate bonds	10,495,364	10,495,364
Notes payable	3,074,932	3,074,932
Finance lease payables	395,461	395,461
The Bonds being issued[2]	—	3,900,000
Total	35,409,353	39,309,353
Equity[3] [4]		
Issued capital	879,382	879,382
Reserves	19,905,341	19,905,341
Total	20,784,723	20,784,723
Total capitalisation [5]	56,194,076	60,094,076
Total capitalisation and current portion of total borrowings	64,736,653	64,886,169

Notes:

(1) *Figures in the "As adjusted" column reflect the issuance of the Bonds.*

(2) *The aggregate principal amount of the Bonds has been translated from US dollars to Hong Kong dollars at the rate of US$1.00 to HK$7.80.*

(3) *Excluding non-controlling interests and perpetual capital instruments.*

(4) *On 1 February 2018, 450,000,000 shares were issued by the Guarantor to certain placing agents for cash subscription and on 4 April 2018, 169,491,525 shares were issued by the Guarantor to BEECL. On 6 and 10 April 2018, 2,200,000 shares were repurchased by the Guarantor.*

(5) *Total capitalisation represents the sum of total borrowings (non-current portion) and equity.*

Except as disclosed above, there has been no material change in the consolidated capitalisation and indebtedness of the Group since 31 December 2017.

DESCRIPTION OF THE ISSUER

Formation

The Issuer is a limited liability company incorporated under the BVI Business Companies Act (BVI Company Number: 1972913). It was incorporated in the British Virgin Islands on 14 March 2018. The Issuer is a wholly-owned subsidiary of the Guarantor.

Business Activity

The Issuer was established for the purpose of issuing the Bonds and advancing the proceeds to the Guarantor and/or its subsidiaries. The Issuer has not engaged, since the date of its incorporation, in any other material activities other than those relating to the proposed issue of Bonds and the on-lending of the proceeds thereof to the Guarantor and/or any other subsidiary of the Guarantor, and the authorisation of documents and agreements referred to in this Offering Circular to which it is or will be a party.

Financial Statements

Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep proper books of account as are sufficient to show and to explain its transactions and which will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

Directors and Officers

The directors of the Issuer as at the date of this Offering Circular are Mr. Li Haifeng and Mr. Tung Woon Cheung Eric. The registered office of the Issuer is Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands VG1110. The Issuer has no employee.

Share Capital

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares which may be issued with or without a par value, and one share without par value has been issued to, and is held by, the Guarantor. The register of members of the Issuer is maintained at its registered office in the British Virgin Islands at Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands VG1110. No part of the equity securities of the Issuer is listed or dealt on any stock exchange, and no listing or permission to deal in such securities is being or is proposed to be sought. As at the date of this Offering Circular, the Issuer does not have any debt outstanding other than the Bonds to be issued.

DESCRIPTION OF THE GROUP

Overview

The Group is one of the leading integrated water and sewage treatment solutions providers in the PRC principally engaged in (i) water treatment services which includes sewage and reclaimed water treatment services and water distribution services, mainly in the PRC, Macau, Singapore and Portugal, (ii) construction services for water environmental renovation projects including comprehensive renovation projects and BOT projects, mainly in the PRC, Malaysia and Portugal, and (iii) technical services and sale of machineries in relation to sewage treatment and water environmental renovation projects in the PRC. Leveraging upon its core technologies, strategic alliances with local governments, project management expertise, financing channels and engineering, consulting and project design capabilities, the Group enjoys a superior market position in the PRC and is continuing to expand its operations in the PRC and other parts of the world.

The Group was one of the four companies globally, and the only PRC company which won the "Water Company of the Year" award in the 2014 Global Water Submit held in Paris by Global Water Intelligence. In addition, the Group has continuously been ranked first among the "Top Ten Influential Enterprises in the Water Industry in China" (中國水業十大影響力企業) from 2010 to 2016 in survey conducted by h2o-China.com. The Group has also been recognised as "Flagship Enterprise in the Water Industry" (水務旗艦企業) in surveys jointly organised by Chinese Hydraulic Engineering Society, China Water Resources News and China Water Expo from 2012 to 2013 for its standing in the water industry in the PRC. In the 2016 Global Water Summit in Abu Dhabi held by the Global Water Intelligence, the Group's Second Changi NEWater Plant BOO Project in Singapore has won the first in the Water Deal of the year category.

The coverage of the water plants of the Group and its joint ventures extends to 21 provinces, five autonomous regions and two municipalities across the PRC and Portugal, Malaysia, Macau and Singapore. The Group's operations are widely spread across the southern, western, Shandong, eastern and northern regions in the PRC.

As at 31 December 2017, the Group and its joint ventures entered into service concession arrangements for a total of 782 water plants including 655 sewage treatments plants, 112 water distribution plants, 14 reclaimed water treatment plants and one seawater desalination plant either in operation, under construction or ownership of which was being transferred from the proprietors to the Group and its joint ventures. As at the same date, out of the foregoing plants, 256 sewage treatment plants, 86 water distribution plants and eight reclaimed water treatment plants were in operation.

The total daily design water processing capacity of the operating water plants of the Group and its joint ventures reached approximately 18.7 million tonnes as at 31 December 2017, representing an increase of approximately 13.3 per cent. as compared with the total daily design water processing capacity as at 31 December 2016. For the year ended 31 December 2017, the Group and its joint ventures treated approximately 3,700.5 million tonnes of sewage and reclaimed water and supplied approximately 1,417.0 million tonnes of tap water. The construction projects of the Group and its joint ventures generally entail the construction services in respect of water environmental renovation such as river renovation, construction of water and sewage pipelines and sewage treatment and water supply plants.

As at 31 December 2017, the Guarantor's largest shareholder, BEHL (392.HK), held 43.49 per cent. of the Guarantor's issued share capital. As at 31 December 2017, the Group's total assets and total liabilities were HK$100.5 billion and HK$67.4 billion, respectively, and as at 31 December 2016, the Group's total assets and total liabilities were HK$81.0 billion and HK$54.3 billion, respectively. For the year ended 31 December 2017, the Group's total revenue, profit from operating activities and profit for the year were HK$21.2 billion, HK$5.7 billion and HK$4.4 billion, respectively, and for the year ended 31 December 2016, the Group's total revenue, profit from operating activities and profit for the year were HK$17.4 billion, HK$5.3 billion and HK$3.7 billion, respectively.

Key Competitive Strengths

The Group has the following principal strengths, which enable the Group to compete successfully in its principal business sectors.

Favourable industry dynamics and policy support

The Group, as a market leader in the water and sewage treatment industry in the PRC, is well positioned to benefit from favourable industry dynamics and supportive Government policies.

- China's urbanisation creates a long-term growth momentum in the demand for China's water supply and sewage treatment services. In light of the foregoing, the Group expects that the demand for efficient and advanced tap water supply and sewage treatment services in China will remain robust.

- China's water industry remains relatively fragmented and there is no apparent single player dominating the industry. Against this backdrop, the Group believes that there are significant growth opportunities for it to continue develop and expand its water services business in China.

- Since the 12th "Five-Year Plan", China attached great importance to protection of its ecological environment and the Government has vigorously promoted the prevention and control of water pollution. With environmental protection remaining a priority for the Government in its 13th Five-Year Plan as well as in the 19th National Congress Report, the Group expects stricter environmental protection and water quality standards to be promulgated and implemented. The Group anticipates that the Government's goal of substantially reducing pollution levels in rivers, lakes and seas in the PRC will create increasing demand for the Group's water treatment services and construction services for the water environmental renovation. In addition, the Government encourages investment in the water environment renovation and water treatment industry from private sectors.

Unique business scale and superior market position

The Group is a comprehensive integrated water and sewage treatment solutions provider with unique business scale and superior market position, maintaining a diversified product offerings and an established nation-wide network. As at 31 December 2017, the Group and its joint ventures had 655 sewage treatment plants, 112 water distribution plants, 14 reclaimed water treatment plants and one seawater desalination plant, with a well-balanced geographical presence across 21 provinces, five autonomous regions and two municipalities in the PRC, as well as other countries and regions such as Portugal, Malaysia, Macau and Singapore. The Group's operations in the PRC are widely spread across the southern, western, Shandong, eastern and northern regions in the PRC .

The Group has also achieved an effective and sustainable growth in sewage treatment and water supply capacity. The Group and its joint ventures in aggregate achieved over 30 per cent. of CAGR in their total daily design water processing capacity (in relation to plants either in operation, under construction or ownership of which was being transferred from the proprietors to the Group and its joint ventures) from approximately 3.6 million tonnes as at 31 December 2009 to approximately 31.4 million tonnes as at 31 December 2017. In addition, the Group's superior market position is proven by its numerous global and national awards since its establishment. For more details of the Group's awards, see "— Overview." With its nation-wide geographical exposure, large number of high quality projects across China, extensive market presence with a well-known brand in the water utility sector, and vast population coverage, the Group believes that its unique business scale and market position allow it to stay at the forefront of its industry.

Solid profit growth

Leveraging upon its advanced technology and superior operational expertise, the Group's profit has increased rapidly in recent years, with profit attributable to shareholders of the Guarantor achieving a CAGR of approximately 38 per cent. from 2012 to 2017. The Group's revenue increased from HK$337.7 million for the year ended 31 December 2008 to HK$21,192.4 million for the year ended 31 December 2017.

The Group's solid profit growth is supported by predictable demand driven by the Government and household consumption. Concessions for sewage treatment are typically granted for 20 to 40 years, providing the Group with stable income and long term earning visibility. The water industry in the PRC also receives support from the Government which typically guarantees a minimum sewage treatment volume. In terms of tariff and returns, the Group is able to maintain its average tariff for sewage treatment at RMB1.01 and RMB1.08 per tonne for 2016 and 2017 respectively. In addition, the service concession agreements for sewage treatment entered into by the Group have built-in price adjustment mechanism to protect the Group from rising operating cost. The tariff for sewage treatment is usually adjusted every two to three years by reference to changes in key cost indices such as consumer price index and such tariff has in the past been adjusted upward.

Strong low-cost financing capability and healthy debt structure

Leveraging on its efficient financing platform, the Group's strong and cost-effective financing capability is demonstrated by a series of financing activities since 2008, including bonds issuance, syndicated loans, open offer and share placement. The Group enjoys a competitive financing cost which is generally lower than the average financing cost of its peers listed in Hong Kong. The Group's healthy debt structure, comprising over a majority of long-term debt, matches with the stable cash flow of the Group and provides great flexibility for re-financing.

Strong shareholder support

BEHL is the single largest shareholder of the Guarantor with a 43.49 per cent. equity interest in the Guarantor as at 31 December 2017 held through its wholly-owned subsidiary, Beijing Enterprises Environmental Construction Limited ("**BEECL**").

As the major water utilities flagship company of BEHL, the Group's strong partnership with BEHL benefits the Group in various ways, including (i) project sourcing and securing new water projects in affluent regions in the PRC; (ii) securing bank lending from various major banks at preferential interest rates; and (iii) obtaining equity financing through open offers which were typically underwritten by BEHL.

Leveraging upon its strong relationship with its ultimate holding company, Beijing Enterprises Group Company Limited, which is wholly owned by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, BEHL is well-positioned to help the Group to continue to secure large-scale water projects from local governments. In addition, the Group's relationship with BEHL enables the Group to capitalise on BEHL's relatively strong credit ratings of "Baa1" and "BBB+" from Moody's and S&P, respectively, to secure bank lending at rates favourable to the Group.

From time to time, the Group benefits from financial support from BEHL in the forms of equity investment and asset injection. In January 2008, BEHL subscribed for 247,000,000 new shares of the Guarantor at HK$0.4 per share and subscribed for convertible bonds of the Guarantor at HK$700 million. In March 2011, an open offer of one offer share for two existing shares was completed, whereby 2,283,378,231 new shares of the Guarantor was issued at HK$1.485 per share. The open offer was fully underwritten by BEECL and a total funds of approximately HK$3,391 million was raised as a result. In February and May 2013, BEHL injected an asset portfolio into the Group, comprising the ownership and/or future income of various water plants in Beijing, Shandong and Hainan with a total daily design water processing capacity of 1,290,000 tonnes, and a total of 776,810,838 consideration shares of the Guarantor were issued to BEECL. In April 2018, the Guarantor issued 169,491,525 new shares to BEECL, raising an approximately HK$1,000 million of proceeds for the Group.

Advanced research and development capability

The Group's self-researched LIER-POOLK patent, rewarded by numerous certificates, was awarded with Grade A quality certificates issued by the State Ministry of Construction and the Development, the Reform Commission and the Ministry of Environmental Protection. For more details of LIER-POOLK technology, see "— Business of the Group — Water treatment services — Sewage and reclaimed water treatment service."

The Group's strong technical capability is further strengthened by its acquisition of two technology companies. The Group acquired Nanjing Municipal Design and Research Institute Co., Ltd. and Huaian Research Institute & Water Investigation and Design Co., Ltd., both technology services enterprises which own various qualifications for engineering consulting and design in municipal utility projects and infrastructure projects.

The Group possesses strong research and development capability and has continued to strengthen it through cooperation with prestigious institutions, such as Tsinghua University, a leading institution in environmental protection particularly in the water area. The Group also has full national-level technical qualifications to provide a variety of engineering and consulting services. By capitalising on its extensive business network, the Group has been able to penetrate into new markets and industries to further its growth.

Experienced management team

The Group's management team has extensive experience in the water industry with a proven track record in water and sewage treatment. The majority of the Group's core management team has been working together for more than ten years and has provided guidance and execution leadership to the Group. The Group's core team benefits significantly from the accumulated expertise and hands-on experience of its project managers. The Group believes that the management team enables it to continue to improve the efficiency of its operations, the quality of its product offerings and its ability to satisfy its customers' requirements. The Group believes that its strong management and execution capacity is evidenced by its revenue and profit growth.

Strategies

The Group believes that increasing urbanisation and water consumption in the PRC and rapid industrialisation of the PRC economy will continue to create growth opportunities for the Group. The Group has leveraged its competitive advantage in, among others, advanced technologies, strong networks with the Government and project management expertise to become one of the leading integrated water and sewage treatment solution providers in the PRC. The Group intends to maintain its leading position in the PRC water industry by pursuing the following strategies:

Maintain an integrated business model to accelerate expansion of sewage treatment and water supply projects

The Group operates an integrated business model and engages in design and technical consultancy, and construction and operation of sewage treatment and water supply projects. The Group's extensive project capabilities enable it to capture the entire value chain from project concept and design stages through construction and operation. By closely monitoring the Government's industrial policies and enhancing its research and development capabilities, the Group plans to broaden its sewage treatment and water supply portfolio through the completion of fully integrated projects that utilise its wide range of capabilities and capture a larger share of the value chain for each project.

Develop new profit drivers

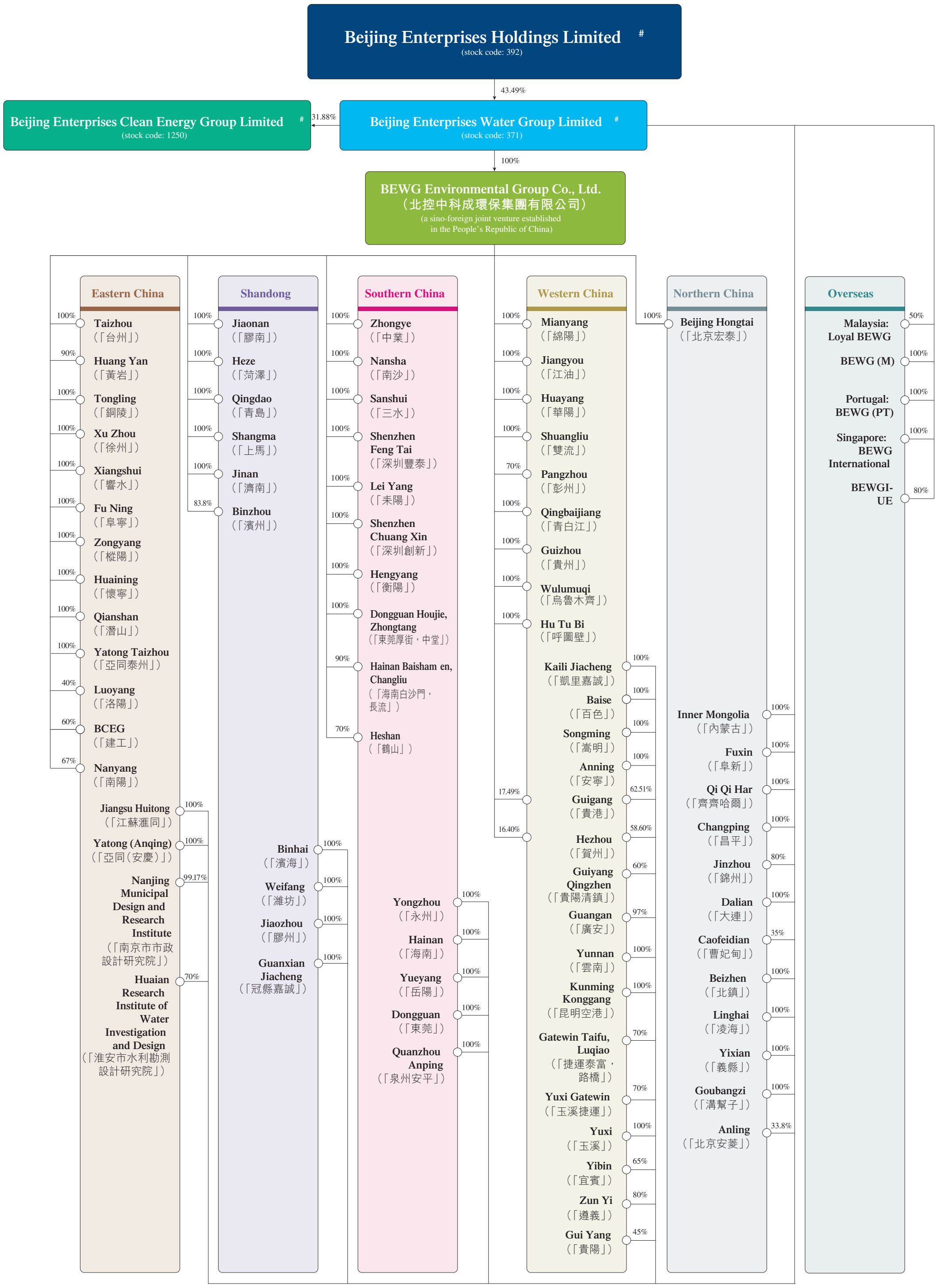
The Group believes that its water operations will provide stable cash flows in coming years due to its track record and the Government's policies to expand sewage treatment and water supply facilities in the PRC. The Group has been generating stable cash flows and maintaining relatively consistent operating margins, enabling it to maintain a solid platform for conservative growth. The Group has expanded its water operations to cover membrane business and sludge treatment business and expanded its geographical footprint for water treatment services to Singapore, Portugal and Macau, and construction services in Malaysia. The Group will continue to seek opportunities for advanced strategic co-operations in business development and provision of water environment asset management services with a view to diversifying its revenue sources whilst mitigating business concentration risk.

Maintain prudent financial policies

The Group intends to continue to implement prudent financial policies to preserve a low cost financing and optimal capital structure. This will be achieved by careful management of key measures such as capital expenditures, cash flow and fixed charge coverage. The Group will also continue to focus on lowering its cost of financing.

Organisational Structure

The following diagram sets out a simplified organisational structure showing major subsidiaries, associates and joint ventures of the Group as at 31 December 2017:



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

History and Development

The Guarantor was incorporated in Bermuda in the name of "Wanon International Holdings Limited" in 1992. In March 2008, the Guarantor changed its name to Beijing Enterprises Water Group Limited after BEHL became its largest shareholder. The Group commenced its water operations in August 2008 as a result of a change in the Guarantor's business strategy due to the Government's support for companies engaged in the water resources protection business.

Set forth below are the Group's major corporate historical events and milestones:

March 2008	BEHL became the major shareholder of the Guarantor, and the Group was positioned as the strategic and listed platform for BEHL's water services business.
August 2008	The Group commenced its water operations and the Guarantor acquired Z.K.C. Environmental Group Co., Ltd. (currently known as BEWG Environmental Group Co., Ltd.) which owned 13 water plants with combined daily design water processing capacity of 900,000 tonnes at a consideration of approximately HK$1,371 million.
March 2011	The Guarantor completed an open offer of 2,283,378,231 offer shares on the basis of one offer share for every two existing shares with the support of BEHL, raising an approximately HK$3,391 million of proceeds.
November 2011	The Group executed a tender contract with the government of Malaysia for the construction of Pantai 2 underground sewage treatment plant with total daily design water processing capacity of 320,000 tonnes in the Federal Territory of Kuala Lumpur, representing the Group's first overseas project.
December 2012	The total daily design water processing capacity of the Group and its joint ventures (in relation to plants either in operation, under construction or ownership of which was being transferred from the proprietors to the Group and its joint ventures) reached 10 million tonnes.
February, May 2013	The Group's controlling shareholder, BEHL, injected into the Group an asset portfolio, comprising the ownership and/or future income of various water plants in Beijing, Shandong and Hainan with a total daily design water processing capacity of 1,290,000 tonnes, in exchange for a total of 776,810,838 consideration shares.
March 2013	The Group completed its first overseas acquisition project, in which it acquired Compagnie Générale des Eaux (Portugal) — Consultadoria e Engenharia, S.A., a Portuguese private water operator engaged in water treatment, supply and sewage treatment services in various regions in Portugal at a consideration of approximately Euro 95.51 million.
September 2013	The Guarantor issued 400,000,000 new shares to a strategic investment fund of the government of Malaysia at the price of HK$2.95 per share, raising an approximately HK$1,180 million of proceeds.
October 2013	The Group conducted a placing of shares to independent placees of approximately 4.15 per cent. of the then enlarged issued share capital of the Guarantor, raising an approximately HK$1,112 million of proceeds.

March 2014	The Guarantor was selected as a constituent of the Hang Seng China-Affiliated Corporations Index.
April 2014	The Group won the "Water Company of the Year" in the 2014 Global Water Summit held in Paris by the Global Water Intelligence.
June 2014	The Guarantor was selected as a constituent of Hang Seng China (Hong Kong-listed) 100 Index.
December 2014 . .	The total daily design water processing capacity of the Group and its joint ventures (in relation to plants either in operation, under construction or ownership of which was being transferred from the proprietors to the Group and its joint ventures) reached 20 million tonnes.
December 2017 . .	The total daily design water processing capacity of the Group and its joint ventures (in relation to plants either in operation, under construction or ownership of which was being transferred from the proprietors to the Group and its joint ventures) reached 30 million tonnes.
January 2018	The Group conducted a placing of new shares (i) to independent placees of approximately 4.8 per cent. of the then enlarged issued share capital of the Guarantor, and (ii) to the Group's controlling shareholder of approximately 1.8 per cent. of the then enlarged issued share capital of the Guarantor, raising an approximately HK$2,655 million and HK$1,000 million of proceeds, respectively.

Business of the Group

The Group's business can be divided into: (i) water treatment services which includes sewage and reclaimed water treatment services and water distribution services, (ii) construction services for water environmental renovation projects and (iii) technical services and sale of machineries in relation to sewage treatment and water environmental renovation projects. As at 31 December 2017, the coverage of the water plants of the Group and its joint ventures extends to 21 provinces, five autonomous regions and two municipalities across the PRC and other countries and regions such as Portugal, Malaysia, Macau and Singapore. As at 31 December 2017, the total daily design water processing capacity of the operating water plants of the Group and its joint ventures increased to 18.7 million tonnes, representing a 13.3 per cent. increase as compared with the same as at 31 December 2016. During 2017, the Group and its joint ventures had secured 4.8 million tonnes of daily design water processing capacity through new projects, including 677,750 tonnes from BOT projects, 10,000 tonnes from TOT projects and 50,000 tonnes from BOO projects, 3,240,276 tonnes from public-private-partnership projects, 365,000 tonnes from entrustment projects and 495,000 tonnes acquired through merger and acquisition.

The table below sets out the Group's revenue by business segment for the years ended 31 December 2016 and 2017, respectively:

	For the year ended 31 December	
	2016	**2017**
	(HK$ million)	
Water treatment services		
Sewage and reclaimed water treatment services	3,653.9	4,031.7
Water distribution services	1,371.4	1,839.7
Construction services for the water environmental renovation[(1)]		
Construction services for comprehensive renovation projects	4,612.3	7,335.3
Construction of BOT water projects	6,696.3	6,647.1
Technical services and sale of machineries for the water environmental renovation	1,020.9	1,338.6
Total	**17,354.8**	**21,192.4**

Note:

(1) The Group's construction revenue is recognised on the basis of the percentage of completion method in accordance with HKFRS.

Water treatment services

The Group's water treatment services primarily comprise the provision of sewage and reclaimed water treatment services and water distribution services to municipal governments and industrial customers. For the years ended 31 December 2016 and 2017, revenue from the Group's water treatment services accounted for approximately 29.0 per cent. and 27.7 per cent., respectively, of the Group's total revenue.

As at 31 December 2017, the Group and its joint ventures entered into service concession arrangements for a total of 782 water plants including 655 sewage treatments plants, 112 water distribution plants, 14 reclaimed water treatment plants and one seawater desalination plant. The water plants operated by the Group and its joint ventures had a total daily design water processing capacity of 18.7 million tonnes as at 31 December 2017. The table below sets out (i) the number of water plants operated by the Group and its joint ventures, (ii) the daily design water processing capacity of the water plants operated by the Group and its joint ventures, (iii) the actual water processing volume of the water plants operated by the Group and its joint ventures, and (iv) the revenue and profit attributable to shareholders of the Guarantor of the Group's water treatment services by region as at or for the year ended 31 December 2017, as applicable.

	As at 31 December 2017		For the year ended 31 December 2017		
	Number of plants	Design water processing Capacity	Actual water processing volume during the year*	Revenue	Profit attributable to shareholders of the Guarantor
		(tonnes/day)	(million tonnes/year)	(HK$ million)	
Sewage treatment and reclaimed water treatment services:					
Mainland China:					
-Southern China	46	3,346,700	1,096.0	886.3	469.2
-Western China	51	1,754,500	527.5	786.6	363.7
-Shandong	32	1,462,000	399.1	432.3	207.8
-Eastern China	63	3,362,750	1,018.0	956.4	412.8
-Northern China	46	1,751,000	507.1	678.8	256.2
	238	11,676,950	3,547.7	3,740.4	1,709.7
Overseas	26	427,200	152.8	291.3	47.7
Subtotal	264	12,104,150	3,700.5	4,031.7	1,757.4
Water distribution services: . .					
-Mainland China	73	6,555,600	1,403.6	1,611.2	640.7
-Overseas	13	36,000	13.4	228.5	49.3
Subtotal	86	6,591,600	1,417.0	1,839.7	690.0
Total	**350**	**18,695,750**	**5,117.5**	**5,871.4**	**2,447.4**

* *Excluded entrustment operation contracts*

Service concession arrangements

A substantial part of the Group's revenue for its water treatment services is generated from the provision of sewage and reclaimed water treatment and water distribution services under service concession arrangements.

The Group has entered into a number of service concession agreements with certain government authorities in the PRC on a BOT or TOT basis in respect of its sewage treatment and water supply projects. Under the service concession agreements for BOT or TOT projects, the Group is generally entitled to use all the property, plant and equipment of the water plants while the relevant local government authorities as grantors control and regulate the scope of services the Group provides, and retain the beneficial entitlement to any residual interest in the water plants at the end of the term of the service concession periods.

Under the BOT project model, the Group enters into a service concession arrangement with a local government regarding the investment, construction and operation of a proposed water plant. The Group finances the construction of the relevant plant with a combination of bank borrowings and its internal resources. The Group is granted the right to operate the relevant plant during the concession period, which typically ranges between 20 to 40 years for most of its BOT projects, and is entitled to fees from its customers, normally local government authorities or government related investment entities, during the concession period to cover the costs of investment, construction, operation and maintenance and to provide the Group with reasonable returns. After expiration of the concession period, the Group transfers the relevant plant back to its customers without compensation.

The TOT project model differs from the BOT project model in that the Group does not construct the relevant plant. The Group acquires the concession rights for the relevant plant, which has already been constructed for an agreed consideration. Similar to the BOT project model, the Group is entitled to fees from its customers, normally local government authorities or government related investment entities, during the concession period to cover the costs of investment, operation and maintenance and to provide the Group with reasonable returns. The concession periods of most of the Group's TOT projects generally range between 20 to 40 years. After expiration of the concession period, the Group transfers the relevant plant back to its customers without compensation.

Under a BOO project model, the Group finances the investment, construction and operation of its own plants by a combination of bank borrowings and its internal resources. Unlike a BOT or TOT project, the Group does not transfer the plant to a third party. The Group is generally entitled to fees from its customers, normally local government authorities or government related investment entities, to cover the costs of investment, construction, operation and maintenance and to provide the Group with reasonable returns.

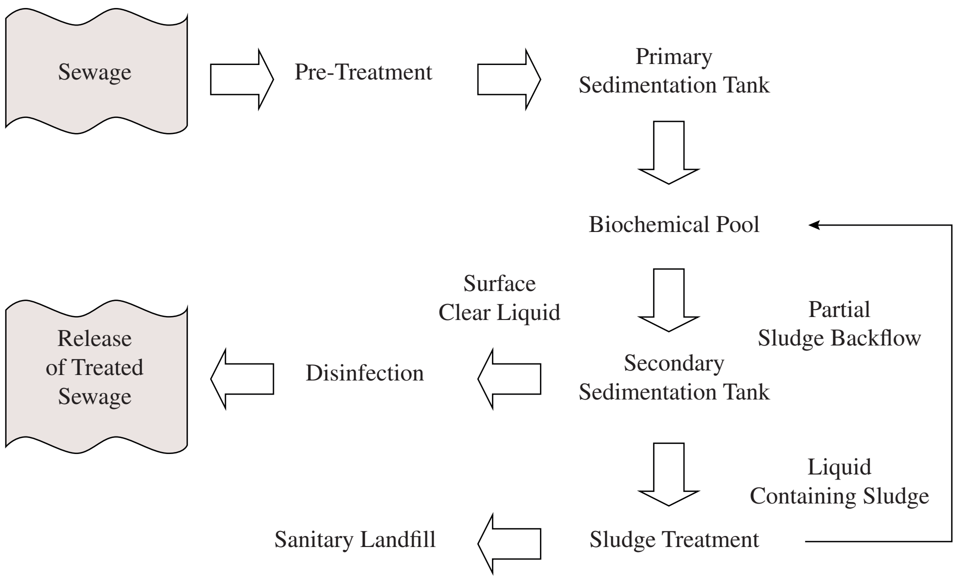
Sewage and reclaimed water treatment service

The Group's sewage and reclaimed water treatment facilities remove pollutants from water and sewage using multiple processes, including the application of chemicals and biological agents or through physical processes. The Group has developed several proprietary technologies designed to enhance existing technologies for the treatment of sewage and water from different sources and across different industries. The Group adapts and deploys these technologies in various combinations according to the specific requirements of its customers and the project type. For example, the Group developed LIER-POOLK technology, for which it has registered a patent, for the treatment of industrial sewage containing toxic materials and high concentrations of ammonia nitrogen and tar. This technology is highly effective and cost efficient in removing sulphur oxide, oil, ammonia nitrogen and organic materials from industrial waste water. The Group's LIER-POOLK waste water treatment technology was awarded with Grade A quality certificates issued by the State Ministry of Construction and the Development, the Reform Commission and the Ministry of Environmental Protection.

While specific processes and technologies deployed in sewage treatment vary by different projects and industries and in accordance with the specific requirements of each of the Group's customers, the sewage treatment process typically begins with the pre-treatment of the waste water to remove large solid materials in the raw waste water. Waste water is then transferred to a sedimentation tank where smaller solid waste and sludge are separated from the waste water by sedimentation. The waste water is then discharged into biochemical pools where oxidation ditches are used to introduce an optimal level of oxygen to encourage the growth of micro-organisms that consume organic pollutants in the waste water. Separation of sludge from waste water is then conducted at a secondary sedimentation stage. The treated waste water is disinfected to kill harmful micro-organisms before being reintroduced into the environment or otherwise being reused. Some separated sludge flows back into the biochemical pool to maintain a sufficient level of micro-organisms, while the residual sludge from the treatment process is sent to sludge landfill sites for disposal.

Set out below is an overview of the key steps involved in sewage treatment:

Sewage treatment process



As at 31 December 2017, the total daily design water processing capacity of sewage treatment plants and reclaimed water treatment plants operated by the Group and its joint ventures reached 11,059,750 and 617,200 tonnes, respectively, as compared to 9,957,250 tonnes and 497,200 tonnes as at 31 December 2016, respectively. During the year ended 31 December 2017, the average daily processing volume of the sewage and reclaimed water treatment services of the Group and its joint ventures was 9,882,175 tonnes and average daily treatment rate was approximately 87 per cent. The actual average contracted tariff charge of water treatment was approximately RMB1.08 per tonne for water plants. The actual aggregate processing volume of the Group and its joint ventures for 2017 was 3,547.7 million tonnes, of which 3,325.4 million tonnes was contributed by subsidiaries, and 222.3 million tonnes was contributed by joint ventures.

Details of the regional sewage and reclaimed water treatment services of the Group and its joint ventures are set out below.

Southern China

As at 31 December 2017, the Group and its joint ventures operated 46 sewage and reclaimed water treatment plants in southern China with a total daily design water processing capacity of 3,346,700 tonnes, representing an increase of 87,500 tonnes per day, or three per cent., as compared with 3,259,200 tonnes per day as at 31 December 2016. Such sewage treatment facilities are located mainly in Guangdong, Hunan, Fujian and Shaanxi provinces. During 2017, the actual aggregate processing volume was 1,096.0 million tonnes.

Western China

As at 31 December 2017, the Group and its joint ventures operated 51 sewage and reclaimed water treatment plants in western China with a total daily design water processing capacity 1,754,500 tonnes, representing an increase of 130,000 tonnes per day, or eight per cent., as compared with 1,624,500 tonnes per day as at 31 December 2016. Such sewage treatment plants are located mainly in Yunnan, Guangxi, Sichuan and Guizhou provinces. During 2017, the actual sewage processing volume was 527.5 million tonnes.

Shandong

As at 31 December 2017, the Group and its joint ventures operated 32 sewage and reclaimed water treatment plants in the Shandong province with a total daily design water processing capacity of 1,462,000 tonnes, representing an increase of 193,000 tonnes per day, or 15 per cent., as compared with 1,269,000 tonnes per day as at 31 December 2016. During 2017, the actual aggregate processing volume was 399.1 million tonnes.

Eastern China

As at 31 December 2017, the Group and its joint ventures operated 63 sewage and reclaimed water treatment plants in eastern China with a total daily design water processing capacity of 3,362,750 tonnes, representing an increase of 412,000 tonnes per day, or 14 percent., as compared with 2,950,750 tonnes per day as at 31 December 2016. Such sewage treatment facilities located mainly in Zhejiang, Jiangsu and Anhui provinces. For 2017, the actual aggregate processing volume was 1,018.0 million tonnes.

Northern China

As at 31 December 2017, the Group and its joint ventures operated 46 sewage and reclaimed water treatment plants in northern China with a total daily design water processing capacity of 1,751,000 tonnes per day, representing an increase of 400,000 tonnes per day as compared with 1,351,000 tonnes per day as at 31 December 2016. Such sewage treatment facilities are located mainly in Liaoning province and Beijing. During 2017, the actual aggregate processing volume was 507.1 million tonnes.

Overseas

As at 31 December 2017, the Group and its joint ventures operated 24 sewage treatment plants in Portugal, one sewage treatment plant in Macau and one reclaimed treatment water plant in Singapore with a total daily design water processing capacity of 427,200 tonnes. During 2017, the actual aggregate processing volume was 152.8 million tonnes.

Water distribution services

The Group uses chemical and biological processes to treat and purify raw water at its waterworks facilities before supplying the water for general consumption.

Mainland China

As at 31 December 2017, the Group and its joint ventures had 73 water distribution plants in operation with a total daily design water processing capacity of 6,555,600 tonnes, as compared with 5,704,400 tonnes as at 31 December 2016. The water distribution plants of the Group and its joint ventures were located in Guizhou, Fujian, Guangdong, Hunan, Hebei, Shandong, Henan, Guangxi provinces and Inner Mongolia Autonomous Region. During 2017, the actual average contracted tariff charge of water distribution was approximately RMB2.14 per tonne and the aggregate actual distribution volume was 1,403.6 million tonnes.

Overseas

As at 31 December 2017, the Group and its joint ventures had 13 water distribution plants in Portugal with a total daily design water distribution capacity of 36,000 tonnes. The actual water distribution volume in Portugal druing 2017 was 13.4 million tonnes.

Construction services business

The Group's construction projects are primarily comprehensive renovation projects and BOT projects. For the years ended 31 December 2016 and 2017, revenue from the Group's construction services business accounted for approximately 65.2 per cent. and 66.0 per cent., respectively, of the Group's revenue.

Comprehensive renovation projects

The Group provides construction services on a comprehensive renovation basis for the design, construction and installation of water or sewage treatment facilities and pipeline networks for its customers at a fixed contract price (subject to agreed variation orders). Upon completion, the Group delivers the project to its customers for their operation and bears no further responsibility for the maintenance or repair of the facilities after the warranty period. The Group's comprehensive renovation projects typically take between 12 and 24 months to complete. The Group recognises revenue from its comprehensive renovation projects on the basis of the percentage of completion method commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated. The Group's comprehensive renovation projects primarily involve the construction of an intercepting canal and its ancillary facilities, water environmental renovation facilities, pipeline networks and other infrastructure. During the year ended 31 December 2017, the Group and its joint ventures had 18 comprehensive renovation projects under construction. Such comprehensive renovation projects are mainly located in Beijing, Luoyang in Henan province, Foshan in Guangdong province, Yuxi and Ling Qang in Yunnan province, Suining, Chengdu and Luzhou in Sichuan province, Inner Mongolia and Terengganu in Malaysia.

BOT projects

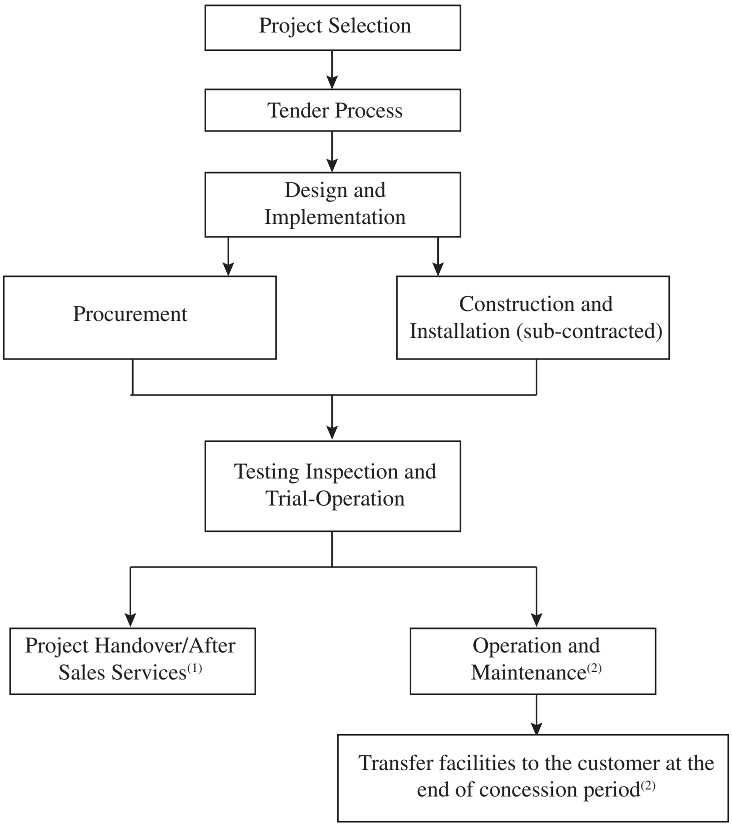
The Group has entered into a number of service concession contracts on a BOT basis for its sewage and reclaimed water treatment business. For BOT projects, the Group typically designs and constructs sewage and reclaimed water treatment facilities, which the Group operates for a contractually agreed period of up to 40 years. The Group bears all relevant design, construction and operating costs of the treatment facilities and does not receive payments from customers during the construction stage of the projects. Upon commencement of operations, the Group receives regular, usually monthly, payments from its customers based on a contractually agreed tariff and the volume of water treated. The Group is responsible for all repair and maintenance costs during the term of the concession. At the end of the agreed concession period, the Group will be required to transfer the treatment facilities to its customers, but the Group may be reappointed under a bidding process to continue to operate the facilities on an operate-and-manage basis.

BOT projects require substantial investment for the construction of the treatment facilities. The Group funds its BOT projects through a combination of internal resources and external borrowings.

During the year ended 31 December 2017, the Group's water plants under construction are mainly located in Guangdong, Shandong, Zhejiang, Hunan and Henan provinces.

Construction management

Set out below is a summary of the Group's typical construction project management process:



Notes:

(1) applicable to comprehensive renovation projects only.

(2) applicable to BOT projects only.

The project management processes for the construction phase of the Group's comprehensive renovation and BOT projects are substantially similar. The construction phase of the Group's BOT projects usually lasts between 12 months and 24 months while that of comprehensive renovation projects usually lasts between two to three years. Due to the substantial investment required for such projects, the Group has put in place additional measures mainly in respect of its financing requirements to mitigate the different risk profile associated with different projects. The Group performs similar project management processes for the construction of BOO projects, although it does not recognise revenue in relation to the construction work for such projects.

Project selection

The Group considers its ability to choose the right projects to be a cornerstone of its operational success and profitability. The Group adopts a commercially driven approach to the selection of its projects, conducting a thorough analysis of a potential project's prospective profitability before submitting a tender.

The Group actively tracks and sources potential projects throughout the PRC. The Group monitors information from local government authorities such as local news and the latest development in the local water and sewage industry and utilises local connections to identify new business opportunities. The Group's profile in the water and sewage treatment industry in the PRC and extensive track record of successfully completed projects also results in referrals from its existing or previous customers and invitations from local and municipal governments and industrial enterprises to bid for projects.

In evaluating opportunities, the Group takes into account a variety of factors depending on the project, including the following:

- the prospective profitability of the project; the Group generally focuses on projects with a contract value and projected return in excess of minimum thresholds determined internally based on the management's experience and market conditions;

- the credit-worthiness of the potential customer and the customer's source of funding for the project;

- the composition of the sewage and the resulting technical demands of the project;

- the specific requirements of the customer;

- the available treatment technologies;

- the competition for the project and the identity of its competitors in the bidding process;

- the projected cost of building the facilities; and

- the applicable regulatory standards.

The Group maintains a list of projects which it reviews on a regular basis to monitor their status and development. In reviewing such projects, the Group considers project internal rate of return, tariff structure, economic and fiscal conditions of the relevant local government and water supply and demand in the relevant region. The Group's technology and support team assigns priority to various projects and allocates resources to those the Group will pursue. The Group then gathers further information on these potential projects, such as laboratory analyses of the sewage, and further considers the project's suitability. Once sufficient information has been compiled for the Group's technology and support department's consideration, the Group will decide which projects the Group will actively pursue and submit a tender.

Tender process

The tender process for the Group's construction projects is conducted by the Group's investment department. The Group's investment department has extensive experience in project pricing in the water and sewage treatment industry. By having a specialised team of technicians and investment team focused on the tender process, the Group is able to increase the consistency and efficiency of its tender process, thereby increasing the Group's competitiveness.

The Group's investment department coordinates the preparation of all relevant tender documents. This process includes careful consideration of the treatment options available, discussions with the prospective customer to understand its needs, project budgeting and preparation of a preliminary project design.

The Group's investment department formulates its initial tender price based on its estimate of the project costs, and the target profitability of the project. The Group's Chief Executive Officer, deputy general manager, chief engineer and senior members in the Group's investment committee review and approve the final tender price.

The factors that a customer considers in assessing a tender vary from one project to another, but generally include the credentials and qualifications of the applicant, the tender price, the technical design and the experience of the proposed project team. Generally, the Group is required to pay a deposit or provide a letter of guarantee issued by a bank in order to participate in the tender process. Any deposit the Group pays will be returned to it after the tender process, but any letter of guarantee will be applied as a performance bond if the Group is successful in the tender. Once the Group successfully secures the tender, the Group will enter into a formal contract with its customer.

Project financing

For the Group's BOT and comprehensive renovation projects, the Group is responsible for funding the construction of the water and sewage treatment facilities. The Group typically funds the cost of construction of its BOT and comprehensive renovation projects mainly through external financing from commercial banks to the maximum extent possible to finance its BOT and comprehensive renovation projects.

Design

The Group considers that the expertise and experience of its in-house design team has been a key factor of its success. When the Group prepares a tender, its technology and support department, assisted by its design department, prepares a project plan which outlines the proposed treatment process, taking into account the customer's specifications and the relevant laws and regulations. The Group develops innovative designs adapted to the specific project constraints after the Group investigates and researches the background of each project. After securing the project, the Group's design department will prepare a detailed design plan for the construction of the treatment facilities based on the project plan.

Procurement and subcontractors

After the design and implementation plans have been finalised, the Group purchases the water and sewage treatment equipment and parts required for the project directly from its suppliers and appoints appropriate subcontractors to carry out certain parts of the project. The Group usually approaches several potential suppliers or subcontractors for contracts whose value exceeds thresholds determined internally based on the management's experience.

The Group is typically responsible for the overall project management and equipment procurement portion for its projects. The Group retains subcontractors to carry out the civil engineering work for the treatment facilities and the installation of equipment. The Group may also require subcontractors to supply basic construction raw materials such as steel and cement.

Construction and installation

The Group subcontracts its construction and installation work to its subcontractors. During construction and installation, the Group's on-site project management team monitors the progress of its subcontractors to ensure that its subcontractors comply with its quality control standards. For each project, the Group has an on-site project management team consisting of administrative and technical representatives from various operations departments. The team can draw on the resources of each of the Group's operations departments during any stage of a project, giving it full access to the extensive knowledge and experience of its various departments.

Testing

Upon the completion of the construction of facilities and installation of equipment, the Group's project management team and the relevant local government carry out a site inspection to ensure the facilities conform to the layout plans and conduct trial operations of the facilities to examine their operational efficiency, capacity and water quality to ensure that the treated sewage and water quality standards meet the local government's specifications specified in the relevant contract. If the test results are satisfactory, the Group's project management team will submit the completion report to the relevant local government and/or its supervisory team for approval.

Project handover/after sales services (applicable to comprehensive renovation projects only)

Once the relevant local government has confirmed that the facilities are in working order and comply with the relevant specifications and has confirmed the contract price thereafter, the Group will hand over the treatment facility to the relevant local government for its operation. The Group provides the relevant local government's staff with training on the operation of the facilities. The Group also provides a detailed operation manual to the relevant local government at handover.

Upon handover, the defects liability period (which is usually 12 months) commences and during this period the Group will attend to fix any defects in the equipment or systems for which the Group is responsible at its own cost. Upon the expiry of the Group's defects liability period, the Group may continue to provide such maintenance services to the relevant local government for a fee but is not otherwise responsible for carrying out such maintenance or any repairs.

Operation and maintenance of treatment facilities (applicable to BOT projects only)

The staffing requirement for the operation of each of the Group's BOT projects varies depending on the volume of water to be treated by the facilities. The Group conducts on-site training for its staff members to ensure that they have the necessary knowledge to operate the facilities and are made aware of the Group's safety guidelines. During the term of the concession for BOT projects, the Group is responsible for the maintenance and repair of the treatment facilities, including the costs involved in repairing or replacing the equipment. To ensure the smooth operation of the facilities, the Group carries out regular inspections, maintenance and repair of the facilities.

During the operational stage of the Group's BOT projects, the Group receives regular payments from its customers, who are usually local government authorities or government related investment entities. The sewage treatment services agreement usually provides for a contractually guaranteed minimum volume of sewage to be treated by the Group and the Group is entitled to receive payment for such minimum volume even if the volume of water actually treated by it is lower than the minimum. The guaranteed minimum treatment volume is intended to provide a minimum rate of return on the Group's investment and its treatment facilities' capacity is designed with reference to such guaranteed minimum treatment volume to mitigate risks of under-utilisation. In addition to the minimum guaranteed amount, the Group may also receive an additional amount based on the quantity of sewage treated by its treatment plants above the minimum guaranteed treatment volume and the relevant tariff.

Subcontractors

Generally, the Group subcontracts to construction companies the construction of water facilities, while it provides relevant technology and supervises the construction in progress.

The Group selects subcontractors based on their reputation, track record, technical qualifications and certification. However, the Group generally gives preference to those it has previously engaged for a construction project. The duration of contracts the Group enters into with subcontractors is typically 12 months with a warranty period of a further 12 months.

The Guarantor believes that the Group has a good working relationship with its subcontractors and has not had any material dispute with its subcontractors in the past. If the Group is required to find other subcontractors, the Guarantor believes that there is a sufficient number of alternative subcontractors with a good reputation, reliability and financial resources in the PRC market.

Technical services and sale of machineries for the water environmental renovation

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

The Group generally enters into technical services agreements with its customers to provide technical services on the application of the Group's patented technologies relating to sewage treatment and facilities layout and design. The Group also provides consulting services in relation to facilities management and equipment maintenance and operation to other relatively small water solution providers. Technical and consulting fees are negotiated on a case-by-case basis under service agreements.

For the years ended 31 December 2016 and 2017, revenue from the provision of technical services accounted for approximately 5.9 per cent. and 6.3 per cent., respectively, of the Group's total revenue.

Major customers

The percentage of the Group's total revenue attributable to its top five customers for the years ended 31 December 2016 and 2017 was approximately 21 per cent. and 24 per cent., respectively. The Group's major customers comprise of local governments and government related investment entities.

Major suppliers

The Group's principal suppliers during 2016 and 2017 were subcontractors retained by it to construct and install the Group's projects. For the years ended 31 December 2016 and 2017, the percentage of the Group's total purchases from its top five suppliers was approximately 25 per cent. and 30 per cent., respectively, of the Group's total purchase. Notwithstanding the Group's reliance on key suppliers for certain raw materials and equipment, the Guarantor believes that there are a sufficient number of alternative suppliers in the PRC market who can supply such raw materials and equipment which meet the Group's volume demands and specifications.

Competition

The water and sewage treatment market in the PRC has evolved significantly over the past decade. The market is highly competitive and fragmented. The Group's existing and potential competitors include major State-owned and private water and sewage solutions providers and a number of international environmental services companies. The Group considers that its major competitors include Shanghai Industrial Holdings Limited (Hong Kong Stock Exchange Code: 363), Beijing Capital Co., Ltd (Shanghai Stock Exchange Stock Code: 600008), Beijing Origin Water Technology Co., Ltd. (Shenzhen Stock Exchange Code: 300070) and China Everbright International Limited (Hong Kong Stock Exchange Code: 257). The Group's competitors compete with it in terms of technology, quality, price, brand recognition, project execution capability, marketing and customer services. Some of the Group's competitors have greater financial, marketing or other resources and some have more advanced technologies. Certain competitors may also have greater brand recognition, economies of scale, longer track records or more established relationships in certain markets in which the Group operates. However, the Group believes that it can compete effectively by virtue of (i) its extensive project execution capabilities; (ii) its cost-effective treatment solutions; (iii) its familiarity with PRC regulations and the needs of local customers; (iv) its technology; and (v) its reputation for quality and customer service.

Environment and safety

The Group is subject to, among other PRC laws and regulations promulgated by the central and local governments, the Environmental Protection Law of the PRC, the Law of the PRC on Appraising Environment Impact and the Law of the PRC on the Prevention and Control of Water Pollution.

The Group is generally required to comply with all applicable laws and regulations, but specific requirements to do so are usually not incorporated into the relevant contracts for its projects or equipment supply. In 2016 and 2017, the Group did not receive any claims from its customers for failing to comply with the relevant licensing and environmental requirements. For effective environmental protection and safety control, the Group has adopted two sets of internal measures, one governing environmental management and the other governing production safety management. The Group's environmental measures regulate different aspects of its operations, from the design and construction of treatment facilities, to the selection of subcontractors and operation of treatment facilities. The Group's safety measures, on the other hand, set forth procedures and requirements to prevent the occurrence of safety related accidents. In order to comply with relevant regulations, the Group has adopted certain measures including but not limited to: (i) choosing techniques, equipment and materials that cause less environmental pollution; (ii) using techniques and processes which ensure that the outflow water quality of the Group's sewage treatment facilities meets relevant standards and requirements; and (iii) setting up relevant procedures that effectively identify and control the important environmental factors and major hazards to fulfil the Group's environmental and safety targets and policies.

Research and development and intellectual property

The Group's research and development activities are carried out at the research and development centre jointly established by the Group and Tsinghua University.

As at 31 December 2017, the Group owned nine utility model patents, 15 invention patents, 13 computer software copyright and seven trademarks in the PRC. Most of the Group's patents relate to manufacturing technologies for building materials, water purification technologies and processes and sewage treatment technologies and processes. Most of the Group's copyrights relate to software programmes used for the managements of water facilities, waterworks and research and development. The Group's new technology relates to the technology of measuring the efficiency of a water pump that is based on thermodynamics.

Employees and labour relations

As at 31 December 2017, the Group had 15,356 employees and as at the same date some of the Group's employees in the PRC were members of the labour union. The labour union participates in the management of the Group by having a representative in each of the investment evaluation committee, the personnel committee, executive management meetings and nationwide executive management meetings and jointly preparing annual management reports.

The Group's remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

The Group considers its current relations with its workforce to be good. As at the date of this Offering Circular, the Group has not experienced any work stoppages, strikes or other labour problems that could have a material adverse effect on its operations, financial condition or results of operations.

Insurance

Based on the level of the Group's operating risks, the Group maintains insurance policies covering properties, fixed assets, the vehicles that it owns as well as social security. The Group generally does not maintain insurance for most of its projects, except when it is required under the terms of the relevant contracts or financing agreements.

The Group believes that the coverage of these insurance policies is in line with general industry practice. Most of the Group's project contracts do not impose an obligation on it or its customers to take out additional insurance. Where the Group subcontracts certain parts of its projects to subcontractors, the Group's subcontracting agreement provides that the subcontractor shall bear all liabilities and losses arising from the part of the project for which it is responsible. The Group typically receives letters of guarantee or performance guarantees from its subcontractors to hedge against the risk of failure by such subcontractors to bear all liabilities and losses arising from their responsible projects.

Legal Proceedings and Regulatory Compliance

The Group's operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality, among others. The Group's compliance measures aim to enable the Group to meet regulatory and industrial standards of relevant central and local government authorities and industry associations. As at the date of this Offering Circular, the Group is not aware of any violation of law or non compliance that could have a material adverse effect on its financial condition or results of operations.

The Group is from time to time involved in disputes and legal proceedings arising in the ordinary course of its business. See "Risk Factors — Risks associated with the Group's Business — The Group may be involved from time to time in material disputes, administrative, legal and other proceedings arising out of its operations and may face liabilities or damages to its reputation as a result".

To the best of the Group's knowledge, there are no current litigation or arbitration proceedings against the Group as at the date of this Offering Circular that could have a material adverse effect on its financial condition or results of operations.

DESCRIPTION OF BEHL

BEHL is a conglomerate backed by the Beijing Municipal Government focusing on managing strategic infrastructure, public utilities and other investments.

BEHL's broad portfolio of assets includes:

- natural gas business
- brewery business
- water and environmental business
- solid waste treatment business

Leveraging on these businesses, BEHL seeks to achieve consistent financial performance and to attract international investment to further develop Beijing's municipal infrastructure and other businesses.

BEHL's portfolio of businesses, each with a leading market position and stable cash flows, enables it to manage volatility across its business segments, thereby positioning BEHL to capture growth opportunities in the utilities and consumer products sectors in Beijing and throughout the PRC.

BEHL is rated "Baa1" by Moody's Investors Service, Inc. and "BBB+" by Standard and Poor's Rating Services. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

BEHL has been listed on the Hong Kong Stock Exchange (stock code: 392) since 29 May 1997.

As at 31 December 2017, BEHL had a market capitalisation of approximately HK$58.6 billion.

DIRECTORS AND MANAGEMENT

The Board of the Directors of the Guarantor (the "**Board**") has overall responsibility for the system of internal controls of the Guarantor and for reviewing its effectiveness.

Board of Directors

The Board comprises Executive Directors and Independent Non-Executive Directors as follows:

Name	Position
Mr. Li Yongcheng	Chairman and Executive Director
Mr. E Meng	Vice Chairman and Executive Director
Mr. Jiang Xinhao	Executive Director
Mr. Zhou Min	Executive Director and Chief Executive Officer
Mr. Li Haifeng	Executive Director
Mr. Zhang Tiefu	Executive Director
Ms. Qi Xiaohong	Executive Director
Mr. Ke Jian	Executive Director
Mr. Tung Woon Cheung Eric	Executive Director
Mr. Li Li	Executive Director
Mr. Shea Chun Lok Quadrant	Independent Non-Executive Director
Mr. Zhang Gaobo	Independent Non-Executive Director
Mr. Guo Rui	Independent Non-Executive Director
Mr. Wang Kaijun	Independent Non-Executive Director
Dr. Lee Man Chun Raymond	Independent Non-Executive Director

Senior Management

The senior management responsible for the Guarantor's day-to-day management and operation as at the date of the Offering Circular are as follows:

Name	Position
Mr. Zhou Min	Chief Executive Officer
Mr. Li Li	Chief Operating Officer
Mr. Li Haifeng	Vice President
Mr. Zhang Tiefu	Vice President
Mr. Tung Woon Cheung Eric	Chief Financial Officer and Company Secretary

The biographies of the Executive Directors and Independent Non-Executive Directors of the Guarantor are as follows:

Executive Directors

Mr. Li Yongcheng, aged 56, was appointed as the Chairman and an Executive Director of the Guarantor on 29 October 2014. Mr. Li is also the chairman of nomination committee of the Guarantor. He is currently vice chairman and executive deputy general manager of Beijing Enterprises Group Company Limited. He is an executive director and vice chairman of Beijing Enterprises Holdings Limited (stock code: 392). Mr. Li has once assumed various positions of deputy general manager, vice chairman and general manager with Beijing Gas Group Co., Ltd.. Mr. Li is a senior engineer, graduated from Wuhan University of Science and Technology with a master's degree in environmental engineering, and subsequently obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Li possesses extensive experience and professional expertise in public utilities industry, and also has plenty of experience in enterprise operations and capital operations.

Mr. E Meng, aged 59, was appointed as an Executive Director of the Guarantor in February 2008 and the vice chairman of the Guarantor in April 2013. He serves as a vice general manager and the chief financial officer of Beijing Enterprises Group Company Limited. He is also an executive director and an executive vice president of Beijing Enterprises Holdings Limited (stock code: 392) and the chairman and an executive director of Beijing Enterprises Environment Group Limited (stock code: 154). Mr. E Meng graduated from China Science and Technology University with a master's degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. From September 2004 to August 2015, Mr. E Meng was an independent non-executive director of New Silkroad Culturaltainment Limited (stock code: 472). Mr. E Meng has extensive experience in economics, finance and enterprise management.

Mr. Jiang Xinhao, aged 53, was appointed as an Executive Director of the Guarantor in June 2008. Mr. Jiang serves as a vice general manager of Beijing Enterprises Group Company Limited, an executive director and vice president of Beijing Enterprises Holdings Limited (stock code: 392). Mr. Jiang is also a non-executive director of China Gas Holdings Limited (stock code: 384). Mr. Jiang was an executive director of Beijing Properties (Holdings) Limited (stock code: 925) between 2011 and 2016. Mr. Jiang graduated from Fudan University in 1987 with a bachelor's degree in law, and then in 1992 with a master's degree in law. Mr. Jiang was a lecturer at Peking University between 1992 and 1994. From 1995 to 1997, Mr. Jiang was a deputy general manager of Jingtai Finance Company in Hong Kong, and subsequently a director and vice president of BHL Industrial Investment Company. From 1997 to February 2005, Mr. Jiang was a director and the chief executive officer of Tramford International Limited, a public company listed on Nasdaq. Mr. Jiang was a manager of the investment development department of Beijing Holdings Limited and a general manager of Beijing BHL Investment Center between May 2000 and February 2005. Mr. Jiang has many years of experience in economics, finance and corporate management.

Mr. Zhou Min, aged 54, was appointed as an Executive Director of the Guarantor in August 2008 and the chief executive officer of the Guarantor on 30 March 2016. Mr. Zhou graduated with an EMBA from the Tsinghua University and is the vice chairman of Mianyang Zhejiang Chamber of Commerce (綿陽市浙江商會). Mr. Zhou previously worked in the People's Bank of China, Yongkang Branch of Zhejiang Province (浙江省人民銀行永康支行), the Industrial and Commercial Bank of China, Yongkang Branch of Zhejiang Province (浙江省工商銀行永康支行), and was the chairman of Beijing Jingsheng Investment Company Limited (北京景盛投資有限公司). Mr. Zhou is now the chairman of BEWG Environmental Group Co., Ltd.

Mr. Li Haifeng, aged 47, was appointed as an Executive Director and a Vice President of the Guarantor in August 2008. He graduated with a bachelor's degree in Laws from the Peking University. He was an assistant to president of Founder Group (方正集團) and the executive vice president of Founder Xintiandi Software Technology Co. Ltd. (方正新天地軟件科技有限公司). He is now the chairman of the Supervisory Committee of BEWG Environmental Group Co., Ltd., responsible for exploring business opportunities in water market in the PRC. He is currently the chairman, an executive director and the chief executive officer of Carry Wealth Holdings Limited (stock code: 643).

During the period from April 2010 to April 2013, he was an independent non-executive director of Huarong International Financial Holdings Limited (stock code: 993). Both Carry Wealth Holdings Limited and Huarong International Financial Holdings Limited are listed on the main board of the Hong Kong Stock Exchange.

Mr. Zhang Tiefu, aged 55, was appointed as an Executive Director and a Vice President of the Guarantor in April 2009. He graduated from Jilin Industrial Institute with a bachelor's degree of engineering in 1983. He further studied business administration in the University of International Business and Economics in 1998. He has been awarded the titles of senior engineer and senior international finance manager. He served as the senior manager in China Nation Printing Materials Corporation (中國印刷物資總公司) in 1986. He joined Beijing Enterprises Holdings Limited as manager in 2001, and is concurrently acting the director and a general manager of Beijing Bei Kong Water Production Co., Ltd. (北京北控制水有限公司) and a director of Beijing Yanjing Beer Co., Ltd. (北京燕京啤酒有限公司). He has extensive experiences in economics, market development and corporate management.

Ms. Qi Xiaohong, aged 50, was appointed as an Executive Director of the Guarantor in May 2008 and a member of remuneration committee of the Guarantor. Ms. Qi graduated from Capital Normal University with a bachelor's degree in legal studies and subsequently obtained a master degree in economic management at Capital University of Economics and Business. She has worked for the Beijing Municipal Government for many years. She joined Beijing Enterprises Holdings Limited in 1997 and is now a vice president of Beijing Enterprises Holdings Limited (stock code: 392), responsible for corporate administration and human resources management.

Mr. Ke Jian, aged 49, was appointed as an Executive Director of the Guarantor in June 2011 and is the vice president of Beijing Enterprises Holding Limited (stock code: 392) and the vice chairman, chief executive officer and an executive director of Beijing Enterprises Environment Group Limited (stock code: 154). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager. Mr. Ke received a bachelor's degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke has extensive experience in finance and corporate administration.

Mr. Tung Woon Cheung Eric, aged 47, was appointed as an Executive Director of the Guarantor in August 2011. Mr. Tung is the chief financial officer and company secretary of the Guarantor. Mr. Tung is also the assistant president and general manager of the finance department of Beijing Enterprises Holdings Limited (stock code: 392), a company listed on the main board of the Hong Kong Stock Exchange, the company secretary of Biosino Bio-Technology and Science Incorporation (stock code: 8247), a company listed on growth enterprise market of the Hong Kong Stock Exchange and an independent non-executive director of South China Financial Holdings Limited (stock code: 619) and GR Properties Limited (stock code: 108), both of which are listed on the main board of the Hong Kong Stock Exchange. Mr. Tung graduated from York University, Toronto, Canada with a bachelor's honours degree in administrative studies. He is a Hong Kong Certified Public Accountant and a U.S. licensed practice Certified Public Accountant.

Mr. Li Li, aged 52, was appointed as an Executive Director of the Guarantor in February 2014 and the chief operating officer of the Guarantor in March 2016, he is a Senior Engineer and qualified Senior Project Manager. Mr. Li joined the Guarantor in October 2010. Mr. Li graduated from Xian Jiaotong University in mechanical engineering and PhD in engineering at School of Environment, Tsinghua University. Prior to joining the Guarantor, Mr. Li was a senior engineer, a technical quality director and vice president of the First Design & Research Institute. Mr. Li served as various key positions of 北京桑德環保集團有限公司 (Beijing Sound Environmental Group Company Limited) from 2001 to 2010. He has extensive experience in investment, construction and operation in water industry.

Independent Non-Executive Directors

Mr. Shea Chun Lok Quadrant, aged 51, was appointed as an Independent Non-Executive Director of the Guarantor in April 2002. He is also the chairman of audit committee of the Guarantor. Mr. Shea is currently an executive director, the chief financial officer and company secretary of Asia Allied Infrastructure Holdings Limited (stock code: 711), a company listed on the main board of the Hong Kong Stock Exchange. He is also an independent non-executive director of Hi-Level Technology Holdings Limited (stock code: 8113), a company listed on the growth enterprise market of Hong Kong Stock Exchange. Mr. Shea graduated from Monash University of Australia with a Bachelor's degree in Business and later completed a postgraduate program of Public Finance (Taxation) and obtained a Master degree in Economics from Jinan University of China and a Master of Laws degree from Renmin University of China. He is also a fellow member of CPA Australia, a member of Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong, The Chartered Institute of Management Accountants of United Kingdom and Institute of Singapore Chartered Accountants and a Chartered Global Management Accountant. Mr. Shea is a Certified Tax Adviser of Hong Kong and China Tax Committee member of The Taxation Institute of Hong Kong and has obtained a Certificate of Pass in Practice Training Examination for Hong Kong Certified Tax Advisers Serving in Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Qianhai, Shenzhen jointly issued by Shenzhen Municipal Office of the State Administration of Taxation and Shenzhen Local Taxation Bureau. Mr. Shea has substantial experience in accounting and finance in listed companies and worked as a qualified accountant and company secretary in various companies listed on the main board of Hong Kong Stock Exchange over the years.

Mr. Zhang Gaobo, aged 53, was appointed as an Independent Non-Executive Director of the Guarantor in May 2008. He is also a member of each of the audit committee and the nomination committee and chairman of the remuneration committee of the Guarantor. He obtained a bachelor's degree in science from Henan University in 1985 and later graduated from Peking University with a master's degree in Economics in 1988. From 1988 to 1991, he worked in Hainan Provincial Government and PBOC Hainan Branch and as the chairman of Hainan Stock Exchange Centre. Since 1993, he has been a founding partner and chief executive of Oriental Patron Financial Group and is responsible for its overall general management and business development. He is also an executive director and the chief executive officer of OP Financial Limited (formerly known as OP Financial Investments Limited) (stock code: 1140), a company listed on the main board of the Hong Kong Stock Exchange and a non-executive director of Vimetco N.V., a company listed on the London Stock Exchange from June 2007 to June 2017. Mr. Zhang has taken up the role to serve as the vice-president of Finance Center for South-South Cooperation Limited, a non-profit international organization in Special Consultative Status with ECOSOC of the United Nations, established for the promotion of South-South Cooperation since April 2014.

Mr. Guo Rui, aged 50, was appointed as an Independent Non-Executive Director of the Guarantor in May 2008. He is also a member of each of the audit committee, the remuneration committee and the nomination committee of the Guarantor. Mr. Guo is the management director of 北京明銳恒豐管理諮詢有限公司 Beijing MingRui Hengfeng Management & Consulting Co., Ltd., an investment management organisation that invests in real estate, clean energy, healthcare and pharmaceutics, biotechnology, financial institutes, mining and manufacturing sectors. Mr. Guo was a former senior consultant of Arthur Andersen LLC from 1999 to 2001. Mr. Guo holds a bachelor's degree of computer science (or engineering) from Peking University and a master degree of computer engineering from Northwestern University, U.S.A.

Mr. Wang Kaijun, aged 57, was appointed as an Independent Non-Executive Director of the Guarantor in August 2008. Mr. Wang holds a Doctor degree from the Environmental Technology Department of the Wageningen Agricultural University in the Netherlands. Mr. Wang was previously appointed as the chief engineer of Beijing Municipal Research Institute of Environmental Protection (北京市環境保護科學研究院). He is now working as a professor in School of Environment, Tsinghua University (清華大學環境學院), a member of Committee of Science and Technology in Ministry of Environmental Protection and the director of State Environment Protection Engineering Center for

Technology Management and Evaluation. Mr. Wang has been engaged and experienced in the relevant research, development and industrialization of sewage pollution control technologies and the evaluation of policy-making over the years. Mr. Wang has unique and innovative opinions on the academic study and has made many achievements and demonstration cases on the hydrolysis aerobic process theory, aerobic and anaerobic reactor theory and design, development and application of sewage sludge treatment and disposal technologies, planning and management of state environment protection administration system, etc. Mr. Wang also developed the research fields on municipal sewage hydrolysis-aerobic treatment process, high performance anaerobic reactors, sewage sludge treatment and disposal, livestock manure treatment and rural environmental protection in mainland China.

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

TAXATION

The following summary of certain British Virgin Islands, Bermuda, PRC and Hong Kong tax consequences of the purchase, ownership and disposition of Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Bonds.

British Virgin Islands

As the Issuer is incorporated pursuant to the BVI Business Companies Act, 2004 (as amended) (the "**BVI BC Act**") of the British Virgin Islands (the "**BVI**"), (i) payment of principal, premium (if any) and interest in respect of the Bonds will not be subject to taxation in the BVI, (ii) no income or other tax of the BVI imposed by withholding will be required to be deducted by the Issuer on such payments to any holder of a Bond, and (iii) the Bonds will not be liable to stamp duty in the BVI on the assumption that the Issuer and its subsidiaries (if any) do not own an interest in any land in the BVI.

Gains derived from the sale of the Bonds by persons who are not otherwise liable to BVI income tax will not be subject to BVI income tax. No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any debt obligations of the Issuer, including the Bonds.

Bermuda

Under current Bermuda legislation, there is no withholding tax, capital gains tax, income or profits tax, capital transfer tax, estate duty or inheritance tax payable in Bermuda by the Guarantor or its shareholders other than shareholders ordinarily resident in Bermuda.

As an exempted company, the Guarantor is exempt from all stamp duties except on transactions involving "**Bermuda property**". This term relates essentially to real and personal property physically situated in Bermuda, including shares in local (as opposed to exempted) companies.

None of the Guarantor, its shareholders or the holders of the Bonds, as the case may be (other than persons ordinarily resident in Bermuda), are subject to stamp duty or other similar duty on the issue or transfer of the Bonds.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as (a) non-PRC Bondholders, or (b) beneficial owners who are entities or individuals located outside of the PRC in this "Taxation — PRC" section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Income Tax

Pursuant to the EIT Law and its implementation regulations and Individual Income Tax Law of the PRC, which was amended on 30 June 2011 and took effect on 1 September 2011, and its implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-PRC Bondholders, including non-PRC resident enterprises and non-PRC resident individuals. The current rates of such income tax are 10 per cent. for non-PRC resident enterprises and 20 per cent. for non-PRC resident individuals.

Pursuant to the EIT Law and its implementation regulations, an enterprise established under the laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) with "de facto management bodies" within the territory of the PRC is considered a "PRC tax resident enterprise" for PRC enterprise income tax purposes and must pay PRC enterprise income tax at the rate of 25 per cent, in respect of their taxable income. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to PRC enterprise income tax at the rate of 25 per cent, on its taxable income.

As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been given notice or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law.

However, there is no assurance that the Issuer will not be treated as a PRC resident enterprise under the EIT Law and related implementation regulation in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or whose income has no connection to its establishment inside the PRC must pay enterprise income tax on income sourced within the PRC, and such income tax must be withheld at source by the PRC payer acting as a withholding agent, who must withhold the tax amount from each payment. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer may be required to withhold income tax from the payments of interest in respect of the Bonds to any non-PRC Bondholder, and gain from the disposition of the Bonds may be subject to PRC tax, if the income or gain is treated as PRC-source. The tax rate is generally 10 per cent, for non-resident enterprise Bondholders without an establishment within the PRC or whose incomes have no connection to its establishment inside the PRC and 20 per cent., for non-resident individuals, unless a lower rate is available under an applicable tax treaty.

In addition, if the Guarantor is regarded as a PRC tax resident enterprise, in the event that the Guarantor is required to discharge its obligations under the Guarantee, the Guarantor will be obliged to withhold PRC enterprise income tax at the rate up to 10 per cent., subject to the application of any relevant income tax treaty that the PRC has entered into, on the payments of interest made by it under the Guarantee to non-PRC resident enterprise Bondholders as such interest payment obligations will be regarded as being derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified non-PRC resident enterprise Bondholders. Nevertheless, repayment of the principal will not be subject to PRC withholding tax.

Non-PRC resident Bondholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Bonds consummated outside mainland China between non-PRC Bondholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Bondholders from the transfer of the Bonds may be regarded as being derived from sources within the PRC and accordingly would be subject to PRC withholding tax at a rate of up to 10 per cent., subject to the application of any relevant income tax treaty that the PRC has entered into.

Value-add Tax ("VAT")

On 23 March 2016, the Ministry of Finance and the SAT issued the Circular 36 which confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Although the issuance of the Bonds is likely to be treated as financial services for VAT purposes, Circular 36 stipulates that services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. In connection with the issue of the Bonds, none of the Issuer or the Bondholders is located in the PRC. There is no assurance that the issuance of the Bonds will not be treated as financial services for VAT purpose. If the issuance of Bonds is treated as the Bondholders providing financing services within the PRC by the relevant tax authorities, the holders of the Bonds shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Bonds. In addition, the holders of the Bonds shall be subject to the local levies generally at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be generally around 6.72 per cent.. Given that the Issuer or the Guarantor (if the Guarantor is required to discharge its obligations under the Guarantee) pays interest income to Bondholders who are located outside of the PRC, the Issuer or the Guarantor acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Bondholders who are located outside of the PRC.

Where a holder of the Bonds who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply to any transfer of the Bonds. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC.

Circular 36 has been issued quite recently, the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Pursuant to the EIT Law and the VAT reform detailed above, if the Guarantor is regarded as a PRC tax resident enterprise, the Guarantor shall withhold EIT (should such tax apply) from the payments of interest in respect of the Bonds for any non-PRC-resident Bondholder and the Guarantor shall withhold income tax or VAT (should such tax apply) from the payments of interest in respect of the Bonds for any Bondholders located outside of the PRC. However, in the event that the Guarantor is required to make such a deduction or withholding (whether by way of EIT, VAT or otherwise), the Guarantor has agreed to pay such additional amounts as will result in receipt by the Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required. For more information, see "Terms and Conditions of the Bonds — Condition 8 (Taxation)".

Stamp Duty

No PRC stamp duty will be imposed on non-PRC Bondholders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of holders of the Bonds is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal or interest with respect to the Bonds or in respect of any capital arising from the sale of Bonds.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried in Hong Kong in the following circumstances:

(1) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(2) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(3) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on of a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sum will generally be determined by having regard to the manner in which the Bonds are acquired or disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to profits tax.

Stamp duty

No Hong Kong stamp duty will be chargeable for the issue and transfer of the Bonds.

Estate duty

No Hong Kong estate duty is payable in respect of the Bonds.

FATCA

Whilst the Bonds are in global form and held within the Clearing Systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Bonds by the Issuer, any paying agent and the Clearing Systems, given that each of the entities in the payment chain between the Issuer and the participants in the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Bonds. The Issuer's obligations under the Bonds are discharged once it has paid the common depositary for the Clearing Systems (as registered holder of the Bonds) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the Clearing Systems and custodians or intermediaries. The documentation expressly contemplates the possibility that the Bonds may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding tax. However, definitive Bonds will only be printed in remote circumstances. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement ("**IGA**") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

Bondholders should consult their own advisers about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated 2018 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer and the Guarantor have agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have severally but not jointly agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Bonds indicated in the following table.

Joint Lead Managers	Principal amount of the Bonds to be subscribed
	(US$)
Deutsche Bank AG, Hong Kong Branch	
Mizuho Securities Asia Limited	
UBS AG Hong Kong Branch	
Total	

The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers and/or their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Joint Lead Managers and their respective affiliates have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with the Issuer and the Guarantor, for which they have received or will receive customary fees and expenses.

The Joint Lead Managers and their respective affiliates may purchase the Bonds and allocate the Bonds for asset management and/or proprietary purposes but not with a view to distribution. Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering of the Bonds. Accordingly, references herein to the Bonds being 'offered' should be read as including any offering of the Bonds to the Joint Lead Managers and/or their respective affiliates, for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Bonds. If this is the case, liquidity of trading in the Bonds may be constrained. See "Risk Factors — Risks relating to the Bonds and the Guarantee — A trading market for the Bonds may not develop". Each of the Issuer, the Guarantor and each Joint Lead Manager is under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer and/or the Guarantor, including the Bonds. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor routinely hedge their credit exposure to the Issuer and/or the Guarantor consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's and/or the Guarantor's securities, including potentially the Bonds offered hereby. Any such short positions could adversely affect future trading prices of the Bonds offered hereby. The Joint Lead Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer and/or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments.

In connection with the issue of the Bonds, any Joint Lead Manager as a Stabilising Manager or any person acting on behalf of the Stabilising Manager may, to the extent permitted by applicable laws, over-allot the Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager or any person acting on behalf of the Stabilising Manager shall act as principal and not as agent of the Issuer or the Guarantor. However, there is no assurance that the Stabilising Manager or any person acting on behalf of the Stabilising Manager will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Bonds is made and, if begun, may be ended at any time, but in no case later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Joint Lead Managers.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds are subject to restrictions and may not be made except pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or Joint Lead Managers that would or is intended to permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Bonds or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Offering Circular or any other offering or publicity material relating to the Bonds, in all cases at their own expense.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of them is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

United States

The Bonds and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager represents that it has not offered or sold, and agrees that it will not offer or sell, any of the Bonds and Guarantee constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds and the Guarantee. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager represents and agrees that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act ("**Regulation D**")), nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer and sale of the Bonds and the Guarantee in the United States.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

European Economic Area

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

a) the expression "retail investor" means a person who is one (or more) of the following:

    i. a retail client as defined in point (11) of Article 4(1) of MiFID II; or

    ii. a customer within the meaning of IMD, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the SFO and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

The People's Republic of China

Each Joint Lead Manager has represented and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Singapore

Each Joint Lead Manager acknowledges that the Offering Circular has not and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager represents and agrees that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

British Virgin Islands

Each Manager represents, warrants and undertakes that the Bonds may not be offered or sold, and will not be offered or sold, to the public in the British Virgin Islands.

Bermuda

Each Manager represents, warrants and agrees that it has not offered or sold, and will not offer or sell, any Bonds to any person, firm or company regarded as a resident of Bermuda for exchange control purpose and will procure that any purchaser of the Bonds from it will comply with such prescription.

GENERAL INFORMATION

1. **Clearing System**: The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code 180535748 and the International Securities Identification Number for the Bonds is XS1805357487. The Legal Entity Identifier of the Issuer is 3003009FUTGWDC8CUK89.

2. **Listing of Bonds**: Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only. It is expected that dealing in, and listing of, the Bonds on the Hong Kong Stock Exchange will commence on 2018.

3. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Bonds, the Trust Deed and the Agency Agreement. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of its obligations under the Guarantee, the execution of the Trust Deed and the Agency Agreement. The issue of the Bonds was authorised by resolutions of the board of directors of the Issuer dated 4 April 2018 and the giving of the Guarantee by the Guarantor was authorised by resolutions of the board of directors of the Guarantor on 4 April 2018.

4. **NDRC Approval:** Pursuant to the NDRC Annual Quota, the NDRC granted an annual foreign debt amount to Beijing Enterprises Group Company Limited and the Issuer is authorised by Beijing Enterprises Group Company Limited to issue foreign debts without obtaining the pre-issuance registration certificate under the NDRC Circular. The Issuer is required to make a post-issuance notification to the NDRC within 10 business days after the issuance of the foreign debts.

5. **No Material and Adverse Change**: There has been no material adverse change, or any development or event involving a prospective change, in the condition (financial or other), prospects, results of operations or general affairs of the Issuer, the Guarantor or the Group since 31 December 2017.

6. **Litigation**: None of the Issuer, the Guarantor or any member of the Group is involved in any litigation or arbitration proceedings which could have a material and adverse effect on their business, results of operations and financial condition nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened.

7. **Available Documents**: Copies of the Guarantor's annual report for the years ended 31 December 2016 and 2017, the Trust Deed, the Agency Agreement, the Articles of Association of the Issuer and the bye-laws of the Guarantor will be available for inspection from the Issue Date at the Guarantor's head office and principal place of business at Rooms 6706-07, 67th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and, in the case of the Trust Deed and the Agency Agreement, at the principal office of the Trustee (being as at the date of this Offering Circular at One Canada Square, London E14 5AL, United Kingdom) during normal business hours following prior written request and proof of holding satisfactory to the Trustee, so long as any of the Bonds is outstanding. The Guarantor prepares and publishes an annual report every year and an interim report semi-annually. Copies of the Guarantor's annual report and interim report in respect of the latest year and period can be obtained from its corporate website.

8. **Audited Financial Statements**: The Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2016 and 2017, which are included elsewhere in this Offering Circular, have been audited by Ernst & Young, Certified Public Accountants registered in Hong Kong, as stated in its report appearing herein.

INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements for the year ended 31 December 2017

Page references included in the independent auditors' report set forth therein refer to pages in the Guarantor's annual report for the year ended 31 December 2017. Such annual report is not incorporated by reference herein and does not form part of this Offering Circular.

Audited Consolidated Financial Statements for the year ended 31 December 2016

Page references included in the independent auditors' report set forth therein refer to pages in the Guarantor's annual report for the year ended 31 December 2016. Such annual report is not incorporated by reference herein and does not form part of this Offering Circular.

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 81 to 226, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Determination of fair value of contract revenue in respect of the construction services rendered	
Revenue from the construction of sewage and reclaimed water treatment and water distribution plants under the terms of Build-Operate-Transfer ("BOT") contracts represented approximately 31% of total revenue for the year ended 31 December 2017 and was accounted for under HK(IFRIC) Interpretation 12 *Service Concession Arrangements*. The revenue was estimated on a cost-plus basis with reference to a prevailing market rate of profit margin at the date of the agreement applicable to similar construction services rendered in a similar location. The Group engaged an external valuer to support their estimation of the gross profit margin for the construction revenue. Significant management judgement was involved in determining the construction margins for these construction services. Disclosure of the determination of the fair value of construction contract revenue is included in note 4 to the financial statements.	As part of our audit procedures, we have considered the objectivity, independence and competency of the external valuer employed by the Group. In addition, we have involved our internal valuation specialists to assist us to assess the reasonableness of the bases and assumptions adopted in the valuation. Our procedures included discussions with management and the external valuer about the parameters used in estimating the Group's construction margins, including the benchmarks made to other comparable companies. We also performed a comparison of the inputs used in the valuation to external market data.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Determination of the provision for impairment of receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables	
The Group has significant receivables under service concession arrangements, trade and other receivables and amounts due from contract customers for an aggregate amount of HK$65.0 billion which represented 65% of the Group's total assets as at 31 December 2017. Significant management judgement was required in determining the adequacy of provisions against these balances (if any), with reference to the ageing profile, background, current creditworthiness and repayment history of these debtors. Disclosures of the provision for impairment of receivables under service concession arrangements, trade and other receivables and amounts due from contract customers are included in notes 4, 17, 25, 26 and 27 of the financial statements.	We assessed the Group's processes and controls relating to the monitoring of receivables under service concession arrangements, trade and other receivables and amounts due from contract customers to identify impairment indicators. For the material receivables under service concession arrangements, trade and other receivable and amounts due from contract customers balances, we evaluated if a provision was required. Our procedures included obtaining direct confirmations, consideration of whether the balances were overdue, the debtor's historical payment patterns and whether any post year-end payment had been received up to the date of completing our audit procedures. We also obtained corroborative evidence including correspondence between the parties involved, progress made by management to recover the outstanding amounts, pledges from the debtors and the credit status of these debtors where available. For the remaining balances, we also considered whether a provision was required, after taking into account factors such as the nature, ageing and movement during the year.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment testing	
Management is required to test goodwill for impairment on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The Group engaged an external valuer to prepare the valuation models to assist with the impairment assessment. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the recoverable amounts of the relevant cash-generating units, which is compared with their respective carrying values. As at 31 December 2017, the goodwill carried in the Group's financial statements was HK$3.3 billion. Disclosures of goodwill are included in notes 4 and 16 to the financial statements.	We involved our internal valuation specialists in evaluating the valuation models, assumptions and parameters used by the valuer and the Group, giving particular attention to the estimated future revenues and results. Our procedures included testing the assumptions used in the cash flow forecast and assessing the accuracy of previous forecasts by comparison with the current performance. We also assessed the disclosures on the impairment testing, specifically the key assumptions that have the most significant effect on the determination of the recoverable amount of the goodwill, such as the discount rate and growth rate.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Tsang Chiu Hang.

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

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

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

Li Yongcheng
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000 (note 32(b))	Capital reserve HK$'000	Property revaluation reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 32(c))	Retained profits HK$'000	Total HK$'000	Perpetual capital instruments HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to shareholders of the Company													
At 1 January 2016		872,295	4,878,170	3,581,759	258,791	(231,487)	14,989	(49,536)	(827,735)	719,718	6,966,869	16,183,833	–	4,106,582	20,290,415
Profit for the year		–	–	–	–	–	–	–	–	–	3,227,013	3,227,013	56,570	389,399	3,672,982
Other comprehensive income/(loss) for the year:															
Exchange differences related to foreign operations		–	–	–	–	–	–	–	(2,061,151)	–	–	(2,061,151)	(296,708)	(358,248)	(2,716,107)
Release upon disposal of subsidiaries	46	–	–	–	–	–	–	–	65,572	–	–	65,572	–	–	65,572
Share of other comprehensive loss of a joint venture		–	–	–	–	–	–	(14,606)	–	–	–	(14,606)	–	–	(14,606)
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	(14,606)	(1,995,579)	–	3,227,013	1,216,828	(240,138)	31,151	1,007,841
Equity-settled share option arrangements	31(a)	–	–	–	40,935	–	–	–	–	–	–	40,935	–	–	40,935
Exercise of share options	30(a)	3,422	102,053	–	(28,704)	–	–	–	–	–	–	76,771	–	–	76,771
Shares repurchased and cancelled	30(b)	(1,930)	(80,181)	–	–	–	–	–	–	–	–	(82,111)	–	–	(82,111)
Acquisition of subsidiaries	45	–	–	–	–	–	–	–	–	–	–	–	–	627,536	627,536
Acquisition of non-controlling interests		–	–	–	–	(16,850)	–	–	–	–	–	(16,850)	–	(88,405)	(105,255)
Disposal of partial interests in subsidiaries		–	–	–	–	14,417	–	–	–	–	–	14,417	–	8,635	23,052
Share of reserves of an associate		–	–	–	–	25,216	–	–	–	–	–	25,216	–	–	25,216
Disposal of subsidiaries	46	–	–	–	–	–	–	–	–	–	–	–	–	(1,076,797)	(1,076,797)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	(101,642)	(101,642)
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	454,113	454,113
Issuance of perpetual capital instruments		–	–	–	–	–	–	–	–	–	–	–	6,545,163	–	6,545,163
Final 2015 cash distributions paid		–	–	(443,948)	–	–	–	–	–	–	–	(443,948)	–	–	(443,948)
Interim 2016 cash distributions paid	12	–	–	(513,949)	–	–	–	–	–	–	–	(513,949)	–	–	(513,949)
Transfer to reserves		–	–	–	–	–	–	–	–	276,953	(276,953)	–	–	–	–
At 31 December 2016		873,787	4,900,042*	2,623,862*	271,022*	(208,704)*	14,989*	(64,142)*	(2,823,314)*	996,671*	9,916,929*	16,501,142	6,305,025	3,961,173	26,767,340

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000 (note 32(b))	Capital reserve HK$'000	Property revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 32(c))	Retained profits HK$'000	Total HK$'000	Perpetual capital instruments HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to shareholders of the Company														
At 1 January 2017		873,787	4,900,042	2,623,862	271,022	(208,704)	14,989	–	(64,142)	(2,823,314)	996,671	9,916,929	16,501,142	6,305,025	3,961,173	26,767,340
Profit for the year		–	–	–	–	–	–	–	–	–	–	3,717,227	3,717,227	240,291	483,026	4,440,544
Other comprehensive income/(loss) for the year:																
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	1,629,114	–	–	1,629,114	373,968	282,041	2,285,123
Release upon disposal of subsidiaries	46	–	–	–	–	–	–	–	–	(12,478)	–	–	(12,478)	–	–	(12,478)
Share of other comprehensive gain of a joint venture		–	–	–	–	–	–	–	17,403	–	–	–	17,403	–	–	17,403
Revaluation of available-for-sale investments		–	–	–	–	–	–	(93,694)	–	–	–	–	(93,694)	–	–	(93,694)
Gain on revaluation of a building upon transfer to investment property	14	–	–	–	–	–	107,493	–	–	–	–	–	107,493	–	–	107,493
Total comprehensive income/(loss) for the year		–	–	–	–	–	107,493	(93,694)	17,403	1,616,636	–	3,717,227	5,365,065	614,259	765,067	6,744,391
Equity-settled share option arrangements	31(a)	–	–	–	19,903	–	–	–	–	–	–	–	19,903	–	–	19,903
Exercise of share options	30(a)	5,595	168,741	–	(48,794)	–	–	–	–	–	–	–	125,542	–	–	125,542
Acquisition of subsidiaries	45	–	–	–	–	–	–	–	–	–	–	–	–	–	151,519	151,519
Acquisition of non-controlling interests		–	–	–	–	(5,291)	–	–	–	–	–	–	(5,291)	–	(101)	(5,392)
Share of reserves of an associate		–	–	–	2,068	3,600	–	–	–	–	–	–	5,668	–	–	5,668
Disposal of subsidiaries	46	–	–	–	–	–	–	–	–	–	–	–	–		(20,542)	(20,542)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	–	(21,393)	(21,393)
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	–	797,795	797,795
Distributions paid to perpetual capital instruments holders	33	–	–	–	–	–	–	–	–	–	–	–	–	(296,202)	–	(296,202)
Final 2016 cash distributions paid		–	–	(525,407)	–	–	–	–	–	–	–	–	(525,407)	–	–	(525,407)
Interim 2017 cash distributions paid	12	–	–	(701,899)	–	–	–	–	–	–	–	–	(701,899)	–	–	(701,899)
Transfer to reserves		–	–	–	–	–	–	–	–	–	261,244	(261,244)	–	–	–	–
At 31 December 2017		879,382	5,068,783*	1,396,556*	244,199*	(210,395)*	122,482*	(93,694)*	(46,739)*	(1,206,678)*	1,257,915*	13,372,912*	20,784,723	6,623,082	5,633,518	33,041,323

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

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

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
青島中科成污水淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
廣州中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
台州市路橋中科成污水淨化有限公司	PRC/Mainland China	RMB55,500,000	–	100	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/Mainland China	RMB27,600,000	–	100	Sewage treatment
菏澤中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
濟南中科成水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
彭州中科成污水淨化有限公司	PRC/Mainland China	RMB28,000,000	–	100	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/Mainland China	RMB76,000,000	–	100	Sewage treatment
永州市北控污水淨化有限公司Ω	PRC/Mainland China	HK$85,630,000	100	–	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB26,500,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控水務有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment
北控水務集團(海南)有限公司	PRC/Mainland China	RMB100,000,000	–	90	Sewage treatment
百色中環水業有限公司Ω	PRC/Mainland China	HK$20,000,000	–	100	Sewage treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment
錦州市北控水務有限公司Ω	PRC/Mainland China	RMB127,178,541	80	–	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB33,184,898	–	80	Sewage treatment and water distribution

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Be Water S.A.	Portugal	€11,987,000	–	100	Sewage treatment and water distribution
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
成都北控蜀都投資有限公司 ("Beikong Shudu")	PRC/Mainland China	RMB852,750,000	–	68.5	Construction services and sewage treatment
北京建工環境發展有限責任 公司 ("BCEG Environmental")	PRC/Mainland China	RMB690,000,000	–	60	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	MYR75,000,000	–	100	Construction services
昆明捷運泰富環保工程有限公司Ω	PRC/Mainland China	RMB100,000,000	–	70	Construction services
昆明捷運路橋發展有限公司Ω	PRC/Mainland China	RMB150,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司Ω	PRC/Mainland China	RMB300,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司Ω	PRC/Mainland China	RMB150,000,000	–	100	Construction services
佛山北控水環境開發有限公司Ω	PRC/Mainland China	RMB100,000,000	–	70	Construction services
簡陽鴻琛建設工程有限公司Ω	PRC/Mainland China	RMB80,000,000	–	60	Construction services
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	–	83.8	Water distribution
遵義北控水務有限公司	PRC/Mainland China	RMB50,236,000	80	–	Water distribution
德清達闊制水有限公司Ω	PRC/Mainland China	US$11,960,000	–	100	Water distribution
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD100,000	–	80	Reclaimed water treatment
泉州安平供水有限公司Ω	PRC/Mainland China	US$6,600,000	–	100	Water distribution
廣西貴港北控水務環保有限 公司	PRC/Mainland China	RMB50,000,000	–	100	Waste treatment
北控中科成環保集團有限公司	PRC/Mainland China	RMB417,969,071	–	100	Consultancy services and investment holding
南京市市政設計研究院有限責任公司	PRC/Mainland China	RMB60,000,000	–	99.172	Consultancy services

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北控水務(中國)投資有限公司Ω	PRC/Mainland China	US$500,000,000	100	–	Investment holding and consultancy services
雲南北控水務有限公司	PRC/Mainland China	RMB180,000,000	–	100	Investment holding
上海北控亞同水務投資有限公司	PRC/Mainland China	RMB100,000,000	–	100	Investment holding
北控(鞍山)水務有限公司	PRC/Mainland China	RMB65,000,000	–	70	Sewage treatment
阜新市北控水務有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
北控(洛陽)水務發展有限公司	PRC/Mainland China	RMB800,000,000	–	70	Sewage treatment
廣東鶴山北控水務有限公司	PRC/Mainland China	RMB78,330,000	–	70	Water distribution
金堂北控水環境治理有限公司	PRC/Mainland China	RMB30,000,000	–	83	Construction services
成都青白江中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
錦州市小淩河北控水務有限公司	PRC/Mainland China	RMB33,250,000/ RMB66,500,000	–	100	Sewage treatment
廣安北控廣和水務有限公司	PRC/Mainland China	RMB70,000,000	–	100	Water distribution
北京稻香水質淨化有限公司	PRC/Mainland China	RMB20,000,000/ RMB58,000,000	–	100	Reclaimed water treatment
東莞市德高水務有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
四川省彭州市自來水有限公司	PRC/Mainland China	RMB73,600,000	–	70	Water distribution
北控南陽水務集團有限公司	PRC/Mainland China	RMB102,626,900	–	67	Water distribution
永州市水務運營有限責任公司	PRC/Mainland China	RMB309,285,300	–	49	Water distribution
成都北控陽安水環境治理有限公司	PRC/Mainland China	RMB567,000,000	–	98	Construction services
北控(濟源)污水淨化有限公司	PRC/Mainland China	RMB166,330,000	–	100	Sewage treatment
珙縣北控供水有限公司	PRC/Mainland China	RMB10,000,000	–	80	Water distribution
淮安市水利勘測設計研究院有限公司	PRC/Mainland China	RMB10,000,000	–	70	Consultancy service

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
平陰北控水環境開發有限公司[δ]	PRC/Mainland China	RMB93,340,000/ RMB280,000,000	–	90	Construction services
鄒平北控水務有限公司[δ]	PRC/Mainland China	RMB407,200,000	–	45	Construction services and water distribution
瀘州北控環保工程投資有限公司[δ]	PRC/Mainland China	RMB230,686,000/ RMB362,000,000	–	90	Construction services
內蒙古科源水務有限公司 ("Mongolia")[δ]	PRC/Mainland China	RMB177,100,000	–	67	Water distribution

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

δ *Acquired/incorporated during the year*

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

2. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK$4.2 billion and capital commitments of approximately HK$18.3 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2017, as detailed in note 51 to the financial statements, the directors of the Company consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

(a) the existing banking facilities available to the Group as at 31 December 2017 and on the assumption that such facilities will continue to be available from the Group's principal bankers;

(b) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2018 with reference to the terms of respective agreements and the current status of the projects;

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

(d) the Company will consider equity financing when necessary.

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

3.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 47 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

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

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

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

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

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

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

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(b) Impairment

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now. The Group expects the adoption will have financial impact on the Group's future transactions with its associates and joint ventures.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the application of HKFRS 15 in the future may result in more disclosures.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 50 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$175,704,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Interests in joint operations *(continued)*

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

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

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

Related parties

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

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

or

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

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

Business combinations and goodwill

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the statement of profit or loss as a gain on bargain purchase.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June (2016: 30 June). For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

Fair value measurement

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment property

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

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

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

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

(a) any resulting decrease in the carrying amount of the property is recognised in the statement of profit or loss in the period the change in use takes place; or

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

Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "Investments and other financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Service concession arrangements *(continued)*

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the sewage and reclaimed water treatment and water distribution plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sewage and reclaimed water treatment and water distribution plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions

Operating concessions representing the rights to operate sewage and reclaimed water treatment and water distribution plants are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

Patents

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 10 years.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful lives of 5 to 10 years, as appropriate.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, in those expense categories consistent with the function of the impaired asset.

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

(b) Loans and receivables

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

(c) Available-for-sale investments

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

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

Impairment

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment *(Continued)*

(a) Financial assets carried at amortised cost

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

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

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

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

(b) Available-for-sale investments

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(b) Available-for-sale investments *(Continued)*

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

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

Derecognition

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (loans and borrowings)

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition

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

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

Financial guarantee contracts

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Inventories

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

Construction contracts

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

Revenue from the construction services for comprehensive renovation projects is recognised using the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

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

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

Contracts for services

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Perpetual capital instruments

Perpetual capital instruments with no contracted obligation to repay the principal or to pay any distribution are classified as part of equity.

Provisions

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

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

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

Income tax

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation/amortisation charge.

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

Revenue recognition

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

(a) from construction services, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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

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

Share-based payments

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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

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

Other employee benefits

Defined contribution plans

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined contribution plans (Continued)

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Defined benefit plan

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

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

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

Borrowing costs

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Percentage of completion of construction work and service contracts

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

Classification between operating concessions and receivables under service concession arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2017 were HK$4,190,771,000 (2016: HK$3,389,996,000) and HK$35,937,761,000 (2016: HK$24,571,245,000), respectively, further details of which are set out in note 17 to the financial statements.

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

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

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

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

(i) the peer firm must be in the field of the construction of infrastructure, majoring in sewage and reclaimed water treatment and seawater desalination facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

Estimation of water consumption

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

The actual consumption could deviate from those estimates.

Useful lives and residual values of property, plant and equipment

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to the related industry cycles. Management will increase the depreciation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods. The carrying amounts of property, plant and equipment carried as assets in the consolidated statement of financial position as at 31 December 2017 were HK$3,841,886,000 (2016: HK$2,831,452,000) in aggregate, further details of which are set out in note 14 to the financial statements.

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the relevant business units to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The total carrying amount of goodwill as at 31 December 2017 was HK$3,303,632,000 (2016: HK$3,312,200,000) in aggregate, details of which are set out in note 16 to the financial statements.

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

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

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

The policy for provision for impairment of receivables under service concession arrangements, amounts due from contract customers, trade receivables, and other receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of receivables under service concession arrangements, amounts due from contract customers, trade receivables, and other receivables other than prepayments carried as assets in the consolidated statement of financial position as at 31 December 2017 were HK$35,937,761,000 (2016: HK$24,571,245,000), HK$15,935,605,000 (2016: HK$17,305,049,000), HK$4,584,029,000 (2016: HK$4,371,260,000) and HK$8,552,383,000 (2016: HK$6,320,207,000), respectively, further details of which are set out in notes 17, 25, 26 and 27 to the financial statements.

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

Defined benefit plan

The present value of the retirement benefit obligation under the defined benefit plan of a joint venture depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligation. Key assumptions for the obligation are based in part on the current market conditions. The carrying amount of the obligation carried as a liability in the statement of financial position of the joint venture as at 31 December 2017 was HK$456,410,000 (2016: HK$468,837,000) and the Group's share of which, amounting to HK$205,384,000 (2016: HK$210,977,000), has been included in the Group's investments in joint ventures.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia and Singapore. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2017 was HK$693,648,000 (2016: HK$672,844,000).

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2017 were HK$272,320,000 (2016: HK$106,751,000) and HK$2,103,997,000 (2016: HK$1,691,342,000), respectively, details of which are set out in note 40 to the financial statements.

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

Classification of investment in funds

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

Derecognition of receivables under service concession arrangements

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

5. OPERATING SEGMENT INFORMATION

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

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

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

(c) the technical and consultancy services and sale of machineries segment engages in the provision of consultancy services and sale of machineries related to sewage treatment, construction services for comprehensive renovation projects, and the licensing of technical know-how related to sewage treatment.

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

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

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017

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

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017 *(Continued)*

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

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
Segment revenue	14,962,570	1,371,409	1,020,854	17,354,833
Cost of sales	(10,425,605)	(699,441)	(444,948)	(11,569,994)
Gross profit	4,536,965	671,968	575,906	5,784,839
Segment results:				
The Group	4,511,964	669,721	457,481	5,639,166
Share of profits and losses of:				
Joint ventures	66,203	125,969	–	192,172
Associates	5,345	–	–	5,345
	4,583,512	795,690	457,481	5,836,683
Fair value gain on derivative financial instruments				410,039
Corporate and other unallocated income and expenses, net				(378,666)
Share of profit of an associate				177,028
Finance costs				(1,401,329)
Profit before tax				4,643,755
Income tax expense				(970,773)
Profit for the year				3,672,982
Profit for the year attributable to shareholders of the Company: Operating segments	3,596,893	578,524	274,908	4,450,325
Fair value gain on derivative financial instruments				410,039
Corporate and other unallocated items				(1,633,351)
				3,227,013

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016 *(Continued)*

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
Segment assets:				
Operating segments	54,910,017	12,197,966	2,797,705	69,905,688
Corporate and other unallocated items				11,141,582
				81,047,270
Other segment information:				
Capital expenditure*				
– Operating segments	351,120	608,499	55,845	1,015,464
– Amount unallocated				915,494
				1,930,958
Depreciation				
– Operating segments	62,117	43,628	16,059	121,804
– Amount unallocated				25,508
				147,312
Amortisation of operating concessions	85,242	61,855	–	147,097
Amortisation of other intangible assets				
– Operating segments	1,528	1,111	681	3,320
– Amount unallocated				3,894
				7,214
Impairment of segment assets, net**	103,735	651	40,635	145,021
Provision for major overhauls	80,035	29,835	–	109,870

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

** *These amounts are recognised in the consolidated statement of profit or loss and included impairment against receivables under service concession arrangements, amounts due from contract customers, trade receivables and other receivables.*

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

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

The revenue information by geographical area is based on the locations of the customers; while the non-current asset information shown above is based on the locations of the assets and excludes financial instruments, amounts due from contract customers and deferred tax assets.

Information about major customers

During the year ended 31 December 2017, revenue of approximately HK$2,821,366,000 was derived from the sewage and reclaimed water treatment and construction services segment to a single customer from which over 10% of the Group's total revenue for the year was derived.

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

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

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

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

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

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

	2017 ***HK$'000***	2016 *HK$'000*
Interest income		
Bank interest income	**169,375**	81,921
Interest income on trade and other receivables with extended credit periods	**96,253**	107,429
Interest income on loans to government authorities in Mainland China	**125**	5,152
Interest income from non-controlling equity holders	**31**	3,179
Interest income on loans to joint ventures$^{\pi}$	**8,214**	5,206
Interest income on loans to an associate*	**6,991**	–
	280,989	202,887

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

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

π *The interest income recognised represented the interest income on a loan to Aqualyng-BEWG China Desalination Company Limited, a 51%-owned joint venture of the Group which was disposed of in 2016, and a loan to Beijing Enterprises Water Trading Limited ("BE Water Trading"), a 50%-owned joint venture of the Group, as further detailed in note 19(d)(i) to the financial statements.*

§ *The government grants recognised during the year represented grants received from certain government authorities in respect of the fulfilment of certain specific duties by the Group.*

♉ *The Group is entitled to a refund of 50% to 70% of the net VAT paid/payable under the Catalogue of Products and Services related to Recycling Businesses Qualified for Value-Added Tax (VAT) Preferential Treatment (Caishui [2015] No. 78) jointly issued by the PRC State Administration of Taxation and the Ministry of Finance.*

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

7. PROFIT FROM OPERATING ACTIVITIES

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

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

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

8. FINANCE COSTS

An analysis of finance costs is as follows:

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

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

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

9. DIRECTORS' REMUNERATION *(continued)*

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

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

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

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

9. DIRECTORS' REMUNERATION *(continued)*

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option expense *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2016					
Executive directors:					
Mr. Li Yongcheng *(Chairman)*	130	–	–	–	130
Mr. E Meng *(Vice Chairman)*	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong*	30	2,672	1,436	5	4,143
Mr. Zhou Min *(Chief Executive Officer)*#	120	6,561	6,020	18	12,719
Mr. Li Haifeng	120	3,620	2,429	18	6,187
Mr. Zhang Tiefu	120	2,972	–	–	3,092
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	968	–	1,088
Mr. Li Li	120	4,150	1,747	–	6,017
	1,240	19,975	12,600	41	33,856
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	86	–	206
Mr. Zhang Gaobo	150	–	129	–	279
Mr. Guo Rui	120	–	172	–	292
Ms. Hang Shijun	120	–	215	–	335
Mr. Wang Kaijun	120	–	215	–	335
Mr. Yu Ning@	50	–	1,625	–	1,675
	680	–	2,442	–	3,122
Total	1,920	19,975	15,042	41	36,978

* *Mr. Hu Xiaoyong has resigned as an executive director and the Chief Executive Officer of the Company on 30 March 2016.*

Mr. Zhou Min has been appointed as the Chief Executive Officer of the Company on 30 March 2016.

@ *Mr. Yu Ning passed away on 1 June 2016.*

10. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

11. INCOME TAX EXPENSE

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

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

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

11. INCOME TAX EXPENSE *(continued)*

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

Year ended 31 December 2017

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

11. INCOME TAX EXPENSE *(continued)*

Year ended 31 December 2016

	Hong Kong and overseas *HK$'000*	*%*	Mainland China *HK$'000*	*%*	Total *HK$'000*	*%*
Profit/(loss) before tax	(554,287)		5,198,042		4,643,755	
Tax expense/(credit) at the statutory tax rate	(89,868)	16.2	1,299,511	25.0	1,209,643	26.0
Lower tax rates of specific provinces or enacted by local authorities	–	–	(58,578)	(1.1)	(58,578)	(1.3)
Tax concession	–	–	(210,525)	(4.1)	(210,525)	(4.5)
Adjustments in respect of current tax of previous periods	1,033	(0.2)	–	–	1,033	–
Profits and losses attributable to joint ventures and associates	(1,310)	0.2	(92,251)	(1.8)	(93,561)	(2.0)
Income not subject to tax	(106,400)	19.2	(90,058)	(1.7)	(196,458)	(4.2)
Expenses not deductible for tax	195,346	(35.2)	94,677	1.8	290,023	6.2
Withholding tax of 5% on the distributable profit of the Group's PRC subsidiary and joint venture	–	–	4,544	0.1	4,544	0.1
Tax losses utilised from previous periods	–	–	(10,850)	(0.2)	(10,850)	(0.2)
Tax losses not recognised as deferred tax assets	21,305	(3.8)	14,197	0.3	35,502	0.8
Tax expense at the Group's effective tax rate	20,106	(3.6)	950,667	18.3	970,773	20.9

The share of tax attributable to associates and joint ventures amounting to HK$91,970,000 (2016: HK$43,577,000) and HK$120,604,202 (2016: HK$43,507,000), respectively, is included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

12. CASH DISTRIBUTIONS

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

The proposed final cash distribution out of the contributed surplus account for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2017 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 8,763,115,914 (2016: 8,712,012,633) ordinary shares in issue during the year.

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

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Machinery, and sewage and water pipelines HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Year ended 31 December 2017							
At 1 January 2017:							
Cost	1,716,092	107,974	882,908	151,108	205,728	194,472	3,258,282
Accumulated depreciation	(144,640)	(15,782)	(95,665)	(92,137)	(78,606)	–	(426,830)
Net carrying amount	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452
Net carrying amount:							
At 1 January 2017	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452
Acquisition of subsidiaries *(note 45)*	368,926	–	484,019	1,731	4,708	42,853	902,237
Additions	19,736	31,866	41,756	49,461	59,596	35,679	238,094
Transfer from non-current asset held for sale	146,276	–	–	–	–	–	146,276
Fair value gain on revaluation of a building upon transfer to investment properties	107,493	–	–	–	–	–	107,493
Transfer to investment properties *(note 15)*	(253,769)	–	–	–	–		(253,769)
Depreciation provided during the year	(71,793)	(29,334)	(64,115)	(20,990)	(22,784)	–	(209,016)
Disposal of subsidiaries *(note 46)*	–	–	(2,163)	(9,772)	(88,083)	–	(100,018)
Disposals	(1,612)	(84)	–	(1,247)	(3,451)	–	(6,394)
Transfers and reclassifications	–	–	7,490	–	523	(8,013)	–
Exchange realignment	101,572	8,295	55,570	2,741	4,506	12,827	185,511
At 31 December 2017	1,988,281	102,935	1,309,800	80,895	82,137	277,818	3,841,866
At 31 December 2017:							
Cost	2,212,075	149,362	1,440,157	183,847	175,390	277,818	4,438,649
Accumulated depreciation	(223,794)	(46,427)	(130,357)	(102,952)	(93,253)	–	(596,783)
Net carrying amount	1,988,281	102,935	1,309,800	80,895	82,137	277,818	3,841,866

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

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Machinery, and sewage and water pipelines *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Year ended 31 December 2016							
At 1 January 2016:							
Cost	786,248	53,318	381,248	130,825	136,447	218,619	1,706,705
Accumulated depreciation	(99,930)	(11,356)	(58,093)	(84,934)	(72,591)	–	(326,904)
Net carrying amount	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
Net carrying amount:							
At 1 January 2016	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
Acquisition of subsidiaries *(note 45)*	127,558	–	516,581	4,886	7,793	–	656,818
Additions	896,894	61,776	40,132	38,965	96,939	110,944	1,245,650
Depreciation provided during the year	(58,911)	(5,421)	(48,593)	(14,280)	(20,107)	–	(147,312)
Disposal of subsidiaries *(note 46)*	(60,633)	(1,086)	(30,541)	(11,078)	(11,874)	–	(115,212)
Disposals	(945)	–	(5,624)	(1,320)	(1,747)	–	(9,636)
Transfers and reclassifications	73,180	–	47,160	–	–	(120,340)	–
Exchange realignment	(92,009)	(5,039)	(55,027)	(4,093)	(7,738)	(14,751)	(178,657)
At 31 December 2016	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452
At 31 December 2016:							
Cost	1,716,092	107,974	882,908	151,108	205,728	194,472	3,258,282
Accumulated depreciation	(144,640)	(15,782)	(95,665)	(92,137)	(78,606)	–	(426,830)
Net carrying amount	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452

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

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

15. INVESTMENT PROPERTIES

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

Notes:

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

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

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

(d) The Group's investment properties were revalued on 31 December 2017 by Beijing North Asia Asset Assessment Firm (2016: Beijing Northern Yashi Assets Appraisal Co., Ltd.), independent professionally qualified valuers, at HK$1,083,677,000 (2016: HK$755,326,000). Each year, the management decides to appoint which external valuers to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Each year, the management has discussions with the valuers on the valuation assumptions and valuation results.

The fair value of the Group's investment properties was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

15. INVESTMENT PROPERTIES *(Continued)*

Notes: (Continued)

(d) *(Continued)*

Fair value hierarchy disclosure

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

	Office and commercial buildings *HK$'000*
Carrying amount at 1 January 2016	–
Transfer from prepayments	746,960
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	43,911
Exchange realignment	(35,545)
Carrying amount at 31 December 2016 and 1 January 2017	755,326
Transfer from property, plant and equipment	253,769
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	12,862
Exchange realignment	61,720
Carrying amount at 31 December 2017	1,083,677

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

Valuation technique	**Significant unobservable inputs**	**Range** **31 December 2017**	31 December 2016
Income capitalisation method	Daily estimated rental value (per square meter)	**RMB4.50 to RMB16.65**	RMB15.75 to RMB18.24
	Rent growth	**2% to 2.8% from 2019**	2% from 2021
	Discount rate	**6%**	6%

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

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

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

16. GOODWILL

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

Impairment testing of goodwill

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

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

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by Greater China Appraisal Limited, independent professionally qualified valuers, using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections ranged from 11.40% to 12.22% (2016: 10.67% to 12.02%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 3% (2016: 3%) is used for the perpetual period.

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

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in estimations of the recoverable amounts

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

- Budgeted revenue
  - in respect of the revenue from the sewage and reclaimed water treatment and construction services segment and the water distribution services segment, the budgeted revenue is based on the projected sewage and reclaimed water treatment and water distribution volume, and the latest sewage and reclaimed water treatment and water tariff charges up to the date of valuation.
  - in respect of the revenue from the technical and consultancy services and sale of machineries segment, the budgeted revenue is based on the expected growth rate of the market.
- Budgeted gross margins
  - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the six months ended 30 June for the same year, increased for expected efficiency improvements.
- Discount rates
  - The discount rates used are after tax and reflect specific risks of the respective segments.
  - The pre-tax discount rates implied in the cash flow projections ranged from 13.98% to 14.77% (2016: 13.56% to 14.09%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment.
- Business environment
  - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Singapore, Portugal and Malaysia.

17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China, Singapore and Portugal on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its sewage and reclaimed water treatment, water distribution and seawater desalination services. These service concession arrangements generally involve the Group as an operator in (i) constructing sewage and reclaimed water treatment plants, water distribution facilities and a seawater desalination plant (collectively, the "Facilities") for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 12 to 40 years (the "Service Concession Periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of services that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the terms of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China, Singapore or Portugal that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations imposed on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

At 31 December 2017, the Group had 631, 12, 108 and 1 service concession arrangements on sewage treatment, reclaimed water treatment, water distribution and seawater desalination, respectively, with various governmental authorities in Mainland China, Singapore and Portugal and a summary of the major terms of the principal service concession arrangements is set out as follows:

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m^3/day)	Service concession period
Subsidiaries:							
1.	綿陽中科成污水淨化有限公司	綿陽市塔子壩污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT on sewage treatment	100,000	30 years from 2002 to 2032
2.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033
3.	深圳北控創新投資有限公司	深圳市龍崗區橫嶺污水處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m^3/day)	Service concession period
Subsidiaries *(Continued)*							
4.	深圳北控豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028
5.	成都青白江中科成污水淨化有限公司	成都市青白江區污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府	TOT on sewage treatment	100,000	25 years from 2009 to 2034
6.	錦州市北控水務有限公司	錦州市一期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	TOT on sewage treatment	100,000	30 years from 2009 to 2039
7.	錦州市北控水務有限公司	錦州市二期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on sewage treatment	100,000	30 years from 2011 to 2041
8.	錦州市小凌河北控水務有限公司	錦州市三期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
9.	玉溪北控城投水質淨化有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2010 to 2040
10.	廣西貴港北控水務有限公司	貴港市城西污水處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
11.	廣西貴港北控水務有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038
12.	遵義北控水務有限公司	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水有限責任公司	BOT on water distribution	100,000	25 years from 2010 to 2035
13.	廣安北控廣和水務有限公司	廣安新橋園區供水廠（一期）	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years from 2015 to 2045
14.	廣安北控廣和水務有限公司	廣安新橋園區供水廠（二期）	Guangan, Sichuan Province, the PRC	廣安市人民政府	BOT on water distribution	100,000	30 years (Not yet started)
15.	昆明空港北控城投水質淨化有限公司	昆明空港經濟區污水處理廠（二期）	Kunming, Yunnan Province, the PRC	昆明市人民政府	BOT on sewage treatment	130,000	20 years (Not yet started)

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m^3/day)	Service concession period
Subsidiaries *(Continued)*							
16.	成都北控蜀都投資有限公司	成都合作污水處理廠	Chengdu, Sichuan Province, the PRC	成都市郫縣水務局	TOT on sewage treatment	100,000	25 years from 2012 to 2037
17.	北京稻香水質淨化有限公司	海澱區稻香湖再生水廠項目	Beijing Haidian, the PRC	北京市海澱區水務局	BOT on reclaimed water treatment	160,000	30 years (Phase 2 not yet started)
18.	東莞市德高水務有限公司	東莞市橫瀝東坑合建污水處理廠	Dongguan, Guangdong Province, the PRC	高埗鎮人民政府	BOT on sewage treatment	120,000	25 years from 2008 to 2033
19.	北控水務集團(海南)有限公司	白沙門污水處理廠	Haikou, Hainan Province, the PRC	海口市水務局	BOT on sewage treatment	200,000	25 years from 2010 to 2035
20.	德清達閭制水有限公司	德清縣乾元淨水廠項目	Deqing, Zhejiang Province, the PRC	德清縣建設局	BOT on water distribution	100,000	25 years from 2007 to 2032
21.	北控(鞍山)水務有限公司	鞍山市永寧污水處理廠項目	Anshan, Liaoning Province, the PRC	鞍山市環境保護局	BOT on sewage treatment	100,000	30 years from 2015 to 2045
22.	阜新市北控水務有限公司	遼寧省阜新市開發區污水處理廠項目	Fuxin, Liaoning Province, the PRC	阜新市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
23.	北控(洛陽)水務發展有限公司	澗西污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
24.	北控(洛陽)水務發展有限公司	瀍東污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
25.	北控(洛陽)水務發展有限公司	新區污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
26.	廣東鶴山北控水務有限公司	鶴山市沙坪鎮第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045
27.	北控(濟源)污水淨化有限公司	濟源市城市污水廠	Jiyuan, Henan Province, the PRC	濟源市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2016 to 2046
28.	永州市水務運營有限責任公司	永州曲河供水廠一期	Yongzhou, Hunan Province, the PRC	永州市城市管理行政執法局	TOT on water distribution	100,000	30 years from 2016 to 2046

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m^3/day)	Service concession period
Subsidiaries *(Continued)*							
29.	凱里北控清源水務有限公司	凱里市城鎮供排水項目	Kaili, Guizhou Province, the PRC	凱里水務局	TOT on water distribution	144,000	30 years from 2016 to 2046
30.	棗莊北控智信水務有限公司	棗莊市區供水廠	Zaozhuang City, Shandong Province, the PRC	棗莊市人民政府	BOT on water distribution	110,000	30 years from 2013 to 2043
31.	南安實康水務有限公司	福建南安供水廠一期	Nanan, Fujian Province, the PRC	福建南安市人民政府	TOT on water distribution	170,000	30 years from 2013 to 2043
32.	山東昌樂實康水業有限公司	山東昌樂供水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	TOT on water distribution	100,000	30 years from 2013 to 2043
33.	昌樂實康原水有限公司	山東昌樂原水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	BOT on water distribution	100,000	30 years from 2013 to 2043
34.	徐州建邦環境有限公司	江蘇徐州丁樓淨水廠	Xuzhou, Jiangsu Province, the PRC	徐州市水務局	BOT on sewage treatment	400,000	30 years from 2014 to 2044
35.	徐州建邦環境有限公司	徐州市南望淨水廠	Xuzhou, Jiangsu Province, the PRC	徐州市水務局	BOT on sewage treatment	200,000	30 years from 2014 to 2044
36.	南京城東北控污水處理有限公司	南京市城東污水處理廠一期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
37.	南京城東北控污水處理有限公司	南京市城東污水處理廠二期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
38.	常德北控碧海水務有限責任公司	常德柳葉湖污水廠	Changde City, Hunan Province, the PRC	常德市市政公用事業管理局	TOT on sewage treatment	100,000	15 years from 2016 to 2031
39.	UE NEWater (S) Pte. Ltd.	新加坡樟宜第二新生水廠	Singapore	新加坡公用事業局	DBOO on water recycling	228,000	25 years from 2014 to 2039
40.	延吉京城環保產業有限公司	延吉污水處理廠一期	Yanji City, Jilin Province, the PRC	延吉市人民政府	TOT on sewage treatment	100,000	30 years from 2014 to 2044

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m^3/day)	Service concession period
Joint ventures:							
41.	貴陽北控水務有限責任公司 ("Guiyang BEWG")	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
42.	海寧實康水務有限公司	浙江海寧供水廠	Haining, Zhejiang Province, the PRC	浙江海寧市人民政府	TOT on water distribution	300,000	30 years from 2013 to 2043
43.	朝陽市北控水務有限公司	朝陽淨源污水處理廠	Chaoyang City, Liaoning Province, the PRC	朝陽市人民政府國有資產監督管理委員會	TOT on sewage treatment	100,000	30 years from 2016 to 2046

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

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the Facilities and the related land, which are generally registered under the names of the relevant companies in the Group, during the Service Concession Periods, but the Group is generally required to surrender these assets to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. As at 31 December 2017, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

At 31 December 2017, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate carrying amount of HK$8,934,591,000 (2016: HK$9,102,328,000) were pledged to secure certain bank loans granted to the Group *(note 34)*.

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

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

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Operating concessions

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

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

Notes:

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

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

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

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

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

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2017 was a provision for individually impaired receivables of HK$43,013,000 (2016: HK$12,400,000) with an aggregate carrying amount before provision of HK$402,539,000 (2016: HK$60,660,000). The individually impaired receivables relate to those amounts which have remained long outstanding and only a portion of the receivables is expected to be recovered.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2017 and 2016 also included the provision made against the remaining balances of the receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: (Continued)

(b) *(Continued)*

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

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

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

(c) Included in the receivables under service concession arrangements of the Group as at 31 December 2017 was an amount due from Beijing Enterprises Holdings Limited ("BEHL"), a substantial beneficial shareholder of the Company, of HK$424,708,000 (2016: HK$784,017,000). In February 2013, the Group acquired from BEHL the estimated future net cash income (after deducting all state and local taxes in Mainland China and operating costs) generated from the service concession arrangement on the water purification and treatment operation of the Phase 1 of No. 9 water treatment plant in Beijing for the six years ending 31 December 2018 (the "Future Income"). Imputed interest income of HK$45,325,000 (2016: HK$64,524,000), which was measured at amortised cost using the effective interest rate method, was recognised in "Revenue" on the face of the consolidated statement of profit or loss during the year. Further details of the transaction are set out in the Company's circular and announcement dated 30 November 2012 and 5 February 2013, respectively.

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

18. OTHER INTANGIBLE ASSETS

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

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents HK$'000	Computer software HK$'000	Total HK$'000
Year ended 31 December 2016			
At 1 January 2016:			
Cost	747	48,644	49,391
Accumulated amortisation	(699)	(11,402)	(12,101)
Net carrying amount	48	37,242	37,290
Net carrying amount:			
At 1 January 2016	48	37,242	37,290
Acquisition of subsidiaries *(note 45)*	–	3,247	3,247
Additions	–	36,178	36,178
Amortisation provided during the year	(48)	(7,166)	(7,214)
Write-off	–	(3,838)	(3,838)
Exchange realignment	–	(3,727)	(3,727)
At 31 December 2016	–	61,936	61,936
At 31 December 2016:			
Cost	700	78,662	79,362
Accumulated amortisation	(700)	(16,726)	(17,426)
Net carrying amount	–	61,936	61,936

19. INVESTMENTS IN JOINT VENTURES

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

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

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal activities
Guiyang BEWG#	PRC/ Mainland China	RMB1,456,162,145/ RMB1,456,162,145	45	45	45	Water distribution
洛陽北控水務集團有限公司 ("Luoyang BEWG")	PRC/ Mainland China	RMB200,000,000/ RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services
寧波北控水務星景環城水系投資中心(有限合夥)*	PRC/ Mainland China	RMB998,100,000/ RMB998,100,000	13	(a)	(a)	Investment fund
北控南南君悦(天津)投資合夥企業(有限合夥)*	PRC/ Mainland China	RMB556,050,000/ RMB3,111,500,000	6.5	(b)	(b)	Investment fund
北京北控國壽投資基金管理中心(有限合夥)*	PRC/ Mainland China	RMB2,082,400,000/ RMB24,002,400,000	–	(c)	(c)	Investment fund

\# *Directly held by the Company*

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

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes:

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

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

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

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

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

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

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

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

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

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

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

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

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

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

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

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

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

(ii) Other than the above balances, the amounts due from/to joint ventures included in current assets and current liabilities of the Group as at 31 December 2017 are unsecured, interest-free and are repayable on demand. The Group's trade payable balance with a joint venture is included in trade payables and disclosed in note 41 to the financial statements.

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(f) Disclosures of material joint ventures

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

	Guiyang BEWG		Luoyang BEWG	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and cash equivalents	**258,685**	533,422	**1,437,679**	1,328,162
Other current assets	**335,482**	283,228	**403,482**	393,270
Current assets	**594,167**	816,650	**1,841,161**	1,721,432
Operating concessions	**1,614,448**	1,588,358	**1,262,793**	893,969
Other non-current assets	**1,597,339**	1,547,325	**219,695**	268,111
Non-current assets	**3,211,787**	3,135,683	**1,482,488**	1,162,080
Financial liabilities, excluding trade and other payables and provisions	**(291,847)**	(594,066)	**–**	–
Other current liabilities	**(1,026,520)**	(1,286,304)	**(758,628)**	(605,084)
Current liabilities	**(1,318,367)**	(1,880,370)	**(758,628)**	(605,084)
Non-current financial liabilities, excluding trade and other payables and provisions	**–**	–	**(132,043)**	(130,803)
Other non-current liabilities	**(844,071)**	(640,574)	**(741,937)**	(603,499)
Non-current liabilities	**(844,071)**	(640,574)	**(873,980)**	(734,302)
Net assets	**1,643,516**	1,431,389	**1,691,041**	1,544,126
Reconciliation to the Group's investments in the joint ventures:				
Proportion of the Group's ownership	**45%**	45%	**40%**	40%
Group's share of net assets of the joint ventures, excluding goodwill	**739,582**	644,125	**676,416**	617,650
Goodwill on acquisition	**150,586**	150,586	**27,393**	25,854
Carrying amount of the investments	**890,168**	794,711	**703,809**	643,504

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

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

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

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

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

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

20. INVESTMENTS IN ASSOCIATES

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

Notes:

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

Company name	Place of incorporation and operation	Issued capital/ paid-up capital	Percentage of: Ownership interest attributable to the Group	Percentage of: Voting power	Percentage of: Profit sharing	Principal activities
Beijing Enterprises Clean Energy Group Limited ("BE Clean Energy")	Cayman Islands	HK$63,525,397	31.88	31.88	31.88	Management of photovoltaic power business, wind power business, and clean heat supply business
Mind Light Holdings Limited ("Mind Light")*	BVI	HK$90,000	35.00	35.00	35.00	Electronic appliance dismantling and waste treatment services

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

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

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

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(d) On 7 December 2016, Mind Light, a then wholly-owned subsidiary of the Company, entered into the subscription agreements with the Company and other six independent third parties, pursuant to which, the Company and the independent third parties conditionally agreed to subscribe for, and Mind Light conditionally agreed to allocate and issue, 89,999 shares for an aggregate cash consideration of HK$899,999,999. Upon the completion of the above subscription, the percentage of equity interest held by the Company was diluted to 35% and Mind Light ceased to be a subsidiary of the Company.

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

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

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

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

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

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

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

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

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

(g) Disclosures of a material associate

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

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

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

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

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

22. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

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

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

23. NON-CURRENT ASSETS HELD FOR SALE

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

Notes:

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

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

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

24. INVENTORIES

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

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

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

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

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

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

26. TRADE RECEIVABLES

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

Notes:

(a) The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sale of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 5.7% to 12.98% per annum (2016: 6.85% to 12.98%), all other trade receivables are non-interest-bearing.

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

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

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

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Included in the trade receivables of the Group as at 31 December 2017 were (i) an aggregate amount of HK$5,732,000 (2016: HK$5,410,000) due from 北京北控環保工程技術有限公司, a wholly-owned subsidiary of BEHL which is a substantial beneficial shareholder of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (ii) an amount of HK$2,221,000 (2016: HK$2,097,000) due from a joint venture of the Group, arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.

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

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

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

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

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

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

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

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

(i) a customer of the construction service for a comprehensive renovation project has pledged the future receivables from its comprehensive renovation services on certain government reserve lands owned by a government authority in Mainland China in an aggregate amount of HK$2,959,524,000 (2016: HK$2,793,258,000) to secure the trade receivables due from it. As at 31 December 2017, the trade receivables owed by this customer amounted to HK$493,221,000 (2016: HK$500,698,000); and

(ii) pursuant to a supplemental agreement entered into between a customer of the construction service for a comprehensive renovation project and the Group in 2013, the customer has undertaken to use the future proceeds from the disposal of certain of its land use rights in Mainland China with an estimated aggregate amount of not less than HK$1,351,886,000 (2016: HK$1,275,937,000) for settlement against any outstanding amount due to the Group. At 31 December 2017, the trade receivables owed by this customer amounted to HK$182,825,000 (2016: HK$725,043,000).

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

Notes:

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

(i) an instalment deposit with a gross amount of HK$502,418,000 (2016: HK$474,192,000) paid by the Group to a government authority in Mainland China in relation to the Group's acquisition of certain land use rights in Liaoning Province, the PRC. The balance is classified as a non-current asset.

(ii) loans and related interest receivables of HK$734,713,000 (2016: HK$648,920,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. Certain of these loans are interest-bearing at 4.75% to 10% per annum.

All of the above loans and the corresponding interest receivables of HK$23,809,000 (2016: HK$27,515,000) in aggregate are repayable within one year after the reporting period and are classified as current assets, and those of HK$710,904,000 (2016: HK$621,405,000) in aggregate are classified as non-current assets. The above balances are secured by:

(1) proceeds from the disposals of certain land use rights owned by relevant government authorities in Mainland China; or

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

(iii) a loan amount of HK$476,190,000 (2016: HK$430,703,000) provided to an immediate holding company of a then joint venture partner, 大連皮楊中心城鎮投資有限公司, for capital injection of the joint venture which was disposed of by the Group in 2016. The balance is secured, interest-bearing at 12% per annum and repayable on demand and is classified as a current asset.

(iv) investment deposits of HK$117,520,000 (2016: HK$188,333,000) in aggregate paid to independent third parties in connection with the Group's acquisition of the controlling equity interests in certain water distribution and consultancy operations in the PRC. The balances are classified as non-current assets.

(v) investment/bidding deposits of HK$397,617,000 (2016: HK$551,804,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK$158,927,000 (2016: HK$226,597,000) and HK$238,690,000 (2016: HK$325,207,000) are classified as current and non-current assets, respectively.

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

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

Notes: (Continued)

(b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK$375,560,000 (2016: HK$496,495,000) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation project entered into between the Group and government authorities in the PRC. The construction of this project was delayed and the subcontractor had returned an aggregate amount of HK$375,560,000 (2016: HK$480,526,000) of these advance payments to the other subsidiaries of the Group. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position *(note 42).*

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

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

The individually impaired receivables relate to those amounts which have remained long outstanding and only a portion of the receivables is expected to be recovered. Included in the provision for impairment of other receivables as at 31 December 2016 was a full provision on a performance bond of HK$44,944,000 paid to a government agent in the PRC.

Apart from the foregoing, the above provision for impairment of other receivables as at 31 December 2017 and 2016 also included the provisions made against the remaining balances of certain other receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

28. BALANCES WITH RELATED PARTIES

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

(i) pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, China International Construction Investment Holding (Hong Kong) Limited ("CICI") (a 70%-owned subsidiary of the Group) and the non-controlling equity holders of CICI, the non-controlling equity holders shall pay interest to the Company at the benchmark 1-year interest rate for Renminbi loans as promulgated by the People's Bank of China over the same period in respect of intercompany advances provided by the Company to CICI.

The balances with related companies of the Group included in receivables under service concession arrangements, trade receivables, other receivables, trade payables and other payables are disclosed in notes 17, 26, 27, 41 and 42 to the financial statements, respectively.

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

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

Notes:

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

(i) bank deposits of HK$22,162,000 (2016: HK$33,546,000) which could only be applied on the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and

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

In addition, as at 31 December 2017, bank deposits of HK$43,000 (2016: HK$92,362,000) were pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance of the duties by the Group under certain service concession agreements.

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

(Continued)

Notes: (Continued)

(b) The carrying amounts of the Group's cash and bank balances are denominated in the following currencies:

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

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

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

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

30. SHARE CAPITAL

Shares

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

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

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

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

Notes:

(a) During the year, the subscription rights attaching to 55,950,000 (2016: 34,214,000) share options were exercised at a subscription price of HK$2.244 (2016: HK$2.244) per ordinary share during the year, resulting in the issue of 55,950,000 (2016: 34,214,000) ordinary shares of the Company for a total cash consideration of HK$125,552,000 (2016: HK$76,776,000) (before expenses). At the time when the share options were exercised, the aggregate fair value of these share options of HK$48,794,000 (2016: HK$28,704,000) previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 31 to the financial statements.

(b) In 2016, the Company repurchased 19,296,000 ordinary shares on the Stock Exchange for a total consideration of HK$82,111,000. The purchased shares were cancelled during that year and the issued share capital of the Company was reduced by the par value of approximately HK$1,930,000. The premium and expenses paid on the repurchase of the shares of HK$80,181,000 were charged to the share premium of the Company.

30. SHARE CAPITAL *(Continued)*

Share options

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

31. SHARE OPTION SCHEME

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

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

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options.

31. SHARE OPTION SCHEME *(Continued)*

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's ordinary shares of HK$0.10. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

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

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

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

31. SHARE OPTION SCHEME *(Continued)*

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

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

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

Notes:

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

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

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

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

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

32. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

(c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2017 were distributable in the form of cash dividends.

33. PERPETUAL CAPITAL INSTRUMENTS

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

In 2016, a PRC wholly-owned subsidiary of the Group issued two perpetual capital instruments (the "Perpetual Capital Instruments") with the aggregate principal amount of RMB5,600,000,000 (approximately HK$6,588,235,000). Net proceeds after deducting the issuance costs amounted to RMB5,563,389,000 (approximately HK$6,545,163,000).

One of the Perpetual Capital Instruments with a principal amount of RMB2,800,000,000 (approximately HK$3,294,118,000) is guaranteed by the Company. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Group. The Perpetual Capital Instruments are classified as equity instruments.

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

34. BANK AND OTHER BORROWINGS

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

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

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

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

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

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

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) in an aggregate carrying amount of HK$8,934,591,000 (2016: HK$9,102,328,000) as at 31 December 2017, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors *(note 17)*;

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

(iii) bank deposits of HK$23,945,000 (2016: HK$8,618,000) pledged to banks to secure certain banking facilities granted to the Group;

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) *(Continued)*

(iv) mortgages over certain land use rights and buildings and investment properties in Mainland China in an aggregate carrying amount of HK$1,835,070,000 (2016: HK$1,753,703,000) *(notes 14 and 15)*; and

(v) pledges over the Group's equity interests in certain subsidiaries.

(d) The Group's bank and other borrowings bear interest at floating rates, except for the following:

(i) bank and other loans in an aggregate principal amount of HK$2,320,696,000 (2016: HK$2,198,136,000) bearing interest at fixed rates ranging from 1.2% to 8.0% (2016: 1.2% to 5.35%) per annum; and

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

(e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK$13,794,485,000 (2016: HK$12,128,434,000) as at 31 December 2017 include covenants imposing specific performance obligations on BEHL, a substantial beneficial shareholder of the Company, among which any one of the following events would constitute events of default on the loan facilities:

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35%, where applicable, of the issued share capital of the Company;

(ii) if Beijing Enterprises Group Company Limited ("BEGCL"), a substantial shareholder of the Company, does not or ceases to beneficially own, directly or indirectly, at least 40%, where applicable, of the voting rights in BEHL; and/or

(iii) if BEHL/BEGCL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Based on the directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.

35. CORPORATE BONDS

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

Corporate bonds of the Group as at 31 December 2017 and 2016 comprised:

(i) corporate bonds with an aggregate principal amount of US$500,000,000 (the "US$ Bonds") issued by a wholly-owned subsidiary of the Company to certain institutional investors on 6 May 2013 pursuant to the subscription agreement dated 26 April 2013. The subsidiary redeemed US$20,000,000 from the principal amount during the period from September 2016 to December 2016. The remaining portion of the principal amount, which is due on 6 May 2018, bears interest at a rate of 4.625% per annum and is guaranteed by the Company;

(ii) corporate bonds with an aggregate principal amount of RMB200,000,000 (equivalent to HK$240,096,000) (the "RMB Bonds") issued by a 60%-owned subsidiary of the Group to two institutional investors in December 2015 pursuant to the subscription agreement dated 16 December 2015, bearing interest at a rate of 5% per annum and are guaranteed by a wholly-owned subsidiary of the Company. The RMB Bonds are due for repayment on 16 December 2018 unless being redeemed by the Group one year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement. The Group redeemed the corporate bonds of RMB200,000,000 in December 2017;

35. CORPORATE BONDS *(Continued)*

(iii) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the "Second RMB Bonds") issued by a wholly-owned subsidiary of the Group to two institutional investors in April 2016 pursuant to the subscription agreement dated 25 April 2016, bearing interest at a rate of 3.60% per annum and are guaranteed by the Company. The Second RMB Bonds are due for repayment on 25 April 2021. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group;

(iv) corporate bonds with aggregate principal amounts of RMB4,000,000,000 (the "Panda Bonds") issued by the Company to certain institutional investors in July 2016 pursuant to the subscription agreement dated 22 July 2016, bearing interest at rates of 3.00% and 3.33% per annum. The Panda Bonds are due for repayment on 28 July 2021 and 28 July 2023. Two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Panda Bonds are set out in the Company's announcements dated 25 July 2016;

(v) corporate bonds with an aggregate principal amount of RMB700,000,000 (the "Green Bonds") issued by the Company to certain institutional investors in August 2016, bearing interest at a rate of 3.25% per annum. The Green Bonds are due for repayment on 3 August 2024. Three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the Company shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Company. Further details of the Green Bonds are set out in the Company's announcements dated 22 August 2016;

(vi) corporate bonds with an aggregate principal amount of RMB200,000,000 (the "Third RMB Bonds") issued by a 60%-owned subsidiary of the Group to two institutional investors in November 2016 pursuant to the subscription agreement dated 14 November 2016, bearing interest at a rate of 4% per annum and are guaranteed by a wholly-owned subsidiary of the Company. The Third RMB Bonds are due for repayment on 15 November 2019. One year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement, the 60%-owned subsidiary of the Group shall be entitled to adjust the coupon rate of corporate bonds and the bond holders shall be entitled to sell back the bonds to the Group;

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

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

35. CORPORATE BONDS *(Continued)*

The corporate bonds at 31 December 2017 will be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the US$ Bonds include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;

(ii) if BEHL does not or ceases to, directly or indirectly, supervise the Company or be the single largest shareholder of the Company;

(iii) if the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors; and/or

(iv) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Based on the Company's directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.

36. NOTES PAYABLE

Notes payable of the Group as at 31 December 2017 and 2016 comprised:

(i) a corporate note issued on 8 November 2013 with a principal amount of RMB2,000,000,000 (the "RMB Note") which is unsecured and wholly repayable in the third to fifth years, inclusive, from the end of the reporting period. The note payable is guaranteed by the Company, bears interest at a rate of 6.15% per annum and is due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement; and

(ii) a corporate note issued on 8 May 2015 with a principal amount of HK$700,000,000 (the "HK$ Note") which is unsecured and bears interest at a rate of 3.9% per annum. The note payable is guaranteed by the Company and due for repayment on 15 May 2020 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement.

36. NOTES PAYABLE *(Continued)*

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

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;

(ii) if BEHL does not or ceases to supervise the Company;

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

(iv) if the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors; and/or

(v) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Based on the Company's directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.

37. FINANCE LEASE PAYABLES

The Group leases certain equipment for its sewage treatment service business under five (2016: two) finance lease arrangements. The leases are classified as finance leases and had remaining lease terms ranging from five to twelve years (2016: six years) as at 31 December 2017.

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

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

One of the finance leases with a carrying amount of HK$39,988,000 (2016: HK$45,103,000) as at 31 December 2017 included an on demand clause and therefore has been classified as a current liability accordingly. For the purpose of the above analysis, the finance lease is included within current finance lease payables and analysed into finance lease payable on demand.

37. FINANCE LEASE PAYABLES *(Continued)*

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

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

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

38. PROVISION FOR MAJOR OVERHAULS

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

38. PROVISION FOR MAJOR OVERHAULS *(Continued)*

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

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

39. DEFERRED INCOME

Deferred income of the Group mainly represented government subsidies received in respect of the Group's construction of sewage treatment and water distribution facilities in the PRC and receipt in advance of certain guarantee receipts of sewage water treatment related to the transfer of financial assets, further details of which are disclosed in note 17 to the financial statements.

These government subsidies are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

40. DEFERRED TAX

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

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

40. DEFERRED TAX *(Continued)*

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

	Notes	Attributable to						
		Fair value adjustments arising from acquisition of subsidiaries	Impairment provision	Provision for major overhauls	Temporary differences related to service concession arrangements	Revaluation of properties	Losses available for offsetting against future taxable profits	Net deferred tax assets/ (liabilities)
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016		(237,778)	25,548	77,762	(1,057,323)	(9,882)	3,464	(1,198,209)
Acquisition of subsidiaries	*45*	(105,310)	6,179	–	–	–	–	(99,131)
Disposal of subsidiaries	*46*	–	(11,236)	(174)	50,769	–	–	39,359
Net deferred tax credited/(charged) to profit or loss	*11*	1,080	7,067	386	(356,688)	–	–	(348,155)
Exchange realignment		15,180	(4,361)	(4,998)	15,313	633	(222)	21,545
At 31 December 2016 and 1 January 2017		(326,828)	23,197	72,976	(1,347,929)	(9,249)	3,242	(1,584,591)
Acquisition of subsidiaries	*45*	(51,596)	–	–	–	–	–	(51,596)
Disposal of subsidiaries	*46*	–	(4,050)	(6,405)	156,826	–	–	146,371
Net deferred tax credited/(charged) to profit or loss	*11*	2,283	–	(33)	(305,749)	–	–	(303,499)
Exchange realignment		(19,400)	1,381	4,343	(23,263)	(551)	(872)	(38,362)
At 31 December 2017		(395,541)	20,528	70,881	(1,520,115)	(9,800)	2,370	(1,831,677)

Notes:

(a) At 31 December 2017, deferred tax assets have not been recognised in respect of unused tax losses of HK$580,553,000 (2016: HK$574,870,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK$270,311,000 (2016: HK$342,044,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$3,929,525,000 (2016: HK$3,256,213,000) as at 31 December 2017.

41. TRADE PAYABLES

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

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

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

The Group's trade payables as at 31 December 2017 included, inter alia, the following:

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

(b) an amount of HK$30,676,000 (2016: HK$79,550,000) due to an associate of the Group, arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. Construction costs of HK$26,412,000 (2016: HK$410,345,000) were charged at the published prices and conditions offered by the associate to its major customers and included in "Cost of sales" on the face of the consolidated statement of profit or loss during the year.

42. OTHER PAYABLES AND ACCRUALS

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

Notes:

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

(i) outstanding considerations in an aggregate amount of HK$837,097,000 (2016: HK$605,303,000) payable to various governmental authorities in Portugal and Mainland China for the construction or transfer of sewage treatment and water distribution facilities to the Group under the BOT or TOT arrangements; and

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

(b) The amounts due to subcontractors of the Group as at 31 December 2017 included refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of HK$375,560,000 (2016: HK$480,526,000), as further detailed in note 27 to the financial statements.

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

43. OTHER TAXES PAYABLES

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

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

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

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

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

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

(Continued)

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

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

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

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

45. BUSINESS COMBINATIONS

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

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

45. BUSINESS COMBINATIONS *(Continued)*

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

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

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

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

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

Notes:

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

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

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

45. BUSINESS COMBINATIONS *(Continued)*

Notes: (Continued)

(b) Business combinations during the year ended 31 December 2016 included, inter alia, the following material transactions:

(i) in January 2016, the Group completed the acquisition of the 70% equity interest in a company and its subsidiaries which engaged in the consultancy business in Jiangsu Province, the PRC, at an aggregate cash consideration of HK$205,882,000;

(ii) in January 2016, the Group completed the acquisition of the 67% equity interest in a company and its subsidiaries which engaged in the provision of water distribution services in Henan Province, the PRC, at an aggregate cash consideration of HK$182,905,000;

(iii) in January 2016, the Group completed the acquisition of the 70% equity interest in Pangzhou which engaged in the water distribution services in Sichuan Province, the PRC, at a cash consideration of HK$300,206,000; and

(iv) in September 2016, the Group acquired the 60% equity interest in a company which engaged in the provision of sewage and reclaimed water treatment services in Inner Mongolia, the PRC, at an aggregate cash consideration of HK$694,637,000.

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

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

46. DISPOSAL OF SUBSIDIARIES

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

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

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

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

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

Notes:

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

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

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

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

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

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

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

(i) in December 2016, the Group completed the deemed disposal of a 65% equity interest in Mind Light, further details of which are set out in note 20(d) to the financial statements.

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

(iii) the Group completed the disposals of (i) a wholly-owned subsidiary in sewage treatment operation located in Lianyungang City, Jiangsu Province, the PRC in December 2016 for a cash consideration of HK$147,385,000 to the local government; and (ii) a wholly-owned subsidiary in waste treatment business located in Yichang City, Hubei Province, the PRC in July 2016 for a cash consideration of HK$57,459,000 to an associate.

47. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

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

48. CONTINGENT LIABILITIES

At 31 December 2017, a corporate guarantee at a maximum amount of HK$89,382,000 (MYR49,162,000) (2016: HK$85,743,000 (MYR49,162,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and effective until 27 January 2019. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011. In addition, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK$793,076,000 (2016: HK$456,833,000) were outstanding and corporate guarantees of HK$2,064,409,000 (2016: Nil) were given to banks in connection with facilities granted to certain associates, joint ventures and independent third parties as at 31 December 2017.

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

49. PLEDGE OF ASSETS

Details of the Group's assets, pledged for the Group's bank and other borrowings are included in note 34 to the financial statements. In addition, the Group's bank guarantee facility is secured by pledged time deposits of the Group as detailed in note 29(ii).

50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a portion of its office building, a commercial building and certain buildings for which the Group was granted the rights to use pursuant to service concession arrangements under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years (2016: from 1 to 15 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

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

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

50. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases a piece of land and certain office properties under operating lease arrangements with leases negotiated for terms ranging from 3 months to 50 years (2016: from 5 months to 50 years).

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

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

51. CAPITAL COMMITMENTS

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

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

51. CAPITAL COMMITMENTS *(Continued)*

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

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

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

52. RELATED PARTY TRANSACTIONS

(a) The Group had engaged a joint venture and a related company of the Group to provide sewage treatment engineering services for the Malaysia Project with service fees of HK$1,087,000 (MYR600,000) (2016: HK$30,678,000 (MYR16,398,000)) and HK$132,092,000 (MYR72,862,000) (2016: HK$94,190,000 (MYR50,347,000)), respectively, which were charged at the published prices and conditions offered by the joint venture and the related company to their major customers, respectively.

Total net interest income from the non-controlling equity holders of HK$31,000 (2016: HK$3,179,000) was recognised by the Group during the year, details of the interest rate applied are included in note 28 to the financial statements.

(b) The Group had provided construction services for a sewage water plant located in Singapore to an associate of the Group for HK$21,130,000 (SGD3,743,000) (2016: HK$136,904,000 (SGD24,256,000)) which was charged at the published prices and conditions offered by the Group to its major customers.

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

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

52. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel of the Group

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

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

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

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

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

52. RELATED PARTY TRANSACTIONS *(Continued)*

(e) *(Continued)*

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK$2,235,610,000 (2016: HK$1,016,744,000). The related interest expenses recognised in profit or loss during the year were not significant to the Group. The related interest income recognised in profit or loss during the year was not significant to the Group.

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

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK$827,619,000 (2016: HK$125,843,000) and bear interest at floating rates ranging from 4.13% to 4.90% per annum (2016: from 4.75% to 4.90% per annum). The related interest expenses recognised in profit or loss during the year were not significant to the Group.

(f) On 28 February 2017, the Company agreed to subscribe by way of cash in the registered capital of BG Finance. As at 28 February 2017, BG Finance was directly held by BEGCL, Beijing Gas Group Company Limited, an indirect-wholly owned subsidiary of BEHL and Beijing Yanjing Brewery Co., Ltd., an indirect non-wholly owned subsidiary of BEHL, as to 41%, 39% and 20%. The Company shall pay to BG Finance an amount of HK$169,530,000 (RMB150,000,000), of which HK$151,820,000 (RMB134,330,000) would be injected into BG Finance as registered capital and HK$17,710,000 (RMB15,670,000) would be its capital reserve, being the total consideration of the capital subscription. Following the capital subscription, the Group would hold 6.69% equity interest in the enlarged registered capital of BG Finance. Further details of the transaction are set out in the Company's announcement dated 28 February 2017.

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

53. FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

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

Assets measured at fair value:

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurement (31 December 2016: Nil).

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

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

At 31 December 2017, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, finance lease payables, and cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2017 by approximately HK$122,080,000 (2016: HK$114,780,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

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

Foreign currency risk

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

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

	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	HK$'000	*HK$'000*
31 December 2017		
If Hong Kong dollar weakens against RMB by 5%	292,059	1,648,640
If Hong Kong dollar strengthens against RMB by 5%	(292,059)	(1,648,640)
31 December 2016		
If Hong Kong dollar weakens against RMB by 5%	272,584	1,237,048
If Hong Kong dollar strengthens against RMB by 5%	(272,584)	(1,237,048)

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

Foreign currency risk *(Continued)*

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

Credit risk

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

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

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

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

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK$18.3 billion (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) in aggregate as at 31 December 2017 as detailed in note 51 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds, notes payable and finance lease payables, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2018. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2 to the financial statements.

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

	Within 1 year or on demand *HK$'000*	In the second year *HK$'000*	In the third to fifth years, inclusive *HK$'000*	Beyond 5 years *HK$'000*	Total *HK$'000*
31 December 2017					
Bank and other borrowings	**5,497,090**	**2,641,432**	**16,405,539**	**3,600,077**	**28,144,138**
Corporate bonds	**4,217,856**	**2,955,356**	**7,761,304**	**792,903**	**15,727,419**
Notes payable	**173,395**	**173,395**	**3,519,803**	**–**	**3,866,593**
Finance lease payable	**80,451**	**96,136**	**274,341**	**131,085**	**582,013**
Trade payables	**11,687,517**	**–**	**–**	**–**	**11,687,517**
Other liabilities	**4,937,585**	**78,127**	**111,029**	**–**	**5,126,741**
Due to related parties	**397,069**	**–**	**–**	**–**	**397,069**
	26,990,963	**5,944,446**	**28,072,016**	**4,524,065**	**65,531,490**
31 December 2016					
Bank and other borrowings	5,654,147	3,243,395	11,771,217	2,816,967	23,485,726
Corporate bonds	440,601	440,601	7,124,401	5,368,075	13,373,678
Notes payable	165,097	165,097	1,178,234	2,512,089	4,020,517
Finance lease payable	61,071	9,260	27,779	9,260	107,370
Trade payables	9,842,824	–	–	–	9,842,824
Other liabilities	3,682,031	77,597	97,927	–	3,857,555
Due to related parties	478,142	–	–	–	478,142
	20,323,913	3,935,950	20,199,558	10,706,391	55,165,812

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

Fair values

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt.

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, notes payable and finance lease payables (as shown in the statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2017 and 2016 were as follows:

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

55. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the derivative financial instruments and the listed equity investments and some unlisted equity investments being classified as available-for-sale investments as disclosed in notes 21 and 22 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2017 and 2016 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

56. EVENTS AFTER THE REPORTING PERIOD

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

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

57. COMPARATIVE AMOUNTS

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

58. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

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

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

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

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

Note:

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

	Share premium account HK$'000	Contributed surplus HK$'000 (a)	Available-for-sale investments revaluation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	4,878,170	3,643,018	–	258,791	(1,345,733)	7,434,246
Loss for the year and total comprehensive loss for the year	–	–	–	–	(779,186)	(779,186)
Exercise of share options	102,053	–	–	(28,704)	–	73,349
Shares repurchased and cancelled	(80,181)	–	–	–	–	(80,181)
Equity-settled share option arrangements	–	–	–	40,935	–	40,935
Final 2015 cash distributions paid	–	(443,948)	–	–	–	(443,948)
Interim 2016 cash distributions paid	–	(513,949)	–	–	–	(513,949)
At 31 December 2016 and 1 January 2017	4,900,042	2,685,121	–	271,022	(2,124,919)	5,731,266
Loss for the year and total comprehensive loss for the year	–	–	–	–	(445,822)	(445,822)
Revaluation of available-for-sale investments	–	–	(93,694)	–	–	(93,694)
Exercise of share options	168,741	–	–	(48,794)	–	119,947
Equity-settled share option arrangements	–	–	–	19,903	–	19,903
Final 2016 cash distributions paid	–	(525,407)	–	–	–	(525,407)
Interim 2017 cash distributions paid	–	(701,899)	–	–	–	(701,899)
At 31 December 2017	5,068,783	1,457,815	(93,694)	242,131	(2,570,741)	4,104,294

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

59. APPROVAL OF THE FINANCIAL STATEMENTS

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

INDEPENDENT AUDITORS' REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Water Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 81 to 222, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Determination of fair value of contract revenue in respect of the construction services rendered	
Revenue from the construction of sewage and reclaimed water treatment and water distribution plants under the terms of Build-Operate-Transfer ("BOT") contracts represented approximately 38% of total revenue for the year ended 31 December 2016 and was accounted for under HK(IFRIC) Interpretation 12 *Service Concession Arrangements*. The revenue was estimated on a cost-plus basis with reference to a prevailing market rate of profit margin at the date of the agreement applicable to similar construction services rendered in a similar location. Significant management judgement was involved in determining the construction margins for these construction services. Disclosure of the determination of the fair value of construction contract revenue is included in note 4 to the financial statements.	Management engaged an external valuer to support their estimation of the gross profit margin for the construction revenue. As part of our audit procedures, we have considered the objectivity, independence and competency of the external valuer. In addition, we have involved our internal valuation specialists to assist us to assess the reasonableness of the bases and assumptions adopted in the valuation. Our procedures included discussions with management and the external valuer about the parameters used in estimating the Group's construction margins, including the benchmarks made to other comparable companies. We also performed a comparison of the inputs used in the valuation to external market data. We then assessed the disclosures under the section Significant Accounting Judgements and Estimates in the financial statements.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Determination of the provision for impairment of receivables under service concession arrangements, trade receivables and amounts due from contract customers	
The Group has significant receivables under service concession arrangements, trade receivables and amounts due from contract customers for an aggregate amount of HK$46.2 billion and represents 57% of the Group's total assets as at 31 December 2016. Significant management judgement was required in determining the adequacy of provisions against these balances (if any), with reference to the ageing profile, background and repayment history of these debtors. Disclosures of the provision for impairment of receivables under service concession arrangements, trade receivables and amounts due from contract customers are included in notes 4, 17, 25 and 26 of the financial statements.	We assessed the Group's processes and controls relating to the monitoring of receivables under service concession arrangements, trade receivables and amounts due from contract customers to identify impairment indicators. For the material receivables under service concession arrangements, trade receivable and amounts due from contract customers balances, we evaluated if a provision was required. Our procedures included obtaining direct confirmations, consideration of whether the balances were overdue, the debtor's historical payment patterns and whether any post year-end payment had been received up to the date of completing our audit procedures. We also obtained corroborative evidence including correspondence between the parties involved, progress made by management to recover the outstanding amounts, pledges from the debtors and the credit status of these debtors where available. For the remaining balances, we also considered whether a provision was required, after taking into account factors such as the nature, ageing and movement during the year. We also considered the adequacy of the Group's disclosures.

KEY AUDIT MATTERS *(Continued)*

Key audit matter | **How our audit addressed the key audit matter**

Goodwill impairment testing

Management is required to test goodwill for impairment on an annual basis. This test is largely based on management expectations, assumptions and estimates of future results of the cash-generating units to which the goodwill has been allocated. The assumptions are affected by expectations of future market or economic conditions. The impairment test is based on the recoverable amounts of the relevant cash-generating units, which is compared with their respective carrying values. As at 31 December 2016, the goodwill carried in the Group's financial statements was HK$3.3 billion.

Disclosures of goodwill are included in notes 4 and 16 to the financial statements.

Management engaged an external valuer to prepare the valuation models to assist with the impairment assessment. We involved our internal valuation specialists in evaluating the valuation models, and assumptions and parameters used by the valuer and the Group, giving particular attention to the estimated future revenues and results. Our procedures included testing the assumptions used in the cash flow forecast and assessing the accuracy of previous forecasts by comparison with the current performance. We also assessed the disclosures on the impairment testing, specifically the key assumptions that have the most significant effect on the determination of the recoverable amount of the goodwill, such as the discount rate and growth rate.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Paul Kai Lung Go.

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

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	*6*	**17,354,833**	13,502,957
Cost of sales		**(11,569,994)**	(8,536,057)
Gross profit		**5,784,839**	4,966,900
Interest income	*6*	**202,887**	315,781
Other income and gains, net	*6*	**1,121,589**	454,638
Administrative expenses		**(1,537,747)**	(1,225,728)
Other operating expenses, net		**(311,068)**	(248,054)
PROFIT FROM OPERATING ACTIVITIES	*7*	**5,260,500**	4,263,537
Fair value gain on derivative financial instruments		**410,039**	253,714
Finance costs	*8*	**(1,401,329)**	(1,146,708)
Share of profits and losses of:			
Joint ventures	*19(f)*	**192,172**	162,795
Associates	*20(c)*	**182,373**	12,221
PROFIT BEFORE TAX		**4,643,755**	3,545,559
Income tax expense	*11*	**(970,773)**	(777,766)
PROFIT FOR THE YEAR		**3,672,982**	2,767,793
ATTRIBUTABLE TO:			
Shareholders of the Company		**3,227,013**	2,455,370
Holders of perpetual capital instruments		**56,570**	–
Non-controlling interests		**389,399**	312,423
		3,672,982	2,767,793
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*13*		
– Basic		**HK37.04 cents**	HK28.17 cents
– Diluted		**HK36.27 cents**	HK27.50 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	**3,672,982**	2,767,793
OTHER COMPREHENSIVE LOSS		
Item to be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of foreign operations	**(2,650,535)**	(1,622,744)
Item not to be reclassified to profit or loss in subsequent periods:		
– Share of other comprehensive loss of a joint venture	**(14,606)**	(35,107)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	**(2,665,141)**	(1,657,851)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,007,841**	1,109,942
ATTRIBUTABLE TO:		
Shareholders of the Company	**1,216,828**	1,050,776
Holders of perpetual capital instruments	**(240,138)**	–
Non-controlling interests	**31,151**	59,166
	1,007,841	1,109,942

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	14	**2,831,452**	1,379,801
Investment property	15	**755,326**	–
Goodwill	16	**3,312,200**	2,967,365
Operating concessions	17	**3,389,996**	2,421,012
Other intangible assets	18	**61,936**	37,290
Investments in joint ventures	19	**3,294,613**	3,563,399
Investments in associates	20	**2,390,062**	902,774
Derivative financial instruments	21	**–**	42,404
Available-for-sale investments	22	**693,611**	153,664
Amounts due from contract customers	25	**16,204,380**	11,495,709
Receivables under service concession arrangements	17	**22,638,167**	16,977,664
Trade receivables	26	**1,347,108**	665,352
Prepayments, deposits and other receivables	27	**2,046,779**	5,609,924
Deferred tax assets	40	**106,751**	122,388
Total non-current assets		**59,072,381**	46,338,746
Current assets:			
Non-current assets held for sale	23	**141,345**	226,647
Inventories	24	**90,847**	99,083
Amounts due from contract customers	25	**1,100,669**	1,311,629
Receivables under service concession arrangements	17	**1,933,078**	1,712,947
Trade receivables	26	**3,024,152**	2,959,325
Prepayments, deposits and other receivables	27	**4,415,085**	5,033,177
Derivative financial instruments	21	**214,150**	167,174
Restricted cash and pledged deposits	29	**134,526**	269,189
Cash and cash equivalents	29	**10,921,037**	6,373,831
Total current assets		**21,974,889**	18,153,002
TOTAL ASSETS		**81,047,270**	64,491,748

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	30	**873,787**	872,295
Reserves	32(a)	**15,627,355**	15,311,538
		16,501,142	16,183,833
Perpetual capital instruments	33	**6,305,025**	–
Non-controlling interests		**3,961,173**	4,106,582
		10,266,198	4,106,582
TOTAL EQUITY		**26,767,340**	20,290,415
Non-current liabilities:			
Other payables and accruals	42	**344,625**	415,215
Bank and other borrowings	34	**16,662,637**	17,121,178
Corporate bonds	35	**11,663,212**	4,105,212
Notes payable	36	**2,939,743**	3,091,413
Finance lease payables	37	**40,906**	51,814
Provision for major overhauls	38	**187,759**	205,489
Deferred income	39	**135,115**	117,564
Deferred tax liabilities	40	**1,691,342**	1,320,597
Total non-current liabilities		**33,665,339**	26,428,482
Current liabilities:			
Trade payables	41	**9,842,824**	5,786,331
Other payables and accruals	42	**5,234,492**	4,817,755
Income tax payables		**672,844**	490,816
Bank and other borrowings	34	**4,812,255**	6,015,190
Corporate bonds	35	**–**	599,674
Finance lease payables	37	**52,176**	63,085
Total current liabilities		**20,614,591**	17,772,851
TOTAL LIABILITIES		**54,279,930**	44,201,333
TOTAL EQUITY AND LIABILITIES		**81,047,270**	64,491,748

Li Yongcheng
Director

Zhou Min
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to shareholders of the Company												
	Notes	Issued capital *HK$'000*	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000* *(note 32(b))*	Capital reserve *HK$'000*	Property revaluation reserve *HK$'000*	Defined benefit plan reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	PRC reserve funds *HK$'000* *(note 32(c))*	Retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2015		870,743	4,832,557	4,383,625	205,528	(278,498)	14,989	(14,429)	541,752	490,692	4,737,489	15,784,448	3,304,290	19,088,738
Profit for the year		–	–	–	–	–	–	–	–	–	2,455,370	2,455,370	312,423	2,767,793
Other comprehensive loss for the year:														
Exchange differences related to foreign operations		–	–	–	–	–	–	–	(1,369,487)	–	–	(1,369,487)	(253,257)	(1,622,744)
Share of other comprehensive loss of a joint venture		–	–	–	–	–	–	(35,107)	–	–	–	(35,107)	–	(35,107)
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	(35,107)	(1,369,487)	–	2,455,370	1,050,776	59,166	1,109,942
Equity-settled share option arrangements	*31(a)*	–	–	–	68,637	–	–	–	–	–	–	68,637	–	68,637
Exercise of share options	*30(a)*	1,552	45,613	–	(12,338)	–	–	–	–	–	–	34,827	–	34,827
Transfer of share option reserve upon the forfeiture or lapse of share options		–	–	–	(3,036)	–	–	–	–	–	3,036	–	–	–
Acquisition of subsidiaries	*45*	–	–	–	–	–	–	–	–	–	–	–	164,424	164,424
Acquisition of non-controlling interests		–	–	–	–	17,661	–	–	–	–	–	17,661	(25,977)	(8,316)
Share of reserves of an associate		–	–	–	–	29,350	–	–	–	–	–	29,350	–	29,350
Disposal of subsidiaries	*46*	–	–	–	–	–	–	–	–	–	–	–	(17,606)	(17,606)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	(17,572)	(17,572)
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	639,857	639,857
Final 2014 cash distributions paid		–	–	(418,247)	–	–	–	–	–	–	–	(418,247)	–	(418,247)
Interim 2015 cash distributions paid	*12*	–	–	(383,619)	–	–	–	–	–	–	–	(383,619)	–	(383,619)
Transfer to reserves		–	–	–	–	–	–	–	–	229,026	(229,026)	–	–	–
At 31 December 2015		872,295	4,878,170*	3,581,759*	258,791*	(231,487)*	14,989*	(49,536)*	(827,735)*	719,718*	6,966,869*	16,183,833	4,106,582	20,290,415

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to shareholders of the Company													
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000 (note 32(b))	Capital reserve HK$'000	Property revaluation reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 32(c))	Retained profits HK$'000	Total HK$'000	Perpetual capital instruments HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		872,295	4,878,170	3,581,759	258,791	(231,487)	14,989	(49,536)	(827,735)	719,718	6,966,869	16,183,833	–	4,106,582	20,290,415
Profit for the year		–	–	–	–	–	–	–	–	–	3,227,013	3,227,013	56,570	389,399	3,672,982
Other comprehensive loss for the year:															
Exchange differences related to foreign operations		–	–	–	–	–	–	–	(1,995,579)	–	–	(1,995,579)	(296,708)	(358,248)	(2,650,535)
Share of other comprehensive loss of a joint venture		–	–	–	–	–	–	(14,606)	–	–	–	(14,606)	–	–	(14,606)
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	(14,606)	(1,995,579)	–	3,227,013	1,216,828	(240,138)	31,151	1,007,841
Equity-settled share option arrangements	*31(a)*	–	–	–	40,935	–	–	–	–	–	–	40,935	–	–	40,935
Exercise of share options	*30(a)*	3,422	102,053	–	(28,704)	–	–	–	–	–	–	76,771	–	–	76,771
Shares repurchased and cancelled	*30(b)*	(1,930)	(80,181)	–	–	–	–	–	–	–	–	(82,111)	–	–	(82,111)
Acquisition of subsidiaries	*45*	–	–	–	–	–	–	–	–	–	–	–	–	627,536	627,536
Acquisition of non-controlling interests		–	–	–	–	(16,850)	–	–	–	–	–	(16,850)	–	(88,405)	(105,255)
Disposal of partial interests in subsidiaries		–	–	–	–	14,417	–	–	–	–	–	14,417	–	8,635	23,052
Share of reserves of an associate		–	–	–	–	25,216	–	–	–	–	–	25,216	–	–	25,216
Disposal of subsidiaries	*46*	–	–	–	–	–	–	–	–	–	–	–	–	(1,076,797)	(1,076,797)
Dividends paid to non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	(101,642)	(101,642)
Capital contributions from non-controlling equity holders		–	–	–	–	–	–	–	–	–	–	–	–	454,113	454,113
Issuance of perpetual capital instruments		–	–	–	–	–	–	–	–	–	–	–	6,545,163	–	6,545,163
Final 2015 cash distributions paid		–	–	(443,948)	–	–	–	–	–	–	–	(443,948)	–	–	(443,948)
Interim 2016 cash distributions paid	*12*	–	–	(513,949)	–	–	–	–	–	–	–	(513,949)	–	–	(513,949)
Transfer to reserves		–	–	–	–	–	–	–	–	276,953	(276,953)	–	–	–	–
At 31 December 2016		873,787	4,900,042*	2,623,862*	271,022*	(208,704)*	14,989*	(64,142)*	(2,823,314)*	996,671*	9,916,929*	16,501,142	6,305,025	3,961,173	26,767,340

* *These reserve accounts comprise the consolidated reserves of HK$15,627,355,000 (2015: HK$15,311,538,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,643,755**	3,545,559
Adjustments for:			
Bank interest income	6	**(81,921)**	(64,227)
Interest income on trade and other receivables with extended credit periods	6	**(107,429)**	(118,667)
Interest income on loans to government authorities in Mainland China	6	**(5,152)**	(63,433)
Interest income from non-controlling equity holders	6	**(3,179)**	(67,027)
Interest income on loans to joint ventures	6	**(5,206)**	(2,427)
Fair value gain on investment property	6	**(43,911)**	(548)
Fair value gain on derivative financial instruments		**(410,039)**	(253,714)
Gain on bargain purchase of subsidiaries	6	**(2,869)**	(21,827)
(Gain)/loss on disposal of subsidiaries	6, 7	**(8,675)**	2,327
Gain on disposal of a joint venture	6	**(6,439)**	–
Loss on disposal of items of property, plant and equipment	7	**370**	115
Loss on disposal of other intangible assets	7	**3,838**	–
Depreciation	7	**147,312**	76,840
Amortisation of operating concessions	7	**147,097**	125,493
Amortisation of other intangible assets	7	**7,214**	4,308
(Reversal of impairment)/impairment of receivables under service concession arrangements, net	7	**(6,445)**	16,088
Impairment/(reversal of impairment) of trade receivables, net	7	**21,567**	(10,540)
Impairment of other receivables, net	7	**123,935**	96,812
Impairment of amounts due from contract customers	7	**5,964**	52,938
Provision for major overhauls	7	**109,870**	65,201
Equity-settled share option expenses	7	**40,935**	68,637
Finance costs	8	**1,511,679**	1,208,353
Share of profits and losses of joint ventures		**(192,172)**	(162,795)
Share of profits and losses of associates		**(182,373)**	(12,221)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Operating profit before working capital changes		**5,707,726**	4,485,245
Increase in inventories		**(50,010)**	(12,279)
Increase in amounts due from contract customers		**(5,783,687)**	(6,822,007)
Increase in receivables under service concession arrangements		**(5,312,722)**	(2,378,115)
Increase in trade receivables		**(910,051)**	(296,524)
Increase in prepayments, deposits and other receivables		**(2,198,843)**	(1,107,294)
Increase in trade payables		**4,468,447**	2,417,959
Increase in other payables and accruals		**2,031,920**	1,444,778
Utilisation of provision for major overhauls	*38*	**(124,069)**	(105,758)
Cash used in operations		**(2,171,289)**	(2,373,995)
Mainland China corporate income tax paid		**(310,590)**	(241,593)
Overseas taxes paid		**(18,444)**	(11,517)
Net cash flows used in operating activities		**(2,500,323)**	(2,627,105)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(377,796)**	(383,947)
Additions of operating concessions	*17*	**(649,130)**	(194,857)
Additions of other intangible assets	*18*	**(36,178)**	(14,800)
Acquisition of subsidiaries	*45*	**(683,572)**	(678,149)
Proceeds from disposal of subsidiaries	*46*	**688,891**	40,293
Proceeds from disposal of subsidiaries in prior years		**73,202**	376,909
Proceeds from disposal of joint ventures		**6,711**	–
Proceeds from disposal of a joint venture in prior years		**–**	117,157
Decrease in loans to a joint venture		**58,882**	–
Deposits paid for the acquisition of subsidiaries		**–**	(374,585)
Proceeds from disposal of items of property, plant and equipment		**9,266**	2,742
Deposits paid for the purchase of items of property, plant and equipment		**–**	(1,709,564)
Proceeds from disposal of other intangible assets		**–**	6
Acquisition of/increase in investments in joint ventures		**(210,047)**	(381,613)
Acquisition of/increase in investments in associates		**(642,939)**	(800,000)
Additions of available-for-sale investments		**(545,533)**	(30,492)
Proceed from disposal of partial interests in subsidiaries		**23,052**	–
(Increase)/decrease in time deposits with maturity of more than three months when acquired		**(661)**	92,825
Decrease in restricted cash and pledged deposits		**134,663**	34,937
Dividends received from joint ventures		**40,546**	92,586
Interest received		**81,921**	64,227
Net cash flows used in investing activities		**(2,028,722)**	(3,746,325)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from non-controlling equity holders		**454,113**	639,857
Acquisition of non-controlling interests		**(105,255)**	(8,316)
Issue of a note payable		**–**	697,550
Issue of corporate bonds		**8,008,270**	250,000
Repayment of corporate bonds		**(748,482)**	–
Net proceeds from issuance of perpetual capital instruments	*33*	**6,545,163**	–
New bank and other borrowings		**12,406,204**	14,990,534
Repayment of bank and other borrowings		**(14,525,454)**	(7,647,018)
Proceeds from exercise of share options		**76,771**	34,827
Proceeds received under sale and leaseback transactions		**–**	131,250
Shares repurchased		**(82,111)**	–
Capital element of finance lease rental payments		**(13,737)**	(11,610)
Interest paid		**(1,483,107)**	(1,188,550)
Interest element of finance lease rental payments		**(4,091)**	(4,214)
Distributions paid		**(957,897)**	(801,866)
Dividends paid to non-controlling equity holders		**(101,642)**	(17,572)
Net cash flows from financing activities		**9,468,745**	7,064,872
NET INCREASE IN CASH AND CASH EQUIVALENTS		**4,939,700**	691,442
Cash and cash equivalents at beginning of year		**6,365,698**	5,989,925
Effect of foreign exchange rate changes, net		**(393,155)**	(315,669)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**10,912,243**	6,365,698
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	*29*	**10,921,037**	6,373,831
Less: Time deposits with maturity of more than three months when acquired		**(8,794)**	(8,133)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**10,912,243**	6,365,698

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

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

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
成都雙流中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島膠南中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
青島中科成污水淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
廣州中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
台州市路橋中科成污水淨化有限公司	PRC/Mainland China	RMB55,500,000	–	100	Sewage treatment
成都龍泉中科成污水淨化有限公司	PRC/Mainland China	RMB27,600,000	–	100	Sewage treatment
菏澤中科成污水淨化有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
濟南中科成水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Sewage treatment
彭州中科成污水淨化有限公司	PRC/Mainland China	RMB28,000,000	–	100	Sewage treatment
佛山市三水中科成水質淨化有限公司	PRC/Mainland China	RMB76,000,000	–	100	Sewage treatment
永州市北控污水淨化有限公司Ω	PRC/Mainland China	HK$85,630,000	100	–	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB20,000,000	–	60	Sewage treatment
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	–	100	Sewage treatment
昆明空港北控城投水質淨化有限公司	PRC/Mainland China	RMB53,090,000	–	100	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	–	100	Sewage treatment

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
北控水務集團(海南)有限公司	PRC/Mainland China	RMB100,000,000	–	90	Sewage treatment
東莞市石排偉通水務有限公司	PRC/Mainland China	RMB83,350,000	–	100	Sewage treatment
百色中環水業有限公司Ω	PRC/Mainland China	HK$20,000,000	–	100	Sewage treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	–	100	Sewage treatment
錦州市北控水務有限公司Ω	PRC/Mainland China	RMB127,178,541	80	–	Sewage treatment and reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB55,302,635	–	80	Sewage treatment and water distribution
Be Water S.A.	Portugal	€11,987,000	–	100	Sewage treatment and water distribution
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	–	100	Reclaimed water treatment
成都北控蜀都投資有限公司 ("Beikong Shudu")	PRC/Mainland China	RMB852,750,000	–	68.5	Construction services and sewage treatment
北京建工環境發展有限責任公司 ("BCEG Environmental")	PRC/Mainland China	RMB300,000,000	–	60	Construction services and investment holding
BEWG (M) Sdn Bhd	Malaysia	MYR50,000,000	–	100	Construction services
昆明捷運泰富環保工程有限公司Ω	PRC/Mainland China	RMB680,000,000	–	70	Construction services
昆明捷運路橋發展有限公司Ω	PRC/Mainland China	RMB1,200,000,000	–	70	Construction services
北控(洛陽)水環境開發有限公司Ω	PRC/Mainland China	RMB200,000,000	–	100	Construction services
北京北控淨都水環境治理有限公司Ω	PRC/Mainland China	RMB150,000,000	–	100	Construction services
佛山北控水環境開發有限公司Ω	PRC/Mainland China	RMB100,000,000	–	70	Construction services

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
簡陽鴻琛建設工程有限公司Ω	PRC/Mainland China	RMB10,000,000	–	60	Construction services
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	–	83.8	Water distribution
遵義北控水務有限公司	PRC/Mainland China	RMB50,236,000	80	–	Water distribution
德清達闊制水有限公司Ω	PRC/Mainland China	US$11,960,000	–	100	Water distribution
BEWGI-UE NEWater (S) Pte Ltd	Singapore	SGD10	–	80	Reclaimed water treatment
泉州安平供水有限公司Ω	PRC/Mainland China	US$6,600,000	–	100	Water distribution
廣西貴港北控水務環保有限公司	PRC/Mainland China	RMB50,000,000	–	100	Waste treatment
北控中科成環保集團有限公司	PRC/Mainland China	RMB417,969,071	–	100	Consultancy services and investment holding
南京市市政設計研究院有限責任公司	PRC/Mainland China	RMB7,958,880	–	99.172	Consultancy services
北控水務(中國)投資有限公司Ω	PRC/Mainland China	US$100,000,000	100	–	Investment holding
雲南北控水務有限公司	PRC/Mainland China	RMB400,000,000	–	100	Investment holding
上海北控亞同水務投資有限公司	PRC/Mainland China	RMB100,000,000	–	100	Investment holding
北控(鞍山)水務有限公司	PRC/Mainland China	RMB65,000,000	–	70	Sewage treatment
阜新市北控水務有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
北控(洛陽)水務發展有限公司	PRC/Mainland China	RMB771,363,446	–	70	Sewage treatment
廣東鶴山北控水務有限公司	PRC/Mainland China	RMB800,000	–	70	Water distribution
金堂北控水環境治理有限公司	PRC/Mainland China	RMB24,360,000	–	83	Construction services
台州北控水務置業有限公司	PRC/Mainland China	RMB98,000,000	–	100	Construction services

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

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

Company name	Place of incorporation/ registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
成都青白江中科成污水淨化有限公司	PRC/Mainland China	RMB40,000,000	–	100	Sewage treatment
錦州市小淩河北控水務有限公司	PRC/Mainland China	RMB33,250,000	–	100	Sewage treatment
衡陽市海朗水務有限公司	PRC/Mainland China	RMB37,000,000	–	100	Water distribution
廣安北控廣和水務有限公司	PRC/Mainland China	RMB70,000,000	–	100	Water distribution
北京稻香水質淨化有限公司	PRC/Mainland China	RMB20,000,000	–	100	Reclaimed water treatment
東莞市德高水務有限公司	PRC/Mainland China	RMB30,000,000	–	100	Sewage treatment
四川省彭州市自來水有限公司[δ] ("Pangzhou")	PRC/Mainland China	RMB73,600,000	–	70	Water distribution
北控南陽水務集團有限公司[δ]	PRC/Mainland China	RMB102,626,900	–	67	Water distribution
永州市水務運營有限責任公司[δ]	PRC/Mainland China	RMB309,285,300	–	49	Water distribution
成都北控陽安水環境治理有限公司[δ]	PRC/Mainland China	RMB170,000,000	–	98	Construction services
北控(濟源)污水淨化有限公司[δ]	PRC/Mainland China	RMB166,330,000	–	100	Sewage treatment
赤峰北控水環境開發有限公司[δ]	PRC/Mainland China	RMB800,000,000	–	99.8	Construction services
珙縣北控供水有限公司[δ]	PRC/Mainland China	RMB10,000,000	–	80	Water distribution
淮安市水利勘測設計研究院有限公司[δ]	PRC/Mainland China	RMB10,000,000	–	70	Consultancy service

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

δ *Acquired/incorporated during the year*

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

2. BASIS OF PRESENTATION

Despite that the Group had capital commitments of approximately HK$6.9 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2016, as detailed in note 50 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group's cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

(a) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group's principal bankers;

(b) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2017 with reference to the terms of respective agreements and the current status of the projects; and

(c) the Company will consider equity financing when necessary.

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

3.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

3.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

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

(a) Amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments to HKFRS 10 also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Consequential amendments were made to HKFRS 12 to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 9 to present the disclosures in respect of investment entities in accordance with HKFRS 12. HKAS 28 (2011) was also amended to allow an investor that is not itself an investment entity, and has an interest in an investment entity, associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interest in its subsidiaries. The amendments have had no impact on the Group as the consolidation exemption does not apply to a listed entity.

(b) Amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are applied prospectively. The amendments have had no impact on the Group as there has been no interest acquired in a joint operation during the year.

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

(c) HKFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of HKFRSs. Entities that adopt HKFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss. The standard requires disclosures on the nature of, and risk associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. The standard has had no impact on the Group as the Group is not subject to rate regulation and is not a first-time adopter of HKFRSs.

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

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(e) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

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

(f) The HKAS 16 and HKAS 41 Amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants are within the scope of HKAS 16 instead of HKAS 41. After initial recognition, bearer plants are measured under HKAS 16 at accumulated cost before maturity. After the bearer plants mature, they are measured either using the cost model or revaluation model in accordance with HKAS 16. The amendments also require that produce growing on the bearer plants remains in the scope of HKAS 41 and is measured at fair value less costs to sell. Government grants relating to bearer plants are accounted for in accordance with HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. The amendments have had no impact on the Group as the Group does not have any bearer plants.

(g) The HKAS 27 (2011) Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying HKFRSs and electing to change to the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements are required to apply the change retrospectively. The amendments are not applicable to the Group's consolidated financial statements.

(h) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

- HKFRS 7 *Financial Instruments: Disclosures*: Clarifies that the disclosures in respect of the offsetting of financial assets and financial liabilities in HKFRS 7 are not required in the condensed interim financial statements, except where the disclosures provide a significant update to the information reported in the most recent annual report, in which case the disclosures should be included in the condensed interim financial statements. The amendments are not applicable to the Group's annual consolidated financial statements.

- HKFRS 7 *Financial Instruments: Disclosures*: Clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the HKFRS 7 disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendments have had no impact on the Group.

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

(h) *(Continued)*

- HKAS 19 *Employee Benefits*: Clarifies that market depth of high quality corporate bonds used for discounting the post-employment benefit obligation for defined benefit plans is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment has had no impact on the Group.

- HKAS 34 *Interim Financial Reporting*: Clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report. The amendment also specifies that the information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is not applicable to the Group's annual consolidated financial statements.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Annual Improvements 2014-2016 Cycle	Amendments to a number of HKFRSs[5]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption
5 Effective for annual periods beginning on or after 1 January 2017 or 2018, with early application permitted

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

Annual Improvements to HKFRSs 2014-2016 Cycle issued in March 2017 sets out amendments to a number of HKFRSs. Details of the applicable amendments are as follows:

HKFRS 12 *Disclosure of Interest in Other entities:* Clarified the scope of the standard by specifying that certain disclosure requirements is not required for subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

HKAS 28 *Investments in Associates and Joint Ventures:* Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss.

Related parties

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

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

or

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

Business combinations and goodwill

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the statement of profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June (2015: 30 June). For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment property

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

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

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

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

(a) any resulting decrease in the carrying amount of the property is recognised in the statement of profit or loss in the period the change in use takes place; or

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

Leases

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

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Service concession arrangements

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (receivable under service concession arrangement) is accounted for in accordance with the policy set out for loans and receivables under "Investments and other financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the sewage and reclaimed water treatment and water distribution plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the sewage and reclaimed water treatment and water distribution plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Operating concessions

Operating concessions representing the rights to operate sewage and reclaimed water treatment and water distribution plants are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the respective periods of the operating concessions granted to the Group of 20 to 40 years.

Patents

Purchased patents are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 10 years.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Computer software

Computer software is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over the estimated useful lives of 5 to 10 years, as appropriate.

Research and development costs

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arise, in those expense categories consistent with the function of the impaired asset.

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

(b) Loans and receivables

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

(c) Available-for-sale investments

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

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

Impairment

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(a) Financial assets carried at amortised cost

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

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

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

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

(b) Available-for-sale investments

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment (Continued)

(b) Available-for-sale investments *(Continued)*

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

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

Derecognition

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities (loans and borrowings)

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition

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

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

Financial guarantee contracts

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Inventories

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

Construction contracts

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

Revenue from the construction services for comprehensive renovation projects is recognised using the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

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

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

Contracts for services

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Perpetual capital instruments

Perpetual capital instruments with no contracted obligation to repay the principal or to pay any distribution are classified as part of equity.

Provisions

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

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

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

Income tax

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation/amortisation charge.

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

Revenue recognition

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

(a) from construction services, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

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

Share-based payments

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

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

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

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

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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

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

Other employee benefits

Defined contribution plans

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

Defined contribution plans (Continued)

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Defined benefit plan

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

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

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

Borrowing costs

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

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Percentage of completion of construction work and service contracts

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

Classification between operating concessions and receivables under service concession arrangements

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

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, future guaranteed receipts and non-guaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$3,389,996,000 (2015: HK$2,421,012,000) and HK$24,571,245,000 (2015: HK$18,690,611,000), respectively, further details of which are set out in note 17 to the financial statements.

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

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

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

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

(i) the peer firm must be in the field of the construction of infrastructure, majoring in sewage and reclaimed water treatment and seawater desalination facilities in the PRC; and

(ii) information of the peer firm must be available and from a reliable source.

Estimation of water consumption

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

The actual consumption could deviate from those estimates.

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

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment, and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment, and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of property, plant and equipment, and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$2,831,452,000 (2015: HK$1,379,801,000) and HK$3,451,932,000 (2015: HK$2,458,302,000) in aggregate, respectively, further details of which are set out in notes 14, 17 and 18 to the financial statements.

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the relevant business units to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The total carrying amount of goodwill as at 31 December 2016 was HK$3,312,200,000 (2015: HK$2,967,365,000) in aggregate, details of which are set out in note 16 to the financial statements.

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

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

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

The policy for provision for impairment of receivables under service concession arrangements, amounts due from contract customers, trade receivables, and other receivables of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of receivables under service concession arrangements, amounts due from contract customers, trade receivables, and other receivables (other than prepayments) carried as assets in the consolidated statement of financial position as at 31 December 2016 were HK$24,571,245,000 (2015: HK$18,690,611,000), HK$17,305,049,000 (2015: HK$12,807,338,000), HK$4,371,260,000 (2015: HK$3,624,677,000) and HK$6,320,207,000 (2015: HK$10,591,059,000), respectively, further details of which are set out in notes 17, 25, 26 and 27 to the financial statements.

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

Defined benefit plan

The present value of the retirement benefit obligation under the defined benefit plan of a joint venture depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligation. Key assumptions for the obligation are based in part on the current market conditions. The carrying amount of the obligation carried as a liability in the statement of financial position of the joint venture as at 31 December 2016 was HK$468,837,000 (2015: HK$446,110,000) and the Group's share of which, amounting to HK$210,977,000 (2015: HK$200,750,000), has been included in the Group's investments in joint ventures.

Current tax and deferred tax assets

The Group is subject to income taxes in Hong Kong, Mainland China, Portugal, Malaysia and Singapore. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as a liability in the consolidated statement of financial position as at 31 December 2016 was HK$672,844,000 (2015: HK$490,816,000).

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax in the periods in which such estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2016 were HK$106,751,000 (2015: HK$122,388,000) and HK$1,691,342,000 (2015: HK$1,320,597,000), respectively, details of which are set out in note 40 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

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

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

(c) the technical and consultancy services and sale of machineries segment engages in the provision of consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects, and the licensing of technical know-how related to sewage treatment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the year attributable to shareholders of the Company, which is a measure of adjusted profit for the year attributable to shareholders of the Company. The adjusted profit for the year attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on loans to joint ventures, interest income from non-controlling equity holders of subsidiaries, gain on bargain purchase of a subsidiary, gains on disposal of subsidiaries and joint ventures, 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.

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

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
Segment revenue	14,962,570	1,371,409	1,020,854	17,354,833
Cost of sales	(10,425,605)	(699,441)	(444,948)	(11,569,994)
Gross profit	4,536,965	671,968	575,906	5,784,839
Segment results:				
The Group	4,511,964	669,721	457,481	5,639,166
Share of profits and losses of:				
Joint ventures	66,203	125,969	–	192,172
Associates	5,345	–	–	5,345
	4,583,512	795,690	457,481	5,836,683
Fair value gain on derivative financial instruments				410,039
Corporate and other unallocated income and expenses, net				(378,666)
Share of profit of an associate				177,028
Finance costs				(1,401,329)
Profit before tax				4,643,755
Income tax				(970,773)
Profit for the year				3,672,982
Profit for the year attributable to shareholders of the Company:				
Operating segments	3,596,893	578,524	274,908	4,450,325
Fair value gain on derivative financial instruments				410,039
Corporate and other unallocated items				(1,633,351)
				3,227,013

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016 *(Continued)*

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
Segment assets:				
Operating segments	54,910,017	12,197,966	2,797,705	69,905,688
Corporate and other unallocated items				11,141,582
				81,047,270
Other segment information:				
Capital expenditure*				
– Operating segments	351,120	608,499	55,845	1,015,464
– Amount unallocated				915,494
				1,930,958
Depreciation				
– Operating segments	62,117	43,628	16,059	121,804
– Amount unallocated				25,508
				147,312
Amortisation of operating concessions	85,242	61,855	–	147,097
Amortisation of other intangible assets				
– Operating segments	1,528	1,111	681	3,320
– Amount unallocated				3,894
				7,214
Impairment of segment assets, net**	103,735	651	40,635	145,021
Provision for major overhauls	80,035	29,835	–	109,870

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015

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

5. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015 *(Continued)*

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

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

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

5. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	2016	2015
	HK$'000	*HK$'000*
Revenue from external customers:		
Mainland China	**16,026,894**	12,110,629
Elsewhere	**1,327,939**	1,392,328
	17,354,833	13,502,957
Non-current assets:		
Mainland China	**15,264,782**	10,437,335
Portugal	**687,701**	754,438
Elsewhere	**83,102**	79,868
	16,035,585	11,271,641

The revenue information by geographical area is based on the location of the customers; while the non-current asset information shown above is based on the location of the assets and excludes financial instruments, amounts due from contract customers and deferred tax assets.

Information about major customers

During the year ended 31 December 2016, there was no single external customer (2015: Nil) from which over 10% of the Group's total revenue for the year was derived.

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

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

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

	2016 ***HK$'000***	2015 *HK$'000*
Revenue		
Sewage and reclaimed water treatment services	**3,653,872**	3,515,103
Construction services	**11,308,698**	8,331,009
Water distribution services	**1,371,409**	881,024
Technical and consultancy services and sale of machineries	**1,020,854**	775,821
	17,354,833	13,502,957

Imputed interest income under service concession arrangements amounting to HK$1,659,158,000 (2015: HK$1,354,905,000) is included in the above revenue.

	2016 ***HK$'000***	2015 *HK$'000*
Interest income		
Bank interest income	**81,921**	64,227
Interest income on trade and other receivables with extended credit periods	**107,429**	118,667
Interest income on loans to government authorities in Mainland China$^{\delta}$	**5,152**	63,433
Interest income from non-controlling equity holders[@]	**3,179**	67,027
Interest income on loans to joint ventures$^{\pi}$	**5,206**	2,427
	202,887	315,781

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

	2016 *HK$'000*	2015 *HK$'000*
Other income		
Gross rental income[#]	**21,197**	9,072
Government grants[§]	**181,309**	101,241
Sludge treatment income	**146,412**	51,630
Pipeline installation income	**137,529**	39,920
Investment income from an available-for-sale investment	**13,113**	5,307
VAT refunds for sewage and reclaimed water treatment services[Ω]	**320,291**	136,338
Others	**79,404**	41,171
	899,255	384,679
Gains, net		
Fair value gain on investment property *(note 15)*	**43,911**	548
Gain on bargain purchase of subsidiaries *(note 45)*	**2,869**	21,827
Gain on disposal of subsidiaries *(note 46)*	**8,675**	–
Gain on disposal of a joint venture	**6,439**	–
Foreign exchange differences, net	**48,411**	47,584
Others	**112,029**	–
	222,334	69,959
Other income and gains, net	**1,121,589**	454,638

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

δ *The interest income recognised during the year was derived from loans to various government authorities in Mainland China, as further detailed in note 27(a)(ii) to the financial statements.*

@ *The interest income recognised during the year was derived from loans to non-controlling equity holders, as further detailed in notes 28(i) and (ii) to the financial statements.*

π *The interest income recognised during the year represented the interest income on a loan to Aqualyng-BEWG China Desalination Company Limited, a 51%-owned joint venture of the Group, as further detailed in note 19(c) to the financial statements, and a loan to Beijing Enterprises Water Trading Limited, ("BE Water Trading"), a 50%-owned joint venture of the Group, as further detailed in note 19(d)(i) to the financial statements.*

The Group leased a portion of its office premises and certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and reclaimed water treatment operations, to third parties under operating lease arrangements and, accordingly, earned rental income therefrom for the year.

§ *The government grants recognised during the year represented grants received from certain government authorities in respect of the fulfilment of certain specific duties by the Group.*

Ω *The Group is entitled to a refund 50% to 70% of the net VAT paid/payable under the Catalogue of Products and Services related to Recycling Businesses Qualified for Value-Added Tax (VAT) Preferential Treatment (Caishui [2015] No. 78) jointly issued by the PRC State Administration of Taxation and the Ministry of Finance.*

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2016** **HK$'000**	2015 HK$'000
Cost of sewage and reclaimed water treatment services rendered		**1,494,420**	1,240,158
Cost of construction services		**8,816,154**	6,433,300
Cost of water distribution services		**667,375**	417,140
Cost of technical and consultancy services rendered and machineries sold		**444,948**	319,966
Depreciation	*14*	**147,312**	76,840
Amortisation of operating concessions*	*17*	**147,097**	125,493
Amortisation of other intangible assets*	*18*	**7,214**	4,308
Minimum lease payments under operating leases		**20,562**	15,905
Auditor's remuneration		**12,000**	9,800
Employee benefit expense (including directors' remuneration (*note 9*)):			
Salaries, allowances and benefits in kind		**1,235,449**	846,369
Equity-settled share option expense	*31(a)*	**40,935**	68,637
Pension scheme contributions		**101,603**	73,283
Welfare and other expenses		**293,054**	258,923
		1,671,041	1,247,212
(Reversal of impairment)/impairment of receivables under service concession arrangements, net	*17(b)*	**(6,445)**	16,088
Impairment of amounts due from contract customers	*25*	**5,964**	52,938
Impairment/(reversal of impairment) of trade receivables, net	*26(c)*	**21,567**	(10,540)
Impairment of other receivables, net	*27(c)*	**123,935**	96,812
Provision for major overhauls	*38*	**109,870**	65,201
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties		**2,950**	384
Loss on disposal of items of property, plant and equipment		**370**	115
Loss on disposal of other intangible assets		**3,838**	–
(Gain)/loss on disposal of subsidiaries	*46*	**(8,675)**	2,327

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

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 HK$'000	2015 HK$'000
Interest on bank and other loans	**969,949**	805,077
Interest on corporate bonds	**352,819**	217,334
Interest on notes payable	**173,167**	172,562
Interest on finance leases	**4,091**	4,214
Total interest expense	**1,500,026**	1,199,187
Increase in discounted amounts of provision for major overhauls arising from the passage of time *(note 38)*	**11,653**	9,166
Total finance costs	**1,511,679**	1,208,353
Less: Interest included in cost of construction services	**(110,350)**	(61,645)
	1,401,329	1,146,708

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2016 HK$'000	2015 HK$'000
Fees	**1,920**	2,080
Other emoluments:		
Salaries, allowances and benefits in kind	**19,975**	16,645
Equity-settled share option expense	**15,042**	33,668
Pension scheme contributions	**41**	54
	35,058	50,367
	36,978	52,447

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2016					
Executive directors:					
Mr. Li Yongcheng *(Chairman)*	130	–	–	–	130
Mr. E Meng *(Vice Chairman)*	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong*	30	2,672	1,436	5	4,143
Mr. Zhou Min *(Chief Executive Officer)*#	120	6,561	6,020	18	12,719
Mr. Li Haifeng	120	3,620	2,429	18	6,187
Mr. Zhang Tiefu	120	2,972	–	–	3,092
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	968	–	1,088
Mr. Li Li	120	4,150	1,747	–	6,017
	1,240	19,975	12,600	41	33,856
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	86	–	206
Mr. Zhang Gaobo	150	–	129	–	279
Mr. Guo Rui	120	–	172	–	292
Ms. Hang Shijun&	120	–	215	–	335
Mr. Wang Kaijun	120	–	215	–	335
Mr. Yu Ning@	50	–	1,625	–	1,675
	680	–	2,442	–	3,122
Total	1,920	19,975	15,042	41	36,978

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

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

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

@ *Mr. Yu Ning passed away on 1 June 2016.*

9. DIRECTORS' REMUNERATION *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2015					
Executive directors:					
Mr. Li Yongcheng *(Chairman)*	130	–	–	–	130
Mr. E Meng *(Vice Chairman)*	120	–	–	–	120
Mr. Jiang Xinhao	120	–	–	–	120
Mr. Hu Xiaoyong *(Chief Executive Officer)*	120	5,922	11,548	18	17,608
Mr. Zhou Min	120	4,085	10,104	18	14,327
Mr. Li Haifeng	120	2,599	4,511	18	7,248
Mr. Zhang Tiefu	120	1,893	–	–	2,013
Ms. Qi Xiaohong	120	–	–	–	120
Mr. Ke Jian	120	–	–	–	120
Mr. Tung Woon Cheung Eric	120	–	1,624	–	1,744
Mr. Li Li	120	2,146	3,058	–	5,324
	1,330	16,645	30,845	54	48,874
Independent non-executive directors:					
Mr. Shea Chun Lok Quadrant	120	–	217	–	337
Mr. Zhang Gaobo	150	–	217	–	367
Mr. Guo Rui	120	–	289	–	409
Ms. Hang Shijun	120	–	361	–	481
Mr. Wang Kaijun	120	–	361	–	481
Mr. Yu Ning	120	–	1,378	–	1,498
	750	–	2,823	–	3,573
Total	2,080	16,645	33,668	54	52,447

Notes:

(a) Certain directors were granted share options in respect of their services to the Group, under the share option scheme of the Company, details of which are set out in note 31 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' remuneration disclosures.

(b) There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2016 and 2015 were all directors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the year ended 31 December 2016 as the Group did not generate any assessable profits arising in Hong Kong during the year (2015: Nil).

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

	2016	2015
	HK$'000	*HK$'000*
Current – Mainland China	**604,088**	337,812
Current – Elsewhere	**17,497**	21,077
Underprovision/(overprovision) in prior years	**1,033**	(23,330)
Deferred *(note 40)*	**348,155**	442,207
Total tax expense for the year	**970,773**	777,766

11. INCOME TAX EXPENSE *(Continued)*

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

Year ended 31 December 2016

	Hong Kong and overseas		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(554,287)		5,198,042		4,643,755	
Tax expense/(credit) at the statutory tax rate	(89,868)	16.2	1,299,511	25.0	1,209,643	26.0
Lower tax rates of specific provinces or enacted by local authorities	–	–	(58,578)	(1.1)	(58,578)	(1.3)
Tax concession	–	–	(210,525)	(4.1)	(210,525)	(4.5)
Adjustments in respect of current tax of previous periods	1,033	(0.2)	–	–	1,033	–
Profits and losses attributable to joint ventures and associates	(1,310)	0.2	(92,251)	(1.8)	(93,561)	(2.0)
Income not subject to tax	(106,400)	19.2	(90,058)	(1.7)	(196,458)	(4.2)
Expenses not deductible for tax	195,346	(35.2)	94,677	1.8	290,023	6.2
Withholding tax of 5% on the distributable profits of the Group's PRC subsidiary and joint venture	–	–	4,544	0.1	4,544	0.1
Tax losses utilised from previous periods	–	–	(10,850)	(0.2)	(10,850)	(0.2)
Tax losses not recognised as deferred tax assets	21,305	(3.8)	14,197	0.3	35,502	0.8
Tax expense at the Group's effective tax rate	20,106	(3.6)	950,667	18.3	970,773	20.9

11. INCOME TAX EXPENSE *(Continued)*

Year ended 31 December 2015

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

The share of tax attributable to associates and joint ventures amounting to HK$43,577,000 (2015: HK$6,777,000) and HK$43,507,000 (2015: HK$32,935,000), respectively, is included in "share of profits and losses of joint ventures and associates" in the consolidated statement of profit or loss.

12. CASH DISTRIBUTIONS

	2016 HK$'000	2015 HK$'000
Interim – HK5.9 cents (2015: HK4.4 cents) per ordinary share	**513,949**	383,619
Proposed final – HK6.0 cents (2015: HK5.1 cents) per ordinary share	**524,388**	443,886
	1,038,337	827,505

12. CASH DISTRIBUTIONS *(Continued)*

The proposed final cash distribution out of the contributed surplus account for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2016 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 8,712,012,633 (2015: 8,714,976,582) ordinary shares in issue during the year.

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

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

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	**3,227,013**	2,455,370

	2016	2015
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**8,712,012,633**	8,714,976,582
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	**185,509,807**	213,110,567
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**8,897,522,440**	8,928,087,149

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Machinery, and sewage and water pipelines *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Year ended 31 December 2016							
At 1 January 2016:							
Cost	786,248	53,318	381,248	130,825	136,447	218,619	1,706,705
Accumulated depreciation	(99,930)	(11,356)	(58,093)	(84,934)	(72,591)	–	(326,904)
Net carrying amount	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
Net carrying amount:							
At 1 January 2016	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
Acquisition of subsidiaries *(note 45)*	127,558	–	516,581	4,886	7,793	–	656,818
Additions	896,894	61,776	40,132	38,965	96,939	110,944	1,245,650
Depreciation provided during the year	(58,911)	(5,421)	(48,593)	(14,280)	(20,107)	–	(147,312)
Disposal of subsidiaries *(note 46)*	(60,633)	(1,086)	(30,541)	(11,078)	(11,874)	–	(115,212)
Disposals	(945)	–	(5,624)	(1,320)	(1,747)	–	(9,636)
Transfers and reclassifications	73,180	–	47,160	–	–	(120,340)	–
Exchange realignment	(92,009)	(5,039)	(55,027)	(4,093)	(7,738)	(14,751)	(178,657)
At 31 December 2016	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452
At 31 December 2016:							
Cost	1,716,092	107,974	882,908	151,108	205,728	194,472	3,258,282
Accumulated depreciation	(144,640)	(15,782)	(95,665)	(92,137)	(78,606)	–	(426,830)
Net carrying amount	1,571,452	92,192	787,243	58,971	127,122	194,472	2,831,452

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

	Land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Machinery, and sewage and water pipelines *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Year ended 31 December 2015							
At 1 January 2015:							
Cost	546,077	54,011	151,680	119,369	123,172	551,129	1,545,438
Accumulated depreciation	(102,047)	(10,683)	(45,880)	(79,231)	(64,602)	–	(302,443)
Net carrying amount	444,030	43,328	105,800	40,138	58,570	551,129	1,242,995
Net carrying amount:							
At 1 January 2015	444,030	43,328	105,800	40,138	58,570	551,129	1,242,995
Acquisition of subsidiaries *(note 45)*	–	–	481	1,368	1,717	–	3,566
Additions	70,269	3,072	83,814	18,434	23,153	185,205	383,947
Depreciation provided during the year	(28,870)	(1,415)	(17,443)	(13,177)	(15,935)	–	(76,840)
Disposal of subsidiaries *(note 46)*	–	–	–	(54)	(231)	–	(285)
Disposals	–	(843)	(4)	(1,302)	(708)	–	(2,857)
Transfers and reclassifications	335,485	–	165,154	3,043	1,147	(504,829)	–
Transfer to non-current assets held for sale	(97,551)	–	–	–	–	–	(97,551)
Exchange realignment	(37,045)	(2,180)	(14,647)	(2,559)	(3,857)	(12,886)	(73,174)
At 31 December 2015	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801
At 31 December 2015:							
Cost	786,248	53,318	381,248	130,825	136,447	218,619	1,706,705
Accumulated depreciation	(99,930)	(11,356)	(58,093)	(84,934)	(72,591)	–	(326,904)
Net carrying amount	686,318	41,962	323,155	45,891	63,856	218,619	1,379,801

The net carrying amounts of the Group's fixed assets held under finance leases included in the total amounts of machinery at 31 December 2016 was HK$72,889,000 (2015: HK$76,391,000).

At 31 December 2016, certain land use rights and buildings situated in Mainland China with an aggregate carrying amount HK$998,377,000 (2015: HK$200,462,000) were pledged to secure certain bank loans granted to the Group *(note 34)*.

15. INVESTMENT PROPERTY

	2016	2015
	HK$'000	*HK$'000*
Carrying amount at 1 January	–	55,821
Transfer from prepayments *(note 27)*	746,960	–
Fair value gain on revaluation	43,911	548
Exchange realignment	(35,545)	(2,903)
Transfer to non-current assets held for sale	–	(53,466)
Carrying amount at 31 December	755,326	–

Notes:

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

(b) The investment property is leased to third parties under an operating lease arrangement, further summary details of which are included in note 49(a) to the financial statements.

(c) As at 31 December 2016, the Group's investment property with a carrying amount of HK$755,326,000 (2015: Nil) was pledged to bank to secure bank loan granted to the Group (note 34).

(d) The Group's investment property was revalued on 31 December 2016 by Beijing Northern Yashi Assets Appraisal Co., Ltd., independent professionally qualified valuers, at HK$755,326,000. Each year, the management decides to appoint which external valuers to be responsible for the external valuations of the Group's property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Each year, the management has discussions with the valuers on the valuation assumptions and valuation results.

The fair value of the Group's investment property was measured using significant unobservable inputs (Level 3 of fair value hierarchy). During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

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

	Office building *HK$'000*
Carrying amount at 1 January 2015	55,821
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	548
Transfer to non-current assets held for sale	(53,466)
Exchange realignment	(2,903)
Carrying amount at 31 December 2015 and 1 January 2016	–
Transfer from prepayments	746,960
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	43,911
Exchange realignment	(35,545)
Carrying amount at 31 December 2016	755,326

15. INVESTMENT PROPERTY *(Continued)*

Notes: (Continued)

(d) *(Continued)*

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

Valuation technique	Significant unobservable inputs	Range 31 December 2016	Range 31 December 2015
Income capitalisation method	Daily estimated rental value (per s.q.m.)	**RMB15.75 to RMB18.24**	RMB8.39 to RMB8.71
	Rent growth	**2% from 2021**	3% every three years
	Discount rate	**6%**	6%

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

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

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

16. GOODWILL

	2016 *HK$'000*	2015 *HK$'000*
Cost and net carrying amount:		
At 1 January	**2,967,365**	2,524,701
Acquisition of subsidiaries *(note 45)*	**465,478**	462,602
Disposal of subsidiaries *(note 46)*	**(92,635)**	–
Exchange realignment	**(28,008)**	(19,938)
At 31 December	**3,312,200**	2,967,365

16. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	2016	2015
	HK$'000	*HK$'000*
Sewage and reclaimed water treatment and construction services segment	**1,952,290**	2,022,761
Water distribution services segment	**804,779**	486,513
Technical and consultancy services and sale of machineries segment	**555,131**	458,091
	3,312,200	2,967,365

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by Greater China Appraisal Limited, independent professionally qualified valuers, using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections ranged from 10.67% to 12.02% (2015: 12.12% to 13.24%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 3% (2015: 3%) is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2016 (2015: Nil).

16. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions used in estimations of the recoverable amounts

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

- Budgeted revenue
  - in respect of the revenue from the sewage and reclaimed water treatment and construction services segment and the water distribution services segment, the budgeted revenue is based on the projected sewage and reclaimed water treatment and water distribution volume, and the latest sewage and reclaimed water treatment and water tariff charges up to the date of valuation.
  - in respect of the revenue from the technical and consultancy services and sale of machineries segment, the budgeted revenue is based on the expected growth rate of the market.
- Budgeted gross margins
  - the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved during the six months ended 30 June for the same year, increased for expected efficiency improvements.
- Discount rates
  - The discount rates used are after tax and reflect specific risks of respective segments.
  - The pre-tax discount rates implied in the cash flow projections ranged from 13.56% to 14.09% (2015: 14.67% to 15.56%) for the business units of the sewage and reclaimed water treatment and construction services segment, the water distribution services segment, and the technical and consultancy services and sale of machineries segment.
- Business environment
  - There have been no major changes in the existing political, legal and economic conditions in Mainland China, Singapore, Portugal and Malaysia.

17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China, Singapore and Portugal on a BOT or a Transfer-Operate-Transfer ("TOT") basis in respect of its sewage and reclaimed water treatment, water distribution and seawater desalination services. These service concession arrangements generally involve the Group as an operator (i) constructing sewage and reclaimed water treatment plants, water distribution facilities and a seawater desalination plant (collectively, the "Facilities") for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 12 to 40 years (the "Service Concession Periods"), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of services that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the terms of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China, Singapore or Portugal that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations imposed on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

At 31 December 2016, the Group had 312, 7, 105 and 1 service concession arrangements on sewage treatment, reclaimed water treatment, water distribution and seawater desalination, respectively, with various governmental authorities in Mainland China, Singapore and Portugal and a summary of the major terms of the principal service concession arrangements is set out as follows:

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m³/day)	Service concession period
Subsidiaries: *(Continued)*							
27.	阜新市北控水務有限公司	遼寧省阜新市開發區污水處理廠項目	Fuxin, Liaoning Province, the PRC	阜新市人民政府	TOT on sewage treatment	100,000	30 years from 2015 to 2045
28.	北控(洛陽)水務發展有限公司	澗西污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
29.	北控(洛陽)水務發展有限公司	瀍東污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	200,000	30 years from 2015 to 2045
30.	北控(洛陽)水務發展有限公司	新區污水處理廠項目	Luoyang, Henan Province, the PRC	洛陽市水務局	TOT on sewage treatment	100,000	30 years from 2015 to 2045
31.	廣東鶴山北控水務有限公司	鶴山市沙坪鎮第二供水廠項目	Jiangmen, Guangdong Province, the PRC	鶴山市人民政府	BOT on water distribution	195,000	30 years from 2015 to 2045
32.	北控(濟源)污水淨化有公司	濟源市城市污水廠	Jiyuan, Henan Province, the PRC	濟源市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2016 to 2046
33.	永州市水務運營有限責任公司	永州曲河供水廠一期	Yongzhou, Hunan Province, the PRC	永州市城市管理行政執法局	TOT on water distribution	100,000	30 years from 2016 to 2046
34.	凱里北控清源水務有限公司	凱里市城鎮供排水項目	Kaili, Guizhou Province, the PRC	凱里水務局	TOT on water distribution	144,000	30 years from 2016 to 2046
35.	棗莊北控智信水務有限公司	棗莊市區供水廠	Zaozhuang City, Shandong Province, the PRC	棗莊市人民政府	BOT on water distribution	110,000	30 years from 2013 to 2043
36.	南安實康水務有限公司	福建南安供水廠一期	Nanan, Fujian Province, the PRC	福建南安市人民政府	TOT on water distribution	170,000	30 years from 2013 to 2043

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (m^3/day)	Service concession period
37.	山東昌樂實康水業有限公司	山東昌樂供水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	TOT on water distribution	100,000	30 years from 2013 to 2043
38.	昌樂實康原水有限公司	山東昌樂原水廠	Changle, Shandong Province, the PRC	山東省昌樂人民政府	BOT on water distribution	100,000	30 years from 2013 to 2043
39.	徐州建邦環境有限公司	江蘇徐州丁樓淨水廠	Xuzhou, Jiangsu Province, the PRC	徐州市水務局	BOT on sewage treatment	400,000	30 years from 2014 to 2044
40.	徐州建邦環境有限公司	徐州市南望淨水廠	Xuzhou, Jiangsu Province, the PRC	徐州市水務局	BOT on sewage treatment	200,000	30 years from 2014 to 2044
41.	南京城東北控污水處理有限公司	南京市城東污水處理廠一期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
42.	南京城東北控污水處理有限公司	南京市城東污水處理廠二期	Nanjing, Jiangsu Province, the PRC	南京市城鄉建設委員會	TOT on sewage treatment	100,000	30 years from 2015 to 2045
43.	常德北控碧海水務有限責任公司	常德柳葉湖污水廠	Changde City, Hunan Province, the PRC	常德市市政公用事業管理局	TOT on sewage treatment	100,000	15 years from 2016 to 2031
44.	UE NEWater (S) Pte. Ltd.	新加坡樟宜第二新生水廠	Singapore	新加坡公用事業局	DBOO on water recycling	228,000	25 years from 2014 to 2039
Joint ventures:							
45.	貴陽北控水務有限責任公司 (“Guiyang BEWG”)	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
46.	海寧實康水務有限公司	浙江海寧供水廠	Haining, Zhejiang Province, the PRC	浙江海寧市人民政府	TOT on water distribution	300,000	30 years from 2013 to 2043

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the Facilities and related land, which are generally registered under the names of the relevant companies in the Group, during the Service Concession Periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods. At 31 December 2016, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

At 31 December 2016, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) with an aggregate carrying amount of HK$9,102,328,000 (2015: HK$9,303,850,000) were pledged to secure certain bank loans granted to the Group *(note 34)*.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

Operating concessions

	2016	2015
	HK$'000	*HK$'000*
At 1 January:		
Cost	**2,958,933**	2,730,011
Accumulated amortisation	**(537,921)**	(444,488)
Net carrying amount	**2,421,012**	2,285,523
Net carrying amount:		
At 1 January	**2,421,012**	2,285,523
Acquisition of subsidiaries *(note 45)*	**628,065**	228,009
Additions	**649,130**	194,857
Amortisation provided during the year	**(147,097)**	(125,493)
Exchange realignment	**(161,114)**	(161,884)
At 31 December	**3,389,996**	2,421,012
At 31 December:		
Cost	**4,035,866**	2,958,933
Accumulated amortisation	**(645,870)**	(537,921)
Net carrying amount	**3,389,996**	2,421,012

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements

	2016 HK$'000	2015 HK$'000
Receivables under service concession arrangements	**24,612,242**	18,738,392
Impairment *(note (b))*	**(40,997)**	(47,781)
	24,571,245	18,690,611
Portion classified as current assets	**(1,933,078)**	(1,712,947)
Non-current portion	**22,638,167**	16,977,664

Notes:

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

	2016 HK$'000	2015 HK$'000
Billed:		
Within 3 months	**747,658**	662,753
4 to 6 months	**256,118**	211,827
7 to 12 months	**285,860**	221,404
Over 1 year	**216,476**	160,781
	1,506,112	1,256,765
Unbilled:		
Current portion	**426,966**	456,182
Non-current portion	**22,638,167**	16,977,664
	23,065,133	17,433,846
Total	**24,571,245**	18,690,611

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**47,781**	34,098
Acquisition of subsidiaries	**13,247**	–
(Reversal of impairment)/impairment during the year recognised in profit or loss, net	**(6,445)**	16,088
Amount written off as uncollectible	**–**	(6)
Disposal of subsidiaries	**(10,871)**	–
Exchange realignment	**(2,715)**	(2,399)
At 31 December	**40,997**	47,781

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2016 was a provision for individually impaired receivables of HK$12,400,000 (2015: HK$13,248,000) with an aggregate carrying amount before provision of HK$60,660,000 (2015: HK$86,409,000). The individually impaired receivables relate to those amounts which have remained long outstanding and only a portion of the receivables is expected to be recovered.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2016 and 2015 also included the provision made against the remaining balances of the receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

17. SERVICE CONCESSION ARRANGEMENTS *(Continued)*

Receivables under service concession arrangements *(Continued)*

Notes: *(Continued)*

(b) *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**383,277**	317,919
Less than 1 month past due	**217,074**	189,617
1 to 3 months past due	**265,659**	328,567
4 to 6 months past due	**224,937**	143,034
7 months to 1 year past due	**210,590**	141,715
Over 1 year past due	**204,575**	135,913
	1,506,112	1,256,765

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

(c) Included in the receivables under service concession arrangements of the Group as at 31 December 2016 was an amount due from Beijing Enterprises Holdings Limited ("BEHL"), a substantial beneficial owner of the Company, of HK$784,017,000 (2015: HK$999,915,000). 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$64,524,000 (2015: HK$85,981,000), which was measured at amortised cost using the effective interest rate method, was recognised in "Revenue" on the face of the consolidated statement of profit or loss during the year. Further details of the transaction are set out in the Company's circular and announcement dated 30 November 2012 and 5 February 2013, respectively.

18. OTHER INTANGIBLE ASSETS

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2016			
At 1 January 2016:			
Cost	747	48,644	49,391
Accumulated amortisation	(699)	(11,402)	(12,101)
Net carrying amount	48	37,242	37,290
Net carrying amount:			
At 1 January 2016	48	37,242	37,290
Acquisition of subsidiaries *(note 45)*	–	3,247	3,247
Additions	–	36,178	36,178
Amortisation provided during the year	(48)	(7,166)	(7,214)
Disposal	–	(3,838)	(3,838)
Exchange realignment	–	(3,727)	(3,727)
At 31 December 2016	–	61,936	61,936
At 31 December 2016:			
Cost	700	78,662	79,362
Accumulated amortisation	(700)	(16,726)	(17,426)
Net carrying amount	–	61,936	61,936

18. OTHER INTANGIBLE ASSETS *(Continued)*

	Patents *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
Year ended 31 December 2015			
At 1 January 2015:			
Cost	788	36,041	36,829
Accumulated amortisation	(680)	(7,717)	(8,397)
Net carrying amount	108	28,324	28,432
Net carrying amount:			
At 1 January 2015	108	28,324	28,432
Acquisition of subsidiaries *(note 45)*	–	266	266
Additions	–	14,800	14,800
Amortisation provided during the year	(56)	(4,252)	(4,308)
Disposal	–	(6)	(6)
Exchange realignment	(4)	(1,890)	(1,894)
At 31 December 2015	48	37,242	37,290
At 31 December 2015:			
Cost	747	48,644	49,391
Accumulated amortisation	(699)	(11,402)	(12,101)
Net carrying amount	48	37,242	37,290

19. INVESTMENTS IN JOINT VENTURES

	Notes	2016 HK$'000	2015 HK$'000
Investments in joint ventures, included in non-current assets:			
Share of net assets		**3,097,238**	3,305,306
Goodwill on acquisition	*(b)*	**197,375**	199,211
		3,294,613	3,504,517
Loans to a joint venture	*(c)*	**–**	58,882
		3,294,613	3,563,399
Due from joint ventures, included in current assets	*(d), 27*	**306,763**	236,136
Due to joint ventures, included in current liabilities	*(d), 42*	**(602,833)**	(560,388)
Total interests in joint ventures		**2,998,543**	3,239,147

Notes:

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

Company name	Place of incorporation/ registration and operations	Paid-up capital/ registered capital	Percentage of: Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
Guiyang BEWG#	PRC/Mainland China	RMB1,456,162,145	45	45	45	Water distribution
洛陽北控水務集團 有限公司 ("Luoyang BEWG")	PRC/Mainland China	RMB200,000,000	40	40	40	Water distribution, reclaimed water treatment and heating services

\# *Directly held by the Company*

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

	2016	2015
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**199,211**	200,771
Exchange realignment	**(1,836)**	(1,560)
At 31 December	**197,375**	199,211

(c) The loans to a joint venture as at 31 December 2015 were loans with principal amounts of RMB34,780,000 (equivalent to HK$42,938,000, the "RMB Loan") and US$100,000 (equivalent to HK$776,000, the "US$ Loan") advanced to a joint venture. The RMB Loan was unsecured, bore interest at the PRC 5-year or above bank loan rate and was repayable in 2030 while the US$ Loan was unsecured, interest-free and repayable on demand. In the opinion of the directors, the loans were considered as investments in the joint venture. Interest income of HK$1,527,000 (2015: HK$2,427,000) was recognised in the profit or loss during the year ended 31 December 2016 in respect of the RMB Loan. Both loans were settled upon the disposal of the investment in this joint venture during the year.

(d) (i) Included in the amounts due from joint ventures of the Group as at 31 December 2016 was an advance to a joint venture of US$26,390,000 (equivalent to HK$205,270,000) (31 December 2015: Nil). The amount is unsecured, bearing floating interest rate at LIBOR plus 2.8% per annum, and repayable on demand. Interest income of HK$3,679,000 (2015:Nil) was recognised in profit or loss during the year ended 31 December 2016;

(ii) Other than the above balances, the amounts due from/to joint ventures included in current assets and current liabilities of the Group as at 31 December 2016 are unsecured, interest-free and have no fixed terms of repayment. The Group's trade payable balance with a joint venture is included in trade payables and disclosed in note 41 to the financial statements.

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

(e) Material joint ventures disclosures

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

	Guiyang BEWG		Luoyang BEWG	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and cash equivalents	**533,422**	278,054	**1,328,162**	1,099,263
Other current assets	**283,228**	301,896	**393,270**	623,297
Current assets	**816,650**	579,950	**1,721,432**	1,722,560
Operating concessions	**1,588,358**	1,767,928	**893,969**	929,358
Other non-current assets	**1,547,325**	1,465,453	**268,111**	102,315
Non-current assets	**3,135,683**	3,233,381	**1,162,080**	1,031,673
Financial liabilities, excluding trade and other payables	**(594,066)**	(504,269)	**–**	–
Other current liabilities	**(1,286,304)**	(1,326,267)	**(605,084)**	(541,047)
Current liabilities	**(1,880,370)**	(1,830,536)	**(605,084)**	(541,047)
Non-current financial liabilities, excluding trade and other payables and provisions	**–**	–	**(130,803)**	(92,664)
Other non-current liabilities	**(640,574)**	(503,702)	**(603,499)**	(572,244)
Non-current liabilities	**(640,574)**	(503,702)	**(734,302)**	(664,908)
Net assets	**1,431,389**	1,479,093	**1,544,126**	1,548,278
Reconciliation to the Group's investments in the joint ventures:				
Proportion of the Group's ownership	**45%**	45%	**40%**	40%
Group's share of net assets of the joint ventures, excluding goodwill	**644,125**	665,591	**617,650**	619,311
Goodwill on acquisition	**150,586**	150,586	**25,854**	27,623
Carrying amount of the investments	**794,711**	816,177	**643,504**	646,934

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

Notes: (Continued)

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

	Guiyang BEWG		Luoyang BEWG	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**984,931**	812,367	**849,157**	827,069
Interest income	**–**	–	**–**	33,300
Depreciation and amortisation	**(171,426)**	(158,835)	**(46,109)**	(44,311)
Interest expenses	**(41,062)**	(31,073)	**27,547**	33,300
Income tax expense	**(42,117)**	(24,837)	**(33,356)**	(41,238)
Profit for the year	**151,593**	66,519	**99,477**	93,113
Other comprehensive loss for the year	**(32,457)**	(78,016)	**–**	–
Total comprehensive income/(loss) for the year	**119,136**	(11,497)	**99,477**	93,113
Share of the joint ventures' profit for the year@	**68,217**	29,934	**39,791**	37,245
Share of the joint ventures' other comprehensive loss for the year	**(14,606)**	(35,107)	**–**	–
Dividend received	**30,714**	19,370	**–**	41,808

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

	2016	2015
	HK$'000	*HK$'000*
Share of the joint ventures' profits and losses and total comprehensive income for the year@	**84,164**	95,616
Aggregate carrying amount of the Group's investments in the joint ventures	**1,856,398**	2,100,288

@ *Total share of the joint ventures' profit for the year was HK$192,172,000 (2015: HK$162,795,000).*

20. INVESTMENTS IN ASSOCIATES

	Notes	2016 HK$'000	2015 HK$'000
Investments in associates, included in non-current assets:			
Share of net assets	(d)	**1,477,053**	474,013
Preference shares in an associate	(e)	**452,004**	327,477
Goodwill on acquisition	(f)	**461,005**	101,284
	(c)	**2,390,062**	902,774
Due from associates, included in current assets	(b), 27	**247,407**	116
Due to associates, included in current liabilities	(b), 42	**–**	(171)
Total investments in associates		**2,637,469**	902,719

Notes:

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

Company name	Place of incorporation and operation	Issued capital/ paid-up capital	Percentage of: Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activities
Beijing Enterprises Clean Energy Group Limited ("BE Clean Energy")*	Cayman Islands	HK$49,994,404	31.06	31.06	31.06	Management of photovoltaic power plants and the design, printing and sale of cigarette packages
Mind Light Holdings Limited ("Mind Light")*	BVI	HK$900,000,000	35.00	35.00	35.00	Waste treatment services

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

(b) The balances with associates are unsecured, interest-free and have no fixed terms of repayment. The Group's trade payable balance with an associate is included in trade payables and disclosed in note 41 to the financial statements.

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Notes: (Continued)

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

	2016	2015
	HK$'000	*HK$'000*
Share of the associates' profit for the year	**182,373**	12,221
Share of the associates' total comprehensive income	**42,515**	4,194
Aggregate carrying amount of the Group's investments in associates	**2,390,062**	902,774

(d) On 7 December 2016, Mind Light, a then wholly-owned subsidiary of the Company, entered into the subscription agreements with the Company and other 6 independent third parties, pursuant to which, the Company and the independent third parties conditionally agreed to subscribe for, and Mind Light conditionally agreed to allocate and issue, 89,999 shares for an aggregate cash consideration of HK$899,999,999. Upon the completion of the above subscription, the percentage of equity interest held by the Company was diluted to 35% and Mind Light ceased to be a subsidiary of the Company.

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

In 2015, the subscription of 5,274,166,550 ordinary shares and 3,586,592,950 convertible preference shares in BE Clean Energy was completed by the Company for an aggregate cash consideration of HK$700 million. None of the convertible preference shares were converted in 2015.

During the year, the subscription of 7,088,607,600 convertible preference shares in BE Clean Energy was completed by the Company for an aggregate cash consideration of HK$560 million. The Group did not subscribe any ordinary shares and had converted 7,930,590,553 convertible preference shares into ordinary shares during the year.

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

	2016	2015
	HK$'000	*HK$'000*
Cost and net carrying amount:		
At 1 January	**101,284**	–
Acquisition of associates	**365,693**	105,131
Exchange realignment	**(5,972)**	(3,847)
At 31 December	**461,005**	101,284

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 *HK$'000*	2015 *HK$'000*
Assets		
Forward contracts	**214,150**	209,578
Portion classified as current assets	**(214,150)**	(167,174)
Non-current portion	**–**	42,404

The forward contracts were related to the subscription of the remaining 1,772,151,900 (2015: 8,860,759,500) convertible preference shares in BE Clean Energy in May 2017 (2015: between May 2016 and May 2017) for a total cash consideration of HK$140 million (2015: HK$700 million).

The fair value of the forward contracts was measured using significant unobservable inputs (Level 3 of the fair value hierarchy) up to 5 November 2016. 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 year, there were no transfers of fair value measurements between Level 1 and Level 2 and there was transfer out from Level 3 to Level 2 of HK$214 million (2015: Nil) as at 31 December 2016.

Description of valuation technique used and key inputs to valuation on the forward contracts for the Level 3 measurement:

Valuation technique	**Significant unobservable inputs**	**6 May 2015**	**31 December 2015**	**6 May 2016**	**5 November 2016**
Black-Scholes model with Binomial Tree method	Adjusted equity value	HK$4.9 billion	HK$5.9 billion	HK$5.9 billion	HK$9.0 billion
	Stock volatility of comparable companies	Average 50.05%	Average 53.19%	Average 54.6%	Average 52.2%

21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

The following tables demonstrate the sensitivity of the Group's profit before tax to a reasonably possible change in the effect of the adjusted equity value and stock volatility of comparable companies, respectively, for the Level 3 measurement.

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

22. AVAILABLE-FOR-SALE INVESTMENTS

	2016 ***HK$'000***	2015 *HK$'000*
Listed equity investment, at fair value	**545,533**	–
Unlisted equity investments, at cost	**148,078**	153,664
	693,611	153,664

There was no change in fair value of the listed equity investment acquired during the year (2015: Nil).

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

23. NON-CURRENT ASSETS HELD FOR SALE

	2016 *HK$'000*	2015 *HK$'000*
Land use rights	–	75,630
Land and building *(note)*	**91,303**	97,551
Investment property *(note)*	**50,042**	53,466
	141,345	226,647

Note: Some office buildings of the Group, which were classified as property, plant and equipment and investment property, were reclassified as non-current assets held for sale as the carrying amounts of the assets will be recovered principally through sale and the Group intends to dispose of the buildings.

24. INVENTORIES

	2016 *HK$'000*	2015 *HK$'000*
Raw materials	**82,117**	93,528
Low value consumables	**8,730**	5,555
	90,847	99,083

25. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	2016 HK$'000	2015 HK$'000
Contract costs incurred plus recognised profits less recognised losses to date	**17,315,335**	12,907,054
Impairment *(note)*	**(10,286)**	(99,716)
	17,305,049	12,807,338
Portion classified as current assets	**(1,100,669)**	(1,311,629)
Non-current portion	**16,204,380**	11,495,709

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

	2016 HK$'000	2015 HK$'000
At 1 January	**99,716**	51,536
Impairment during the year recognised in profit or loss	**5,964**	52,938
Disposal of subsidiary	**(88,740)**	–
Exchange realignment	**(6,654)**	(4,758)
At 31 December	**10,286**	99,716

The above provision was made against amounts due from contract customers of HK$141,233,000 (2015: HK$245,711,000) which have remained long outstanding and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over the balance.

26. TRADE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**4,399,240**	3,631,921
Impairment *(note (c))*	**(27,980)**	(7,244)
	4,371,260	3,624,677
Portion classified as current assets	**(3,024,152)**	(2,959,325)
Non-current portion	**1,347,108**	665,352

Notes:

(a) The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sale of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 6.85% to 12.98% per annum (2015: 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:

	2016	2015
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**953,948**	674,939
4 to 6 months	**284,586**	61,879
7 to 12 months	**238,599**	52,169
Over 1 year	**1,545,968**	2,017,310
Balance with extended credit period	**43,094**	49,005
	3,066,195	2,855,302
Unbilled*	**1,305,065**	769,375
	4,371,260	3,624,677

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

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Included in the trade receivables of the Group as at 31 December 2016 were (i) an aggregate amount of HK$5,410,000 (2015: HK$5,780,000) due from 北京北控環保工程技術有限公司, a wholly-owned subsidiary of BEHL which is a substantial beneficial owner of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (ii) an amount of HK$2,097,000 (2015: HK$2,240,000) due from a joint venture of the Group, arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies are unsecured, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**7,244**	18,255
Impairment/(reversal of impairment) during the year recognised in profit or loss, net	**21,567**	(10,540)
Exchange realignment	**(831)**	(471)
At 31 December	**27,980**	7,244

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

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

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**326,436**	397,843
Less than 1 month past due	**456,369**	186,830
1 to 3 months past due	**355,410**	185,678
4 to 6 months past due	**289,557**	39,491
7 months to 1 year past due	**97,230**	35,493
Over 1 year past due	**1,541,193**	2,009,967
	3,066,195	2,855,302

26. TRADE RECEIVABLES *(Continued)*

Notes: (Continued)

(c) *(Continued)*

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

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

(i) a customer of the construction service for a comprehensive renovation project has pledged the future receivables from its comprehensive renovation services on certain government reserve lands owned by a government authority in Mainland China in an aggregate amount of HK$2,793,258,000 (2015: HK$2,984,393,000) to secure the trade receivables due from it. As at 31 December 2016, the trade receivables owed by this customer amounted to HK$500,698,000 (2015: HK$796,480,000); and

(ii) pursuant to a supplemental agreement entered into between a customer of the construction service for a comprehensive renovation project and the Group in 2013, the trade receivables owed by this customer amounting HK$725,043,000 (2015: HK$916,539,000). The customer has undertaken to use the future proceeds from the disposal of certain of its land use rights in Mainland China with an estimated aggregate amount of not less than HK$1,275,937,000 (2015: HK$1,363,246,000) for settlement against any outstanding amount due to the Group.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2016** **HK$'000**	2015 HK$'000
Prepayments		**141,657**	52,042
Deposits and other debtors	*(a)*	**4,293,382**	7,101,476
Advances to subcontractors and suppliers	*(b)*	**1,325,117**	1,946,270
Due from joint ventures		**306,763**	236,136
Due from associates		**247,407**	116
Due from related parties	*28*	**299,719**	1,451,490
		6,614,045	10,787,530
Impairment	*(c)*	**(152,181)**	(144,429)
		6,461,864	10,643,101
Portion classified as current assets		**(4,415,085)**	(5,033,177)
Non-current portion		**2,046,779**	5,609,924

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

Notes:

(a) The Group's deposits and other debtors as at 31 December 2016 included, inter alia, the following:

(i) an instalment deposit with a gross amount of HK$474,192,000 (2015: HK$506,640,000) paid by the Group to a government authority in Mainland China in relation to the Group's acquisition of certain land use rights in Liaoning Province, the PRC. The balance is classified as a non-current asset.

(ii) loans and related interest receivables of HK$648,920,000 (2015: HK$1,230,279,000) in aggregate provided to various government authorities in Mainland China as part of the construction funding for certain comprehensive renovation projects undertaken by these government authorities. Most of these loans are interest bearing at 6.55% to 16% per annum.

Except for loans and corresponding interest receivables of HK$27,515,000 (2015: HK$513,530,000) in aggregate that are repayable within one year after the reporting period and are classified as current assets, the remaining balances of HK$621,405,000 (2015: HK$716,749,000) in aggregate are classified as non-current assets, and the repayment of which is dependent on (1) the sale of the corresponding land use rights of the comprehensive renovation projects by relevant government authorities; and (2) the sale of the 31.5% equity interest in Beikong Shudu held by two government authorities. The above balances are secured by:

(1) proceeds from the disposals of certain land use rights owned by relevant government authorities in Mainland China; or

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

(iii) loan amount of HK$430,703,000 (2015: HK$480,192,000) provided to an immediate holding company of a then joint venture partner, 大連皮楊中心城鎮投資有限公司, for capital injection of the joint venture which was disposed by the Group in 2016. The balance is secured, interest bearing at 12% per annum and repayable on demand and is classified as a current asset.

(iv) investment deposits of HK$188,333,000 (2015: HK$450,658,000) in aggregate paid to independent third parties in connection with the Group's acquisition of the controlling equity interests in certain water distribution and consultancy operations in the PRC. The balances are classified as non-current assets.

(v) investment/bidding deposits of HK$551,804,000 (2015: HK$800,749,000) in aggregate paid to certain government authorities in the PRC for acquiring certain sewage and reclaimed water treatment operations, of which HK$226,597,000 and HK$325,207,000 are classified as current and non-current assets, respectively.

(vi) consideration receivables amounting to HK$371,755,000 (2015: HK$728,454,000) in aggregate from the disposal of parcels of land.

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

Notes: (Continued)

(a) *(Continued)*

(vii) in prior year, deposits amounting to HK$1,641,838,000 for the acquisition of a new office building situated in Beijing City. The balances were classified as non-current assets. In current year, the deposits of HK$894,878,000 and HK$746,960,000 were transferred to property, plant and equipment and investment properties, respectively.

(b) Included in the Group's advances to subcontractors and suppliers were advance payments in an aggregate amount of HK$496,495,000 (2015: HK$962,410,000) made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation projects entered into between the Group and government authorities in the PRC. The constructions of these projects were delayed and the subcontractors had returned an aggregate amount of HK$480,526,000 (2015: HK$949,221,000) of these advance payments to the other subsidiaries of the Group. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position *(note 42)*.

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**144,429**	53,805
Acquisition of subsidiaries	**4,690**	442
Impairment during the year recognised in profit or loss, net	**123,935**	96,812
Disposal of subsidiaries	**(108,207)**	–
Exchange realignment	**(12,666)**	(6,630)
At 31 December	**152,181**	144,429

Included in the provision for impairment of other receivables as at 31 December 2016 was a full provision on a performance bond of HK$44,944,000 (2015: HK$48,019,000) paid to a government agent in the PRC. The individually impaired receivables relate to those amounts which have remained long outstanding and only a portion of the receivables is expected to be recovered.

Apart from the foregoing, the above provision for impairment of other receivables as at 31 December 2016 and 2015 also included the provisions made against the remaining balances of certain other receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

28. BALANCES WITH RELATED PARTIES

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

(i) an amount of HK$1,274,467,000 as at 31 December 2015 due from a non-controlling equity holder of a 60% owned subsidiary of the Group, which, pursuant to relevant loan agreements entered into between the Group and the non-controlling equity holder, bore interest at the rate of the PRC 1-3 year bank loan rate per annum on the net loan amount, and secured by the 40% equity interest in the subsidiary held by the non-controlling equity holder. The subsidiary was disposed of to the non-controlling equity holder as at 31 December 2016 and the amount due from the non-controlling equity holder was settled with the Group, details of which are disclosed in note 46 to the financial statements; and

(ii) pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, China International Construction Investment Holding (Hong Kong) Limited ("CICI") (a 70% owned subsidiary of the Group) and the non-controlling equity holders of CICI, the non-controlling equity holders shall pay interest to the Company at the benchmark 1-year interest rate for Renminbi loans as promulgated by the People's Bank of China over the same period in respect of intercompany advances provided by the Company to CICI.

The balances with related companies of the Group included in receivables under service concession arrangements, trade receivables, other receivables, trade payables and other payables are disclosed in notes 17, 26, 27, 41 and 42 to the financial statements, respectively.

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

	2016 *HK$'000*	2015 *HK$'000*
Cash and bank balances:		
Placed in banks	**9,048,432**	5,042,562
Placed in a financial institution *(note 51)*	**1,016,744**	775,888
Time deposits:		
Placed in banks	**990,387**	824,570
Total cash and bank balances	**11,055,563**	6,643,020
Less: Restricted cash and pledged deposits *(note (a))*	**(134,526)**	(269,189)
Cash and cash equivalents	**10,921,037**	6,373,831

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2016 included the following:

(i) bank deposits of HK$33,546,000 (2015: HK$241,239,000) which could only be applied on the construction of sewage treatment facilities and other infrastructural facilities undertaken by the Group; and

(ii) bank deposits of HK$8,618,000 (2015: HK$15,945,000) pledged to banks to secure certain banking facilities granted to the Group (note 34).

In addition, as at 31 December 2016, bank deposits of HK$92,362,000 (2015: HK$12,005,000) were pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance of the duties by the Group under certain service concession agreements.

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

(Continued)

Notes: (Continued)

(b) The carrying amounts of the Group's cash and bank balances are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
HK$	**296,765**	303,522
RMB	**10,287,962**	5,860,533
US$	**172,047**	43,690
MYR	**44,291**	256,015
EUR	**230,438**	164,379
SGD	**23,830**	14,654
TWD	**230**	227
	11,055,563	6,643,020

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

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

30. SHARE CAPITAL

Shares

	2016 HK$'000	2015 HK$'000
Authorised:		
15,000,000,000 ordinary shares of HK$0.10 each	**1,500,000**	1,500,000
Issued and fully paid:		
8,737,867,196 (2015: 8,722,949,196) ordinary shares of HK$0.10 each	**873,787**	872,295

30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the movements in the Company's issued share capital during the years ended 31 December 2016 and 2015 is as follows:

	Notes	**Number of ordinary shares in issue**	**Issued capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 January 2015		8,707,425,196	870,743	4,832,557	5,703,300
Exercise of share options	*(a)*	15,524,000	1,552	45,613	47,165
At 31 December 2015 and 1 January 2016		8,722,949,196	872,295	4,878,170	5,750,465
Exercise of share options	*(a)*	34,214,000	3,422	102,053	105,475
Shares repurchased and cancelled	*(b)*	(19,296,000)	(1,930)	(80,181)	(82,111)
At 31 December 2016		8,737,867,196	873,787	4,900,042	5,773,829

Notes:

(a) During the year, the subscription rights attaching to 34,214,000 (2015: 15,524,000) share options were exercised at a subscription price of HK$2.244 (2015: HK$2.244) per ordinary share during the year, resulting in the issue of 34,214,000 (2015: 15,524,000) ordinary shares of the Company for a total cash consideration of HK$76,776,000 (2015: HK$34,836,000) (before expense). At the time when the share options were exercised, the aggregate fair value of these share options of HK$28,704,000 (2015: HK$12,338,000) previously recognised in the share option reserve was transferred to the share premium account. Further details of the share options are set out in note 31 to the financial statements.

(b) During the year, the Company repurchased 19,296,000 ordinary shares on the Stock Exchange for a total consideration of HK$82,111,000. The purchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value of approximately HK$1,930,000. The premium and expenses paid on the repurchase of shares of HK$80,181,000 were charged to the share premium of the Company.

30. SHARE CAPITAL *(Continued)*

Share options

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

31. SHARE OPTION SCHEME

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

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

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options.

31. SHARE OPTION SCHEME *(Continued)*

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's ordinary shares of HK$0.10. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

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

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

	2016		2015	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**2.261**	**359,680**	2.259	380,364
Forfeited or lapsed during the year	**–**	**–**	2.244	(5,160)
Exercised during the year	**2.244**	**(34,214)**	2.244	(15,524)
At 31 December	**2.262**	**325,466**	2.261	359,680

31. SHARE OPTION SCHEME *(Continued)*

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

2016 Number of options *'000*	2015 Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise periods**
28,066	48,310	2.244	24-4-2014 to 23-4-2023
63,800	74,620	2.244	24-4-2015 to 23-4-2023
75,100	78,250	2.244	24-4-2016 to 23-4-2023
78,250	78,250	2.244	24-4-2017 to 23-4-2023
78,250	78,250	2.244	24-4-2018 to 23-4-2023
400	400	5.180	24-4-2014 to 27-3-2024
400	400	5.180	24-4-2015 to 27-3-2024
400	400	5.180	24-4-2016 to 27-3-2024
400	400	5.180	24-4-2017 to 27-3-2024
400	400	5.180	24-4-2018 to 27-3-2024
325,466	359,680		

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

Notes:

(a) The Group recognised a share option expense of HK$40,935,000 (2015: HK$68,637,000) during the year ended 31 December 2016 in respect of the share options granted in the prior years.

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

(c) At the end of the reporting period, the Company had 325,466,000 share options outstanding under the Scheme which represented approximately 3.72% of the Company's shares in issue as at 31 December 2016. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 325,466,000 additional ordinary shares of the Company and additional share capital of HK$32,547,000 and share premium of HK$999,526,000 (before issue expenses, and taking into account the share option reserve as at 31 December 2016 and the fair values of the unvested share options).

Subsequent to the end of the reporting period, 1,940,000 share options exercised resulted in the issue of 1,940,000 ordinary shares of the Company and additional share capital of HK$194,000 and share premium of HK$5,799,000 (before issue expenses).

At the date of approval of these financial statements, the Company has 323,526,000 share options outstanding under the share option scheme, which represented approximately 3.70% of the Company's share in issue as at that date.

32. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related share options are exercised, or transferred to retained profits should the related share options lapse or be forfeited.

(c) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's subsidiaries, joint ventures and associates. None of the Group's PRC reserve funds as at 31 December 2016 were distributable in the form of cash dividends.

33. PERPETUAL CAPITAL INSTRUMENTS

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**–**	–
Issued during the year	**6,545,163**	–
Share of profit for the year	**56,570**	–
Exchange realignment	**(296,708)**	–
At 31 December	**6,305,025**	–

In 2016, a PRC wholly-owned subsidiary of the Group issued two perpetual capital instruments (the "Perpetual Capital Instruments") with the aggregate principal amount of RMB5,600,000,000 (approximately HK$6,588,235,000). Net proceeds after deducting the issuance costs amounted to RMB5,563,389,000 (approximately HK$6,545,163,000).

One of the Perpetual Capital Instruments with a principal amount of RMB2,800,000,000 (approximately HK$3,294,118,000) is guaranteed by the Company. There is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Group. The Perpetual Capital Instruments are classified as equity instruments. No distribution was declared in current and prior years.

34. BANK AND OTHER BORROWINGS

	2016 HK$'000	2015 HK$'000
Bank loans:		
Secured	**8,255,450**	7,459,531
Unsecured	**12,737,752**	14,508,805
	20,993,202	21,968,336
Other loans:		
Secured	**156,742**	119,448
Unsecured	**324,948**	1,048,584
	481,690	1,168,032
Total bank and other borrowings	**21,474,892**	23,136,368
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**4,744,486**	4,984,976
In the second year	**2,553,011**	3,351,202
In the third to fifth years, inclusive	**11,350,394**	10,784,553
Beyond five years	**2,345,311**	2,847,605
	20,993,202	21,968,336
Other loans repayable:		
Within one year or on demand	**67,769**	1,030,214
In the second year	**11,331**	9,576
In the third to fifth years, inclusive	**50,045**	39,166
Beyond five years	**352,545**	89,076
	481,690	1,168,032
Total bank and other borrowings	**21,474,892**	23,136,368
Portion classified as current liabilities	**(4,812,255)**	(6,015,190)
Non-current portion	**16,662,637**	17,121,178

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

	2016 *HK$'000*	2015 *HK$'000*
HK$	**5,377,965**	5,285,822
RMB	**10,505,944**	11,541,269
US$	**4,331,497**	5,382,897
EUR	**771,546**	798,405
SGD	**487,940**	127,975
	21,474,892	23,136,368

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

	2016	2015
Bank loans:		
Secured	**3.91% – 6.37%**	2.68% – 6.98%
Unsecured	**1.72% – 4.99%**	1.46% – 5.60%
Other loans:		
Secured	**1.2% – 4.75%**	4.75%
Unsecured	**1.2% – 4.9%**	1.66% – 5.70%

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

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) in an aggregate carrying amount of HK$9,102,328,000 (2015: HK$9,303,850,000) as at 31 December 2016, which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors *(note 17)*;

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

(iii) bank deposits of HK$8,618,000 (2015: HK$15,945,000) pledged to banks to secure certain banking facilities granted to the Group;

34. BANK AND OTHER BORROWINGS *(Continued)*

Notes: (Continued)

(c) *(Continued)*

(iv) mortgages over certain land use rights and buildings in Mainland China in an aggregate carrying amount of HK$1,753,703,000 (2015: HK$200,462,000) *(notes 14 and 15)*; and

(v) pledges over the Group's equity interests in certain subsidiaries.

(d) The Group's bank and other borrowings bear interest at floating rates, except for the following:

(i) bank and other loans in an aggregate principal amount of HK$2,198,136,000 (2015: HK$3,570,894,000) bearing interests at fixed rates ranging from 1.2% to 5.35% (2015: 4% to 6.46%) per annum; and

(ii) two interest-free government loans in an aggregate principal amount of HK$12,166,000 (2015: HK$13,000,000).

(e) Loan agreements of certain bank loans of the Group in an aggregate carrying amount of HK$12,128,434,000 (2015: HK$12,088,360,000) as at 31 December 2016 include covenants imposing specific performance obligations on BEHL, a substantial beneficial owner of the Company, among which any one of the following events would constitute events of default on the loan facilities:

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35%, where applicable, of the issued share capital of the Company;

(ii) if Beijing Enterprises Group Company Limited ("BEGCL"), a substantial shareholder of the Company, does not or ceases to beneficially own, directly or indirectly, at least 40%, where applicable, of the voting rights in BEHL; and/or

(iii) if BEHL/BEGCL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Based on the directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.

35. CORPORATE BONDS

	2016 HK$'000	2015 HK$'000
Unsecured corporate bonds, repayable:		
Within one year	–	599,674
In the second year	**3,945,856**	–
In the third to fifth years, inclusive	**7,717,356**	4,105,212
Total corporate bonds	**11,663,212**	4,704,886
Portion classified as current liabilities	–	(599,674)
Non-current portion	**11,663,212**	4,105,212

Corporate bonds of the Group as at 31 December 2016 and 2015 comprised:

(i) corporate bonds with an aggregate principal amount of US$500,000,000 (the "US$ Bonds") issued by a wholly-owned subsidiary of the Company to certain institutional investors on 6 May 2013 pursuant to the subscription agreement dated 26 April 2013. The Company redeemed US$20,000,000 from the principal amount during the period from September 2016 to December 2016. The remaining position of the principal amount, which are due on 6 May 2018, bear interest at a rate of 4.625% per annum and are guaranteed by the Company;

(ii) corporate bonds with an aggregate principal amount of RMB200,000,000 (the "RMB Bonds") issued by a 60%-owned subsidiary of the Group to two institutional investors in December 2015 pursuant to the subscription agreement dated 16 December 2015, bear interest at a rate of 5% per annum and are guaranteed by a wholly-owned subsidiary of the Company. The RMB Bonds are due for repayment on 16 December 2018 unless being redeemed by the Group one year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement;

(iii) corporate bonds with an aggregate principal amount of RMB2,000,000,000 (the "Second RMB Bonds") issued by a wholly-owned subsidiary of the Group to two institutional investors in April 2016 pursuant to the subscription agreement dated 25 April 2016, bear interest at a rate of 3.60% per annum and are guaranteed by a wholly-owned subsidiary of the Company. The Second RMB Bonds are due for repayment on 25 April 2021 unless being redeemed by the Group two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement;

35. CORPORATE BONDS *(Continued)*

(iv) corporate bonds with aggregate principal amounts of RMB4,000,000,000 (the "Panda Bonds") issued by the Company to certain institutional investors in July 2016 pursuant to the subscription agreement dated 22 July 2016, bearing interest at rates of 3.00% and 3.33% per annum. The Panda Bonds are due for repayment on 28 July 2021 and 28 July 2023 unless being redeemed by the Group two years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement. Further details of the Panda Bonds are set out in the Company's announcements dated 25 July 2016;

(v) corporate bonds with an aggregate principal amount of RMB700,000,000 (the "Green Bonds") issued by the Company to certain institutional investors in August 2016, bearing interest at a rate of 3.25% per annum. The Green Bonds are due for repayment on 3 August 2024 unless being redeemed by the Group three years prior to the maturity pursuant to the terms and conditions in the bond subscription agreement. Further details of the Green Bonds are set out in the Company's announcements dated 22 August 2016; and

(vi) corporate bonds with an aggregate principal amount of RMB200,000,000 (the "Third RMB Bonds") issued by a 60%-owned subsidiary of the Group to two institutional investors in November 2016 pursuant to the subscription agreement dated 14 November 2016, bear interest at a rate of 4% per annum and are guaranteed by a wholly-owned subsidiary of the Company. The Third RMB Bonds are due for repayment on 15 November 2019 unless being redeemed by the Group one year prior to the maturity pursuant to the terms and conditions in the bond subscription agreement.

The balance as at 31 December 2015 also included two corporate bonds issued in 2011 with an aggregate amount of RMB500,000,000 which bore interest at a rate of 5% per annum. The bonds were fully repaid in 2016.

The corporate bonds at 31 December 2016 will be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the US$ Bonds include covenants imposing specific performance obligations on BEHL, among which any one of the following events would constitute events of default:

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;

(ii) if BEHL does not or ceases to, directly or indirectly, supervise the Company or be the single largest shareholder of the Company;

(iii) if the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors; and/or

35. CORPORATE BONDS *(Continued)*

(iv) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Based on the directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.

36. NOTES PAYABLE

Notes payable of the Group as at 31 December 2016 and 2015 comprised:

(i) a corporate note issued on 8 November 2013 with a principal amount of RMB2,000,000,000 (the "RMB Note") which is unsecured and wholly repayable after five years from the end of the reporting period. The note payable is guaranteed by the Company, bears interest at a rate of 6.15% per annum and due for repayment on 14 November 2022 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement; and

(ii) a corporate note issued on 8 May 2015 with a principal amount of HK$700,000,000 (the "HK$ Note") which is unsecured and bears interest at a rate of 3.9% per annum. The note payable is guaranteed by the Company and due for repayment on 15 May 2020 unless being redeemed prior to the maturity pursuant to the terms of the note purchase agreement.

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

(i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;

(ii) if BEHL does not or ceases to supervise the Company;

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

(iv) if the nominees of BEHL cease to comprise the majority of the members of the Company's board of directors; and/or

(v) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

36. NOTES PAYABLE *(Continued)*

Based on the directors' best belief and knowledge, none of the above events took place during the year and as at the date of approval of these financial statements.

37. FINANCE LEASE PAYABLES

The Group leases certain equipment for its sewage treatment service business under two finance lease arrangements. The leases are classified as finance leases and had remaining lease terms of seven years as at 31 December 2016.

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

	Minimum lease payments 2016 *HK$'000*	Minimum lease payments 2015 *HK$'000*	**Present value of minimum lease payments 2016** *HK$'000*	Present value of minimum lease payments 2015 *HK$'000*
Amounts repayable:				
Within one year or on demand	**61,071**	75,833	**52,176**	63,085
In the second year	**9,260**	9,893	**7,419**	7,741
In the third to fifth years, inclusive	**27,779**	29,679	**24,506**	25,308
Over five years	**9,260**	19,786	**8,981**	18,765
Total minimum finance lease payments	**107,370**	135,191	**93,082**	114,899
Future finance charges	**(14,288)**	(20,292)		
Total net finance lease payables	**93,082**	114,899		
Portion classified as current liabilities	**(52,176)**	(63,085)		
Non-current portion	**40,906**	51,814		

37. FINANCE LEASE PAYABLES *(Continued)*

One of the finance leases with a carrying amount of HK$45,103,000 (2015: HK$55,696,000) as at 31 December 2016 included an on demand clause and therefore has been classified as a current liability accordingly. For the purpose of the above analysis, the finance lease is included within current finance lease payables and analysed into finance lease payable on demand.

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

	Minimum lease payments 2016 *HK$'000*	Minimum lease payments 2015 *HK$'000*	**Present value of minimum lease payments 2016** *HK$'000*	Present value of minimum lease payments 2015 *HK$'000*
Amounts repayable:				
Within one year	**18,680**	20,068	**14,434**	14,852
In the second year	**18,680**	20,032	**15,133**	15,577
In the third to fifth years, inclusive	**56,039**	60,096	**49,937**	51,244
Over five years	**13,971**	34,995	**13,578**	33,226
Total minimum finance lease payments	**107,370**	135,191	**93,082**	114,899

38. PROVISION FOR MAJOR OVERHAULS

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

38. PROVISION FOR MAJOR OVERHAULS *(Continued)*

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

	Notes	**2016** **HK$'000**	2015 *HK$'000*
At 1 January		**205,489**	247,018
Acquisition of subsidiaries	*45*	**12,097**	557
Provision for the year	*7*	**109,870**	65,201
Increase in discounted amounts arising from the passage of time	*8*	**11,653**	9,166
Amount utilised during the year		**(124,069)**	(105,758)
Disposal of subsidiaries	*46*	**(694)**	–
Exchange realignment		**(26,587)**	(10,695)
At 31 December		**187,759**	205,489

39. DEFERRED INCOME

Deferred income of the Group mainly represented government subsidies received in respect of the Group's construction of sewage treatment and water distribution facilities in the PRC. These subsidies are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

40. DEFERRED TAX

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

	2016 **HK$'000**	2015 *HK$'000*
Deferred tax assets	**106,751**	122,388
Deferred tax liabilities	**(1,691,342)**	(1,320,597)
	(1,584,591)	(1,198,209)

40. DEFERRED TAX *(Continued)*

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

		Attributable to						
	Notes	Fair value adjustments arising from acquisition of subsidiaries *HK$'000*	Impairment provision *HK$'000*	Provision for major overhauls *HK$'000*	Temporary differences related to service concession arrangements *HK$'000*	Revaluation of properties *HK$'000*	Losses available for offsetting against future taxable profits *HK$'000*	Net deferred tax assets/ (liabilities) *HK$'000*
At 1 January 2015		(291,742)	17,143	65,345	(634,301)	(10,280)	3,726	(850,109)
Acquisition of subsidiaries	*45*	42,814	–	–	–	–	–	42,814
Net deferred tax credited/(charged) to profit or loss	*11*	(2,305)	8,752	16,580	(465,097)	(137)	–	(442,207)
Exchange realignment		13,455	(347)	(4,163)	42,075	535	(262)	51,293
At 31 December 2015 and 1 January 2016		(237,778)	25,548	77,762	(1,057,323)	(9,882)	3,464	(1,198,209)
Acquisition of subsidiaries	*45*	(105,310)	6,179	–	–	–	–	(99,131)
Disposal of subsidiaries	*46*	–	(11,236)	(174)	50,769	–	–	39,359
Net deferred tax credited/(charged) to profit or loss	*11*	1,080	7,067	386	(356,688)	–	–	(348,155)
Exchange realignment		15,180	(4,361)	(4,998)	15,313	633	(222)	21,545
At 31 December 2016		(326,828)	23,197	72,976	(1,347,929)	(9,249)	3,242	(1,584,591)

Notes:

(a) At 31 December 2016, deferred tax assets have not been recognised in respect of unused tax losses of HK$574,870,000 (2015: HK$489,843,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK$342,044,000 (2015: HK$356,228,000) will expire in one to five years.

(b) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$3,256,213,000 (2015: HK$2,965,120,000) as at 31 December 2016.

41. 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:

	2016 HK$'000	2015 HK$'000
Within 3 months	**4,285,337**	2,129,973
4 to 6 months	**992,009**	870,743
7 months to 1 year	**1,687,788**	420,418
1 to 2 years	**1,389,036**	1,296,471
2 to 3 years	**855,638**	341,849
Over 3 years	**321,900**	197,788
Balance with extended credit period	**311,116**	529,089
	9,842,824	5,786,331

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

The Group's trade payables as at 31 December 2016 included, inter alia, the following:

(a) an amount of HK$28,664,000 (2015: HK$2,385,000) due to a joint venture of the Group, arising from the trading of construction materials and equipment carried out in the ordinary course of business of the Group. Aggregated purchase costs of the aforementioned balance of HK$35,787,000 (2015: HK$100,254,000) were charged at the published prices and conditions offered by the joint venture to its major customers, and included in "Cost of sales" on the face of the consolidated statement of profit or loss during the year.

(b) an amount of HK$79,550,000 (2015: HK$120,646,000) due to an associate of the Group, arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. Construction costs of HK$410,345,000 (2015: HK$411,090,000) were charged at the published prices and conditions offered by the associate to its major customers and included in "Cost of sales" on the face of the consolidated statement of profit or loss during the year.

42. OTHER PAYABLES AND ACCRUALS

	Notes	2016 HK$'000	2015 HK$'000
Accruals		**665,530**	413,485
Other liabilities	*(a)*	**2,644,205**	1,247,128
Receipts in advance		**369,001**	1,378,743
Due to subcontractors	*(b)*	**610,517**	1,134,785
Due to joint ventures		**602,833**	560,388
Due to associates		**–**	171
Due to related parties		**478,142**	350,863
Other taxes payables	*43*	**208,889**	147,407
		5,579,117	5,232,970
Portion classified as current liabilities		**(5,234,492)**	(4,817,755)
Non-current portion		**344,625**	415,215

Notes:

(a) The Group's other liabilities as at 31 December 2016 included, inter alia, the following:

(i) outstanding considerations in an aggregate amount of HK$605,303,000 (2015: HK$340,846,000) payable to various governmental authorities in Portugal and Mainland China for the construction or transfer of sewage treatment and water distribution facilities to the Group under the BOT or TOT arrangements; and

(ii) outstanding considerations in an aggregate amount of HK$704,252,000 (2015: HK$241,866,000) payable to various independent third parties for the acquisition of subsidiaries and an associate, of which HK$554,529,000 (2015: HK$56,180,000) was attributable to the acquisitions completed during the year.

(b) The amounts due to subcontractors of the Group as at 31 December 2016 included refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects in an aggregate amount of HK$480,526,000 (2015: HK$949,221,000), as further detailed in note 27 to the financial statements.

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

43. OTHER TAXES PAYABLES

	2016 HK$'000	2015 HK$'000
Business tax	**40,362**	54,726
Value-added tax	**135,782**	64,390
Others	**32,745**	28,291
	208,889	147,407

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

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

	2016	2015
Percentage of equity interest held by non-controlling interests:		
Beikong Dalian and its subsidiaries ("Beikong Dalian Group")*	**–**	40%
BCEG Environmental and its subsidiaries ("BCEG Group")	**40%**	40%

	2016 HK$'000	2015 HK$'000
Profit/(loss) for the year allocated to non-controlling interests:		
Beikong Dalian Group*	**(14,471)**	(104,316)
BCEG Group	**96,607**	108,915
Accumulated balances of non-controlling interests at the reporting date:		
Beikong Dalian Group*	**–**	1,078,531
BCEG Group	**650,934**	620,966

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

(Continued)

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

	Beikong Dalian Group*		BCEG Group	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**–**	30,150	**980,539**	1,295,365
Interest income	**223**	805	**36,230**	15,418
Total expenses	**(36,401)**	(291,746)	**(775,251)**	(1,038,495)
Profit/(loss) for the year	**(36,178)**	(260,791)	**241,518**	272,288
Total comprehensive income/(loss) for the year	**(104,877)**	(348,246)	**134,052**	231,110
Current assets	**N/A**	9,205,048	**482,317**	1,141,280
Non-current assets	**N/A**	1,844,690	**4,090,654**	2,936,884
Current liabilities	**N/A**	(8,217,090)	**(1,578,690)**	(1,415,512)
Non-current liabilities	**N/A**	(136,321)	**(1,315,809)**	(1,110,238)
Net cash flows from/(used in):				
Operating activities	**N/A**	(233,918)	**48,357**	(284,900)
Investing activities	**N/A**	(1,528,209)	**(1,340)**	2,243
Financing activities	**N/A**	1,119,877	**198,617**	590,096
Net increase/(decrease) in cash and cash equivalents	**N/A**	(642,250)	**245,634**	307,439

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

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

45. BUSINESS COMBINATIONS

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

		2016				2015
		Mongolia	**Pangzhou**	**Others**	**Total**	Total
	Note	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Property, plant and equipment		**992**	**579,706**	**76,120**	**656,818**	3,566
Operating concessions		**217,733**	**–**	**410,332**	**628,065**	228,009
Other intangible assets		**2**	**272**	**2,973**	**3,247**	266
Investments in joint ventures		**–**	**–**	**–**	**–**	184,136
Investments in associates		**–**	**2,401**	**46,571**	**48,972**	–
Available-for-sale investments		**–**	**74**	**–**	**74**	–
Amounts due from contract customers	*(c)*	**–**	**–**	**–**	**–**	55,250
Receivables under service concession arrangements	*(c)*	**1,932,267**	**–**	**57,721**	**1,989,988**	74,892
Deferred tax assets		**5,952**	**–**	**227**	**6,179**	42,814
Inventories		**21**	**5,174**	**10,955**	**16,150**	33,838
Trade receivables		**–**	**13,156**	**72,070**	**85,226**	–
Prepayments, deposits and other receivables	*(c)*	**23,992**	**33,944**	**163,489**	**221,425**	185,688
Cash and cash equivalents		**7,059**	**8,886**	**163,022**	**178,967**	128,836
Trade payables		**(9,842)**	**(22,681)**	**(147,407)**	**(179,930)**	(6,249)
Other payables and accruals		**(63,587)**	**(152,975)**	**(231,422)**	**(447,984)**	(70,474)
Income tax payables		**(3,932)**	**–**	**(2,603)**	**(6,535)**	1,109
Bank and other borrowings		**(911,416)**	**(240,456)**	**(40,817)**	**(1,192,689)**	(77,125)
Provision for major overhauls		**(10,926)**	**–**	**(1,171)**	**(12,097)**	(557)
Deferred income		**(5,096)**	**–**	**(24,009)**	**(29,105)**	–
Deferred tax liabilities		**(53,026)**	**(45,018)**	**(7,266)**	**(105,310)**	–
Total identifiable net assets at fair value		**1,130,193**	**182,483**	**548,785**	**1,861,461**	783,999
Non-controlling interests		**(452,077)**	**(54,745)**	**(120,714)**	**(627,536)**	(164,424)
		678,116	**127,738**	**428,071**	**1,233,925**	619,575
Goodwill on acquisition		**16,521**	**172,468**	**276,489**	**465,478**	462,602
Gains on bargain purchase		**–**	**–**	**(2,869)**	**(2,869)**	(21,827)
		694,637	**300,206**	**701,691**	**1,696,534**	1,060,350

45. BUSINESS COMBINATIONS *(Continued)*

		2016				2015
		Mongolia	**Pangzhou**	**Others**	**Total**	Total
	Notes	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Satisfied by:						
Cash		**694,637**	**300,206**	**701,691**	**1,696,534**	1,060,350
Revenue for the year since acquisition#		**66,998**	**168,490**	**440,593**	**676,081**	123,028
Profit for the year since acquisition		**42,339**	**49,379**	**82,110**	**173,828**	49,143

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

45. BUSINESS COMBINATIONS *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
Cash consideration	**(1,696,534)**	(1,060,350)
Cash and cash equivalents acquired	**178,967**	128,836
Amortised costs of outstanding cash consideration at end of year	**554,529**	56,180
Investment deposits paid in prior periods	**279,466**	197,185
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(683,572)**	(678,149)

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK$3,775,775,000 (2015: HK$2,842,128,000) and the Group's revenue would have been HK$17,496,801,000 (2015: HK$13,614,995,000).

Notes:

(a) Business combinations during the year ended 31 December 2016 included, inter alia, the following material transactions:

(i) in January 2016, the Group completed the acquisition of the 70% equity interest in a company and its subsidiaries which engaged in the consultancy business in Jiangsu Province, the PRC, at an aggregate cash consideration of HK$205,882,000;

(ii) in January 2016, the Group completed the acquisition of the 67% equity interest in a company and its subsidiaries which engaged in the provision of water distribution services in Henan Province, the PRC, at an aggregate cash consideration of HK$182,905,000;

(iii) in January 2016, the Group completed the acquisition of the 70% equity interest in Pangzhou which engaged in the water distribution services in Sichuan Province, the PRC, at a cash consideration of HK$300,206,000; and

(iv) in September 2016, the Group acquired the 60% equity interest in a company which engaged in the provision of sewage and reclaimed water treatment services in Inner Mongolia, the PRC (the "Mongolia"), at an aggregate cash consideration of HK$694,637,000.

45. BUSINESS COMBINATIONS *(Continued)*

Notes: (Continued)

(b) Business combinations during the year ended 31 December 2015 included, inter alia, the following material transactions:

(i) in July 2015, the Group completed the acquisition of the 62% equity interest a company which engaged in waste treatment business located in Gansu Province, the PRC, at an aggregate cash consideration of HK$240,313,000;

(ii) in August 2015, the Group completed the acquisition of certain water distribution operations in Guangdong Province, the PRC, at an aggregate cash consideration of HK$544,102,000; and

(iii) in October 2015, the Group completed the acquisition of the 100% equity interest in a company which engaged in sewage treatment business located in Sichuan Province, the PRC, at an aggregate cash consideration of HK$78,750,000.

(c) The fair values of receivables under service concession arrangements, deposits and other receivables as at the respective dates of acquisitions during the year ended 31 December 2016 amounted to HK$1,989,988,000 and HK$201,454,000, respectively.

The gross contractual amounts of receivables under service concession arrangements and deposits and other receivables were HK$2,003,235,000 and HK$206,145,000, respectively, of which receivables under service concession arrangements and deposits and other receivables of HK$13,247,000 and HK$4,690,000, respectively, are expected to be uncollectible.

46. DISPOSAL OF SUBSIDIARIES

	Notes	2016 HK$'000 (notes (a), (b) and (c))	2015 HK$'000
Net assets disposed of:			
Property, plant and equipment		**115,212**	285
Goodwill		**92,635**	–
Investments in joint ventures		**332,668**	–
Amounts due from contract customers		**78,860**	4,064
Receivables under service concession arrangements		**356,641**	–
Trade receivables		**56,355**	–
Deferred tax assets		**11,236**	–
Inventories		**68,139**	–
Prepayments, deposits and other receivables		**5,009,700**	54,147
Cash and cash equivalents		**431,729**	1,245
Trade payables		**(12,966)**	–
Other payables and accruals		**(2,495,146)**	(458)
Income tax payables		**(59,945)**	(596)
Bank and other borrowings		**(144,190)**	–
Provision for major overhauls		**(694)**	–
Deferred tax liabilities		**(50,595)**	–
Non-controlling interests		**(1,076,797)**	(17,606)
		2,712,842	41,081
Exchange fluctuation reserve realised		**65,572**	2,784
Gain/(loss) on disposal of interests in subsidiaries		**8,675**	(2,327)
		2,787,089	41,538
Satisfied by:			
Cash		**1,120,620**	41,538
Reclassified to an investment in an associate	*(a)(i)*	**324,166**	–
Set-off of current accounts, net	*(a)(ii)*	**1,342,303**	–
		2,787,089	41,538

46. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

	2016	2015
	HK$'000	*HK$'000*
Cash consideration	**1,120,620**	41,538
Cash and bank balances disposed of	**(431,729)**	(1,245)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**688,891**	40,293

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

(i) in December 2016, the Group deemed disposal of 65% equity interest in Mind Light, further details of which are set out in note 20(d) to the financial statements;

(ii) in December 2016, the Group disposed of 60% equity interest in Beikong Dalian Group to the non-controlling equity holder for an aggregate consideration of HK$1,679,382,000 (RMB1,494,650,000). Pursuant to the relevant sale and purchase agreements, HK$1,342,303,000 (RMB1,194,650,000) of the consideration was settled by way of offsetting the net current accounts among the Beikong Dalian Group, the Group and the non-controlling equity holder and the remaining consideration of HK$337,079,000 (RMB300,000,000) was settled in cash by the non-controlling equity holder;

(iii) the Group completed the disposals of (i) a wholly-owned subsidiary in sewage treatment operation located in Lianyungang City, Jiangsu Province, the PRC in December 2016 for a cash consideration of HK$147,385,000 to the local government; and (ii) a wholly-owned subsidiary in waste treatment business located in Yichang City, Hebei Province, the PRC in July 2016 for a cash consideration of HK$57,459,000 to an associate.

(b) During the year ended 31 December 2015, the Group had disposed of its 70% equity interests in a subsidiary, which operated in the Republic of Indonesia, to an independent third party for an aggregate consideration of SGD7,000,000 (equivalent to HK$41,538,000). Loss on disposal of the subsidiary of HK$2,327,000 was included in "Other operating expenses, net" on the face of the consolidated statement of profit or loss.

47. CONTINGENT LIABILITIES

At 31 December 2016, a corporate guarantee for a maximum amount of HK$85,743,000 (MYR49,162,000) (2015: HK$88,909,000 (MYR49,162,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and effective until 27 January 2019. In addition, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK$456,833,000 (2015: Nil) were outstanding as at 31 December 2016.

Save as disclosed above, at 31 December 2016, the Group did not have any significant contingent liabilities.

48. PLEDGE OF ASSETS

Details of the Group's bank and other borrowings, which are secured by certain assets of the Group, are included in note 34 to the financial statements. In addition, the Group's bank guarantee facility is secured by pledged time deposits of the Group as detailed in note 29(ii).

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a portion of its office building and certain buildings for which the Group was granted the rights to use pursuant to service concession arrangements under operating lease arrangements, with the leases negotiated for terms ranging from 1 to 15 years (2015: from 2 to 13 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

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

	2016	2015
	HK$'000	*HK$'000*
Within one year	**20,781**	22,073
In the second to fifth years, inclusive	**40,681**	47,440
After five years	**2,293**	10,191
	63,755	79,704

49. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases a piece of land and certain office properties under operating lease arrangements with leases negotiated for terms ranging from 5 months to 50 years (2015: from 1 to 46 years).

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

	2016	2015
	HK$'000	*HK$'000*
Within one year	**16,414**	21,656
In the second to fifth years, inclusive	**23,639**	18,435
After five years	**116,139**	65,291
	156,192	105,382

50. CAPITAL COMMITMENTS

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

	2016	2015
	HK$'000	*HK$'000*
Contracted, but not provided for		
New service concession arrangements on:		
TOT basis	**187,294**	280,919
BOT basis	**5,435,050**	6,227,582
Build-Own-Operate basis	**581,221**	643,895
Capital contribution to joint ventures	**199,555**	96,038
Acquisition of subsidiaries	**111,211**	118,821
Acquisition of further interest in an associate	**140,000**	700,000
	6,654,331	8,067,255

50. CAPITAL COMMITMENTS *(Continued)*

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

	2016	2015
	HK$'000	HK$'000
Contracted, but not provided for	**259,856**	105,618

Save as disclosed above, at 31 December 2016, the Group did not have any significant commitments.

51. RELATED PARTY TRANSACTIONS

(a) The Group had engaged a joint venture and a related company of the Group to provide sewage treatment engineering services for the Malaysia Project at a service fee of HK$30,678,000 (MYR16,398,000) (2015: HK$96,614,000 (MYR47,888,000)) and HK$94,190,000 (MYR50,347,000) (2015:HK$37,849,000 (MYR18,760,000)), respectively which were charged at the published prices and conditions offered by the joint venture and the related company to their major customers, respectively.

Total net interest income from the non-controlling equity holders of HK$3,179,000 (2015: HK$67,027,000) was recognised by the Group during the year, details of interest rate applied are included in note 28 to the financial statements.

(b) The Group had provided construction services for a sewage water plant located in Singapore to an associate of the Group for HK$136,904,000 (SGD24,256,000) (2015: HK$2,250,000 (SGD397,000)) which was charged at the published prices and conditions offered by the Group to its major customers.

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

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

51. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel of the Group

	2016	2015
	HK$'000	*HK$'000*
Short term employee benefits	**21,895**	18,725
Equity-settled share option expenses	**15,042**	33,668
Pension scheme contributions	**41**	54
Total compensation paid to key management personnel	**36,978**	52,447

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

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

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

The deposits placed by the Group with BG Finance as at the end of the year amounted to HK$1,016,744,000 (2015: HK$775,888,000). The related interest income recognised in profit or loss during the year was not significant to the Group.

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

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK$125,843,000 (2015: HK$1,103,241,000) and bear interest at floating rates ranging from 4.75% to 4.90% per annum. The related interest expenses recognised in profit or loss during the year were not significant to the Group.

51. RELATED PARTY TRANSACTIONS *(Continued)*

Save as disclosed above and the transactions and balances detailed elsewhere in the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2016 and 2015.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

At 31 December 2016, it was estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, finance lease payables, and cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2016 by approximately HK$114,780,000 (2015: increase/decrease the Group's profit before tax by approximately HK$115,260,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

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

Foreign currency risk

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

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

	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*
31 December 2016		
If Hong Kong dollar weakens against RMB by 5%	272,584	1,237,048
If Hong Kong dollar strengthens against RMB by 5%	(272,584)	(1,237,048)
31 December 2015		
If Hong Kong dollar weakens against RMB by 5%	195,836	836,586
If Hong Kong dollar strengthens against RMB by 5%	(195,836)	(836,586)

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

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

Credit risk

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

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

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

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of approximately HK$6.9 billion (comprising the Group's capital commitments and the Group's share of the joint ventures' own capital commitments) in aggregate as at 31 December 2016 as detailed in note 50 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings, corporate bonds, notes payable and finance lease payables, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2016. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2 to the financial statements.

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

Liquidity risk *(Continued)*

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

	Within 1 year or on demand *HK$'000*	More than 1 year but less than 2 years *HK$'000*	More than 2 years but less than 5 years *HK$'000*	More than 5 years *HK$'000*	Total *HK$'000*
31 December 2016					
Bank borrowings	**5,566,607**	**3,214,039**	**11,704,502**	**2,448,857**	**22,934,005**
Other borrowings	**87,540**	**29,356**	**66,715**	**368,110**	**551,721**
Corporate bonds	**440,601**	**440,601**	**7,124,401**	**5,368,075**	**13,373,678**
Notes payable	**165,097**	**165,097**	**1,178,234**	**2,512,089**	**4,020,517**
Finance lease payable	**61,071**	**9,260**	**27,779**	**9,260**	**107,370**
Trade payables	**9,842,824**	**–**	**–**	**–**	**9,842,824**
Other liabilities	**3,881,931**	**77,597**	**267,028**	**–**	**4,226,556**
Due to related parties	**478,142**	**–**	**–**	**–**	**478,142**
	20,523,813	**3,935,950**	**20,368,659**	**10,706,391**	**55,534,813**
31 December 2015					
Bank borrowings	5,678,035	3,895,937	11,077,774	2,948,939	23,600,685
Other borrowings	1,061,155	15,944	44,367	93,339	1,214,805
Corporate bonds	805,432	190,767	4,179,203	–	5,175,402
Notes payable	174,440	174,440	1,203,286	2,522,453	4,074,619
Finance lease payable	75,833	9,893	29,679	19,786	135,191
Trade payables	5,786,331	–	–	–	5,786,331
Other liabilities	3,906,000	336,847	78,368	–	4,321,215
Due to related parties	350,863	–	–	–	350,863
	17,838,089	4,623,828	16,612,677	5,584,517	44,659,111

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

Fair values

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt.

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings, corporate bonds, notes payable and finance lease payables (as shown in the statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Net debt	**25,249,892**	24,673,735
Total equity	**26,767,340**	20,290,415
Gearing ratio	**94%**	122%

53. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the derivative financial instruments and the unlisted equity investments being classified as available-for-sale investments as disclosed in notes 21 and 22 to the financial statements, respectively, all financial assets and liabilities of the Group as at 31 December 2016 and 2015 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

54. EVENT AFTER THE REPORTING PERIOD

On 28 February 2017, the Company agreed to subscribe by way of cash in the registered capital of BG Finance. As at 28 February 2017, BG Finance was directly held by BEGCL, Beijing Gas Group Company Limited, an indirect-wholly owned subsidiary of BEHL and Beijing Yanjing Brewery Co., Ltd., an indirect non-wholly owned subsidiary of BEHL, as to 41%, 39% and 20%. The Company shall pay to BG Finance an amount of HK$169,530,000 (RMB150,000,000), of which HK$151,820,000 (RMB134,330,000) will be injected into BG Finance as registered capital and HK$17,710,000 (RMB15,670,000) will be its capital reserve, being the total consideration of the capital subscription. Following the capital subscription, the Group will hold 6.69% equity interest in the enlarged registered capital of BG Finance. Further details of the transaction are set out in the Company's announcement dated 28 February 2017. As at the date of approval of these financial statements, the transaction has not been completed.

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016	2015
	HK$'000	*HK$'000*
ASSETS		
Non-current assets:		
Property, plant and equipment	**2,644**	3,501
Investments in subsidiaries	**10,343,346**	10,910,698
Investments in joint ventures	**1,281,391**	1,281,390
Investments in associates	**284,000**	–
Prepayments, deposits and other receivables	**105,744**	1,392,746
Available-for-sale equity investments	**545,533**	–
Total non-current assets	**12,562,658**	13,588,335
Current assets:		
Trade receivables	**4,898**	5,234
Prepayments, deposits and other receivables	**16,848,213**	14,501,791
Cash and cash equivalents	**535,789**	337,085
Total current assets	**17,388,900**	14,844,110
TOTAL ASSETS	**29,951,558**	28,432,445

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

	2016 *HK$'000*	2015 *HK$'000*
EQUITY AND LIABILITIES		
Equity:		
Issued capital	**873,787**	872,295
Reserves *(note)*	**5,731,266**	7,434,246
TOTAL EQUITY	**6,605,053**	8,306,541
Non-current liabilities:		
Bank and other borrowings	**9,880,387**	9,785,309
Corporate bonds	**5,256,233**	–
Other payables and accruals	**7,048,576**	7,860,444
Total non-current liabilities	**22,185,196**	17,645,753
Current liabilities:		
Trade payables	**353**	377
Other payables and accruals	**595,911**	552,804
Bank and other borrowings	**565,045**	1,327,296
Corporate bonds	**–**	599,674
Total current liabilities	**1,161,309**	2,480,151
TOTAL LIABILITIES	**23,346,505**	20,125,904
TOTAL EQUITY AND LIABILITIES	**29,951,558**	28,432,445

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

Note:

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

	Share premium account HK$'000	Contributed surplus HK$'000 (a)	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	4,832,557	4,444,884	205,528	(954,836)	8,528,133
Loss for the year and total comprehensive loss for the year	–	–	–	(393,933)	(393,933)
Exercise of share options	45,613	–	(12,338)	–	33,275
Equity-settled share option arrangements	–	–	68,637	–	68,637
Transfer of share option reserve upon the forfeiture or lapse of share options	–	–	(3,036)	3,036	–
Final 2014 cash distributions paid	–	(418,247)	–	–	(418,247)
Interim 2015 cash distributions paid	–	(383,619)	–	–	(383,619)
At 31 December 2015 and 1 January 2016	4,878,170	3,643,018	258,791	(1,345,733)	7,434,246
Loss for the year and total comprehensive loss for the year	–	–	–	(779,186)	(779,186)
Exercise of share options	102,053	–	(28,704)	–	73,349
Shares repurchased and cancelled	(80,181)	–	–	–	(80,181)
Equity-settled share option arrangements	–	–	40,935	–	40,935
Final 2015 cash distributions paid	–	(443,948)	–	–	(443,948)
Interim 2016 cash distributions paid	–	(513,949)	–	–	(513,949)
At 31 December 2016	4,900,042	2,685,121	271,022	(2,124,919)	5,731,266

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

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.

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