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北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 371)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015

HIGHLIGHTS

- The Group reported revenue of HK\$5,763.7 million, representing an increase of 51% as compared with that of HK\$3,815.5 million in last period.
- Profit attributable to shareholders of the Company was HK\$1,160.4 million, representing an increase of 63% as compared with that of HK\$714.0 million in last period.
- During this period, the Group recognised a fair value gain of HK\$115.2 million on a forward contract in relation to the subscription of preference shares of Beijing Enterprises Clean Energy Group Limited (formerly known as “Jin Cai Holdings Company Limited”) (Please refer to note 3.5 for further details). Equity-settled share option expense amounted to HK\$34.5 million (six months ended 30 June 2014: HK\$57.6 million). Profit attributable to shareholders of the Company before the equity-settled share option expense and the fair value gain was HK\$1,079.7 million, representing an increase of 40% as compared with that of HK\$771.6 million in the last period.
- EBITDA amounted to HK\$2,395.9 million, representing an increase of 51% as compared with that of HK\$1,588.6 million in the last period.
- Basic and diluted earnings per share for the period were HK13.32 cents and HK13.01 cents respectively.
- Interim cash distribution of HK4.4 cents per share is declared for the six months ended 30 June 2015, excluding the fair value gain on derivative financial instruments of HK\$115.2 million, the dividend payout ratio is 37%.
- Total daily design capacity for new projects secured for this period was 1,842,500 tons. As at 30 June 2015, total daily design capacity was 21,992,550 tons, representing an increase of 9% as compared with the capacity of 20,150,050 tons as at 31 December 2014.

RESULTS

The board (the “Board”) of directors (the “Directors”) of Beijing Enterprises Water Group Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2015 with comparative figures for the corresponding period in 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015

		For the six months ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	5,763,655	3,815,507
Cost of sales		(3,506,988)	(2,219,828)
Gross profit		2,256,667	1,595,679
Interest income		197,879	175,783
Other income and gains, net		150,537	138,335
Administrative expenses		(480,198)	(479,260)
Other operating expenses, net		(9,454)	(7,700)
PROFIT FROM OPERATING ACTIVITIES	4	2,115,431	1,422,837
Fair value gain on derivative financial instruments		115,239	–
Finance costs	5	(552,506)	(518,781)
Share of profits and losses of:			
Joint ventures		58,794	62,590
Associates		16	20,938
PROFIT BEFORE TAX		1,736,974	987,584
Income tax	6	(351,749)	(190,681)
PROFIT FOR THE PERIOD		1,385,225	796,903
ATTRIBUTABLE TO:			
Shareholders of the Company		1,160,373	714,006
Non-controlling interests		224,852	82,897
		1,385,225	796,903
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic		HK13.32 cents	HK8.31 cents
– Diluted		HK13.01 cents	HK8.14 cents

Details of the cash distributions declared out of contributed surplus account for the period are disclosed in note 7.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	1,385,225	796,903
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	<u>(22,328)</u>	<u>(212,486)</u>
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive income/(loss) of a joint venture	<u>(12,834)</u>	<u>5,745</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF INCOME TAX	<u>(35,162)</u>	<u>(206,741)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>1,350,063</u></u>	<u><u>590,162</u></u>
ATTRIBUTABLE TO:		
Shareholders of the Company	1,115,295	552,596
Non-controlling interests	<u>234,768</u>	<u>37,566</u>
	<u><u>1,350,063</u></u>	<u><u>590,162</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015

		30 June 2015 (Unaudited) <i>HK\$'000</i>	31 December 2014 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets:			
Property, plant and equipment		1,368,729	1,242,995
Investment property		55,637	55,821
Goodwill		2,526,159	2,524,701
Operating concessions		2,219,436	2,285,523
Other intangible assets		29,058	28,432
Investments in joint ventures		3,537,701	3,106,768
Investments in associates		422,314	2,292
Derivative financial instruments		115,239	–
Available-for-sale investments		126,520	126,363
Amounts due from contract customers		9,866,360	6,817,293
Receivables under service concession arrangements	9	16,604,130	15,639,617
Trade and bills receivables	10	801,314	798,829
Prepayments, deposits and other receivables	11	4,352,774	3,854,676
Deferred tax assets		73,180	79,469
Total non-current assets		<u>42,098,551</u>	<u>36,562,779</u>
Current assets:			
Land held for sale		79,949	79,747
Inventories		57,326	57,775
Amounts due from contract customers		332,796	40,317
Receivables under service concession arrangements	9	1,974,558	1,600,565
Trade and bills receivables	10	2,848,491	2,595,017
Prepayments, deposits and other receivables	11	6,634,687	4,309,629
Restricted cash and pledged deposits		266,543	304,126
Cash and cash equivalents		4,561,707	6,090,883
Total current assets		<u>16,756,057</u>	<u>15,078,059</u>
TOTAL ASSETS		<u>58,854,608</u>	<u>51,640,838</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2015

		30 June 2015 (Unaudited) <i>HK\$'000</i>	31 December 2014 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital		871,477	870,743
Reserves		15,660,961	14,913,705
		16,532,438	15,784,448
Non-controlling interests		3,804,217	3,304,290
TOTAL EQUITY		20,336,655	19,088,738
Non-current liabilities:			
Other payables and accruals	12	329,561	340,404
Bank and other borrowings		13,132,718	12,529,842
Corporate bonds		3,862,957	4,492,307
Notes payable		3,227,431	2,523,639
Provision for major overhauls		250,544	247,018
Deferred income		70,785	70,486
Deferred tax liabilities		1,114,141	929,578
Total non-current liabilities		21,988,137	21,133,274
Current liabilities:			
Trade and bills payables	13	4,414,330	3,563,928
Other payables and accruals	12	4,206,869	3,470,715
Income tax payables		451,099	439,527
Bank and other borrowings		6,824,344	3,944,656
Corporate bonds		633,174	–
Total current liabilities		16,529,816	11,418,826
TOTAL LIABILITIES		38,517,953	32,552,100
TOTAL EQUITY AND LIABILITIES		58,854,608	51,640,838

NOTES:

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2015, the Group was involved in the following principal activities:

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

1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2015 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The accounting policies and basis of preparation adopted in the preparation of these unaudited interim financial information are the same as those adopted in the annual financial statements for the year ended 31 December 2014 except for the changes in accounting policies made thereafter in adopting the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, which became effective for the first time for the current period’s financial statements, as further detailed in note 1.3 below.

This interim condensed consolidated financial information has not been audited, but has been reviewed by the Company’s Audit Committee.

1.3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i>
<i>Annual Improvements</i> <i>2010-2012 Cycle</i>	Amendments to a number of HKFRSs
<i>Annual Improvements</i> <i>2011-2013 Cycle</i>	Amendments to a number of HKFRSs

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

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

2. OPERATING SEGMENT INFORMATION

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

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

For the six months ended 30 June 2015

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water distribution services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	5,192,093	393,780	177,782	5,763,655
Cost of sales	<u>(3,274,320)</u>	<u>(185,878)</u>	<u>(46,790)</u>	<u>(3,506,988)</u>
Gross profit	<u>1,917,773</u>	<u>207,902</u>	<u>130,992</u>	<u>2,256,667</u>
Segment results:				
The Group	1,909,892	180,111	93,668	2,183,671
Share of profits and losses of:				
Joint ventures	37,288	21,506	–	58,794
Associates	<u>–</u>	<u>16</u>	<u>–</u>	<u>16</u>
	<u>1,947,180</u>	<u>201,633</u>	<u>93,668</u>	<u>2,242,481</u>
Fair value gain on derivative financial instruments				115,239
Corporate and other unallocated income and expenses, net				(68,240)
Finance costs				<u>(552,506)</u>
Profit before tax				1,736,974
Income tax				<u>(351,749)</u>
Profit for the period				<u>1,385,225</u>
Profit for the period attributable to shareholders of the Company:				
Operating segments	<u>1,397,763</u>	<u>176,195</u>	<u>87,793</u>	1,661,751
Fair value gain on derivative financial instruments				115,239
Corporate and other unallocated items				<u>(616,617)</u>
				<u>1,160,373</u>

For the six months ended 30 June 2014

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000	Water distribution services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	3,353,503	360,281	101,723	3,815,507
Cost of sales	<u>(2,022,950)</u>	<u>(181,233)</u>	<u>(15,645)</u>	<u>(2,219,828)</u>
Gross profit	<u>1,330,553</u>	<u>179,048</u>	<u>86,078</u>	<u>1,595,679</u>
Segment results:				
The Group	1,300,138	130,327	67,309	1,497,774
Share of profits and losses of:				
Joint ventures	36,945	25,645	–	62,590
Associates	<u>20,938</u>	<u>–</u>	<u>–</u>	<u>20,938</u>
	<u>1,358,021</u>	<u>155,972</u>	<u>67,309</u>	1,581,302
Corporate and other unallocated income and expenses, net				(74,937)
Finance costs				<u>(518,781)</u>
Profit before tax				987,584
Income tax				<u>(190,681)</u>
Profit for the period				<u>796,903</u>
Profit for the period attributable to shareholders of the Company:				
Operating segments	<u>1,105,950</u>	<u>141,372</u>	<u>67,008</u>	1,314,330
Corporate and other unallocated items				<u>(600,324)</u>
				<u>714,006</u>

Geographical information

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from external customers:		
Mainland China	5,363,891	3,263,398
Malaysia	175,301	298,900
Elsewhere	224,463	253,209
	<u>5,763,655</u>	<u>3,815,507</u>

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

Information about major customers

During the period ended 30 June 2015, the Group had no transaction with any single (six months ended 30 June 2014: 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 period. A summary of revenue from the major external customer is set out below:

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer 1	<u>N/A*</u>	<u>443,239</u>

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

3. REVENUE

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

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

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sewage and reclaimed water treatment services*	1,872,893	1,571,198
Construction services	3,319,200	1,782,305
Water distribution services*	393,780	360,281
Technical and consultancy services	177,782	101,723
	<u>5,763,655</u>	<u>3,815,507</u>

* *Imputed interest income under service concession arrangements in an aggregate amount of HK\$536,267,000 (Six months ended 30 June 2014: HK\$495,485,000) is included in the revenues derived from "Sewage and reclaimed water treatment services" and "Water distribution services" above.*

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of sewage and reclaimed water treatment services rendered	663,700	566,521
Cost of construction services	2,575,811	1,424,758
Cost of water distribution services	156,844	152,197
Cost of technical and consultancy services rendered	46,790	15,645
Depreciation	40,395	19,902
Amortisation of operating concessions*	63,843	60,707
Amortisation of other intangible assets*	2,227	1,634

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and other loans	391,829	305,635
Interest on corporate bonds	108,261	145,088
Interest on notes payable	81,275	76,739
Interest on a finance lease	—	363
Total interest expense	581,365	527,825
Increase in discounted amounts of provision for major overhauls arising from the passage of time	4,654	4,520
Total finance costs	586,019	532,345
Less: Interest included in cost of construction services	(33,513)	(13,564)
	552,506	518,781

6. INCOME TAX

No provision for Hong Kong profits tax, Indonesia and Singapore corporate income tax has been made for the six months ended 30 June 2015 as the Group did not generate any assessable profits arising in Hong Kong, Indonesia and Singapore during the period (Six months ended 30 June 2014: Nil).

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

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – PRC:		
Hong Kong	–	–
Mainland China	156,313	100,077
Current – Malaysia	7,891	6,711
Current – Portugal	957	316
Under-provision in prior periods	5,452	3,966
Deferred	181,136	79,611
Total tax expense for the period	351,749	190,681

7. INTERIM DISTRIBUTION

On 27 August 2015, the Board declared an interim cash distribution of HK4.4 cents per share (Six months ended 30 June 2014: HK3.0 cents) totalling approximately HK\$383,522,000 (Six months ended 30 June 2014: HK\$261,148,000).

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the six months ended 30 June 2015 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 8,710,481,870 (Six months ended 30 June 2014: 8,596,156,640) ordinary shares in issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to shareholders of the Company and the weighted average number of ordinary shares after adjustment for the effect of deemed exercise of all dilutive share options at no consideration at the beginning of the period.

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

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to shareholders of the Company, used in the basic and diluted earnings per share calculation	<u>1,160,373</u>	<u>714,006</u>
	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	8,710,481,870	8,596,156,640
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	<u>209,431,564</u>	<u>179,587,455</u>
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<u>8,919,913,434</u>	<u>8,775,744,095</u>

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Billed:		
Within 3 months	862,451	615,957
4 to 6 months	311,737	211,904
7 to 12 months	188,832	169,100
Over 1 year	129,304	122,591
	1,492,324	1,119,552
Unbilled:		
Current portion	482,234	481,013
Non-current portion	16,604,130	15,639,617
	17,086,364	16,120,630
Total	18,578,688	17,240,182

10. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various Group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which would settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade and bills receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 7.35% to 12.48% (31 December 2014: 8.10% to 12.98%), 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:

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Billed:		
Within 3 months	280,628	177,068
4 to 6 months	52,934	17,199
7 to 12 months	98,891	76,068
Over 1 year	1,805,817	1,780,032
Balance with extended credit period	<u>51,804</u>	<u>51,673</u>
	2,290,074	2,102,040
Unbilled*	<u>1,359,731</u>	<u>1,291,806</u>
	3,649,805	3,393,846
Portion classified as current assets	<u>(2,848,491)</u>	<u>(2,595,017)</u>
Non-current portion	<u>801,314</u>	<u>798,829</u>

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

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Prepayments	60,687	51,442
Deposits and other debtors	7,003,630	4,217,363
Advances to subcontractors and suppliers	1,909,777	1,928,508
Due from joint ventures	664,772	654,334
Due from an associate	78	78
Due from related parties	<u>1,402,410</u>	<u>1,366,385</u>
	11,041,354	8,218,110
Impairment	<u>(53,893)</u>	<u>(53,805)</u>
	10,987,461	8,164,305
Portion classified as current assets	<u>(6,634,687)</u>	<u>(4,309,629)</u>
Non-current portion	<u>4,352,774</u>	<u>3,854,676</u>

12. OTHER PAYABLES AND ACCRUALS

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Accruals	204,900	380,767
Other liabilities	1,155,409	889,521
Receipts in advance	587,803	556,787
Due to subcontractors	1,531,354	1,445,792
Due to joint ventures	580,025	125,485
Due to related parties	367,804	348,006
Due to associates	30,413	–
Other taxes payables	78,722	64,761
	4,536,430	3,811,119
Portion classified as current liabilities	(4,206,869)	(3,470,715)
Non-current portion	329,561	340,404

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:

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Within 3 months	1,134,630	758,432
4 to 6 months	1,108,192	698,993
7 months to 1 year	965,711	243,421
1 to 2 years	253,564	554,964
2 to 3 years	176,712	459,658
Over 3 years	192,891	175,083
Balance with extended credit period	582,630	673,377
	4,414,330	3,563,928

Apart from certain trade and bills payables relating to certain construction services for comprehensive renovation projects which would become due for payments upon settlement 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. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2015 amounted to HK\$226,241,000 (unaudited) (31 December 2014: HK\$3,659,233,000) and HK\$42,324,792,000 (unaudited) (31 December 2014: HK\$40,222,012,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the period attributable to shareholders of the Company increased by 63% to HK\$1,160.4 million. Revenue increased by 51% to HK\$5,763.7 million as a result of increase in revenue contribution from water treatment services and construction services for BOT projects.

1. Financial highlights

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,796.8	31%	65%	841.8	50%
– Joint ventures and associates				11.1	1%
				852.9	51%
Overseas					
– Subsidiaries	76.1	1%	14%	1.2	0%
	1,872.9	32%		854.1	51%
Water distribution services					
China					
– Subsidiaries	307.0	5%	60%	140.4	9%
– Joint ventures and associates				21.5	1%
				161.9	10%
Overseas					
– Subsidiaries	86.8	2%	29%	14.3	1%
	393.8	7%		176.2	11%
Subtotal	2,266.7	39%		1,030.3	62%

		Revenue		GP ratio		Profit attributable to shareholders of the Company	
		HK\$'M	%		%	HK\$'M	%
2.	Construction services for the water environmental renovation						
	Construction services for comprehensive renovation projects						
	– Projects with completion rate more than 10% [§]	912.3	16%	17%		126.9	8%
	– Interest income	–	–	–		90.1	5%
		912.3	16%	17%		217.0	13%
	Construction of BOT water projects	2,406.9	42%	24%		326.7	20%
		<u>3,319.2</u>	<u>58%</u>			<u>543.7</u>	<u>33%</u>
3.	Technical services for the water environmental renovation	177.8	3%	74%		87.8	5%
	Business results	<u>5,763.7</u>	<u>100%</u>			<u>1,661.8</u>	<u>100%</u>
	Fair value gain on derivative financial instruments					115.2	
	Others[#]					(616.6)	
	Total					<u>1,160.4</u>	

[#] Others included head office and other corporate expense, net, of HK\$29.6 million, equity-settled share option expense of HK\$34.5 million and finance costs of HK\$552.5 million.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$4.9 million.

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,482.9	39%	65%	656.8	49%
– Joint ventures and associates				3.6	1%
				660.4	50%
Overseas					
– Subsidiaries	88.3	2%	15%	1.5	1%
	1,571.2	41%		661.9	51%
Water distribution services					
China					
– Subsidiaries	255.8	7%	58%	98.8	8%
– Joint ventures and associates				25.6	2%
				124.4	10%
Overseas					
– Subsidiaries	104.5	3%	29%	17.0	1%
	360.3	10%		141.4	11%
Subtotal	1,931.5	51%		803.3	62%

		Revenue		GP ratio		Profit attributable to shareholders of the Company	
		HK\$'M	%		%	HK\$'M	%
2.	Construction services for the water environmental renovation						
	Construction services for comprehensive renovation projects						
	– Projects with completion rate more than 10% [§]	417.6	11%	19%		141.2	11%
	– Interest income	–	–	–		72.1	5%
		417.6	11%	19%		213.3	16%
	Construction of BOT water projects	1,364.7	36%	20%		230.7	17%
		-----	-----			-----	-----
	Subtotal	1,782.3	47%			444.0	33%
		-----	-----			-----	-----
3.	Technical services for the water environmental renovation	101.7	2%	85%		67.0	5%
		-----	-----			-----	-----
	Business results	<u>3,815.5</u>	<u>100%</u>			1,314.3	<u>100%</u>
		-----	-----			-----	-----
	Others[#]					(600.3)	

	Total					<u>714.0</u>	

[#] Others included head office and other corporate expense, net, of HK\$23.9 million, equity-settled share option expense of HK\$57.6 million and finance costs of HK\$518.8 million.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$35.5 million.

The comparison of the Group's financial results for the six months ended 30 June 2015 and 2014 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June		Increase/(Decrease)		For the six months ended 30 June		Increase/(Decrease)	
	2015 HK\$'M	2014 HK\$'M	HK\$'M	%	2015 HK\$'M	2014 HK\$'M	HK\$'M	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	1,796.8	1,482.9	313.9	21%	841.8	656.8	185.0	28%
– Joint ventures and associates					11.1	3.6	7.5	208%
GP ratio	65%	65%		–	852.9	660.4	192.5	29%
Overseas								
– Subsidiaries	76.1	88.3	(12.2)	(14)%	1.2	1.5	(0.3)	(20)%
GP ratio	14%	15%		(1)%				
	1,872.9	1,571.2	301.7	19%	854.1	661.9	192.2	29%
Water distribution services								
China								
– Subsidiaries	307.0	255.8	51.2	20%	140.4	98.8	41.6	42%
– Joint ventures and associates					21.5	25.6	(4.1)	(16)%
GP ratio	60%	58%		2%	161.9	124.4	37.5	30%
Overseas								
– Subsidiaries	86.8	104.5	(17.7)	(17)%	14.3	17.0	(2.7)	(16)%
GP ratio	29%	29%		–				
	393.8	360.3	33.5	9%	176.2	141.4	34.8	25%
Subtotal	2,266.7	1,931.5	335.2	17%	1,030.3	803.3	227.0	28%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	912.3	417.6	494.7	118%	126.9	141.2	(14.3)	(10)%
– Interest income	–	–	–	–	90.1	72.1	18.0	25%
GP ratio	17%	19%		(2)%	217.0	213.3	3.7	2%
Construction of BOT water projects	2,406.9	1,364.7	1,042.2	76%	326.7	230.7	96.0	42%
GP ratio	24%	20%		4%				
Subtotal	3,319.2	1,782.3	1,536.9	86%	543.7	444.0	99.7	22%
3. Technical services for the water environmental renovation								
GP ratio	74%	85%		(11)%	87.8	67.0	20.8	31%
Business results	5,763.7	3,815.5	1,948.2	51%	1,661.8	1,314.3	347.5	26%
Fair value gain on derivative financial instruments					115.2	–	115.2	100%
Others					(616.6)	(600.3)	(16.3)	(3)%
Total					1,160.4	714.0	446.4	63%

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 19 provinces, 2 autonomous regions and 3 municipalities all across Mainland China.

2.1 Water treatment services

As at 30 June 2015, the Group entered into service concession arrangements for a total of 345 water plants including 257 sewage treatment plants, 81 water distribution plants, 6 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for this period was 1,842,500 tons including Build-Operate-Transfer ("BOT") projects of 742,000 tons, Public-Private Partnership Project ("PPP") of 20,000 tons, and 1,080,500 tons through mergers and acquisitions.

As at 30 June 2015, total daily design capacity was 21,992,550 tons, representing an increase of 9% as compared with the capacity of 20,150,050 tons as at 31 December 2014.

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
China					
In operation	8,312,450	438,000	3,546,000	–	12,296,450
Not yet commenced operation/Not yet transferred	<u>3,683,500</u>	<u>262,500</u>	<u>5,299,700</u>	<u>50,000</u>	<u>9,295,700</u>
Subtotal	<u>11,995,950</u>	<u>700,500</u>	<u>8,845,700</u>	<u>50,000</u>	<u>21,592,150</u>
Overseas					
In operation	55,200	–	36,000	–	91,200
Not yet commenced operation/Not yet transferred	<u>–</u>	<u>228,000</u>	<u>81,200</u>	<u>–</u>	<u>309,200</u>
Subtotal	<u>55,200</u>	<u>228,000</u>	<u>117,200</u>	<u>–</u>	<u>400,400</u>
Total	<u>12,051,150</u>	<u>928,500</u>	<u>8,962,900</u>	<u>50,000</u>	<u>21,992,550</u>
<i>(Number of water plants)</i>					
China					
In operation	191	4	28	–	223
Not yet commenced operation/Not yet transferred	<u>42</u>	<u>1</u>	<u>37</u>	<u>1</u>	<u>81</u>
Subtotal	<u>233</u>	<u>5</u>	<u>65</u>	<u>1</u>	<u>304</u>
Overseas					
In operation	24	–	13	–	37
Not yet commenced operation/Not yet transferred	<u>–</u>	<u>1</u>	<u>3</u>	<u>–</u>	<u>4</u>
Subtotal	<u>24</u>	<u>1</u>	<u>16</u>	<u>–</u>	<u>41</u>
Total	<u>257</u>	<u>6</u>	<u>81</u>	<u>1</u>	<u>345</u>

	Number of plants	Design capacity (Tons/Day)	Actual processing volume during the period* (Tons (M))	Revenue (HK\$'M)	Profit attributable to shareholders of the Company (HK\$'M)
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	46	3,013,700	480.1	578.8	336.3
– Western China	44	1,530,500	209.0	371.6	163.4
– Shandong	26	1,077,000	159.7	240.5	109.9
– Eastern China	49	2,123,250	224.0	340.0	111.8
– Northern China	30	1,006,000	133.7	265.9	131.5
	195	8,750,450	1,206.5	1,796.8	852.9
Overseas	24	55,200	9.9	76.1	1.2
Subtotal	219	8,805,650	1,216.4	1,872.9	854.1
Water distribution services:					
Mainland China	28	3,546,000	307.8	307.0	161.9
Overseas	13	36,000	5.6	86.8	14.3
Subtotal	41	3,582,000	313.4	393.8	176.2
Total	260	12,387,650	1,529.8	2,266.7	1,030.3

* *Excluded entrustment operation contracts*

2.1.1 Sewage and reclaimed water treatment services

2.1.1a Mainland China

As at 30 June 2015, the Group had 191 sewage treatment plants and 4 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 8,312,450 tons (31 December 2014: 7,523,950 tons) and 438,000 tons (31 December 2014: 418,000 tons) respectively. The average daily processing volume is 6,857,605 tons and average daily treatment rate is 82%. The actual average contracted tariff charge of water treatment was approximately HK\$1.28 per ton

for water plants. The actual aggregate processing volume for the period was 1,206.5 million tons, of which 1,175.7 million tons was contributed by subsidiaries and 30.8 million tons was contributed by joint ventures. Total revenue for the period was HK\$1,796.8 million. Net profit attributable to shareholders of the Company was HK\$852.9 million, of which HK\$841.8 million was contributed by subsidiaries and HK\$11.1 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province, Shaanxi Province and Hainan Province. As at 30 June 2015, there were 46 sewage treatment plants with total daily design capacity of 3,013,700 tons, which is same as last year. The actual aggregate processing volume for the period amounted to 480.1 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$578.8 million and HK\$336.3 million respectively during the period.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2015, there were 44 sewage treatment plants with total daily design capacity of 1,530,500 tons, representing an increase of 48,500 tons per day or 3% as compared with last year. The actual processing volume for the period was 209.0 million tons. The operating revenue of HK\$371.6 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$163.4 million.

Shandong

There were 26 plants in Shandong region. The total daily design capacity of Shandong region is 1,077,000 tons, representing an increase of 50,000 tons per day or 5% as compared with last year. The actual processing volume for the period was 159.7 million tons contributing operating revenue of HK\$240.5 million during the period. Profit attributable to shareholders of the Company was HK\$109.9 million.

Eastern China

There were 49 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 30 June 2015, the total daily design capacity of Eastern China had increased by 500,000 tons to 2,123,250 tons or 31% as compared with last year. The actual processing volume for the period amounted to 224.0 million tons and operating revenue was HK\$340.0 million during the period. Profit attributable to shareholders of the Company was HK\$111.8 million.

Northern China

Currently, the Group has 30 plants under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 210,000 tons to 1,006,000 tons or 26% as compared with last year. The projects achieved actual processing volume of 133.7 million tons for the period. The operating revenue was HK\$265.9 million during the period. Profit attributable to shareholders of the Company was HK\$131.5 million.

2.1.1b Overseas:

As at 30 June 2015, the Group had 24 sewage treatment plants in Portugal. Total daily design sewage treatment capacity in operation was 55,200 tons. The actual processing volume for the period is 9.9 million tons. Total revenue for the period was HK\$76.1 million. Profit attributable to shareholders of the Company was HK\$1.2 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 30 June 2015, the Group had 28 water distribution plants in operation. Total daily design capacity in operation was 3,546,000 tons (31 December 2014: 3,420,000 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province and Guangxi Province. The actual average contracted tariff charge of water distribution is approximately HK\$2.31 per ton. The aggregate actual processing volume is 307.8 million tons, of which 160.3 million tons was contributed by subsidiaries, which recorded revenue of HK\$307.0 million and 147.5 million tons was contributed by joint ventures. Imputed interest income of HK\$43.5 million was recognised for the receivables under service concession arrangement of Plant No. 9 in Beijing. Profit attributable to shareholders of the Company was HK\$161.9 million, of which profit of HK\$140.4 million was contributed by subsidiaries and a profit of HK\$21.5 million in aggregate was contributed by joint ventures and associates.

2.1.2b Overseas:

As at 30 June 2015, the Group had 13 water distribution plants in Portugal. Total daily design water distribution capacity in operation was 36,000 tons. The actual processing volume for the period is 5.6 million tons. Total revenue for the period was HK\$86.8 million. Profit attributable to shareholders of the Company was HK\$14.3 million.

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had twelve comprehensive renovation projects under construction during the period. The projects mainly located in Beijing Liangshuihe, Henan Luoyang, Foshan Gaoming, Hunan Zhuhui, Yunnan Kunming, Yunnan Yuxi and Malaysia Pantai. Last period, the Group had four comprehensive renovation projects under construction which located in Guangxi Guigang, Hunan Zhuhui, Yunnan Yuxi and Malaysia Pantai.

Revenue from comprehensive renovation projects increased by HK\$494.7 million from last period of HK\$417.6 million to HK\$912.3 million this period. Revenue increased was mainly due to the new commencement of construction work for Beijing Liangshuihe and Henan Luoyang Projects.

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to time of the receipt of the trade receivables. Interest income from water environmental renovation projects attributable to shareholders of the Company was HK\$90.1 million for this period (six months ended 30 June 2014: HK\$72.1 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects slightly increased by HK\$3.7 million from last period of HK\$213.3 million to HK\$217.0 million this period.

2.2.2 Construction of BOT water projects

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

During the period, water plants under construction were mainly located in Beijing, Sichuan, Shandong, Yunnan, Liaoning, Guangxi, Jiangsu, Shanxi, Heilongjiang and Hunan provinces. Total revenue for construction of BOT water projects was HK\$2,406.9 million (six months ended 30 June 2014: HK\$1,364.7 million) and profit attributable to shareholders of the Company was HK\$326.7 million (six months ended 30 June 2014: HK\$230.7 million). The increase in contribution from BOT projects during this period was mainly due to the construction work performed for projects located in Shandong and Henan.

2.3 Technical services for the water environmental renovation

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

Revenue from the provision of technical services was HK\$177.8 million (six months ended 30 June 2014: HK\$101.7 million), representing 3% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$87.8 million (six months ended 30 June 2014: HK\$67.0 million).

3. Financial analysis

3.1 Revenue

During the period, the Group recorded revenue of HK\$5,763.7 million (six months ended 30 June 2014: HK\$3,815.5 million). The increase was mainly due to the increase in revenue from water treatment and construction services. Increase in revenue from water treatment services was mainly due to revenue contribution from BOT projects which commenced operation in second half of Year 2014 and current period. Increase in revenue from construction services was mainly due to increase in construction work for BOT projects in Luoyang and Shandong.

3.2 Cost of sales

Cost of sales for the period amounted to HK\$3,507.0 million, compared to last period of HK\$2,219.8 million. The increase was mainly due to the increase in construction costs and operating costs of water plants amounted to HK\$1,151.0 million and HK\$105.0 million respectively. Cost of sales mainly included construction costs of HK\$2,575.8 million and operating costs of water plants of HK\$884.4 million. The construction costs mainly consisted of subcontracting charges. The increase in construction costs was mainly due to the increase in construction works for BOT projects. The operating costs of water plants, mainly included electricity charges of HK\$319.0 million, staff costs of HK\$189.5 million and major overhaul charges of HK\$27.5 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the period, gross profit margin slightly decreased from last period of 42% to 39%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China maintained at 65%. Gross margin for sewage and reclaimed water treatment services in Overseas was 14% (last period: 15%).

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 60% (last period: 58%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services increased to 53% (last period: 48%). The increase of gross margin for water distribution services was mainly due to higher profit margin achieved by newly acquired projects. Gross margin for water distribution services in Overseas was 29% (last period: 29%).

Gross margin for construction services for the water environmental renovation:

Gross margin for construction services for comprehensive renovation projects slightly decreased from last period of 19% to 17% this period.

Gross margin for construction of BOT water projects increased from last period of 20% to 24% this period. Gross margin increased as higher gross margin was recorded by the new BOT projects.

Gross margin for technical services for the water environmental renovation:

Gross margin for the technical services for the water environmental renovation was 74% (last period: 85%). Gross margin decreased as the design services of 南京市市政設計研究院有限責任公司 (Nanjing Municipal Design and Research Institute[^]), a company acquired in the second half of year 2014, has a lower gross margin.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$150.5 million during the period, compared to last period of HK\$138.3 million. The amount for this period mainly included sludge treatment income of HK\$18.1 million, government grants of HK\$12.0 million and foreign exchange gains, net of HK\$88.3 million.

3.5 Fair value gain on derivative financial instruments

On 9 December 2014, the Group entered into a subscription agreement with Beijing Enterprises Clean Energy Group Limited (the “BE Clean Energy”, formerly known as “Jin Cai Holdings Company Limited”). The Group shall subscribe 17,721,519,000 shares at subscription price of HK\$0.079. The total consideration is HK\$1.4 billion, which shall be paid in five tranche within two years. After the completion of all the subscriptions, the Group shall hold equity interest of 34.95% in BE Clean Energy. The first tranche of subscription with total number of shares of 5,316,455,700 was completed in May 2015. The Group holds equity interests of 30.47% in BE Clean Energy as at 30 June 2015.

[^] For identification purpose only

According to the accounting policy, the remaining four tranche of subscriptions with total number of shares of 12,405,063,300 is treated as a forward contract to subscribe the shares in BE Clean Energy. The Group needs to recognise the forward contract as a derivative financial instrument and the related gain or loss due to changes in fair value is required to be recognised in the consolidated statement of profit or loss of the Group. As at 30 June 2015, the fair value of the forward contract is assessed at HK\$115.2 million and the corresponding fair value gain is recognised in the consolidated statement of profit or loss.

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

3.6 *Administrative expenses*

Administrative expenses for the period slightly increased to HK\$480.2 million, compared to last period of HK\$479.3 million. Excluded the equity-settled share option expense, the ratio of administrative expenses to total revenue decreased from 11.1% last period to 7.7%.

3.7 *Finance costs*

Finance costs mainly represented interests on bank and other borrowings of HK\$391.8 million (six months ended 30 June 2014: HK\$305.6 million) and interests on corporate bonds and notes payable of HK\$189.5 million (six months ended 30 June 2014: HK\$221.8 million). The increase in finance costs was mainly due to increase in bank and other borrowings of HK\$3,482.6 million during this period.

3.8 *Income tax*

Income tax expense for the period included the current PRC income tax of HK\$156.3 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 charge for the period was HK\$181.1 million.

3.9 Property, plant and equipment

Property, plant and equipment increased by HK\$125.7 million which was mainly due to the recognition for construction of Build-Own-Operate (“BOO”) projects in Guangxi in current period.

3.10 Investment property

Investment property represents a portion of a building located in Beijing which the Group held to earn rental income. The investment property is stated at fair value.

3.11 Receivables

The Group’s total receivables of HK\$32,427.7 million (31 December 2014: HK\$27,491.6 million) included:

By accounting nature:

	30 June 2015			31 December 2014		
	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	9,866.4	332.8	10,199.2	6,817.3	40.3	6,857.6
(ii) Receivables under service concession arrangements	16,604.1	1,974.6	18,578.7	15,639.6	1,600.6	17,240.2
(iii) Trade and bills receivables	801.3	2,848.5	3,649.8	798.8	2,595.0	3,393.8
Total	27,271.8	5,155.9	32,427.7	23,255.7	4,235.9	27,491.6

- (i) Amounts due from contract customers of HK\$10,199.2 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK\$3,341.6 million (non-current portion increased by HK\$3,049.1 million and current portion increased by HK\$292.5 million), which was mainly due to the recognition of construction revenue for projects in Luoyang, Shandong and Liangshuihe;

- (ii) Receivables under service concession arrangements of HK\$18,578.7 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects in operation. The increase in balance by HK\$1,338.5 million (non-current portion increased by HK\$964.5 million and current portion increased by HK\$374.0 million) was mainly due to the commencement of operation of BOT and TOT projects which accounted for an increase in receivable balance of HK\$1,071.0 million; and
- (iii) Trade and bills receivables of HK\$3,649.8 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. Increase in balance of HK\$256.0 million (non-current portion increased by HK\$2.5 million and current portion increased by HK\$253.5 million) was mainly due to the reclassification of receivables for Beihai, Guangxi and Malaysia project from amounts due from contract customers to trade and bills receivables.

By business nature:

	30 June 2015 HK\$'M	31 December 2014 HK\$'M
Water treatment services by BOT and TOT projects	25,706.1	21,673.5
Construction services of comprehensive renovation projects	6,224.6	5,432.4
Technical and consultancy services and other businesses	497.0	385.7
Total	<u>32,427.7</u>	<u>27,491.6</u>

Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 *Service Concession Arrangements* were HK\$25,706.1 million (31 December 2014: HK\$21,673.5 million). Total receivables for the construction service of comprehensive renovation projects were HK\$6,224.6 million (31 December 2014: HK\$5,432.4 million). Total receivables for technical and consultancy services and other businesses were HK\$497.0 million (31 December 2014: HK\$385.7 million).

3.12 Operating concessions

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

3.13 Investments in joint ventures

Investments in joint ventures increased by HK\$430.9 million, mainly due to the capital injection in a joint venture during the period.

3.14 Investments in associates

Investments in associates increased by HK\$420.0 million, mainly due to the acquisition of 30.47% interest in BE Clean Energy during the period.

3.15 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$2,823.2 million (non-current portion increased by HK\$498.1 million and current portion increased by HK\$2,325.1 million), mainly due to the payment of a deposit for purchasing a new office building in the PRC and increase in deposits for bidding of projects.

3.16 Cash and cash equivalents

Cash and cash equivalents decreased by HK\$1,529.2 million, mainly due to the payment of deposits for purchasing a new office building in the PRC during the period.

3.17 Other payables and accruals

Other payables and accruals increased by HK\$725.3 million (non-current portion decreased by HK\$10.8 million and current portion increased by HK\$736.1 million), mainly due to the increase in amounts due to joint ventures by HK\$454.5 million during the period.

3.18 Bank and other borrowings

Bank and other borrowings increased by HK\$3,482.6 million (non-current portion increased by HK\$602.9 million and current portion increased by HK\$2,879.7 million). Increase in bank and other borrowings was mainly utilised for acquisition and construction of various water projects in the PRC.

3.19 Corporate bonds and notes payable

The increase was mainly due to the issuance of notes payables with principal amount of HK\$700 million during the period.

3.20 Trade and bills payables

The increase in trade and bills payables by HK\$850.4 million was mainly due to increase in trade payables to subcontractors for construction services of BOT projects during the period.

3.21 Liquidity and financial resources

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

As at 30 June 2015, the Group's cash and cash equivalents amounted to HK\$4,561.7 million (31 December 2014: HK\$6,090.9 million).

The Group's total borrowings amounted to HK\$27,680.6 million (31 December 2014: HK\$23,490.4 million) comprised bank and other borrowings of HK\$19,957.1 million (31 December 2014: HK\$16,474.5 million), notes payable of HK\$3,227.4 million (31 December 2014: HK\$2,523.6 million) and corporate bonds of HK\$4,496.1 million (31 December 2014: HK\$4,492.3 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 80% of bank and other borrowings bear interest at floating rates.

As at 30 June 2015, the Group had banking facilities amounting to HK\$16.7 billion, of which HK\$3,214.0 million have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$20,336.7 million (31 December 2014: HK\$19,088.7 million).

The gearing ratio as defined as sum of bank and other borrowings, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.14 as at 30 June 2015 (31 December 2014: 0.91). The increase in the gearing ratio as at 30 June 2015 was mainly due to the increase in bank and other borrowings. The corresponding proceeds were mainly utilised for the acquisition and construction of various water projects in the PRC.

3.21 Capital expenditures

During the period, the Group's total capital expenditures were HK\$2,587.3 million (six months ended 30 June 2014: HK\$2,376.7 million), of which HK\$179.9 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$1,987.4 million was spent on construction and acquisition of water plants and HK\$420.0 million represented the consideration for acquisition of equity interests in an associate.

4. Future outlook

4.1 Development Strategy

In the second half of 2015, ecological and environmental protection, clean energy and water resource development have been listed amongst 11 key development and investment targets by the central government in China. As such, the Group will maintain its strategic position as a “leading professional integrated water environmental service provider” and will continue to combat risk, co-ordinate interactions among the industry, the capital market and the public relations sector, strengthen internal and external resource sharing, and boost the growth of both its core and new businesses.

As future business development will center around large-scale markets, regions, industries, clients, projects and collaboration opportunities, the Group will target at regions with pressing urban, river and lake pollution problems, sound economies and trustworthy governments, and will promote the growth across its businesses spanning from traditional water service, environmental, hygiene and solid waste treatment to clean energy with its comprehensive water environment solutions. Inorganic growth such as co-operation with regional environmental enterprises as well as mergers and acquisitions will also be pursued. For example, the Group will seek breakthroughs in rural sewage treatment markets and technologies, which are relatively stagnant. Investment will be made to expand the high-end industrial sewage treatment business. Customer development and care will also be enhanced based on the PPP model in order to secure stable project sources in the long run.

4.2 *Future development*

From a macro point of view, after over 30 years of economic reform and particularly since the 18th National Congress of the Communist Party of China, the government and people in China have been increasingly concerned with the environment and social welfare. In the face of the “New Normal”, the government have time and again reiterated the importance of maintaining economic growth and investment in, in particular, social welfare, entrepreneurship, innovation and emerging industries. Under the PPP model advocated by the central government, social capital will be streamed into the development of environmental infrastructure, which will create more investment opportunities for the Group.

Down to the industry environment, driven by a series of national policies and tightening standards with respect to the control of water pollution, the orientation of pollution treatment has shifted from quantity to quality. It is expected that the government will further strengthen its environmental control and restoration effort, and stiffen the professional requirements for service providers. Therefore, the water service and environmental protection industry is in a period of transformation and upgrade. Competition is becoming keener. The environmental service providers will move forward to upgrade themselves, expand service contents and more complex structural transactions, and move towards the development of broader and better services.

In the second half of 2015, the Group will cautiously analyse market changes and adjust its business strategies accordingly. The Group will also communicate closely with the capital market and maintain amicable public relationship. Operational improvements and delicacy management will be stepped up so as to maintain its corporate image. Incentive schemes and corporate culture will also be refined in order to enhance human resource management. The Group strongly believes that its business goals and tasks for 2015 will be achieved successfully.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2015, the Group employed 6,663 employees. Total staff cost for the six months ended 30 June 2015 was HK\$517,438,000 (six months ended 30 June 2014: HK\$326,230,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted an independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. 7,340,000 share options were exercised and 3,400,000 share options were lapsed during the six months ended 30 June 2015. No share option was cancelled during the six months ended 30 June 2015. As at 30 June 2015, the Company had 367,624,000 share options outstanding which were granted on 24 April 2013 and 2,000,000 share options outstanding which were granted on 28 March 2014. The total outstanding share options represented approximately 4.24% of the Company's ordinary shares in issue as at 30 June 2015.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the six months ended 30 June 2015, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 30 June 2015 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 a land use right and certain buildings of the Group;
- (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, at 30 June 2015, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

At 30 June 2015, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK\$104,346,000) (31 December 2014: RM49,162,000 (equivalent to HK\$108,972,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and effects until 27 January 2019. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011.

Save as disclosed above, at 30 June 2015, the Group did not have any significant contingent liabilities.

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

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

INTERIM DISTRIBUTION

The Directors of the Company have resolved to pay interim distribution of HK4.4 cents per ordinary share out of the contributed surplus of the Company, payable on or before 12 October 2015 to shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 29 September 2015 for their continuous supports to the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 25 September 2015 to Tuesday, 29 September 2015 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim distribution, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 24 September 2015.

CORPORATE GOVERNANCE

During the six months ended 30 June 2015, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 the directors. Having made specific enquiry of all directors of the Company, the Company confirms that during the six months ended 30 June 2015, all the directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by 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 Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The unaudited interim results for the six months ended 30 June 2015 have been reviewed and approved by the Audit Committee. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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 2015 interim report will be dispatched to shareholders in September 2015 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
Li Yongcheng
Chairman

Hong Kong, 27 August 2015

As at the date of this announcement, the board of directors of the Company comprises eleven executive directors, namely Mr. Li Yongcheng (Chairman), Mr. E Meng (Vice Chairman), Mr. Jiang Xinhao, Mr. Hu Xiaoyong (Chief Executive Officer), Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Ms. Qi Xiaohong, Mr. Ke Jian, Mr. Tung Woon Cheung Eric and Mr. Li Li 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.