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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 2016**

### **HIGHLIGHTS**

- The Group reported revenue of HK\$7,851.6 million, representing an increase of 36% as compared with that of HK\$5,763.7 million in last period.
- Profit attributable to shareholders of the Company was HK\$1,573.9 million, representing an increase of 36% as compared with that of HK\$1,160.4 million in last period.
- EBITDA amounted to HK\$2,960.4 million, representing an increase of 24% as compared with that of HK\$2,395.9 million in the last period.
- Basic and diluted earnings per share for the period were HK18.08 cents and HK17.73 cents respectively.
- Interim cash distribution of HK5.9 cents per share is declared for the six months ended 30 June 2016, excluding the fair value gain on derivative financial instruments of HK\$203.5 million, the dividend payout ratio is 37%.
- Total daily design capacity for new projects secured for this period was 1,873,000 tons. During the period, the Group completed the entrusted operation of sewage treatment projects with aggregate daily design capacity of 347,200 tons. As such, the net increase in total daily design capacity of this period was 1,525,800 tons. The Group also terminated the acquisition of Golden State Water Group Corporation with aggregate daily design capacity of 1,211,000 tons during the period. As at 30 June 2016, total daily design capacity was 24,938,050 tons.

## 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 2016 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2016 with comparative figures for the corresponding period in 2015 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
REVENUE	3	7,851,562	5,763,655
Cost of sales		(5,150,034)	(3,506,988)
Gross profit		2,701,528	2,256,667
Interest income		84,139	197,879
Other income and gains, net		371,506	150,537
Administrative expenses		(591,575)	(480,198)
Other operating expenses, net		(79,377)	(9,454)
PROFIT FROM OPERATING ACTIVITIES	4	2,486,221	2,115,431
Fair value gain on derivative financial instruments		203,480	115,239
Finance costs	5	(619,693)	(552,506)
Share of profits and losses of:			
Joint ventures		109,922	58,794
Associates		24,335	16
PROFIT BEFORE TAX		2,204,265	1,736,974
Income tax expense	6	(453,067)	(351,749)
PROFIT FOR THE PERIOD		<u>1,751,198</u>	<u>1,385,225</u>
ATTRIBUTABLE TO:			
Shareholders of the Company		1,573,915	1,160,373
Non-controlling interests		177,283	224,852
		<u>1,751,198</u>	<u>1,385,225</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic		<u>HK18.08 cents</u>	<u>HK13.32 cents</u>
– Diluted		<u>HK17.73 cents</u>	<u>HK13.01 cents</u>

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 2016

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	1,751,198	1,385,225
OTHER COMPREHENSIVE LOSS		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
– Exchange differences on translation of foreign operations	<u>(615,769)</u>	<u>(22,328)</u>
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive loss of a joint venture	<u>(16,718)</u>	<u>(12,834)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF INCOME TAX	<u>(632,487)</u>	<u>(35,162)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><b>1,118,711</b></u>	<u>1,350,063</u>
ATTRIBUTABLE TO:		
Shareholders of the Company	1,052,180	1,115,295
Non-controlling interests	<u>66,531</u>	<u>234,768</u>
	<u><b>1,118,711</b></u>	<u>1,350,063</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

		<b>30 June 2016</b>	31 December 2015
		<b>(Unaudited)</b>	(Audited)
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment		<b>3,798,552</b>	1,379,801
Goodwill		<b>3,074,919</b>	2,967,365
Operating concessions		<b>2,496,232</b>	2,421,012
Other intangible assets		<b>45,802</b>	37,290
Investments in joint ventures		<b>3,590,188</b>	3,563,399
Investments in associates		<b>1,399,525</b>	902,774
Derivative financial instruments		–	42,404
Available-for-sale investments		<b>696,471</b>	153,664
Amounts due from contract customers		<b>14,745,232</b>	11,495,709
Receivables under service concession arrangements	<i>9</i>	<b>18,301,169</b>	16,977,664
Trade receivables	<i>10</i>	<b>624,660</b>	665,352
Prepayments, deposits and other receivables	<i>11</i>	<b>3,491,943</b>	5,609,924
Deferred tax assets		<b>111,676</b>	122,388
		<hr/>	<hr/>
Total non-current assets		<b>52,376,369</b>	46,338,746
Current assets:			
Non-current assets held for sale		<b>219,211</b>	226,647
Inventories		<b>288,390</b>	99,083
Amounts due from contract customers		<b>2,199,674</b>	1,311,629
Receivables under service concession arrangements	<i>9</i>	<b>2,056,325</b>	1,712,947
Trade receivables	<i>10</i>	<b>3,067,307</b>	2,959,325
Prepayments, deposits and other receivables	<i>11</i>	<b>5,323,680</b>	5,033,177
Derivative financial instruments		<b>315,377</b>	167,174
Restricted cash and pledged deposits		<b>150,066</b>	269,189
Cash and cash equivalents		<b>5,540,239</b>	6,373,831
		<hr/>	<hr/>
Total current assets		<b>19,160,269</b>	18,153,002
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>71,536,638</b>	64,491,748

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2016

		30 June 2016 (Unaudited) <i>HK\$'000</i>	31 December 2015 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the Company</b>			
Issued capital		870,525	872,295
Reserves		15,863,086	15,311,538
		<b>16,733,611</b>	16,183,833
<b>Non-controlling interests</b>		<b>4,376,216</b>	4,106,582
<b>TOTAL EQUITY</b>		<b>21,109,827</b>	20,290,415
<b>Non-current liabilities:</b>			
Other payables and accruals	12	487,277	415,215
Bank and other borrowings		19,940,242	17,121,178
Corporate bonds		6,445,308	4,105,212
Notes payable		3,044,383	3,091,413
Finance lease payables		47,025	51,814
Provision for major overhauls		216,431	205,489
Deferred income		130,687	117,564
Deferred tax liabilities		1,497,647	1,320,597
<b>Total non-current liabilities</b>		<b>31,809,000</b>	26,428,482
<b>Current liabilities:</b>			
Trade payables	13	7,129,719	5,786,331
Other payables and accruals	12	4,379,223	4,817,755
Income tax payables		519,657	490,816
Bank and other borrowings		6,530,839	6,015,190
Corporate bonds		–	599,674
Finance lease payables		58,373	63,085
<b>Total current liabilities</b>		<b>18,617,811</b>	17,772,851
<b>TOTAL LIABILITIES</b>		<b>50,426,811</b>	44,201,333
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>71,536,638</b>	64,491,748

## **NOTES:**

### **1.1. CORPORATE INFORMATION**

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2016, 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 Singapore (“Singapore”) 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 and sales of machineries related to sewage treatment and construction services for comprehensive renovation projects in Mainland China
- licensing of technical know-how related to sewage treatment in Mainland China

### **1.2. BASIS OF PREPARATION**

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2015 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.

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

### 1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

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

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

## 2. OPERATING SEGMENT INFORMATION

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

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

**For the six months ended 30 June 2016**

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



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 and sales of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	5,129,061	393,780	240,814	5,763,655
Cost of sales	<u>(3,220,635)</u>	<u>(185,878)</u>	<u>(100,475)</u>	<u>(3,506,988)</u>
Gross profit	<u>1,908,426</u>	<u>207,902</u>	<u>140,339</u>	<u>2,256,667</u>
Segment results:				
The Group	1,902,881	180,111	100,679	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>1,940,169</u>	<u>201,633</u>	<u>100,679</u>	2,242,481
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/(loss) for the period attributable to shareholders of the Company:				
Operating segments	<u>1,391,444</u>	<u>176,195</u>	<u>94,112</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>

### ***Geographical information***

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue from external customers:		
Mainland China	<b>7,215,691</b>	5,363,891
Elsewhere	<b>635,871</b>	399,764
	<b><u>7,851,562</u></b>	<b><u>5,763,655</u></b>

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 2016, the Group had no transaction with any single (six months ended 30 June 2015: Nil) external customer which contributed over 10% of the Group's total revenue for the period.

### **3. REVENUE**

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

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b> <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Sewage and reclaimed water treatment services	<b>1,635,262</b>	1,809,861
Construction services	<b>5,237,389</b>	3,319,200
Water distribution services	<b>598,231</b>	393,780
Technical and consultancy services and sales of machineries	<b>380,680</b>	240,814
	<b><u>7,851,562</u></b>	<u>5,763,655</u>

Imputed interest income under service concession arrangements amounting to HK\$687,569,000 (Six months ended 30 June 2015: HK\$536,267,000) is included in the above revenues.

#### **4. PROFIT FROM OPERATING ACTIVITIES**

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

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b> <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Cost of sewage and reclaimed water treatment services rendered	<b>645,734</b>	610,015
Cost of construction services	<b>4,032,265</b>	2,575,811
Cost of water distribution services	<b>271,308</b>	156,844
Cost of technical and consultancy services rendered and machineries sold	<b>135,047</b>	100,475
Depreciation	<b>68,302</b>	40,395
Amortisation of operating concessions*	<b>65,680</b>	63,843
Amortisation of other intangible assets*	<b>2,426</b>	2,227
	<b><u>2,426</u></b>	<u>2,227</u>

\* *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	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Interest on bank loans and other loans	468,681	391,829
Interest on corporate bonds	104,856	108,261
Interest on notes payable	93,510	81,275
Interest on finance leases	2,452	–
Total interest expense	669,499	581,365
Increase in discounted amounts of provision for major overhauls arising from the passage of time	5,570	4,654
Total finance costs	675,069	586,019
Less: Interest included in cost of construction services	(55,376)	(33,513)
	<b>619,693</b>	<b>552,506</b>

## 6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2016 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2015: Nil).

The income tax provisions in respect of operations in Mainland China and other countries are calculated at the applicable tax rates on the estimated assessable profits for the 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.

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current – Mainland China	<b>232,682</b>	156,313
Current – Elsewhere	<b>7,295</b>	8,848
Underprovision in prior periods	<b>164</b>	5,452
Deferred	<b>212,926</b>	181,136
	<hr/>	<hr/>
Total tax expense for the period	<b>453,067</b>	351,749
	<hr/> <hr/>	<hr/> <hr/>

## **7. INTERIM DISTRIBUTION**

On 30 August 2016, the Board declared an interim cash distribution of HK5.9 cents per share (Six months ended 30 June 2015: HK4.4 cents) totalling approximately HK\$513,610,000 (Six months ended 30 June 2015: HK\$383,619,000).

## **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 2016 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 8,706,460,800 (Six months ended 30 June 2015: 8,710,481,870) ordinary shares in issue during the period.

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

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

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Unaudited)
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Earnings</b>		
Profit for the period attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	<b><u>1,573,915</u></b>	<b><u>1,160,373</u></b>

	<b>For the six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Unaudited)
<b>Number of ordinary shares</b>		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	<b>8,706,460,800</b>	8,710,481,870
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	<b><u>172,792,055</u></b>	<u>209,431,564</u>
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<b><u>8,879,252,855</u></b>	<b><u>8,919,913,434</u></b>

## **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:

	<b>30 June</b>	31 December
	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Billed:		
Within 3 months	<b>871,182</b>	662,753
4 to 6 months	<b>304,191</b>	211,827
7 to 12 months	<b>263,497</b>	221,404
Over 1 year	<b>178,424</b>	160,781
	<u><b>1,617,294</b></u>	<u>1,256,765</u>
Unbilled:		
Current portion	<b>439,031</b>	456,182
Non-current portion	<b>18,301,169</b>	16,977,664
	<u><b>18,740,200</b></u>	<u>17,433,846</u>
Total	<u><b>20,357,494</b></u>	<u>18,690,611</u>

## 10. TRADE RECEIVABLES

The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sales of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 6.18% to 12.98% (31 December 2015: 6.85% to 12.98%), other trade receivables are non-interest-bearing.

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Billed:		
Within 3 months	494,403	674,939
4 to 6 months	84,379	61,879
7 to 12 months	164,808	52,169
Over 1 year	2,022,996	2,017,310
Balance with extended credit period	<u>48,025</u>	<u>49,005</u>
	<b>2,814,611</b>	2,855,302
Unbilled*	<u>877,356</u>	<u>769,375</u>
	<b>3,691,967</b>	3,624,677
Portion classified as current assets	<u>(3,067,307)</u>	<u>(2,959,325)</u>
Non-current portion	<u><b>624,660</b></u>	<u>665,352</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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Prepayments	53,941	52,042
Deposits and other debtors	5,130,560	7,101,476
Advances to subcontractors and suppliers	1,750,894	1,946,270
Due from joint ventures	291,842	236,136
Due from associates	198,561	116
Due from related parties	<u>1,503,421</u>	<u>1,451,490</u>
	<b>8,929,219</b>	10,787,530
Impairment	<u>(113,596)</u>	<u>(144,429)</u>
	<b>8,815,623</b>	10,643,101
Portion classified as current assets	<u>(5,323,680)</u>	<u>(5,033,177)</u>
Non-current portion	<u><b>3,491,943</b></u>	<u>5,609,924</u>



## 12. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Accruals	276,913	413,485
Other liabilities	1,419,719	1,247,128
Receipts in advance	783,577	1,378,743
Due to subcontractors	1,342,072	1,134,785
Due to joint ventures	466,242	560,388
Due to associates	2,937	171
Due to related parties	454,003	350,863
Other taxes payables	121,037	147,407
	<u>4,866,500</u>	<u>5,232,970</u>
Portion classified as current liabilities	<u>(4,379,223)</u>	<u>(4,817,755)</u>
Non-current portion	<u>487,277</u>	<u>415,215</u>

## 13. TRADE PAYABLES

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

	<b>30 June 2016 (Unaudited) HK\$'000</b>	31 December 2015 (Audited) HK\$'000
Within 3 months	3,061,372	2,129,973
4 to 6 months	1,447,897	870,743
7 months to 1 year	906,628	420,418
1 to 2 years	540,874	1,296,471
2 to 3 years	585,019	341,849
Over 3 years	249,755	197,788
Balance with extended credit period	338,174	529,089
	<u>7,129,719</u>	<u>5,786,331</u>

Apart from certain trade 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 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 2016 amounted to HK\$542,458,000 (unaudited) (31 December 2015: HK\$380,151,000) and HK\$52,918,827,000 (unaudited) (31 December 2015: HK\$46,718,897,000), respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the period attributable to shareholders of the Company increased by 36% to HK\$1,573.9 million. Revenue increased by 36% to HK\$7,851.6 million as a result of increase in revenue contribution from construction services for comprehensive renovation projects and 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	%
<b>1. Water treatment services</b>					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,566.4	20%	60%	797.6	37%
– Joint ventures and associates				8.9	0%
				806.5	37%
Overseas					
– Subsidiaries	68.9	1%	14%	2.8	0%
	1,635.3	21%		809.3	37%
Water distribution services					
China					
– Subsidiaries	504.2	6%	53%	172.9	8%
– Joint ventures and associates				78.7	4%
				251.6	12%
Overseas					
– Subsidiaries	94.0	1%	28%	18.7	1%
	598.2	7%		270.3	13%
Subtotal	2,233.5	28%		1,079.6	50%

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

<sup>#</sup> Others included head office and other corporate expense, net, of HK\$149.2 million, share of profit of an associate of HK\$20.0 million, equity-settled share option expense of HK\$20.1 million and finance costs of HK\$619.7 million.

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

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

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
<b>1. Water treatment services</b>					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,733.8	30%	67%	835.5	50%
– Joint ventures and associates				11.1	1%
				846.6	51%
Overseas					
– Subsidiaries	76.1	1%	14%	1.2	0%
	1,809.9	31%		847.8	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	2,203.7	38%		1,024.0	62%

	Revenue		GP ratio		Profit attributable to shareholders of the Company	
	HK\$'M	%		%	HK\$'M	%
<b>2. Construction services for the water environmental renovation</b>						
Construction services for comprehensive renovation projects						
– Projects with completion rate more than 10% <sup>§</sup>	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%	
Subtotal	3,319.2	58%		543.7	33%	
<b>3. Technical services and sales of machineries for the water environmental renovation</b>	240.8	4%	58%	94.1	5%	
<b>Business results</b>	<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 <sup>#</sup>				(616.6)		
<b>Total</b>				<u>1,160.4</u>		

<sup>#</sup> 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.

<sup>§</sup> Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$4.9 million.

The comparison of the Group's financial results for the six months ended 30 June 2016 and 2015 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)	
	2016 HK\$'M	2015 HK\$'M	HK\$'M	%	2016 HK\$'M	2015 HK\$'M	HK\$'M	%
<b>1. Water treatment services</b>								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	1,566.4	1,733.8	(167.4)	(10%)	797.6	835.5	(37.9)	(5%)
– Joint ventures and associates					8.9	11.1	(2.2)	(20%)
GP ratio	60%	67%		(7%)	806.5	846.6	(40.1)	(5%)
Overseas								
– Subsidiaries	68.9	76.1	(7.2)	(9%)	2.8	1.2	1.6	133%
GP ratio	14%	14%		–				
	1,635.3	1,809.9	(174.6)	(10%)	809.3	847.8	(38.5)	(5%)
Water distribution services								
China								
– Subsidiaries	504.2	307.0	197.2	64%	172.9	140.4	32.5	23%
– Joint ventures and associates					78.7	21.5	57.2	266%
GP ratio	53%	60%		(7%)	251.6	161.9	89.7	55%
Overseas								
– Subsidiaries	94.0	86.8	7.2	8%	18.7	14.3	4.4	31%
GP ratio	28%	29%		(1%)				
	598.2	393.8	204.4	52%	270.3	176.2	94.1	53%
Subtotal	2,233.5	2,203.7	29.8	1%	1,079.6	1,024.0	55.6	5%
<b>2. Construction services for the water environmental renovation</b>								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	1,799.8	912.3	887.5	97%	368.0	126.9	241.1	190%
– Interest income	–	–	–	–	32.6	90.1	(57.5)	(64%)
GP ratio	24%	17%		7%	400.6	217.0	183.6	85%
Construction of BOT water projects								
– China	3,081.8	2,406.9	674.9	28%	525.3	326.7	198.6	61%
– Overseas	355.8	–	355.8	N/A	26.2	–	26.2	N/A
GP ratio	23%	24%		(1%)	551.5	326.7	224.8	69%
Subtotal	5,237.4	3,319.2	1,918.2	58%	952.1	543.7	408.4	75%
<b>3. Technical services and sale of machineries for the water environmental renovation</b>								
GP ratio	65%	58%		7%				
Business results	7,851.6	5,763.7	2,087.9	36%	2,179.4	1,661.8	517.6	31%
Fair value gain on derivative financial instruments					203.5	115.2	88.3	77%
Others					(809.0)	(616.6)	(192.4)	(31%)
Total					1,573.9	1,160.4	413.5	36%

## 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 4 municipalities all across Mainland China.

### 2.1 Water treatment services

As at 30 June 2016, the Group entered into service concession arrangements for a total of 391 water plants including 282 sewage treatment plants, 100 water distribution plants, 8 reclaimed water treatment plants and 1 seawater desalination plant. Total daily design capacity for new projects secured for this period was 1,873,000 tons including Build-Operate-Transfer ("BOT") projects of 97,000 tons, Transfer-Operate-Transfer ("TOT") projects of 175,000 tons, Public-Private Partnership Project ("PPP") of 1,351,000 tons, entrustment operation projects of 40,000 tons, and 210,000 tons through mergers and acquisitions.

During the period, the Group completed the entrusted operation of sewage treatment projects with aggregate daily design capacity of 347,200 tons. As such, the net increase in daily design capacity of this period was 1,525,800 tons. As at 30 June 2016, total daily design capacity was 24,938,050\* tons.

\* *On 29 July 2016, the Group decided to terminate the acquisition of Golden State Water Group Corporation after careful consideration of all the circumstances such as the volatility of the capital market. Projects relating to the transaction with aggregate daily design capacity of 1,211,000 tons were excluded in the total daily design capacity as at 30 June 2016. Further details of the termination are set out in the Company's announcement dated 29 July 2016.*

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
<b>China</b>					
In operation	8,899,750	497,200	5,090,400	–	14,487,350
Not yet commenced operation/Not yet transferred	<u>3,896,000</u>	<u>312,500</u>	<u>5,873,000</u>	<u>50,000</u>	<u>10,131,500</u>
Subtotal	<u>12,795,750</u>	<u>809,700</u>	<u>10,963,400</u>	<u>50,000</u>	<u>24,618,850</u>
<b>Overseas</b>					
In operation	55,200	–	36,000	–	91,200
Not yet commenced operation/Not yet transferred	<u>–</u>	<u>228,000</u>	<u>–</u>	<u>–</u>	<u>228,000</u>
Subtotal	<u>55,200</u>	<u>228,000</u>	<u>36,000</u>	<u>–</u>	<u>319,200</u>
Total	<u>12,850,950</u>	<u>1,037,700</u>	<u>10,999,400</u>	<u>50,000</u>	<u>24,938,050</u>
<i>(Number of water plants)</i>					
<b>China</b>					
In operation	193	5	46	–	244
Not yet commenced operation/Not yet transferred	<u>65</u>	<u>2</u>	<u>41</u>	<u>1</u>	<u>109</u>
Subtotal	<u>258</u>	<u>7</u>	<u>87</u>	<u>1</u>	<u>353</u>
<b>Overseas</b>					
In operation	24	–	13	–	37
Not yet commenced operation/Not yet transferred	<u>–</u>	<u>1</u>	<u>–</u>	<u>–</u>	<u>1</u>
Subtotal	<u>24</u>	<u>1</u>	<u>13</u>	<u>–</u>	<u>38</u>
Total	<u>282</u>	<u>8</u>	<u>100</u>	<u>1</u>	<u>391</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)
<b>Sewage and reclaimed water treatment services:</b>					
Mainland China:					
– Southern China	38	2,991,200	523.7	432.6	301.8
– Western China	47	1,607,500	234.5	333.9	161.0
– Shandong	29	1,249,000	167.0	209.4	112.2
– Eastern China	49	2,303,250	318.2	352.9	126.8
– Northern China	35	1,246,000	169.2	237.6	104.7
	198	9,396,950	1,412.6	1,566.4	806.5
Overseas	24	55,200	11.6	68.9	2.8
Subtotal	222	9,452,150	1,424.2	1,635.3	809.3
<b>Water distribution services:</b>					
Mainland China	46	5,090,400	470.2	504.2	251.6
Overseas	13	36,000	5.6	94.0	18.7
Subtotal	59	5,126,400	475.8	598.2	270.3
Total	281	14,578,550	1,900.0	2,233.5	1,079.6

\* Excluded entrustment operation contracts

### 2.1.1 Sewage and reclaimed water treatment services

#### 2.1.1a Mainland China

As at 30 June 2016, the Group had 193 sewage treatment plants and 5 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 8,899,750 tons (31 December 2015: 8,467,450 tons) and 497,200 tons (31 December 2015: 497,200 tons) respectively. The average daily processing volume is 7,780,208 tons and average daily treatment rate is 84%. The actual average contracted tariff charge of water treatment was approximately RMB1.05 per ton (31 December

2015: RMB1.03 per ton) for water plants. The actual aggregate processing volume for the period was 1,412.6 million tons, of which 1,376.6 million tons was contributed by subsidiaries and 36.0 million tons was contributed by joint ventures. Total revenue for the period was HK\$1,566.4 million. Net profit attributable to shareholders of the Company was HK\$806.5 million, of which HK\$797.6 million was contributed by subsidiaries and HK\$8.9 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

#### Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 30 June 2016, there were 38 sewage treatment plants with total daily design capacity of 2,991,200 tons, representing a decrease of 86,700 tons or 3% as compared with last year. The actual aggregate processing volume for the period amounted to 523.7 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$432.6 million and HK\$301.8 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 2016, there were 47 sewage treatment plants with total daily design capacity of 1,607,500 tons, representing an increase of 42,000 tons per day or 3% as compared with last year. The actual processing volume for the period was 234.5 million tons. The operating revenue of HK\$333.9 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$161.0 million.

### Shandong

There were 29 plants in Shandong region. The total daily design capacity of Shandong region is 1,249,000 tons, representing an increase of 57,000 tons per day or 5% as compared with last year. The actual processing volume for the period was 167.0 million tons contributing operating revenue of HK\$209.4 million during the period. Profit attributable to shareholders of the Company was HK\$112.2 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 2016, the total daily design capacity of Eastern China had increased by 280,000 tons to 2,303,250 tons or 14% as compared with last year. The actual processing volume for the period amounted to 318.2 million tons and operating revenue was HK\$352.9 million during the period. Profit attributable to shareholders of the Company was HK\$126.8 million.

### Northern China

Currently, the Group has 35 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 140,000 tons to 1,246,000 tons or 13% as compared with last year. The projects achieved actual processing volume of 169.2 million tons for the period. The operating revenue was HK\$237.6 million during the period. Profit attributable to shareholders of the Company was HK\$104.7 million.

#### 2.1.1b Overseas:

As at 30 June 2016, 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 11.6 million tons. Total revenue for the period was HK\$68.9 million. Profit attributable to shareholders of the Company was HK\$2.8 million.

## *2.1.2 Water distribution services*

### 2.1.2a Mainland China:

As at 30 June 2016, the Group had 46 water distribution plants in operation. Total daily design capacity in operation was 5,090,400 tons (31 December 2015: 3,961,000 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 RMB1.80 per ton (31 December 2015: RMB1.78 per ton). The aggregate actual processing volume is 470.2 million tons, of which 277.1 million tons was contributed by subsidiaries, which recorded revenue of HK\$504.2 million and 193.1 million tons was contributed by joint ventures. Imputed interest income of HK\$32.6 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\$251.6 million, of which profit of HK\$172.9 million was contributed by subsidiaries and a profit of HK\$78.7 million in aggregate was contributed by joint ventures and associates.

### 2.1.2b Overseas:

As at 30 June 2016, 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\$94.0 million. Profit attributable to shareholders of the Company was HK\$18.7 million.

## **2.2 Construction services for the water environmental renovation**

### *2.2.1 Construction services for comprehensive renovation projects*

The Group had 14 comprehensive renovation projects under construction during the period. The projects mainly located in Beijing Liangshuihe, Beijing Xiaotaihouhe, Henan Luoyang, Foshan Gaoming, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining and Malaysia Pantai. Last period, the Group had 12 comprehensive renovation projects under construction in Beijing Liangshuihe, Henan Luoyang, Foshan Gaoming, Hunan Zhuhui, Yunnan Kunming, Yunnan Yuxi and Malaysia Pantai.

Revenue from comprehensive renovation projects increased by HK\$887.5 million from last period of HK\$912.3 million to HK\$1,799.8 million this period. Revenue increased was mainly due to the new commencement of construction work for Sichuan Suining and Beijing Xiaotaihouhe Projects and increase in contribution 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\$32.6 million for this period (six months ended 30 June 2015: HK\$90.1 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK\$183.6 million from last period of HK\$217.0 million to HK\$400.6 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, Shandong, Jiangsu, Xinjiang and Henan provinces and Singapore. Total revenue for construction of BOT water projects was HK\$3,437.6 million (six months ended 30 June 2015: HK\$2,406.9 million) and profit attributable to shareholders of the Company was HK\$551.5 million (six months ended 30 June 2015: HK\$326.7 million). The increase in contribution from BOT projects during this period was mainly due to the construction work performed for projects located in Xinjiang, Jiangsu, Henan and Singapore.

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

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

Revenue from the provision of technical services and sales of machineries was HK\$380.7 million (six months ended 30 June 2015: HK\$240.8 million), representing 5% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$147.7 million (six months ended 30 June 2015: HK\$94.1 million).

Increase in revenue was mainly due to the contribution from provision of technical services by 淮安市水利勘测设计研究院有限公司 (Huaian Research Institute of Water Investigation and Design Co. Limited<sup>^</sup>) which was acquired during the period.

<sup>^</sup> For identification purpose only

### **3. Financial analysis**

#### **3.1 Revenue**

During the period, the Group recorded revenue of HK\$7,851.6 million (six months ended 30 June 2015: HK\$5,763.7 million). The increase was mainly due to the increase in revenue from construction services. Increase in revenue from construction services was mainly due to increase in construction work for comprehensive renovation projects and BOT projects in Beijing, Henan, Shandong and Singapore.

#### **3.2 Cost of sales**

Cost of sales for the period amounted to HK\$5,150.0 million, compared to last period of HK\$3,507.0 million. The increase was mainly due to the increase in construction costs and operating costs of water plants amounted to HK\$1,456.5 million and HK\$152.0 million respectively. Cost of sales mainly included construction costs of HK\$4,032.3 million and operating costs of water plants of HK\$982.7 million. The construction costs mainly consisted of subcontracting charges. The increase in construction costs was mainly due to the increase in construction works for comprehensive renovation projects and BOT projects. The operating costs of water plants, mainly included electricity charges of HK\$291.9 million, staff costs of HK\$230.9 million and major overhaul charges of HK\$36.3 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 39% to 34%.

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

Gross margin for sewage and reclaimed water treatment services in Mainland China decreased to 60% (last period: 67%). The decrease in gross margin was mainly due to the value-added tax (“VAT”) imposed on the sewage and reclaimed water treatment business which is started in the second half of last year. The Group is entitled to refund 70% of the net VAT paid for the sewage treatment services and 50% of the net VAT paid for the reclaimed water services. The VAT refund is recognised in other income and gains, net. Gross margin for sewage and reclaimed water treatment services in Overseas maintained 14%.

*Gross margin for water distribution services:*

Gross margin for water distribution services in Mainland China was 53% (last period: 60%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services decreased to 50% (last period: 53%). The slight decrease of gross margin for water distribution services was mainly due to lower profit margin achieved by newly acquired projects. Gross margin for water distribution services in Overseas was 28% (last period: 29%).

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

Gross margin for construction services for comprehensive renovation projects increased from last period of 17% to 24% this period. Gross margin increased as the major comprehensive renovation projects (i.e. projects in Beijing and Henan Luoyang) for this period have a relatively higher average gross margin.

*Gross margin for construction of BOT water projects:*

Gross margin for construction of BOT water projects in China maintained at 24% this period.

Gross margin for construction of BOT water projects in Overseas was 5%. This represents BOT construction gross profit margin for a reclaimed water project in Singapore. The Group is responsible for overall management of the construction services. The design and construction works are carried out by the project partner. As such, the gross margin for this project is lower than those in China.

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

Gross margin for the technical services and sales of machineries for the water environmental renovation was 65% (last period: 58%). Gross margin increased as revenue contribution from the sales of machineries, which has a lower gross margin, decreased during this period.

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

The Group recorded other income and gains, net of HK\$371.5 million during the period, compared to last period of HK\$150.5 million. The amount for this period mainly included sludge treatment income of HK\$69.8 million, government grants and subsidies of HK\$68.9 million and VAT refund of HK\$152.3 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”). The Group shall subscribe 17,721,519,000 shares at subscription price of HK\$0.079. The total consideration is approximately HK\$1.4 billion, which shall be paid in five tranches within two years. After the completion of all the subscriptions and upon conversion of the preference shares into ordinary shares of BE Clean Energy, the Group shall hold equity interest of 34.95% in BE Clean Energy. The first tranche and second tranche of subscriptions with aggregate number of shares of 8,860,759,500 was completed during the year 2015. The third tranche of subscription with total number of shares of 3,544,303,800 was completed during the period. 3,544,303,800 preference shares were converted into ordinary shares during the period.

According to the accounting policy, the remaining two tranches of subscriptions with total number of shares of 5,316,455,700 are treated as forward contracts to subscribe the shares of BE Clean Energy. The Group shall recognise the forward contracts as derivative financial instruments with net changes recognised in the consolidated statement of profit or loss of the Group. During the period, the Group recognised a fair value gain of HK\$203.5 million on the forward contracts.

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

### **3.6 Administrative expenses**

Administrative expenses for the period increased to HK\$591.6 million, compared to last period of HK\$480.2 million. The increase was mainly due to the increase in staff cost of HK\$90.4 million as a result of business expansion during the period. Excluding the equity-settled share option expense, the ratio of administrative expenses to total revenue decreased from 7.7% of last period to 7.3%.

### **3.7 Other operating expenses, net**

Other operating expenses increased from HK\$9.5 million to HK\$79.4 million in this period. The increase was mainly due to the increase in the cost of sludge treatment and exchange loss during the period.

### 3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$468.7 million (six months ended 30 June 2015: HK\$391.8 million) and interests on corporate bonds and notes payable of HK\$198.4 million (six months ended 30 June 2015: HK\$189.5 million). The increase in finance costs was mainly due to increase in bank and other borrowings of HK\$3,334.7 million and increase in corporate bonds of HK\$1,740.4 million during this period.

### 3.9 Income tax expense

Income tax expense for the period included the current PRC income tax of HK\$232.7 million. The effective tax rate for the PRC operation was about 17% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the period was HK\$212.9 million.

### 3.10 Property, plant and equipment

Property, plant and equipment increased by HK\$2,418.8 million which was mainly due to the addition of a new office building and acquisition of Build-Own-Operate (“BOO”) projects in Sichuan and Henan in current period.

### 3.11 Receivables

The Group’s total receivables of HK\$40,994.4 million (31 December 2015: HK\$35,122.6 million) included:

By accounting nature:

	30 June 2016			31 December 2015		
	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	14,745.2	2,199.7	16,944.9	11,495.7	1,311.6	12,807.3
(ii) Receivables under service concession arrangements	18,301.2	2,056.3	20,357.5	16,977.7	1,712.9	18,690.6
(iii) Trade receivables	624.7	3,067.3	3,692.0	665.4	2,959.3	3,624.7
<b>Total</b>	<b>33,671.1</b>	<b>7,323.3</b>	<b>40,994.4</b>	<b>29,138.8</b>	<b>5,983.8</b>	<b>35,122.6</b>

- (i) Amounts due from contract customers of HK\$16,944.9 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\$4,137.6 million (non-current portion increased by HK\$3,249.5 million and current portion increased by HK\$888.1 million), which was mainly due to the recognition of construction revenue for projects in Henan, Xinjiang, Beijing and Jiangsu.
- (ii) Receivables under service concession arrangements of HK\$20,357.5 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The increase in balance by HK\$1,666.9 million (non-current portion increased by HK\$1,323.5 million and current portion increased by HK\$343.4 million) was mainly due to the commencement of operation of BOT and TOT projects which accounted for an increase in receivable balance of HK\$1,380 million; and
- (iii) Trade receivables of HK\$3,692.0 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance increased by HK\$67.3 million (non-current portion decreased by HK\$40.7 million and current portion increased by HK\$108.0 million).

By business nature:

	<b>30 June 2016 HK\$'M</b>	31 December 2015 HK\$'M
Water treatment services by BOT and TOT projects	<b>33,885.1</b>	29,046.0
Construction services of comprehensive renovation projects	<b>6,488.6</b>	5,508.5
Technical and consultancy services and other businesses	<b>620.7</b>	568.1
<b>Total</b>	<b><u>40,994.4</u></b>	<b><u>35,122.6</u></b>

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\$33,885.1 million (31 December 2015: HK\$29,046.0 million). Total receivables for the construction service of comprehensive renovation projects were HK\$6,488.6 million (31 December 2015: HK\$5,508.5 million). Total receivables for technical and consultancy services and other businesses were HK\$620.7 million (31 December 2015: HK\$568.1 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\$26.8 million, mainly due to the share of profit in joint ventures during the period.

### ***3.14 Investments in associates***

Investments in associates increased by HK\$496.8 million, mainly due to the subscriptions of preference share of BE Clean Energy during the period.

### ***3.15 Prepayments, deposits and other receivables***

Prepayments, deposits and other receivables decreased by HK\$1,827.5 million (non-current portion decreased by HK\$2,118.0 million and current portion increased by HK\$290.5 million), mainly due to the reallocation of the deposit for purchasing a new office building to property, plant and equipments.

### ***3.16 Cash and cash equivalents***

Cash and cash equivalents decreased by HK\$833.6 million, mainly due to acquisition and construction of various water projects in PRC.

### ***3.17 Other payables and accruals***

Other payables and accruals decreased by HK\$366.4 million (non-current portion increased by HK\$72.1 million and current portion decreased by HK\$438.5 million), mainly due to the decrease in receipts in advance by HK\$595.2 million and increase in amount due to subcontractors by HK\$207.3 million during the period.

### ***3.18 Bank and other borrowings***

Bank and other borrowings increased by HK\$3,334.7 million (non-current portion increased by HK\$2,819.1 million and current portion increased by HK\$515.6 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 a corporate bond with principal amount of RMB2,000 million during the period. The increase was partially offset by a repayment of a corporate bond with principal amount of RMB500 million during the period.

### **3.20 Trade payables**

The increase in trade payables by HK\$1,343.4 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 2016, the Group's cash and cash equivalents amounted to HK\$5,540.2 million (31 December 2015: HK\$6,373.8 million).

The Group's total borrowings amounted to HK\$36,066.2 million (31 December 2015: HK\$31,047.6 million) comprised bank and other borrowings of HK\$26,471.1 million (31 December 2015: HK\$23,136.4 million), finance lease payables of HK\$105.4 million (31 December 2015: HK\$114.9 million), notes payable of HK\$3,044.4 million (31 December 2015: HK\$3,091.4 million) and corporate bonds of HK\$6,445.3 million (31 December 2015: HK\$4,704.9 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 2016, the Group had banking facilities amounting to HK\$25.6 billion, of which HK\$7,348.3 million have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$21,109.8 million (31 December 2015: HK\$20,290.4 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.45 as at 30 June 2016 (31 December 2015: 1.22). The increase in the gearing ratio as at 30 June 2016 was mainly due to the increase in bank and other borrowings and corporate bonds. The corresponding proceeds were mainly utilised for the acquisition and construction of various water projects in the PRC.

### ***3.22 Capital expenditures***

During the period, the Group's total capital expenditures were HK\$5,277.8 million (six months ended 30 June 2015: HK\$2,950.2 million), of which HK\$251.0 million was paid for the acquisition of property, plant and equipment and intangible assets; HK\$3,570.3 million was spent on construction and acquisition of water plants and HK\$1,456.5 million represented the consideration for acquisition of equity interests in associates, subsidiaries, joint ventures and available-for-sale investments.

## **4. Future outlook**

### ***4.1 Developmental Strategy***

In the second half of 2016, the Group will continue its established development approach of pursuing healthy growth, stepping up corporate reform and facilitating mutually beneficial co-operation. To exploit the opportunities brought by the PPP model and the market trends about black-and-malodorous water body treatment and sponge city, it will continue to enlarge the synergy created by the core businesses of urban water services and water environment renovation by consolidating its regional resources. Business growth will also be achieved by exploring integrated and multi-sector projects which focus on urban development and is based on a development model comprising financial-industrial integration.

With respect to the new businesses, while the overseas operations will put its geographical focus on Southeast Asia, the domestic strategy will focus on the seawater desalination project in Beijing, the nationwide layout of the environmental businesses, a breakthrough in membrane technology and industrial wastewater treatment, a boost in design capacity and the development of the clean energy business.

The Group will further promote its internal reform and facilitate the comprehensive development of its regional division. It will bring technology into full play with a focus on the research and development of core technologies and the integration of technological resources. To strive for a sustainable development, we will strictly monitor the risks and will speed up the establishment of the financial management, corporate culture and brand promotion.

The Group acknowledges the critical importance of a close relationship with the staff, clients and partners for its sustainable development. It will continue to promote a strong corporate culture where staff can develop a stronger sense of cohesion. On the other hand, it will closely monitor the needs of clients, including those in the public sector, so as to offer effective, integrated and multi-sector solutions in a timely manner. The Group will co-operate with light-asset companies in the areas of equity, technology and market development, with a view to establishing an ecosystem featuring a comprehensive industry chain.

## **4.2 *Future Development***

The full implementation of the concept of green development highlighted in China's 13th Five-Year Plan has created unprecedented development opportunities for the environmental industry. It is expected that the investments in the environmental sector and the water treatment sector for the period covered by the 13th Five-Year Plan will grow exponentially as compared to that in the 12th Five-Year Plan period, and environmental investment in 2016 will exceed RMB1 trillion for the first time.

In the meantime, the escalating number of new entrants, many of which are large conglomerates, to the environmental industry has led to a more fierce competition. Moving away from the traditional focus on securing a particular water project, enterprises are vying for a better integration of their industry chains and greater diversification in their environmental businesses. The sector is now characterised by a competition in terms of a comprehensive industry chain and resource planning, as well as a more professional and sophisticated demand for environmental products and this will give rise to technological advancements.

In the second half of 2016, by working towards the objectives which focus on pursuing healthy growth, stepping up corporate reform and promoting external co-operation, the Group will focus its attention on areas such as exploring innovative business models comprising financial-industrial integration, perfecting the business mix and building business affiliations, as well as strengthening internal control and enhancing management capabilities in terms of human resources, corporate culture and brand building, so as to achieve yearly business goals and lay a solid groundwork for the Group's strategic planning for the next five years.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2016, the Group employed 9,952 employees. Total staff cost for the six months ended 30 June 2016 was HK\$598,231,000 (six months ended 30 June 2015: HK\$517,438,000). 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. 1,600,000 share options were exercised, no share option was lapsed or cancelled during the six months ended 30 June 2016. As at 30 June 2016, the Company had 356,080,000 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 4.11% of the Company's ordinary shares in issue as at 30 June 2016.

## **SIGNIFICANT INVESTMENTS AND ACQUISITIONS**

During the six months ended 30 June 2016, 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 2016 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 the Group's equity interests in certain subsidiaries; and/or
- (v) pledges over certain of the Group's bank balances.



Save as disclosed above, at 30 June 2016, the Group did not have any charges on the Group's assets.

## FOREIGN EXCHANGE EXPOSURE

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

## CONTINGENT LIABILITIES

At 30 June 2016, a corporate guarantee at a maximum amount of MYR49,162,000 (equivalent to HK\$95,065,000) (31 December 2015: MYR49,162,000 (equivalent to HK\$88,909,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and effective until 27 January 2019. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011.

Save as disclosed above, at 30 June 2016, the Group did not have any significant contingent liabilities.

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

The Company repurchased a total of 19,296,000 ordinary shares of the Company on the Stock Exchange for the six months ended 30 June 2016 at an aggregate consideration of HK\$81,797,000 (before expense). All the repurchased shares were subsequently cancelled by the Company. Details of repurchase of such ordinary shares were as follows:

Month/year	Number of ordinary shares repurchased	Price per Share		Aggregate Consideration paid (HK\$)
		Highest	Lowest	
January 2016	19,296,000	4.57	3.77	81,797,000

### Redemption of CNY450,000,000 5.00% Bonds Due 2016

During the six months ended 30 June 2016, the Company redeemed all the outstanding principal amount of CNY450,000,000 5.00% bonds due 2016 ("2016 Bonds") on the maturity date of the 2016 Bonds at the redemption price equal to 100% of the outstanding principal amount of the 2016 Bonds, which was CNY450 million plus accrued interest.

## **Redemption of CNY50,000,000 5.00% Bonds Due 2016 (consolidated and formed a single series with the CNY450,000,000 5.00% bonds due 2016 issued on 30 June 2011)**

During the six months ended 30 June 2016, the Company redeemed all the outstanding principal amount of CNY50,000,000 5.00% bonds due 2016 (“Further 2016 Bonds”) on the maturity date of the Further 2016 Bonds at the redemption price equal to 100% of the outstanding principal amount of the Further 2016 Bonds, which was CNY50 million plus accrued interest.

Subsequent to the redemption of the respective 2016 Bonds and Further 2016 Bonds, they were cancelled and delisted from the official list of the Singapore Exchange Securities Trading Limited.

Save as the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during six months ended 30 June 2016.

## **INTERIM DISTRIBUTION**

The Directors of the Company have resolved to pay interim distribution of HK5.9 cents per ordinary share out of the contributed surplus of the Company, payable on or before 14 October 2016 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 30 September 2016 for their continuous supports to the Company.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from Wednesday, 28 September 2016 to Friday, 30 September 2016 (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 transfers forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 27 September 2016.

## **CORPORATE GOVERNANCE**

During the six months ended 30 June 2016, 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 2016, 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 2016 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](http://www.bewg.com.hk)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2016 interim report will be dispatched to shareholders in September 2016 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, 30 August 2016

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