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 2012

HIGHLIGHTS

- The Group reported revenue of HK$3,727.4 million, representing an increase of 40.4% as compared with last year of HK$2,654.5 million.
- Profit attributable to shareholders of the Company increased by 24.9% to HK$750.5 million, with water treatment services emerging as a key profit driver.
- EBITDA amounted to HK$1,655.8 million, representing an increase of 35.6% as compared with last year of HK$1,221.3 million.
- Basic earnings per share for the year was HK10.86 cents.
- Final cash distributions of HK2 cents per share are proposed for the year ended 31 December 2012.
- As at 31 December 2012, total daily design capacity for water projects on hand was 10,494,450 tons, representing an increase of 20.2% as compared with the capacity of 8,728,950 tons as at 31 December 2011.
- Trade and bills receivables of HK$1,596.8 million (equivalent to RMB1,293.4 million) for the construction of comprehensive renovation projects in Kunming and Dalian Changxingdao were settled during the year. As at 31 December 2012, the accumulated receipts from these projects was HK$4,525.1 million (equivalent to RMB3,665.3 million). As at 31 December 2012, the trade and bills receivables for these projects amounted to HK$1,722.3 million (equivalent to RMB1,395.1 million).

RESULTS

The board (the "Board") of directors (the "Directors") 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 2012 and the consolidated statement of financial position of the Group as at 31 December 2012, with comparative figures for the year ended 31 December 2011, as follows:

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	3	**3,727,379**	2,654,454
Cost of sales		**(2,290,350)**	(1,746,217)
Gross profit		**1,437,029**	908,237
Interest income		**467,546**	385,505
Other income and gains, net		**193,877**	144,115
Administrative expenses		**(439,575)**	(301,221)
Other operating expenses, net		**(127,396)**	16,402
PROFIT FROM OPERATING ACTIVITIES	4	**1,531,481**	1,153,038
Finance costs	5	**(494,290)**	(312,989)
Share of profits and losses of:			
Jointly-controlled entities		**56,011**	20,798
Associates		**(1,409)**	–
PROFIT BEFORE TAX		**1,091,793**	860,847
Income tax	6	**(224,643)**	(169,861)
PROFIT FOR THE YEAR		**867,150**	690,986
ATTRIBUTABLE TO:			
Shareholders of the Company		**750,474**	600,736
Non-controlling interests		**116,676**	90,250
		867,150	690,986
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
— Basic and diluted		**HK10.86 cents**	HK8.94 cents

Details of the cash distributions declared and proposed for the year are disclosed in note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**867,150**	690,986
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**(5,588)**	451,838
Share of other comprehensive income/(loss) of a jointly-controlled entity	**6,973**	(7,370)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX OF NIL	**1,385**	444,468
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**868,535**	1,135,454
ATTRIBUTABLE TO:		
Shareholders of the Company	**751,350**	941,584
Non-controlling interests	**117,185**	193,870
	868,535	1,135,454

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment		**527,549**	233,276
Goodwill		**1,762,151**	1,643,719
Operating concessions		**973,357**	763,381
Other intangible assets		**17,295**	6,455
Investments in jointly-controlled entities		**2,317,740**	1,973,493
Investments in associates		**100,867**	37,038
Available-for-sale investments		**7,094**	2,964
Amounts due from contract customers		**2,761,981**	1,599,285
Receivables under service concession arrangements	*9*	**6,469,498**	5,003,117
Trade and bills receivables	*10*	**97,225**	261,850
Prepayments, deposits and other receivables	*11*	**2,547,230**	1,542,014
Deferred tax assets		**28,690**	28,874
Total non-current assets		**17,610,677**	13,095,466
Current assets:			
Land held for sale		**1,077,403**	999,626
Inventories		**30,453**	13,422
Amounts due from contract customers		**31,637**	87,865
Receivables under service concession arrangements	*9*	**382,464**	253,105
Trade and bills receivables	*10*	**2,385,500**	3,676,549
Prepayments, deposits and other receivables	*11*	**5,395,988**	4,583,574
Restricted cash and pledged deposits		**84,892**	92,367
Cash and cash equivalents		**4,290,866**	1,947,768
Total current assets		**13,679,203**	11,654,276
TOTAL ASSETS		**31,289,880**	24,749,742

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital		**690,917**	690,917
Reserves		**7,776,207**	7,391,072
		8,467,124	8,081,989
Non-controlling interests		**2,264,369**	1,628,892
TOTAL EQUITY		**10,731,493**	9,710,881
Non-current liabilities:			
Other payables and accruals	*12*	**233,217**	279,909
Bank and other borrowings		**6,593,424**	5,364,905
Corporate bonds		**2,394,530**	2,325,633
Note payable		**1,476,567**	–
Finance lease payable		**12,928**	–
Provision for major overhauls		**221,643**	167,296
Deferred income		**80,785**	25,163
Deferred tax liabilities		**287,010**	205,179
Total non-current liabilities		**11,300,104**	8,368,085
Current liabilities:			
Trade and bills payables	*13*	**1,919,238**	2,049,236
Other payables and accruals	*12*	**4,269,166**	3,406,346
Income tax payables		**252,802**	145,585
Bank and other borrowings		**2,810,313**	1,069,609
Finance lease payable		**6,764**	–
Total current liabilities		**9,258,283**	6,670,776
TOTAL LIABILITIES		**20,558,387**	15,038,861
TOTAL EQUITY AND LIABILITIES		**31,289,880**	24,749,742

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 2012. 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 it 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 revised HKFRSs for the first time for the current year's financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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 loans to jointly-controlled entities and related companies, interest income from non-controlling equity holders of a non-wholly owned subsidiary, gains on bargain purchase of subsidiaries and a jointly-controlled entity, gain on remeasurement of pre-existing interest in a jointly-controlled entity, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

Year ended 31 December 2012

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water supply services *HK$'000*	Technical and consultancy services *HK$'000*	Total *HK$'000*
Segment revenue	**3,399,365**	**105,602**	**222,412**	**3,727,379**
Cost of sales	**(2,191,423)**	**(58,613)**	**(40,314)**	**(2,290,350)**
Gross profit	**1,207,942**	**46,989**	**182,098**	**1,437,029**
Segment results				
The Group	**1,457,552**	**20,854**	**178,809**	**1,657,215**
Share of profits and losses of:				
Jointly-controlled entities	**25,637**	**30,374**	**–**	**56,011**
Associates	**(1,409)**	**–**	**–**	**(1,409)**
	1,481,780	**51,228**	**178,809**	**1,711,817**
Corporate and other unallocated income and expenses, net				**(125,734)**
Finance costs				**(494,290)**
Profit before tax				**1,091,793**
Income tax				**(224,643)**
Profit for the year				**867,150**
Profit/(loss) for the year attributable to shareholders of the Company:				
Operating segments	**1,173,565**	**43,615**	**150,839**	**1,368,019**
Corporate and other unallocated items				**(617,545)**
				750,474

Year ended 31 December 2011

	Sewage and reclaimed water 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, net				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:				
Operating segments	726,633	12,342	169,070	908,045
Corporate and other unallocated items				(307,309)
				600,736

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 2012, the Group had a transaction with one (2011: one) external customer of the sewage and reclaimed water treatment and construction services segment which contributed over 10% of the Group's total revenue for the year. A summary of revenue from each of these major external customers is set out below:

	2012	2011
	HK$'000	*HK$'000*
Customer 1	**523,071**	N/A*
Customer 2	**N/A***	426,867
	523,071	426,867

* The corresponding revenue of these customers is not disclosed as they individually did not contribute over 10% of the Group's total gross revenue for the relevant 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 and reclaimed water treatment, net of value-added tax and government surcharges; (2) an appropriate proportion of contract revenue of other construction contracts, net of business tax and government surcharges; (3) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax and government surcharges; (4) an appropriate proportion of contract revenue of technical and consultancy services contracts, net of business tax and government surcharges; and (5) the imputed interest income on service concession arrangements.

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

	2012	2011
	HK$'000	*HK$'000*
Sewage and reclaimed water treatment services*	**1,424,987**	994,682
Construction services*	**1,974,378**	1,364,997
Sale of water	**105,602**	83,198
Technical and consultancy services	**222,412**	211,577
	3,727,379	2,654,454

* *Imputed interest income under service concession arrangements amounting to HK$417,857,000 (2011: HK$318,822,000) is included in the revenue derived from "Sewage and reclaimed water treatment services" and "Construction services" above.*

4. PROFIT FROM OPERATING ACTIVITIES

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

	2012 *HK$'000*	2011 *HK$'000*
Cost of sewage and reclaimed water treatment services rendered	**504,151**	370,950
Cost of construction services	**1,658,737**	1,272,757
Cost of water sold	**43,624**	27,521
Cost of technical and consultancy services rendered	**40,314**	37,704
Depreciation	**25,232**	9,299
Amortisation of operating concessions*	**43,524**	37,285
Amortisation of other intangible assets*	**985**	903

* *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

	2012 *HK$'000*	2011 *HK$'000*
Interest on bank loans and other loans wholly repayable within five years	**351,883**	266,965
Interest on other loans	**10,091**	5,557
Interest on corporate bonds	**104,459**	45,094
Interest on a note payable	**36,511**	–
Interest on a finance lease	**1,167**	234
Total interest expense	**504,111**	317,850
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**5,004**	3,711
Total finance costs	**509,115**	321,561
Less: Interest included in cost of construction services	**(14,825)**	(8,572)
	494,290	312,989

6. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2012 as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: 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 and reclaimed water treatment.

	2012	2011
	HK$'000	*HK$'000*
Current — Hong Kong	**–**	–
Current — Mainland China		
Charge for the year	**165,334**	138,048
Overprovision in prior years	**(112)**	(3,655)
Current — Malaysia		
Charge for the year	**2,930**	1,310
Deferred	**56,491**	34,158
Total tax expense for the year	**224,643**	169,861

7. DISTRIBUTIONS

	2012	2011
	HK$'000	*HK$'000*
Interim — HK2 cents (2011: Nil) per ordinary share	**138,183**	–
Proposed final — HK2 cents (2011: HK3 cents) per ordinary share	**151,351**	207,275
	289,534	207,275

The proposed final distribution for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the year ended 31 December 2012 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 6,909,170,486 ordinary shares in issue during the year. The calculation of basic earnings per share amount for the year ended 31 December 2011 was based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 6,719,431,905 ordinary shares in issue during the year, as adjusted to 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 of the Company completed on 15 March 2011.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these years.

9. 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:

	2012	2011
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**205,531**	159,900
4 to 6 months	**52,362**	23,509
7 to 12 months	**43,436**	22,330
Over 1 year	**81,135**	47,366
	382,464	253,105
Unbilled	**6,469,498**	5,003,117
	6,851,962	5,256,222
Portion classified as current assets	**(382,464)**	(253,105)
Non-current portion	**6,469,498**	5,003,117

10. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which would settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from certain of the trade and bills receivables of the construction services for comprehensive renovation projects which bear interest at rates ranging from 5.85% to 9.05%, 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:

	2012	2011
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**1,935,375**	234,442
4 to 6 months	**–**	42,522
7 to 12 months	**62,829**	11,220
Over 1 year	**255,915**	146,671
Balance with extended credit period	**217,768**	181,111
	2,471,887	615,966
Unbilled*	**10,838**	3,322,433
	2,482,725	3,938,399
Portion classified as current assets	**(2,385,500)**	(3,676,549)
Non-current portion	**97,225**	261,850

* *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.*

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Prepayments	**28,790**	24,415
Deposits and other debtors	**3,405,113**	2,035,215
Advances to subcontractors and suppliers	**2,504,828**	2,213,520
Due from jointly-controlled entities	**554,032**	470,480
Due from related parties	**1,458,335**	1,387,489
	7,951,098	6,131,119
Impairment	**(7,880)**	(5,531)
	7,943,218	6,125,588
Portion classified as current assets	**(5,395,988)**	(4,583,574)
Non-current portion	**2,547,230**	1,542,014

12. OTHER PAYABLES AND ACCRUALS

	2012 *HK$'000*	2011 *HK$'000*
Accruals	**241,557**	118,952
Other liabilities	**1,609,124**	1,552,630
Due to subcontractors	**2,166,810**	1,704,729
Due to jointly-controlled entities	**296,863**	160,721
Due to related parties	**82,840**	115,406
Due to an associate	**49,995**	–
Other taxes payables	**55,194**	33,817
	4,502,383	3,686,255
Portion classified as current liabilities	**(4,269,166)**	(3,406,346)
Non-current portion	**233,217**	279,909

13. TRADE AND BILLS PAYABLES

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

	2012 *HK$'000*	2011 *HK$'000*
Within 3 months	**610,163**	196,621
4 to 6 months	**271,075**	8,744
7 months to 1 year	**72,105**	31,203
1 to 2 years	**105,980**	236,272
2 to 3 years	**148,764**	142,164
Over 3 years	**88,415**	4,193
Balance with extended credit period	**622,736**	1,430,039
	1,919,238	2,049,236

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

14. EVENTS AFTER THE REPORTING PERIOD

(a) On 5 February 2013, the Group completed acquisitions of the following assets from Beijing Enterprises Holdings Limited ("BEHL", a substantial shareholder of the Company) and certain of its subsidiaries (the "Assets Vendors"):

(i) the estimated future net cash income (after deducting all state and local taxes in the PRC and operating costs) generated from the service concession arrangement on the water purification and treatment operation of the Phase 1 of No. 9 water treatment plant in Beijing for the six years ending 31 December 2018;

(ii) the entire equity interest in 濰坊北控水務有限公司 (Beijing Enterprises Water (Weifang) Company Limited^) which is engaged in a service concession arrangement on water supply in Shandong Province, the PRC; and

(iii) the entire equity interest in Beijing Enterprises Water Company Limited, an investment holding company holding an interest in a jointly-controlled entity which is engaged in a service concession arrangement on water supply in Beijing.

The above acquisitions were made pursuant to a master agreement (the "Master Agreement") dated 26 September 2012 entered into between the Group and the Assets Vendors, and the total consideration of HK$1,066,540,000 in respect of the above acquisitions was satisfied by way of the issuance of 658,357,748 ordinary shares of the Company at HK$1.62 per share to Beijing Enterprises Environmental Construction Limited ("BE Environmental"), a wholly-owned subsidiary of BEHL. The Group is not yet in a position to disclose any financial impact of the above acquisitions on the Group.

On the other hand, pursuant to the Master Agreement, the Group will also acquire a 90% equity interest in 北控水務集團(海南)有限公司 (Beijing Enterprises Water Group (Hainan) Company Limited^), which is principally engaged in sewage treatment operation in Hainan Province, the PRC for a consideration of RMB157,000,000 to be settled by way of the issuance of 118,453,090 ordinary shares of the Company at HK$1.62 per share to BE Environmental. As at the date of this announcement, this acquisition has not been completed.

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

(b) On 6 February 2013, the Company and three independent third parties (collectively the "Dongguan Vendors") entered into an equity transfer agreement, pursuant to which the Company conditionally agreed to acquire, and the Dongguan Vendors conditionally agreed to sell, the entire equity interests in seven companies established in Mainland China and principally engaged in the sewage treatment operations in Dongguan City, Guangdong Province at an aggregate consideration of RMB504,100,000 (equivalent to approximately HK$620,900,000). As at the date of this announcement, the transaction has not been completed.

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

(c) On 21 March 2013, the Company and Veolia Eau — Compagnie Générale des Eaux, S.C.A. ("Veolia Water", an independent third party) entered into a sale and purchase agreement, pursuant to which the Company will acquire from Veolia Water the following assets for an aggregate consideration of €95,093,073 (equivalent to approximately HK$960,440,000):

   (i) the entire share capital of Compagnie Générale des Eaux (Portugal) — Consultadoria e Engenharia, S.A. ("CGEP"), which is a private water and sewage treatment operator in Portugal;

   (ii) the quasi-capital contributions made by Veolia Water to CGEP; and

   (iii) shareholder loan granted by Veolia Water to CGEP and the corresponding interest payable.

   The consideration for the transaction is subject to an adjustment of up to €5,000,000 (equivalent to HK$50,500,000) and the maximum aggregate consideration for the acquisition shall be amounted to €100,093,073 (equivalent to approximately HK$1,010,940,000). As at the date of this announcement, the transaction has not been completed.

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

15. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 31 December 2012 amounted to HK$4,420,920,000 (2011: HK$4,983,500,000) and HK$22,031,597,000 (2011: HK$18,078,966,000), respectively.

DISTRIBUTIONS

The Board recommended to make distributions of HK2 cents per share out of the contributed surplus of the Company to shareholders of the Company for their continuous supports to the Company. This recommendation is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting. Further announcement will be made for the date of closure of register of members.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group maintained a steady growth this year. Profit for the year attributable to shareholders of the Company increased by 24.9% to HK$750.5 million. Revenue increased by 40.4% to HK$3,727.4 million as a result of increase in revenue contribution from sewage and reclaimed water treatment services and 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 and reclaimed water services					
— Subsidiaries	1,425.0	38%	63%	694.2	50%
— Jointly-controlled entities and associates	–	–	–	22.1	2%
	1,425.0	38%	63%	716.3	52%
Water supply services					
— Subsidiaries	105.6	3%	44%	13.2	1%
— Jointly-controlled entities	–	–	–	30.4	2%
	105.6	3%	44%	43.6	3%
Subtotal	1,530.6	41%		759.9	55%
Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
— Project with completion rate under 10%	14.4	1%	0%	–	–
— Project with completion rate more than 10%[§]	992.1	26%	21%	214.5	16%
— Interest income	–	–	–	177.5	13%
	1,006.5	27%	21%	392.0	29%
Construction of water plants	967.9	26%	11%	65.3	5%
Subtotal	1,974.4	53%		457.3	34%
Technical services for the water environmental renovation	222.4	6%	82%	150.8	11%
Business results	3,727.4	100%		1,368.0	100%
Others[#]				(617.5)	
Total				750.5	

[#] *Others included head office and other corporate expenses of HK$123.2 million and finance costs of HK$494.3 million.*

[§] *Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK$2.1 million.*

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

	Revenue HK$'M	%	GP ratio %	Profit attributable to shareholders of the Company HK$'M	%
Water treatment services					
Sewage treatment and reclaimed water services					
— Subsidiaries	994.7	37%	62%	484.7	53%
— Jointly-controlled entities	–	–	–	6.2	1%
	994.7	37%	62%	490.9	54%
Water supply services					
— Subsidiaries	83.2	3%	47%	10.9	1%
— Jointly-controlled entities	–	–	–	1.4	–
	83.2	3%	47%	12.3	1%
Subtotal	1,077.9	40%		503.2	55%
Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
— Project with completion rate under 10%	426.8	16%	0%	–	–
— Project with completion rate more than 10%[§]	325.3	13%	9%	65.4	7%
— Interest income	–	–	–	126.0	14%
	752.1	29%	4%	191.4	21%
Construction of water plants[Δ]	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.*

[Δ] *Profit attributable to shareholders of the Company included share of profits of jointly-controlled entities of HK$0.7 million.*

The comparison of the Group's financial results for the years ended 31 December 2012 and 2011 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	2012	2011	Increase/(decrease)		**2012**	2011	Increase/(decrease)	
	HK$'M	*HK$'M*	*HK$'M*	%	*HK$'M*	*HK$'M*	*HK$'M*	%
Water treatment services								
Sewage treatment and reclaimed water services								
— Subsidiaries	**1,425.0**	994.7	430.3	43%	**694.2**	484.7	209.5	43%
— Jointly-controlled entities and associates	**–**	–	–	–	**22.1**	6.2	15.9	256%
	1,425.0	994.7	430.3	43%	**716.3**	490.9	225.4	46%
Water supply services								
— Subsidiaries	**105.6**	83.2	22.4	27%	**13.2**	10.9	2.3	21%
— Jointly-controlled entities	**–**	–	–	–	**30.4**	1.4	29.0	2,071%
	105.6	83.2	22.4	27%	**43.6**	12.3	31.3	254%
Subtotal	**1,530.6**	1,077.9	452.7	42%	**759.9**	503.2	256.7	51%
Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
— Project with completion rate under 10%	**14.4**	426.8	(412.4)	(97%)	**–**	–	–	–
— Project with completion rate more than 10%	**992.1**	325.3	666.8	205%	**214.5**	65.4	149.1	228%
— Interest income	**–**	–	–	–	**177.5**	126.0	51.5	41%
	1,006.5	752.1	254.4	34%	**392.0**	191.4	200.6	105%
Construction of water plants	**967.9**	612.9	355.0	58%	**65.3**	44.3	21.0	47%
Subtotal	**1,974.4**	1,365.0	609.4	45%	**457.3**	235.7	221.6	94%
Technical services for the water environmental renovation	**222.4**	211.6	10.8	5%	**150.8**	169.1	(18.3)	(11%)
Business results	**3,727.4**	2,654.5	1,072.9	40%	**1,368.0**	908.0	460.0	51%
Others					**(617.5)**	(307.3)	(310.2)	(101%)
Total					**750.5**	600.7	149.8	25%

2. Business review

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

2.1 Water treatment services

As at 31 December 2012, the Group participates in 155 water plants either in operation or going to operate in near future including 120 sewage treatment plants, 30 water supply plants, 4 reclaimed water treatment plants and 1 seawater desalination plant. The total daily design capacity was increased by 1,765,500 tons to 10,494,450 tons, representing an increase of 20% as compared with last year. The increment of 1,765,500 tons daily design capacity includes Build-Operate-Transfer ("BOT") projects of 405,000 tons, Transfer-Operate-Transfer ("TOT") projects of 255,000 tons, entrustment operation projects of 95,500 tons, acquired project of 890,000 tons and raw water projects of 120,000 tons.

Analysis of projects on hand is as follows:

(Tons)	**Sewage treatment**	**Water supply**	**Reclaimed water**	**Seawater desalination**	**Total**
In operation	4,777,250	2,130,000	387,000	–	7,294,250
Not yet start operation	1,813,500	1,224,200	112,500	50,000	3,200,200
Total	6,590,750	3,354,200	499,500	50,000	10,494,450
(Number of water plants)					
In operation	83	21	4	–	108
Not yet start operation	37	9	–	1	47
Total	120	30	4	1	155

	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 and reclaimed water treatment services:					
— Southern	27	1,965,000	541.1	564.9	293.6
— Western	27	1,461,500	402.1	301.8	187.4
— Shandong	8	417,000	118.4	197.8	70.2
— Eastern	14	580,750	104.1	157.8	72.6
— Northern	11	740,000	112.2	202.7	92.5
	87	5,164,250	1,277.9	1,425.0	716.3
Water supply services	21	2,130,000	333.1	105.6	43.6
Total	108	7,294,250	1,611.0	1,530.6	759.9

2.1.1 Sewage and reclaimed water treatment services

As at 31 December 2012, the daily design capacity of sewage and reclaimed water treatment reached to 4,777,250 tons (31 December 2011: 3,773,750 tons) and 387,000 tons (31 December 2011: 182,000 tons) respectively. The average daily processing volume is 3,770,352 tons and average daily treatment rate is 73%. The actual average contracted tariff charge of water treatment was approximately HK$1.16 per ton. The actual aggregate processing volume for the year was 1,277.9 million tons, of which 1,105.5 million tons was contributed by subsidiaries and 172.4 million tons was contributed by jointly-controlled entities. Revenue was HK$1,425.0 million for the year (38% of the Group's total revenue). Net profit attributable to shareholders of the Company was HK$716.3 million, of which HK$694.2 million was contributed by subsidiaries and HK$22.1 million was contributed by jointly-controlled entities and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province and Hainan Province. As at 31 December 2012, there were 27 sewage treatment plants with total daily design capacity of 1,965,000 tons, representing an increase of 509,000 tons per day or 35% as compared with last year. The actual aggregate processing volume for the year amounted to 541.1 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$564.9 million and HK$293.6 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 2012, there were 27 sewage treatment plants with total daily design capacity of 1,461,500 tons, representing an increase of 180,000 tons per day or 14% as compared with last year. The actual processing volume for the year was 402.1 million tons. The operating revenue of HK$301.8 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK$187.4 million.

Shandong

There were 8 plants in Shandong region. The total daily design capacity of Shandong region is 417,000 tons, which is same as last year. The actual processing volume for the year was 118.4 million tons contributing operating revenue of HK$197.8 million during the year. Profit attributable to shareholders of the Company was HK$70.2 million.

Eastern China

There were 14 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 31 December 2012, the total daily design capacity of Eastern China had increased by 234,500 tons to 580,750 tons or 67.7% as compared with last year. The actual processing volume for the year amounted to 104.1 million tons and operating revenue was HK$157.8 million during the year. Profit attributable to shareholders of the Company was HK$72.6 million.

Northern China

Currently, the Group has 11 plants under operation in Northern China. They are mainly located in Liaoning Province. The daily design capacity of Northern China had increased by 285,000 tons to 740,000 tons 62.6% as compared with last year. The projects had achieved actual processing volume of 112.2 million tons for the year. The operating revenue was HK$202.7 million during the year. Profit attributable to shareholders of the Company was HK$92.5 million.

2.1.2 Water supply services

As at 31 December 2012, the Group had 21 water supply plants in operation. Total daily design capacity of these projects was 2,130,000 tons per day, representing an increase of 1,005,000 tons per day or 89% as compared with last year. The plants were located in Guizhou Province, Shandong Province, Henan Province, Guangxi Province and Inner Mongolia. The actual average contracted tariff charge of water supply is approximately HK$2.57 per ton. The aggregate actual processing volume is 333.1 million tons, of which 73.2 million tons was contributed by subsidiaries and 259.9 million tons was contributed by jointly controlled entities. Water supply services recorded revenue of HK$105.6 million

(3% of the Group's total revenue) and profit attributable to shareholders of the Company of HK$43.6 million, of which HK$13.2 million was contributed by subsidiaries and HK$30.4 million in aggregate was incurred by jointly-controlled entities.

2.2 *Construction services for the water environmental renovation*

2.2.1 *Construction services for comprehensive renovation projects*

The Group had five comprehensive renovation projects under construction during the year. The projects located in Guangxi Guigang, Dalian Dengshahe, Dalian Dashiqiao, Guizhou Nanminghe and Malaysia Pantai. Last year, the Group had five comprehensive renovation projects under construction which located in Guizhou Huaxi, Dalian Changxingdao, Dalian Dengshahe, Kunming and Malaysia Pantai.

Revenue from comprehensive renovation projects increased by HK$254.4 million from last year of HK$752.1 million to HK$1,006.5 million this year. The increase was mainly due to the new commencement of construction work for Guangxi Guigang, Dalian Dashiqiao and Guizhou Nanminghe projects.

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

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK$200.6 million from last year of HK$191.4 million to HK$392.0 million this year. The increase was mainly due to the commencement of construction work for Guangxi Guigang, Dalian Dashiqiao and Guizhou Nanminghe projects which contributed profit of HK$113.7 million in Year 2012.

Trade and bills receivables of HK$1,430.9 million (equivalent to RMB1,159.0 million) for construction of comprehensive renovation projects in Kunming were settled during the year. As at 31 December 2012, the accumulated receipts from Kunming projects was HK$3,263.5 million (equivalent to RMB2,643.4 million). As at 31 December 2012, the trade and bills receivables for these projects amounted to HK$1,654.3 million (equivalent to RMB1,340.0 million).

Trade and bills receivables of HK$165.9 million (equivalent to RMB134.4 million) for construction of comprehensive renovation projects in Dalian were settled during the year. As at 31 December 2012, the accumulated receipts from Dalian Changxingdao projects was HK$1,261.6 million (equivalent to RMB1,021.9 million). As at 31 December 2012, the trade and bills receivables for these projects amounted to HK$68.0 million (equivalent to RMB55.1 million).

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

During the year, 21 water plants were under construction. These water plants were mainly located in Beijing, Sichuan, Shandong, Yunnan, Dalian and Hunan provinces. Total revenue contribution for construction of water plants was HK$967.9 million and profit attributable to shareholders of the Company was HK$65.3 million. As at 31 December 2012, the total daily design capacity of these water plants in the construction stage was 1,964,700 tons, most of these projects are expected to commence operation in next year.

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$222.4 million, representing 6% of the Group's total revenue. The profit attributable to shareholders of the Company was HK$150.8 million (2011: HK$169.1 million). Decrease in profit attributable to shareholders of the Company was mainly due to increase in profit tax rate.

3. Financial analysis

3.1 Revenue

During the year, the Group recorded revenue of HK$3,727.4 million (2011: HK$2,654.5 million). The increase was mainly due to the increase in revenue from sewage and reclaimed water treatment services and construction services for the water environmental renovation. The related revenue from sewage and reclaimed water treatment services increased by HK$430.3 million and construction revenue increased by HK$609.4 million for the year.

3.2 Cost of sales

Cost of sales for the year amounted to HK$2,290.4 million which mainly included construction cost of HK$1,658.7 million and operating cost of water plants of HK$591.3 million. The construction cost mainly consisted of subcontracting charges. The operating cost of water plants, mainly included electricity charges of HK$231.7 million, staff cost of HK$106.1 million and major overhaul charge of HK$49.3 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 34% to 39%. The increase was mainly due to the gross profit margin of construction services for comprehensive renovation projects increased from 4% to 21%. The increase was due to the new comprehensive renovation project, Guizhou Nanminghe, which gross profit margin is 21% and attributed 52% revenue in the construction revenue for comprehensive renovation projects.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK$193.9 million during the year, compared to last year of HK$144.1 million. The increase was mainly due to the increase in investment incentive and government grants by HK$92.9 million. The effect was partly offset by the decrease in foreign exchange gain of HK$40.1 million.

3.5 Administrative expenses

Administrative expenses for the year was HK$439.6 million, compared to last year at HK$301.2 million. The increase was mainly due to the increase in staff cost of HK$60.3 million, business development expense of HK$17.1 million, land use tax expense of HK$20.0 million and depreciation of HK$15.6 million.

3.6 Other operating expenses, net

Other operating expenses for the year included the exchange loss in a RMB note payable and RMB corporate bonds of HK$78.1 million as a result of the appreciation of RMB and research and development expense of HK$27.6 million during the year.

3.7 Finance costs

Finance costs mainly represented interest on bank and other borrowings of HK$362.0 million (2011: HK$272.5 million) and interest on corporate bonds and a note payable of HK$141.0 million (2011: HK$45.1 million) in total. Increase in finance costs was mainly due to the issuance of RMB corporate bonds on 30 June 2011, 11 October 2011 and the issuance of a RMB note on 1 August 2012. Also, there was an increase in interest rate as compared with last year.

3.8 Income tax

Income tax expense for the year included the current PRC income tax of HK$165.2 million and Malaysia income tax of HK$2.9 million. The effective tax rate for the PRC operation was about 16% 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$56.5 million.

3.9 Property, plant and equipment

Property, plant and equipment increased by HK$294.3 million which was mainly attributable to the acquisition of 內蒙古黃河西部水業股份有限公司 (Inner Mongolia Yellow River Western Water Industry Co., Ltd^).

3.10 Receivables

The Group's total receivables of HK$12,128.3 million (2011: HK$10,881.8 million) include:

By accounting nature:

	2012			2011		
	Non-current *HK$'M*	**Current** *HK$'M*	**Total** *HK$'M*	Non-current *HK$'M*	Current *HK$'M*	Total *HK$'M*
(i) Amounts due from contract customers	**2,762.0**	**31.6**	**2,793.6**	1,599.3	87.9	1,687.2
(ii) Receivables under service concession arrangements	**6,469.5**	**382.5**	**6,852.0**	5,003.1	253.1	5,256.2
(iii) Trade and bills receivables	**97.2**	**2,385.5**	**2,482.7**	261.9	3,676.5	3,938.4
Total	**9,328.7**	**2,799.6**	**12,128.3**	6,864.3	4,017.5	10,881.8

(i) Amounts due from contract customers of HK$2,793.6 million represents the balance of accumulated construction costs incurred to date plus recognised accumulated gross profits exceed progress billings which arose from BOT and comprehensive renovation projects during the phase of construction. The balance increased by HK$1,106.4 million (non-current portion increased by HK$1,162.7 million and current portion decreased by HK$56.3 million) was mainly due to the recognition of construction services for water environmental renovation projects and BOT projects in Dalian and a water environmental renovation project in Nanminghe;

(ii) Receivables under service concession arrangements of HK$6,852.0 million represents the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts. The balance arises from BOT and TOT projects in operation. The balance increased by HK$1,595.8 million (non-current portion increased by HK$1,466.4 million and current portion increased by HK$129.4 million) was mainly due to acquisition of various TOT projects in Sichuan, Yunnan, Dalian and Hubei which accounted for an increase in receivable balance of around HK$963.0 million. Also BOT projects in Qiqihar, Changping, Heze, Yongzhou, Pengzhou and Fuzhou completed its construction and started to operate in this year which accounted for an increase in receivable balance of around HK$601.6 million; and

(iii) Trade and bills receivables of HK$2,482.7 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance decreased by HK$1,455.7 million (non-current portion decreased by HK$164.7 million and current portion decreased by HK$1,291.0 million), mainly due to settlement of receivables for construction services of comprehensive renovation projects in Kunming of HK$1,430.9 million (equivalent to RMB1,159.0 million) and Dalian Changxingdao of HK$165.9 million (equivalent to RMB134.4 million) during the year.

By business nature:

	2012 ***HK$'M***	2011 *HK$'M*
BOT and TOT projects	**8,433.3**	6,464.7
Construction services of comprehensive renovation projects	**3,246.6**	4,167.9
Technical and consultancy services and other businesses	**448.4**	249.2
Total	**12,128.3**	10,881.8

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$8,433.3 million (2011: HK$6,464.7 million). Total receivables for the construction service of comprehensive renovation projects were HK$3,246.6 million (2011: HK$4,167.9 million). Total receivables for technical and consultancy services and other businesses were HK$448.4 million (2011: 249.2 million).

3.11 Operating concessions

Operating concessions represents rights that the Group can charge users under service concession contracts. It is not an unconditional right to receive cash because the chargeable amounts are contingent on the extent that the users use the service. The balance arises from BOT and TOT projects in operation. The balance increased by HK$210.0 million was mainly due to the acquisition of operating concession in Hezhou of HK$183.3 million.

3.12 Investments in jointly-controlled entities

Investments in jointly-controlled entities increased by HK$344.2 million, mainly due to the acquisition of 洛陽北控水務集團有限公司 (Luoyang Beijing Enterprises Water Group Limited^) with consideration of RMB454.1 million (equivalent to HK$553.7 million) and share of profits of jointly-controlled entities of HK$56.0 million. The effect was partly offset by the acquisition of additional equity interest of 18.5% in 成都北控蜀都投資有限公司 (Chengdu Beikong Shudu Investment Co, Ltd.^). Chengdu Beikong Shudu Investment Co, Ltd. became a subsidiary in the Group after the acquisition and there was a corresponding decrease in interests in jointly-controlled entities of HK$353.2 million as a result.

3.13 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK$1,817.6 million (non-current portion increased by HK$1,005.2 million and current portion increased by HK$812.4 million), mainly due to increase in construction prepayment of HK$291.3 million and increase in deposits and other receivables of HK$1,369.9 million. Increase in deposits and other receivables was due to a deposit of HK$326.5 million for acquisition of a project in Jilin. Additionally, there was an increase in investment deposit related to water environmental renovation projects of HK$1,337.3 million.

3.14 Cash and cash equivalents

Cash and cash equivalents increased by HK$2,343.1 million, mainly due to increase in bank borrowings and other borrowings.

3.15 Other payables and accruals

Other payables and accruals increased by HK$816.1 million (non-current portion decreased by HK$46.7 million and current portion increased by HK$862.8 million). Increase was mainly due to increase in other liabilities due to subcontractors.

3.16 Note payable

Note payable represented the issuance of a note in the principal amount of RMB1,200.0 million (equivalent to HK$1,481.5 million) in August 2012.

3.17 Liquidity and financial resources

As at 31 December 2012, the Group's cash and cash equivalents amounted to HK$4,290.8 million (2011: HK$1,947.8 million).

The Group's total borrowings amounted to HK$13,294.5 million (2011: HK$8,760.1 million) and comprised bank and other borrowings of HK$9,403.7 million (2011: HK$6,434.5 million), finance lease payable of HK$19.7 million, a note payable of HK$1,476.6 million and corporate bonds of HK$2,394.5 million (2011: HK$2,325.6 million).

As at 31 December 2012, the Group had banking facilities amounting to HK$6.81 billion, of which HK$1.18 billion have not been utilised. The banking facilities are of 1 to 5 years term.

The gearing ratio as defined as sum of bank and other borrowings, finance lease payable, note payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 0.84 as at 31 December 2012 (2011: 0.7). The increase in the gearing ratio as at 31 December 2012 was mainly due to the increase in bank and other borrowings and issuance of a RMB note in Hong Kong. Assuming the Asset Injection (further details please refer to note 14(a) in the notes to financial statements) completes on 31 December 2012 and other factors remain unchanged, the total equity would be increased by HK$1,369.7 million to HK$12,101.2 million and gearing ratio would be 0.74.

3.18 Capital expenditures

During the year, the Group's total capital expenditures were HK$1,580.6 million (2011: HK$3,426.6 million), of which HK$50.5 million was paid for the acquisition of property, plant and equipment and intangible assets, HK$1,290.8 million was spent on construction and acquisition of water plants and HK$239.3 million was the consideration for acquisition of equity interest in subsidiaries and a jointly-controlled entity. The decrease was mainly due to the decrease in capital expenditure on the acquisition of equity interest in subsidiaries and jointly-controlled entities.

4. Future outlook

The Group will continue to: increase its investment in the traditional water business while vigorously embark on project market development and horizontal acquisitions in resolute implementation of the strategy of expanding its principal businesses; concentrate its resources and continue to carry out prudent investments in key regional water environmental renovation business through strategic partnerships; develop quality overseas projects promising sound strategic value with controllable risks in tandem with its proactive yet prudent pursuit of global business presence; advance its seawater desalination project in a vigorous and orderly manner; step up with the development of its sludge treatment project; expedite the research, development and commercialisation of applied technologies for underground sewage water treatment system, in a move to continuously enhance its ability to add value.

Meanwhile, the Group will continue to carry out in greater depth reforms of the systems and regimes of business departments managed by the Group, aiming to increase the efficiency of management and control, improve the standards of foundational management, strengthen human resource management and the fostering of corporate culture, enhance closed-circuit management of project investments, fortify synergistic operations, ensure proper execution of invested projects and identify further potentials in the operation and management of the existing business, with a view to further enhancing the Group's profitability and procuring sound and rapid development on a sustainable basis.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group employed 3,005 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 2012.

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, and a finance lease payable of the Group as at 31 December 2012 are secured by:

(i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors;

(ii) mortgages over the water fee collection right of a water distribution operation;

(iii) guarantees given by the Company and/or its subsidiaries;

(iv) pledges over certain of the Group's equity interests in subsidiaries; and/or

(v) pledges over 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

Majority of the subsidiaries of the Company operates in the PRC with most of the transaction denominated and settled in RMB. Currently, the Group has not used derivative financial instruments to hedge its foreign currency risk.

CONTINGENT LIABILITIES

During the year ended 31 December 2011, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK$121,966,000) 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 effect until 27 January 2019. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011.

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the year ended 31 December 2012, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, except as disclosed hereinbelow.

Prior to 1 April 2012, the non-executive Directors (all are independent non-executive Directors) were not appointed for a specific term that was deviated from the requirement under code provision A.4.1 under the CG Code. However, all Directors are subject to retirement by rotation and re-election at general meetings in accordance with the bye-laws of the Company. Sufficient measures had been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors of the Company, the Company confirms that during the year ended 31 December 2012, all of its directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by directors.

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 2012 have been reviewed and approved by the Audit Committee of the Company. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

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 2012 annual report and the notice of annual general meeting will be dispatched to shareholders in April 2013 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, 27 March 2013

As at the date of this announcement, the Board 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 six independent non-executive Directors, namely Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun, Mr. Wang Kaijun and Mr. Yu Ning.

^ *For identification purpose only*