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

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 371)**

# FINAL RESULTS
# FOR THE YEAR ENDED 31 DECEMBER 2011

## HIGHLIGHTS

- The Group recorded profit for the year attributable to shareholders of the Company of HK$600.7 million, representing a year-on-year growth of 17%.

- EBITDA amounted to HK$1,221.3 million, representing an increase of 26% as compared with last year of HK$969.0 million.

- As at 31 December 2011, total daily design capacity for water projects on hand was 8,728,950 tons, representing an increase of 48% as compared with the capacity of 5,909,500 tons as at 31 December 2010.

- Basic earnings per share for the year was HK8.94 cents.

- Trade and bills receivables of HK$2,102.7 million for the Kunming and Dalian Changxingdao projects were settled during the year. As at 31 December 2011, the trade and bills receivables for these projects were HK$3,145.1 million.

## RESULTS

The board of directors (the "Board") of Beijing Enterprises Water Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 and the consolidated statement of financial position of the Group as at 31 December 2011 with comparative figures for the year ended 31 December 2010 as follows:

## CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2011*

| | *Notes* | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| REVENUE | *3* | **2,654,454** | 6,348,060 |
| Cost of sales | | **(1,746,217)** | (5,226,252) |
| Gross profit | | **908,237** | 1,121,808 |
| Interest income | | **385,505** | 22,933 |
| Other income and gains, net | | **144,115** | 60,531 |
| Administrative expenses | | **(301,221)** | (219,465) |
| Other operating expenses, net | | **16,402** | (56,608) |
| PROFIT FROM OPERATING ACTIVITIES | *4* | **1,153,038** | 929,199 |
| Finance costs | *5* | **(312,989)** | (234,908) |
| Share of profits and losses of jointly-controlled entities | | **20,798** | 824 |
| PROFIT BEFORE TAX | | **860,847** | 695,115 |
| Income tax | *6* | **(169,861)** | (130,950) |
| PROFIT FOR THE YEAR | | **690,986** | 564,165 |
| ATTRIBUTABLE TO: | | | |
| Shareholders of the Company | | **600,736** | 512,512 |
| Non-controlling interests | | **90,250** | 51,653 |
| | | **690,986** | 564,165 |
| EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY | *7* | | |
| | | | (Restated) |
| – Basic | | **HK8.94 cents** | HK10.75 cents |
| | | | (Restated) |
| – Diluted | | **HK8.94 cents** | HK9.95 cents |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2011*

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| PROFIT FOR THE YEAR | **690,986** | 564,165 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX OF NIL | | |
| – Exchange differences on translation of foreign operations | **451,838** | 182,958 |
| – Share of other comprehensive loss of a jointly-controlled entity | **(7,370)** | – |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **1,135,454** | 747,123 |
| ATTRIBUTABLE TO: | | |
| Shareholders of the Company | **941,584** | 657,248 |
| Non-controlling interests | **193,870** | 89,875 |
| | **1,135,454** | 747,123 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 DECEMBER 2011*

| | *Notes* | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets: | | | |
| Property, plant and equipment | | **233,276** | 46,114 |
| Goodwill | | **1,643,719** | 1,580,116 |
| Operating concessions | | **763,381** | 749,718 |
| Other intangible assets | | **6,455** | 5,305 |
| Investments in jointly-controlled entities | | **1,973,493** | 118,619 |
| Investment in an associate | | **37,038** | – |
| Available-for-sale investments | | **2,964** | 1,647 |
| Amounts due from contract customers | | **1,599,285** | 1,605,284 |
| Receivables under service concession arrangements | *8* | **5,003,117** | 2,736,583 |
| Trade and bills receivables | *9* | **261,850** | 120,905 |
| Prepayments, deposits and other receivables | *10* | **1,542,014** | 1,408,510 |
| Deferred tax assets | | **28,874** | 31,806 |
| Total non-current assets | | **13,095,466** | 8,404,607 |
| Current assets: | | | |
| Land held-for-sale | | **999,626** | – |
| Inventories | | **13,422** | 12,786 |
| Amounts due from contract customers | | **87,865** | 759,109 |
| Receivables under service concession arrangements | *8* | **253,105** | 123,889 |
| Trade and bills receivables | *9* | **3,676,549** | 4,002,108 |
| Prepayments, deposits and other receivables | *10* | **4,583,574** | 1,367,995 |
| Restricted cash and pledged deposits | | **92,367** | 592,507 |
| Cash and cash equivalents | | **1,947,768** | 1,961,828 |
| Total current assets | | **11,654,276** | 8,820,222 |
| TOTAL ASSETS | | **24,749,742** | 17,224,829 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

*31 DECEMBER 2011*

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| EQUITY AND LIABILITIES | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Issued capital | | **690,917** | 456,676 |
| Reserves | | **7,391,072** | 3,436,184 |
| | | **8,081,989** | 3,892,860 |
| **Non-controlling interests** | | **1,628,892** | 1,175,094 |
| TOTAL EQUITY | | **9,710,881** | 5,067,954 |
| Non-current liabilities: | | | |
| Other payables and accruals | *11* | **279,909** | 22,644 |
| Bank and other borrowings | | **5,364,905** | 3,231,442 |
| Corporate bonds | | **2,325,633** | – |
| Provision for major overhauls | | **167,296** | 123,374 |
| Deferred income | | **25,163** | 23,978 |
| Deferred tax liabilities | | **205,179** | 138,688 |
| Total non-current liabilities | | **8,368,085** | 3,540,126 |
| Current liabilities: | | | |
| Trade payables | *12* | **2,049,236** | 2,637,650 |
| Other payables and accruals | *11* | **3,406,346** | 569,700 |
| Income tax payables | | **145,585** | 108,286 |
| Bank and other borrowings | | **1,069,609** | 5,296,200 |
| Finance lease payable | | **–** | 4,913 |
| Total current liabilities | | **6,670,776** | 8,616,749 |
| TOTAL LIABILITIES | | **15,038,861** | 12,156,875 |
| TOTAL EQUITY AND LIABILITIES | | **24,749,742** | 17,224,829 |

*NOTES:*

## 1.1 BASIS OF PREPARATION

These financial statements 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. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring in line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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 the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate.

## 1.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| *Improvements to HKFRSs 2010* | Amendments to a number of HKFRSs issued in May 2010 |

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

### (a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard.

The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

## 2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the year attributable to shareholders of the Company, which is a measure of adjusted profit for the year attributable to shareholders of the Company. The adjusted profit for the year attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on a loan to a jointly-controlled entity, interest income on loans to related companies, interest income from non-controlling interests in a non-wholly-owned subsidiary, gains on bargain purchase of a jointly-controlled entity and subsidiaries, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

During the year, the Group changed its operating segment reporting structure and share of profits and losses of jointly-controlled entities are allocated to operating segments. The corresponding comparative amounts of the segment information have been revised to reflect the above changes and to conform to the current year's presentation.

**Year ended 31 December 2011**

| | Sewage treatment and construction services HK$'000 | Water supply services HK$'000 | Technical and consultancy services HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Segment revenue | 2,359,679 | 83,198 | 211,577 | 2,654,454 |
| Cost of sales | (1,664,409) | (44,104) | (37,704) | (1,746,217) |
| Gross profit | 695,270 | 39,094 | 173,873 | 908,237 |
| Segment results | | | | |
| – The Group | 925,239 | 19,219 | 189,978 | 1,134,436 |
| – Share of profits and losses of jointly-controlled entities | 19,325 | 1,473 | – | 20,798 |
| | 944,564 | 20,692 | 189,978 | 1,155,234 |
| Corporate and other unallocated income and expenses | | | | 18,602 |
| Finance costs | | | | (312,989) |
| Profit before tax | | | | 860,847 |
| Income tax | | | | (169,861) |
| Profit for the year | | | | 690,986 |
| Profit/(loss) for the year attributable to shareholders of the Company: | | | | |
| – From operating segments | 726,633 | 12,342 | 169,070 | 908,045 |
| – Corporate and other unallocated items | | | | (307,309) |
| | | | | 600,736 |

**Year ended 31 December 2010**

| | Sewage treatment and construction services HK$'000 (Restated) | Water supply services HK$'000 | Technical and consultancy services HK$'000 | Total HK$'000 (Restated) |
|---|---|---|---|---|
| Segment revenue | 6,023,210 | 75,460 | 249,390 | 6,348,060 |
| Cost of sales | (5,176,892) | (45,979) | (3,381) | (5,226,252) |
| Gross profit | 846,318 | 29,481 | 246,009 | 1,121,808 |
| Segment results | | | | |
| – The Group | 774,047 | 13,117 | 239,173 | 1,026,337 |
| – Share of profits and losses of jointly-controlled entities | 824 | – | – | 824 |
| | 774,871 | 13,117 | 239,173 | 1,027,161 |
| Corporate and other unallocated income and expenses | | | | (97,138) |
| Finance costs | | | | (234,908) |
| Profit before tax | | | | 695,115 |
| Income tax | | | | (130,950) |
| Profit for the year | | | | 564,165 |
| Profit/(loss) for the year attributable to shareholders of the Company: | | | | |
| – From operating segments | 623,475 | 10,272 | 203,142 | 836,889 |
| – Corporate and other unallocated items | | | | (324,377) |
| | | | | 512,512 |

**Geographical information**

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

**Information about major customers**

During the year ended 31 December 2011, the Group had transactions with one (2010: three) external customer of the sewage treatment and construction services segment which contributed over 10% of the Group's total revenue for the year. A summary of revenue from each of these major external customers is set out below:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer 1 | **426,867** | N/A* |
| Customer 2 | **N/A*** | 1,554,300 |
| Customer 3 | **N/A*** | 1,755,791 |
| Customer 4 | **N/A*** | 1,108,363 |
| | **426,867** | 4,418,454 |

* *The corresponding revenue of the related customers did not contribute over 10% of the Group's total gross revenue during the year.*

## 3. REVENUE

Revenue, which is also the Group's turnover, represents: (1) an appropriate proportion of contract revenue of construction contracts and service contracts relating to sewage treatment, net of business tax and government surcharges; (2) an appropriate proportion of contract revenue of other construction services, net of business tax and government surcharges; (3) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax, business tax and government surcharges; (4) the value of consultancy fees and licence fees, net of business tax and government surcharges; (5) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; and (6) the imputed interest income on service concession arrangements.

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sewage treatment services* | **994,682** | 591,648 |
| Construction contracts* | **1,364,997** | 5,431,562 |
| Consultancy services and licensing | **211,577** | 249,390 |
| Sale of water | **83,198** | 75,460 |
| | **2,654,454** | 6,348,060 |

* *Imputed interest income under service concession arrangements amounting to HK$318,822,000 (2010: HK$214,280,000) are included in the revenue derived from "Sewage treatment services" and "Construction contracts" above.*

## 4. PROFIT FROM OPERATING ACTIVITIES

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of sewage treatment services rendered | **370,950** | 201,179 |
| Cost of construction contracts | **1,272,757** | 4,950,070 |
| Cost of consultancy services rendered and licensing | **37,704** | 3,381 |
| Cost of water sold | **27,521** | 41,416 |
| Depreciation | **9,299** | 8,228 |
| Amortisation of operating concessions* | **37,285** | 30,206 |
| Amortisation of other intangible assets* | **903** | 502 |

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

## 5. FINANCE COSTS

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank loans and other loans wholly repayable within five years | **266,965** | 208,248 |
| Interest on other loans | **5,557** | 7,544 |
| Interest on corporate bonds | **45,094** | – |
| Imputed interest on convertible bonds | **–** | 23,787 |
| Interest on a finance lease | **234** | 681 |
| Total interest expenses | **317,850** | 240,260 |
| Increase in discounted amounts of provision for major overhauls arising from the passage of time | **3,711** | 2,725 |
| Total finance costs | **321,561** | 242,985 |
| Less: Interest included in cost of construction contracts | **(8,572)** | (8,077) |
| | **312,989** | 234,908 |

## 6. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2011 as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil).

The income tax provision in respect of operations in Mainland China and Malaysia 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 the PRC, certain of the Company's subsidiaries enjoy income tax exemptions and reductions, by reason that these companies are engaged in the operations of sewage treatment.

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current – PRC: | | |
| Hong Kong | **–** | – |
| Mainland China | **138,048** | 99,319 |
| Overprovision in prior years | **(3,655)** | (1,617) |
| Current – Malaysia | **1,310** | – |
| Deferred | **34,158** | 33,248 |
| Total tax expense for the year | **169,861** | 130,950 |

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to retrospectively reflect the issuance of 2,283,378,231 new ordinary shares of the Company at an offer price of HK$1.485 per ordinary share under an open offer (the "Open Offer") of the Company completed on 15 March 2011.

In respect of the diluted earnings per share amounts, no adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2011 as the Group had no dilutive potential shares during the year ended 31 December 2011. The calculation of the diluted earnings per share amount for the year ended 31 December 2010 is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the deemed conversion of all dilutive convertible bonds at the beginning of the year, and the weighted average number of ordinary shares after adjustment to reflect the effect of the Open Offer.

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Earnings** | | |
| Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation | **600,736** | 512,512 |
| Interest on dilutive convertible bonds | **–** | 23,787 |
| Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation | **600,736** | 536,299 |

| | **2011** | 2010 |
|---|---|---|
| | | (Restated) |
| **Number of ordinary shares** | | |
| Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation | **6,719,431,905*** | 4,769,441,329* |
| Effect of dilution of dilutive convertible bonds – weighted average number of ordinary shares | **–** | 620,611,554* |
| Weighted average number of ordinary shares, used in the diluted earnings per share calculation | **6,719,431,905** | 5,390,052,883 |

* *The weighted average number of ordinary shares during the years ended 31 December 2011 and 31 December 2010 have been retrospectively adjusted to take into account the effect of the Open Offer.*

## 8. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Billed: | | |
| Within 3 months | **159,900** | 84,741 |
| 4 to 6 months | **23,509** | 19,370 |
| 7 to 12 months | **22,330** | 11,122 |
| Over 1 year | **47,366** | 8,656 |
| | **253,105** | 123,889 |
| Unbilled | **5,003,117** | 2,736,583 |
| | **5,256,222** | 2,860,472 |
| Portion classified as current assets | **(253,105)** | (123,889) |
| Non-current portion | **5,003,117** | 2,736,583 |

## 9. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from the construction services of comprehensive renovation projects, technical and consultancy services, sale of water and related water supply services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the business they engage in. The credit period granted to customers is generally one month to three months, except for the customers of the comprehensive renovation projects, the trade and bills receivables of which would be settled 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. Except for the trade and bills receivables of comprehensive renovation projects, trade and bills receivables are non-interest-bearing.

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

| | 2011 | 2010 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Billed: | | |
| Within 3 months | **234,442** | 282,257 |
| 4 to 6 months | **42,522** | 82,702 |
| 7 to 12 months | **11,220** | 7,474 |
| Over 1 year | **146,671** | 21,574 |
| Balance with extended credit period | **181,111** | 169,000 |
| | **615,966** | 563,007 |
| Unbilled* | **3,322,433** | 3,560,006 |
| | **3,938,399** | 4,123,013 |
| Portion classified as current assets | **(3,676,549)** | (4,002,108) |
| Non-current portion | **261,850** | 120,905 |

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

## 10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2011 | 2010 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Prepayments | **24,415** | 11,611 |
| Deposits and other debtors | **2,035,215** | 1,483,291 |
| Advances to suppliers | **2,213,520** | 410,740 |
| Due from jointly-controlled entities | **470,480** | 588 |
| Due from related parties | **1,387,489** | 873,806 |
| | **6,131,119** | 2,780,036 |
| Impairment | **(5,531)** | (3,531) |
| | **6,125,588** | 2,776,505 |
| Portion classified as current assets | **(4,583,574)** | (1,367,995) |
| Non-current portion | **1,542,014** | 1,408,510 |

## 11. OTHER PAYABLES AND ACCRUALS

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accruals | **118,952** | 98,087 |
| Other liabilities | **3,257,359** | 405,126 |
| Other taxes payables | **33,817** | 31,003 |
| Due to jointly-controlled entities | **160,721** | 1,873 |
| Due to related parties | **115,406** | 56,255 |
| | **3,686,255** | 592,344 |
| Portion classified as current liabilities | **(3,406,346)** | (569,700) |
| Non-current portion | **279,909** | 22,644 |

## 12. 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:

| | **2011** | 2010 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 3 months | **196,621** | 966,598 |
| 4 to 6 months | **8,744** | 811,344 |
| 7 months to 1 year | **31,203** | 586,585 |
| 1 to 2 years | **1,666,311** | 268,447 |
| 2 to 3 years | **142,164** | 4,500 |
| Over 3 years | **4,193** | 176 |
| | **2,049,236** | 2,637,650 |

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

## 13. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, the following significant events occurred:

(i) On 1 March 2012, the Company entered into a term loan facility agreement (the "Facility Agreement") with a bank for a term loan facility (the "Term Loan Facility") in the amount of RMB950,000,000 (equivalent to HK$1,172,840,000). The Term Loan Facility has a term of three years commencing from 27 March 2012. Pursuant to the Facility Agreement, it shall be an event of default (unless remedied by the Company or waived by the bank) if Beijing Enterprises Holdings Limited ("BEHL"), a substantial shareholder of the Company, does not or ceases to own, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of the voting rights in the Company.

(ii) As approved by the shareholders of the Company at a special general meeting held on 22 March 2012, the Company's share premium account of HK$5,809,534,000 as at 23 March 2012 was transferred to the accumulated losses and the contributed surplus of the Company to offset the entire accumulated losses of the Company of HK$225,517,000 and increase the contributed surplus of the Company by HK$5,584,017,000, further details of which are set out in the Company's circular dated 24 February 2012.

(iii) On 29 March 2012, the directors of the Company recommended distributions of HK3 cents per ordinary share with total amount of HK$207,275,000. The proposed distributions are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 14. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform to the current year's presentation.

## 15. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2011 amounted to HK$4,983,500,000 (31 December 2010: HK$203,473,000) and HK$18,078,966,000 (31 December 2010: HK$8,608,080,000), respectively.

# DISTRIBUTIONS

The Directors of the Company recommended to make distributions of HK3 cents per share out of the contributed surplus of the Company, payable to shareholders whose names appear on the register of members of the Company on Monday, 18 June 2012 for their continuous supports to the Company. Subject to the approval of shareholders at the forthcoming annual general meeting, the distributions will be paid on or around 9 July 2012.

# CLOSURE OF REGISTER OF MEMBERS

## 1. Annual General Meeting

The register of members will be closed from Wednesday, 6 June 2012 to Friday, 8 June 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Friday, 8 June 2012, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 5 June 2012.

## 2 Proposed Distributions

The register of members will be closed from Thursday, 14 June 2012 to Monday, 18 June 2012 (both days inclusive), during which period no transfer of shares will be registered. The ex-dividend date will be Tuesday, 12 June 2012. In order to qualify for entitlement to the proposed distributions, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar, Tricor Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 13 June 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group maintained a steady growth during the year. Profit for the year attributable to shareholders of the Company increased by 17% to HK$600.7 million, with sewage treatment services emerging as a key profit driver. Revenue decreased by 58% to HK$2,654.5 million as a result of decrease in revenue contribution from construction services for the water environmental renovation.

### 1. Financial highlights

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

| | Revenue | | GP ratio | Profit attributable to shareholders of the Company | |
|---|---|---|---|---|---|
| | *HK$'M* | *%* | *%* | *HK$'M* | *%* |
| **Water treatment services** | | | | | |
| Sewage treatment services | 994.7 | 37% | 62% | 490.9 | 54% |
| – Subsidiaries | 994.7 | 37% | 62% | 484.7 | 53% |
| – Jointly-controlled entities | – | – | – | 6.2 | 1% |
| Water supply services | 83.2 | 3% | 47% | 12.3 | 1% |
| – Subsidiaries | 83.2 | 3% | 47% | 10.9 | 1% |
| – Jointly-controlled entities | – | – | – | 1.4 | – |
| Subtotal | 1,077.9 | 40% | | 503.2 | 55% |
| **Construction services for the water environmental renovation** | | | | | |
| Construction of comprehensive renovation projects | 752.1 | 29% | 4% | 191.4 | 21% |
| – Project with completion rate under 10% | 426.8 | 16% | 0% | – | – |
| – Project with completion rate more than 10% § | 325.3 | 13% | 9% | 65.4 | 7% |
| – Imputed interest income | – | – | 0% | 126.0 | 14% |
| Construction of water plants△ | 612.9 | 23% | 10% | 44.3 | 5% |
| Subtotal | 1,365.0 | 52% | | 235.7 | 26% |
| **Technical services for the water environmental renovation** | 211.6 | 8% | 82% | 169.1 | 19% |
| **Business results** | 2,654.5 | 100% | | 908.0 | 100% |
| **Others#** | | | | (307.3) | |
| **Total** | | | | 600.7 | |

\# *Others included head office and other corporate income, net, of HK$5.7 million and finance costs of HK$313.0 million.*

§ *Profit attributable to shareholders of the Company included share of profit of a jointly-controlled entity of HK$12.5 million.*

△ *Profit attributable to shareholders of the Company included share of proft of jointly-controlled entities of HK$0.7 million.*

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

| | Revenue | | GP ratio | Profit attributable to shareholders of the Company | |
|---|---|---|---|---|---|
| | *HK$'M* | *%* | *%* | *HK$'M* (Restated) | *%* |
| **Water treatment services** | | | | | |
| Sewage treatment services | | | | | |
| – Subsidiaries | 591.6 | 9% | 62% | 248.3 | 30% |
| Water supply services | | | | | |
| – Subsidiaries | 75.5 | 1% | 39% | 10.3 | 1% |
| Subtotal | 667.1 | 10% | | 258.6 | 31% |
| **Construction services for the water environmental renovation** | | | | | |
| Construction of comprehensive renovation projects | | | | | |
| – Project with completion rate more than 10% | 4,600.0 | 72% | 9% | 311.4 | 37% |
| Construction of water plants△ | 831.6 | 13% | 11% | 63.8 | 8% |
| Subtotal | 5,431.6 | 85% | | 375.2 | 45% |
| **Technical services for the water environmental renovation** | 249.4 | 5% | 99% | 203.1 | 24% |
| **Business results** | 6,348.1 | 100% | | 836.9 | 100% |
| **Others#** | | | | (324.4) | |
| **Total** | | | | 512.5 | |

\# *Others included operating expenses of head office, net, of HK$89.5 million, convertible bonds interest of HK$23.8 million and other finance costs of HK$211.1 million.*

△ *Profit attributable to shareholders of the Company included share of profit of jointly-controlled entities of HK$0.8 million*

The comparison of the Group's financial results for years ended 31 December 2011 and 2010 is set out in details below:

| | Revenue | | | | Profit attributable to shareholders of the Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2011** | 2010 | Increase/(Decrease) | | **2011** | 2010 | Increase/(Decrease) | |
| | ***HK$'M*** | *HK$'M* | *HK$'M* | *%* | ***HK$'M*** | *HK$'M* | *HK$'M* | *%* |
| | | | | | | (Restated) | | |
| **Water treatment services** | | | | | | | | |
| Sewage treatment services | **994.7** | 591.6 | 403.1 | 68% | **490.9** | 248.3 | 242.6 | 98% |
| – Subsidiaries | **994.7** | 591.6 | 403.1 | 68% | **484.7** | 248.3 | 236.4 | 95% |
| – Jointly-controlled entities | **–** | – | – | – | **6.2** | – | 6.2 | 100% |
| Water supply services | **83.2** | 75.5 | 7.7 | 10% | **12.3** | 10.3 | 2.0 | 19% |
| – Subsidiaries | **83.2** | 75.5 | 7.7 | 10% | **10.9** | 10.3 | 0.6 | 6% |
| – Jointly-controlled entities | **–** | – | – | – | **1.4** | – | 1.4 | 100% |
| Subtotal | **1,077.9** | 667.1 | 410.8 | 62% | **503.2** | 258.6 | 244.6 | 95% |
| **Construction services for the water environmental renovation** | | | | | | | | |
| Construction of comprehensive renovation projects | **752.1** | 4,600.0 | (3,847.9) | (84%) | **191.4** | 311.4 | (120.0) | (39%) |
| – Project with completion rate under 10% | **426.8** | – | 426.8 | 100% | **–** | – | – | – |
| – Project with completion rate more than 10% | **325.3** | 4,600.0 | (4,274.7) | (93%) | **65.4** | 311.4 | (246.0) | (79%) |
| – Imputed interest income | **–** | – | – | – | **126.0** | – | 126.0 | 100% |
| Construction of water plants | **612.9** | 831.6 | (218.7) | (26%) | **44.3** | 63.8 | (19.5) | (30%) |
| Subtotal | **1,365.0** | 5,431.6 | (4,066.6) | (75%) | **235.7** | 375.2 | (139.5) | (37%) |
| **Technical services for the water environmental renovation** | **211.6** | 249.4 | (37.8) | (15%) | **169.1** | 203.1 | (34.0) | (17%) |
| **Business results** | **2,654.5** | 6,348.1 | (3,693.6) | (58%) | **908.0** | 836.9 | 71.1 | 8% |
| **Others** | | | | | **(307.3)** | (324.4) | 17.1 | (5%) |
| **Total** | | | | | **600.7** | 512.5 | 88.2 | 17% |

## 2. Business review

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 18 provinces all across Mainland China.

### *2.1 Water treatment services*

As at 31 December 2011, the Group participates in 126 water plants either in operation or going to operate in future of which includes 101 sewage treatment plants, 20 water supply plants, 4 reclaimed water plants and 1 seawater desalination plant. The total daily design capacity was increased by 2,819,450 tons to 8,728,950 tons, representing an increase of 48% as compared with last year. The increment of 2,819,450 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 544,500 tons, Transfer-Operate-Transfer ("TOT") projects of 475,000 tons, entrustment projects of 744,500 tons and acquired project of 1,055,450 tons.

Analysis of projects on hand as follows:

| | Sewage treatment | Water supply | Reclaimed water | Seawater desalination | Total |
|---|---|---|---|---|---|
| *('000 tons)* | | | | | |
| In operation | 3,773,750 | 1,125,000 | 182,000 | – | 5,080,750 |
| Not yet start operation | 2,004,000 | 1,389,200 | 205,000 | 50,000 | 3,648,200 |
| Total | 5,777,750 | 2,514,200 | 387,000 | 50,000 | 8,728,950 |
| *(Number of water plants)* | | | | | |
| In operation | 65 | 8 | 2 | – | 75 |
| Not yet start operation | 36 | 12 | 2 | 1 | 51 |
| Total | 101 | 20 | 4 | 1 | 126 |

| | Number of plants | Design capacity (Tons/Day) | Actual processing capacity during the year (Tons (M)) | Revenue HK$'(M) | Profit attributable to shareholders of the Company HK$'(M) |
|---|---|---|---|---|---|
| Sewage treatment and reclaimed water services: | | | | | |
| – Southern | 21 | 1,456,000 | 376.1 | 410.2 | 250.7 |
| – Western | 21 | 1,281,500 | 329.9 | 225.8 | 79.7 |
| – Shandong | 8 | 417,000 | 119.3 | 126.7 | 51.5 |
| – Eastern | 11 | 346,250 | 55.5 | 117.9 | 65.8 |
| – Northern | 6 | 455,000 | 88.6 | 114.1 | 43.2 |
| | 67 | 3,955,750 | 969.4 | 994.7 | 490.9 |
| Water supply services | 8 | 1,125,000 | 158.6 | 83.2 | 12.3 |
| Total | 75 | 5,080,750 | 1,128.0 | 1,077.9 | 503.2 |

### *2.1.1 Sewage treatment and reclaimed water services*

As at 31 December 2011, the daily operating capacity of sewage treatment and reclaimed water reached to 3,773,750 tons (31 December 2010: 2,532,000 tons) and 182,000 tons (31 December 2010: 182,000 tons) respectively. The average daily processing volume is 2,792,689 tons and average daily treatment rate is 71%. The actual average contracted tariff charge of water treatment was approximately HK$1.15 per ton. The actual aggregate processing volume for the year was 969.4 million tons. Revenue was HK$994.7 million for the year (37% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK$490.9 million, of which HK$484.7 million was contributed by subsidiaries and HK$6.2 million was contributed by jointly-controlled entities. The information of sewage treatment and reclaimed water services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. Most of the BOT projects secured last year commenced operations during this year, therefore, the operating volume increased significantly. As at 31 December 2011, there were 21 sewage treatment plants with total daily design capacity of 1,456,000 tons, representing an increase of 664,000 tons per day or 83.8% as compared with last year. The actual aggregate processing volume for the year amounted to 376.1 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$410.2 million and HK$250.7 million respectively during the year.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2011, there were 21 sewage treatment plants with total daily design capacity of 1,281,500 tons, representing an increase of 281,500 tons per day or 28% as compared with last year. The actual processing volume for the year was 329.9 million tons. The operating revenue of HK$225.8 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK$79.7 million.

Shandong

There were 8 plants in Shandong region. The total daily processing capacity of Shandong region had increased by 120,000 tons to 417,000 tons as compared with last year. The actual processing volume for the year was 119.3 million tons contributing operating revenue of HK$126.7 million during the year. Profit attributable to shareholders of the Company was HK$51.5 million.

Eastern China

There were 11 water plants in Eastern China which were mainly located in Zhejiang Province. As at 31 December 2011, the operating volume of Eastern China had increased by 176,250 tons to 346,250 tons as compared with last year. The actual processing volume for the year amounted to 55.5 million tons and operating revenue was HK$117.9 million during the year. Profit attributable to shareholders of the Company was HK$65.8 million.

Northern China

Currently, the Group has 6 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily processing volume is 455,000 tons, which is same as last year. The projects had achieved actual processing volume of 88.6 million tons for the year. The operating revenue was HK$114.1 million during the year. Profit attributable to shareholders of the Company was HK$43.2 million.

*2.1.2 Water supply services*

As at 31 December 2011, the Group had 8 water supply plants in operation. Total water supply capacity of these projects was 1,125,000 tons per day. The plants were located in Guizhou Province, Shandong Province and Guangxi Province. The actual average contracted tariff charge of water supply is approximately HK$2.36 per ton. The aggregate actual processing volume is 158.6 million tons. Water supply services recorded revenue of HK$83.2 million (3% of the Group's total revenue) and profit attributable to shareholders of the Company of HK$12.3 million, of which HK$10.9 million was contributed by subsidiaries and HK$1.4 million was contributed by a jointly-controlled entity.

### 2.2 Construction services for the water environmental renovation

*2.2.1 Construction of comprehensive renovation projects*

The Group has five comprehensive renovation projects under construction during the year. Included in these projects, two projects commenced construction in Year 2010 was completed in Year 2011, located in Kunming and Dalian Changxingdao, contributed total construction revenue of HK$151.1 million during the Year 2011. The construction revenue from these two projects in Year 2010 was HK$2,664.6 million. Three projects commenced in Year 2011 contributed construction revenue of HK$601.0 million. The new projects are located in Guizhou Huaxi, Dalian Dengshahe and Malaysia Pantai.

The Group has eight comprehensive renovation projects in Year 2010. Included in these projects, six projects were completed in Year 2010 located in Kunming, Tongling Chengbei and Tongling Jingjiqu with total construction revenue of HK$1,935.4 million. Two projects located in Kunming and Dalian Changxingdao were completed in Year 2011.

Revenue from comprehensive renovation projects decreased by HK$3,847.9 million from HK$4,600 million in Year 2010 to HK$752.1 million in Year 2011. Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK$120.0 million from HK$311.4 million last year to HK$191.4 million this year.

Revenue and profit attributable to shareholder of the Company significantly decreased since the construction service for the projects located in Kunming, Tongling Chengbei, Tongling Jingjiqu and Dalian Changxingdao was substantially completed in Year 2010 and large portion of respective construction revenue and profit had already recognised in Year 2010.

According to the contracts, the Group can charge an interest on the trade receivables from the customer with reference to a certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to the settlement of the trade receivables. The profit attributable to the shareholders of the Company generated by the imputed interest income for the Year 2011 was HK$126.0 million (2010: Nil).

*2.2.2 Construction of water plants*

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

During the year, 21 water plants were under construction. These water plants were mainly located in Sichuan, Yunnan, Shandong, Liaoning, Heilongjiang and Hunan provinces. Total revenue contribution for construction of water plants was HK$612.9 million and profit attributable to shareholders of the Company was HK$44.3 million. As at 31 December 2011, the total daily design capacity of these water plants in the construction stage was 1,408,700 tons, most of these projects is expected to commence operation in next year. The revenue and profit attributable to shareholders of the Company decreased as there was a decrease in number of BOT projects in Year 2011. The increment of capacity during Year 2011 for the year was mainly contributed by acquisitions of water companies and TOT projects.

### *2.3 Technical services for the water environmental renovation*

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

Revenue from the provision of technical services was HK$211.6 million, representing 8% of the Group's total revenue. The profit attributable to shareholders of the Company was HK$169.1 million. There are 23 projects (2010: 18 projects) for this year, two (2010: eight projects) of which relates to the Group's comprehensive renovation projects. The revenue and profit attributable to shareholders of the Company for the provision of technical services for the Group's comprehensive renovation projects were HK$27.8 million (2010: HK$226.0 million) and HK$22.2 million (2010: HK$184.0 million). Decrease in contribution from these projects was mainly due to the substantial completion of the corresponding comprehensive renovation projects. The effect was partly offset by the increase in contribution from the provision of technical services for the other water environmental renovation projects.

## 3. Financial analysis

### *3.1 Revenue*

During the year, the Group recorded revenue of HK$2,654.5 million (compared to last year for HK$6,348.1 million). The decrease was mainly due to the decrease in construction revenue from water environmental renovation projects. The related revenue was decreased by HK$4,066.6 million from HK$5,431.6 million in the last year to HK$1,365.0 million for the year.

### *3.2 Cost of sales*

Cost of sales for the year amounted to HK$1,746.2 million which mainly included construction cost of HK$1,272.8 million and operating cost of water plants of HK$435.8 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK$166.7 million, staff cost of HK$78.4 million and major overhaul charge of HK$33.2 million. Major overhaul charge was the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangement. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to income statement based on amortisation method during the service concession periods.

### *3.3 Gross profit margin*

During the year, gross profit margin increased from 18% to 34%. The increase was mainly due to the change in mix of revenue during the year. The revenue contribution from construction services for the water environmental renovation decreased significantly from last year of 85% to 52% this year. The gross margin of construction services for the water environmental renovation is 7% for this year, which is comparatively lower than average of other business sectors of 63% and therefore the gross margin of the Group increased.

### *3.4 Other income and gains, net*

The Group recorded other income and gains, net of HK$144.1 million during the year, compared to last year of HK$60.5 million. Other income mainly included government grant of HK$33.4 million and other gains on acquisition of a jointly-controlled entity, namely 湖南永州市景盛置業有限公司(Hunan Yongzhou Jing Sheng Property Development Company Limited*), of HK$42.2 million.

### *3.5 Administrative expenses*

Administrative expenses for the year was HK$301.2 million, compared to last year at HK$219.5 million. The increase was mainly contributed by the increase in staff cost by HK$42.7 million as a result of the Group's business expansion.

### *3.6 Finance costs*

Finance costs were mainly represented by interest on bank and other borrowings and corporate bonds of HK$317.6 million, compared to last year at HK$215.8 million. Increase in finance cost was mainly due to issuance of RMB corporate bonds and increase in interest rate.

### *3.7 Income tax*

Income tax expense for the year included the current PRC income tax of HK$134.4 million and Malaysia income tax of HK$1.3 million. The effective tax rate for the PRC operation was about 18% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax for the year was HK$34.2 million.

### *3.8 Receivables*

The Group's total receivables of HK$10,881.8 million include amounts due from contract customers of HK$1,687.2 million (non-current: HK$1,599.3 million, current: HK$87.9 million), receivables under service concession arrangements of HK$5,256.2 million (non-current: HK$5,003.1 million, current: HK$253.1 million) and trade and bills receivables of HK$3,938.4 million (non-current: HK$261.9 million, current: HK$3,676.5 million). Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC) – Int 12 *Service Concession Arrangements* was HK$6,464.7 million. Total receivables for the construction service of renovation projects was HK$4,054.2 million. Total receivables for consultancy service and other business was HK$362.9 million.

* *For identification purposes only*

### *3.9 Liquidity and financial resources*

As at 31 December 2011, the Group's cash and cash equivalents amounted to HK$1,947.8 million (2010: HK$1,961.8 million). The Group's total borrowings amounted to HK$8,760.1 million (2010: HK$8,532.5 million).

The Group's total borrowings comprising bank and other borrowings of HK$6,434.5 million (2010: HK$8,527.6 million), corporate bonds of HK$2,325.6 million (2010: Nil) and finance lease payable of nil (2010: HK$4.9 million). The gearing ratio as defined as sum of bank and other borrowings, corporate bonds and net of cash and cash equivalents, divided by the total equity was 0.7 as at 31 December 2011 (2010: 1.3). The decrease in gearing ratio as at 31 December 2011 was mainly due to the increase in total equity.

As a result of an open offer held on 15 March 2011, in which the Company issued 2,283,378,231 shares at a price of HK$1.485 per share on the basis of one offer share for every two existing shares held by the shareholders. The total net proceed of the open offer is HK$3,385.4 million.

As at 31 December 2011, the Group had banking facilities amounting to HK$4.0 billion, of which HK$0.2 billion were unused. The banking facilities are of 1-5 years term.

### *3.10 Capital expenditures*

During the year, the Group's total capital expenditures were HK$3,426.6 million (year ended 31 December 2010: HK$1,338.3 million), of which HK$37.1 million was paid for the acquisition of property, plant and equipment and intangible assets, HK$1,047.1 million was spent on construction and acquisition of water plants and HK$2,342.2 million was the consideration for acquisition of equity interest in subsidiaries, jointly-controlled entities, an associate and an available-for-sale. The significant increase in capital expenditures was in line with the expansion plans of the Group.

## 4. Prospect

### *4.1 Development strategy*

In 2012, the Group will establish a performance-oriented operation and management mechanism. The Group will further expand, enhance and optimise the traditional water business as well as promote seawater desalination business proactively, expand international business stably, accelerate the sludge treatment business, and stably and prudently carry out the comprehensive water environmental renovation business. The Group will improve the capital utilisation efficiency and income level, strengthen its comprehensive arrangement on professional resources, implement the strategy of developing the enterprise by talent management, strengthen its research and develop technologies, create its core competitiveness, intensify the establishment of corporate culture and enhance its corporate convergence force.

### *4.2 Future outlook*

The sustainable and favourable national policy for the industry, together with the expanding overall demand for environmental protection and water supply market shall contribute to the faster overall development pace over the industry compared to the overall growth of national economy. At the same time, the government improves the public service demand requirements which will range from the superficial to in depth aspects, and it will drive the service scope of water environmental protection services to further expand, and create more opportunities for the market.

Save for the traditional water supply and sewage services in the domain, some emerging markets (including sludge treatment and seawater desalination, and so on) will become new market focuses. The pressing industry policies which include the Opinions of the General Office of the State Council of the People's Republic of China on Accelerating the Development of the Seawater Desalination Industry (國務院辦公廳關於加快發展海水淡化產業的意見) will be launched one after another and will further heat-up the seawater desalination industry.

The Group will grasp the changes of macroeconomic policies and make active corresponding responses, seize such opportunities, proactively promote the transformation in both development aspect and management model. The Group will optimise operation structure, perfect industry layout, expand market share, promote the value-innovation capability and thereby facilitate the Group to continuously maintain a sound growing momentum.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Group employed 2,240 employees. The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

## SIGNIFICANT INVESTMENTS AND ACQUISITIONS

The Group had no material significant investments and acquisitions of subsidiaries and affiliated companies during the year ended 31 December 2011.

## CHARGES ON THE GROUP'S ASSETS

The secured bank loans of the Group as at 31 December 2011 are secured by:

(i) mortgages over certain of the sewage treatment concession rights, land use rights and certain operating facilities of the sewage treatment plants which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors. The aforesaid land use rights and operating facilities are normally registered under the names of the relevant entities in the Group and are required to be returned to the grantors at the end of the respective service concession periods;

(ii) the Group's equity interest in certain subsidiaries; and

(iii) certain of the Group's bank balances.

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

## FOREIGN EXCHANGE EXPOSURE

The Group's exposure to currency exchange rate is minimal as majority of the subsidiaries of the Company operates in the PRC with most of the transaction denominated and settled in RMB. Accordingly, the Group has not used derivative financial instruments to hedge its foreign currency risk.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

During the year ended 31 December 2011, the directors believe that the Company complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"), except for one code provision under the CG Code. The non-executive directors of the Company were not appointed for a specific term that was deviated from the requirement under code provision A.4.1. The deviation is appropriate as the Board considers that non-executive directors are subject to retirement by rotation and re-election at an annual general meeting in accordance with the bye-laws of the Company and the requirements of the bye-laws of the Company are no less exacting than those in the CG Code.

## DIRECTORS' SECURITIES TRANSACTIONS

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

## AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive directors of the Company, namely Mr. Shea Chun Lok Quadrant (the chairman of the Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The final results for the year ended 31 December 2011 have been reviewed and approved by the Audit Committee of the Company.

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

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website (www.bewg.com.hk) and the website of the Stock Exchange (www.hkexnews.hk). The 2011 annual report and the notice of annual general meeting will be sent to all shareholders and will be published on the websites of the Company and the Stock Exchange in due course.

## APPRECIATION

On behalf of the Board, I would like to express my sincere thanks to all the Group's employees for their continuous support and dedicated services.

By Order of the Board
**Beijing Enterprises Water Group Limited**
**Zhang Honghai**
*Chairman*

Hong Kong, 29 March 2012

*As at the date of this announcement, the board of directors of the Company comprises eleven executive directors, namely Mr. Zhang Honghai (Chairman), Mr. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong (Chief Executive Officer), Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Hou Feng, Ms. Qi Xiaohong, Mr. Ke Jian and Mr. Tung Woon Cheung Eric and five independent non-executive directors, namely Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun.*