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If you have sold or transferred all your shares of Beijing Enterprises Water Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

DISCLOSEABLE AND CONNECTED TRANSACTIONS INVOLVING A PROPOSED ISSUE OF CONSIDERATION SHARES; APPLICATION FOR WHITEWASH WAIVER AND NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**

MIZUHO

Mizuho Securities Asia Limited

A letter from the board of directors of the Company is set out on pages 8 to 29 of this circular. A letter from the Independent Board Committee to the Independent Shareholders is set out on page 30 of this circular. A letter of advice from Mizuho Securities Asia Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is set out on pages 31 to 51 of this circular.

A notice convening the SGM of the Company to be held at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on 18 December 2012 at 3:00 p.m. is set out on pages N-1 to N-2 of this circular. A form of proxy for use at the SGM is also enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in respect of the proposed ordinary resolution(s) at the SGM in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event by 3:00 p.m., 16 December 2012. Completion and return of the form of proxy for the SGM will not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so wish.

30 November 2012

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires.

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code;
“Announcement”	the announcement of the Company dated 26 September 2012 in relation to the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the application for Whitewash Waiver;
“associate(s)”	has the same meaning ascribed to it under the Listing Rules;
“BE Environmental”	Beijing Enterprises Environmental Construction Limited, a company incorporated in the BVI, which is wholly-owned by BEHL which in turn is held directly as to 36.15% by Beijing Enterprises Group (BVI) Company Limited, which in turn is wholly-owned by 北京控股集團有限公司 (Beijing Enterprises Group Company Limited [^]), a company established in the PRC and is wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administrative Commission of People’s Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會);
“BEH Environment Technology”	北京北控環保工程技術有限公司 (Beijing Enterprises Holdings Environment Technology Co., Ltd. [^]), a company established in the PRC held as to 97.63% by BEHL, 0.92% by Beijing Enterprises Environmental Engineering Company Limited, a company incorporated in the BVI and an ultimate wholly-owned subsidiary of BEHL, and 1.45% by 北控高科技發展有限公司 (Beijing Enterprises Holdings High-Tech Development Co., Ltd. [^]), a company established in the PRC and which is ultimately held as to 100% by BEHL;
“BEHL”	Beijing Enterprises Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange (stock code: 392) and the sole shareholder of BE Environmental;
“Beijing Anling”	北京安菱水務科技有限公司 (Beijing Anling Water Technology Company Limited [^]), a company incorporated in the PRC with limited liability on 26 March 2002, directly held as to 67% by BJA Holdings;

[^] For illustration purpose only

DEFINITIONS

“Beijing Municipal Water”	北京市自來水集團有限責任公司 (Beijing Municipal Water Group Co., Ltd. [^]) (formerly known as 北京市自來水公司 (Beijing Municipal Water Company) , which is a state-owned enterprise incorporated in the PRC and administered by Beijing Public Utility Bureau, and which is an Independent Third Party;
“Beijing Water Plant”	Phase 1 of No. 9 water treatment plant;
“Beikong Jinzhou Water (HK)”	Beijing Enterprises Golden State Water (HK) Limited (北控金州水務(香港)有限公司), a company incorporated in Hong Kong on 3 December 2007 and is directly wholly-owned by BJA Holdings;
“BE Water (Beijing)”	北京北控水務有限公司 (Beijing Enterprises Water Treatment Limited [^]), a company incorporated in the PRC with limited liability and a subsidiary held as to 95% by 北京北控制水有限公司 (Beijing Beikong Water Production Co., Ltd.), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of BEHL and the remaining 5% held by 北控高科技發展有限公司 (Beijing Enterprises Holdings High-Tech Development Co., Ltd. [^]) a company incorporated in the PRC with limited liability and an ultimate wholly-owned subsidiary of BEHL;
“BE Water (BVI)”	Beijing Enterprises Water Company Limited, a company incorporated in the BVI and a wholly-owned subsidiary of BEHL;
“BE Water (Hainan)”	北控水務集團(海南)有限公司 (Beijing Enterprises Water Group (Hainan) Company Limited [^]), a company incorporated in the PRC with limited liability which 90% of its equity interests are held by BEH Environment Technology;
“BE Water (Weifang)”	濰坊北控水務有限公司 (Beijing Enterprises Water (Weifang) Company Limited [^]), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of BE Water (Beijing);
“BEWG (China)”	北控水務(中國)投資有限公司 (Beijing Enterprises Water (China) Investment Company Limited [^]), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company;
“BJA Holdings”	BJA Holdings Company Ltd., a company incorporated in the BVI on 14 January 2005 and which is held as to 50.5% by BE Water (BVI);

[^] For illustration purpose only

DEFINITIONS

“Board”	the board of Directors;
“Business Day”	any day (other than Saturday, Sunday, a public holiday or a day on which typhoon signal no. 8 or above or a “black” rainstorm warning is hoisted in Hong Kong) on which banks in Hong Kong are open for business;
“BVI”	the British Virgin Islands;
“CBRE”	CBRE HK Limited, an independent valuer;
“Company”	Beijing Enterprises Water Group Limited (Stock code: 371), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange;
“Completion”	the completion of the Proposed Asset Injection and/or the Proposed BE Water (Hainan) Transfer which shall take place within five business days after all the conditions (as applicable) as set out in the paragraph headed “THE MASTER AGREEMENT — Conditions Precedent” under “Letter from the Board” of this circular have been fulfilled or waived (as the case may be) or such later date as may be agreed between the parties;
“connected person”	has the same meaning ascribed to it under the Listing Rules;
“Consideration”	a total of HK\$1,258,433,558 comprising, in respect of the Proposed Asset Injection, the aggregate consideration of HK\$1,066,539,552; and in respect of the Proposed BE Water (Hainan) Transfer, the aggregate consideration of HK\$191,894,006;
“Consideration Shares”	a total of 776,810,838 new Shares at HK\$1.62 per Share (equivalent to a total value of HK\$1,258,433,558) to be allotted and issued to BE Environmental comprising, in respect of the Proposed Asset Injection, a total of 658,357,748 new Shares at HK\$1.62 per Share (equivalent to a total value of HK\$1,066,539,552) to be allotted and issued to BE Environmental as consideration for the Proposed Asset Injection; and in respect of the Proposed BE Water (Hainan) Transfer, a total of 118,453,090 new Shares at HK\$1.62 per Share (equivalent to a total value of HK\$191,894,006) to be allotted and issued to BE Environmental as consideration for the Proposed BE Water (Hainan) Transfer upon Completion and each a “Consideration Share”;
“controlling shareholder(s)”	has the same meaning ascribed to it under the Listing Rules;

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“Directors”	the directors of the Company for the time being;
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates;
“Fortunate Sight”	Fortunate Sight Enterprises Limited, a company incorporated in the BVI and a direct wholly-owned subsidiary of the Company;
“Future Income”	the amounts receivable by the Company from BEHL under the Master Agreement, which represent the amounts receivable by BEHL from Beijing Municipal Water as water purification fee under the Concession Agreement, and after deducting all state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant, in the coming six financial years commencing from 1 January 2013 until 2018, and according to the Meeting Decisions, shall be RMB190 million (equivalent to approximately HK\$232 million) on an annual basis;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board comprising Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun, being all the independent non-executive Directors, which has been formed for the purpose of advising the Independent Shareholders in relation to the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver;
“Independent Financial Adviser”	Mizuho Securities Asia Limited, a licensed corporation for types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities), 5 (advising on futures contracts), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO, appointed to advise the Independent Board Committee and the Independent Shareholders of the Company in connection with the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver;

DEFINITIONS

“Independent Shareholder(s)”	in respect of the ordinary resolutions to approve the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver, Shareholders other than (a) BE Environmental and parties acting in concert with it (that is, BEHL and its subsidiaries and the directors of BEHL), and (b) those others who are involved in or are interested in the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and/or the Whitewash Waiver;
“Independent Third Party(ies)”	third party(ies) independent of the Company and connected person(s) of the Company and is/are not connected person(s) of the Company, and not acting in concert with any of them;
“Issue Price”	HK\$1.62 per Consideration Share;
“Last Trading Day”	26 September 2012, being the last full trading day on which the Shares were traded on the Stock Exchange on the date of the Announcement;
“Latest Practicable Date”	27 November 2012, being the latest practicable date for the purpose of ascertaining certain information for inclusion in this circular;
“Listing Committee”	has the same meaning ascribed to it under the Listing Rules;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Master Agreement”	the master sale and purchase agreement entered into among the Company, along with other Purchasers, and the Vendors on 26 September 2012 in relation to the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer;
“PRC” or “China”	the People’s Republic of China;
“Proposed Asset Injection”	the proposed transfers by the Vendors, and the proposed acquisitions by the Purchasers, of the Subject Assets pursuant to the terms of the Master Agreement;
“Proposed BE Water (Hainan) Transfer”	the proposed transfer by BEH Environment Technology, and the proposed acquisition by BEWG (China), of 90% equity interests in BE Water (Hainan) pursuant to the terms of the Master Agreement;
“Purchasers”	collectively, the Company, BEWG (China) and Fortunate Sight;

DEFINITIONS

“Relevant Period”	means the period from 26 March 2012 (being the date falling six months immediately prior to 26 September 2012, being the date of the Announcement) up to and including the Latest Practicable Date;
“RM”	Malaysia Ringgit, the lawful currency of Malaysia;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and approve, among other matters, the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver, by way of poll;
“Shares”	shares of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subject Assets”	collectively, the Target Asset and the Target Companies;
“subsidiary”	has the same meaning ascribed thereto in section 2 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time) and “subsidiaries” shall be construed accordingly;
“substantial shareholder(s)”	has the same meaning ascribed to it under the Listing Rules;
“Takeovers Code”	Codes on Takeovers and Mergers of Hong Kong;
“Target Asset”	the right of entitlement to the Future Income under the Beijing Water Plant;
“Target Companies”	collectively BE Water (Weifang) and BE Water (BVI);
“Vendors”	collectively, (1) BEHL; (2) BE Water (Beijing); and (3) BEH Environment Technology;

DEFINITIONS

“Whitewash Waiver”	a waiver from the obligation of BE Environmental and parties acting in concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code as a result of the Proposed Asset Injection and the Proposed BE Water (Hainan) under the Master Agreement pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code;
“%”	per cent.

For the purpose of this circular, the exchange rate of HK\$1.00 = RMB0.81816 has been used for currency translation, where applicable. Such exchange rate are for illustration purposes and do not constitute representations that any amount in RMB or HK\$ have been, could have been or may be converted at such rates.

LETTER FROM THE BOARD



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 371)

Executive Directors:

Mr. Zhang Honghai (Chairman)
Mr. E Meng
Mr. Jiang Xinhao
Mr. Hu Xiaoyong (Chief Executive Officer)
Mr. Zhou Min
Mr. Li Haifeng
Mr. Zhang Tiefu
Mr. Hou Feng
Ms. Qi Xiaohong
Mr. Ke Jian
Mr. Tung Woon Cheung Eric

Registered Office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal place of business:

66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Independent Non-executive Directors:

Mr. Shea Chun Lok Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Ms. Hang Shijun
Mr. Wang Kaijun

30 November 2012

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS INVOLVING A
PROPOSED ISSUE OF CONSIDERATION SHARES;
APPLICATION FOR WHITEWASH WAIVER
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

On 22 December 2010, the Board announced, among other things, that the Company had entered into an exclusivity agreement with BEHL in respect of the Proposed Asset Injection and the Proposed

LETTER FROM THE BOARD

BE Water (Hainan) Transfer pursuant to which BEHL undertook to enter into further exclusive negotiations with the Company and allow the Company to conduct due diligence on the Subject Assets and BE Water (Hainan) during the exclusivity period as stipulated therein in order to provide the Company with information on which negotiations with BEHL on the terms of a formal agreement can be based (“Exclusivity Agreement”). Subject to the Company and BEHL reaching agreement as to other terms of the formal agreement, it was stipulated in the Exclusivity Agreement that the consideration for the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer shall be satisfied by way of issue of the Consideration Shares with an issue price of approximately HK\$1.9788 per Share which was equivalent to a discount of 15% to the theoretical ex-entitlement price per Share of approximately HK\$2.328 per Share pursuant to the open offer of new Shares conducted by the Company which was completed on 15 March 2011 (“Open Offer”). Save for the elements of exclusivity, due diligence undertakings, the consideration settlement mechanism and certain confidentiality undertakings, the Exclusivity Agreement did not constitute binding obligations of BEHL and the Company regarding the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, and the Exclusivity Agreement did not address all terms of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, which would only be addressed after all due diligence has been completed. Further details regarding the terms of the Exclusivity Agreement, the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, the Subject Assets and BE Water (Hainan) were as set out in the circular of the Company dated 26 January 2011 (“2011 Circular”). The Exclusivity Agreement was approved by the Independent Shareholders at a special general meeting of the Company held on 17 February 2011.

The Board further announced on 18 July 2012 that the Company and BEHL had further entered into the framework agreement in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer (“**Framework Agreement**”). The Framework Agreement is not legally binding upon the parties thereto save and except for the proposed Issue Price and the provision in the Framework Agreement requiring the Company and BEHL to use reasonable endeavours to complete all matters of due diligence in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer and to procure the entering into of a formal agreement as soon as possible. Whereas the businesses of the subject assets of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer were broadly stated in the 2011 Circular as comprising water supply, sewage treatment and waste treatment, the parties agreed pursuant to the Framework Agreement that the businesses of the Subject Assets and BE Water (Hainan) would now primarily involve operation and construction of water supply and sewage treatment plants. Furthermore, as stated in the 2011 Circular, the consideration for the purchase of the Subject Assets and BE Water (Hainan) would be by way of issue of the Consideration Shares and that the price of the Consideration Shares shall be approximately HK\$1.9788 per Share based on the theoretical ex-entitlement price per Share pursuant to the Open Offer conducted in early 2011. Pursuant to the Framework Agreement, it was contemplated that the issue price of Consideration Shares would be fixed at HK\$1.62 per Share (representing a premium of approximately 20% to the closing price of HK\$1.35 per Share as quoted on the Stock Exchange for the last trading day of the Shares on the Stock Exchange prior to the publication of the announcement on 18 July 2012). The Issue Price was negotiated on an arm’s length basis between the Company and BEHL and determined with reference to the current state of the global economy and changes in market conditions together with movements in the trading price per Share on the Stock Exchange since the date of the Exclusivity Agreement and the Open Offer in early 2011.

LETTER FROM THE BOARD

Following on from the Framework Agreement, the Board announced on 26 September 2012 that the Company, along with other Purchasers entered into the Master Agreement with the Vendors, pursuant to which the Company itself and, through BEWG (China) and Fortunate Sight, agreed to acquire, and the Vendors agreed to transfer (i) the Future Income in relation to the Beijing Water Plant; (ii) the entire equity interests in BE Water (Weifang); (iii) the entire beneficial shareholding interests in BE Water (BVI); and (iv) 90% equity interests in BE Water (Hainan), subject to satisfaction of certain conditions precedent as set out therein.

As consideration for the Proposed Asset Injection, there shall be payable to BE Environmental, by issue and allotment of a total of 658,357,748 Consideration Shares at HK\$1.62 per Share (equivalent to a total value of HK\$1,066,539,552) to BE Environmental and on such terms and conditions as discussed below. As consideration for the Proposed BE Water (Hainan) Transfer, there shall be payable to BE Environmental, by issue and allotment of 118,453,090 Consideration Shares at HK\$1.62 per Share (equivalent to a total value of HK\$191,894,006) to BE Environmental and on such terms and conditions as discussed below.

Prior to the Completion, BE Environmental and parties acting in concert with it are interested in 3,047,556,993 Shares, representing approximately 44.11% of the issued share capital of the Company as at the Latest Practicable date. In the event that there is Completion of the Proposed Asset Injection, the shareholding of BE Environmental and parties acting in concert with it will increase from 3,047,556,993 Shares, representing approximately 44.11% of the entire issued share capital of the Company as at the Latest Practicable Date, to a total of 3,705,914,741 Shares, representing approximately 48.97% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares in respect of the Proposed Asset Injection. In the event that there is Completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, the shareholding of BE Environmental and parties acting in concert with it will increase from 3,047,556,993 Shares, representing approximately 44.11% of the entire issued share capital of the Company as at the Latest Practicable Date, to a total of 3,824,367,831 Shares, representing approximately 49.76% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer. The issuance of the Consideration Shares by the Company will trigger an obligation for BE Environmental (together with parties acting in concert with it) to make a mandatory general offer under Rule 26 of the Takeovers Code for all of the Shares not already owned or agreed to be acquired by them.

The Company proposes to seek approval of the Independent Shareholders by way of ordinary resolutions at the SGM to approve, among other things, the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver by way of poll.

The purpose of this circular is to provide you with more information relating to, among other things, details of:

- (i) the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver;

LETTER FROM THE BOARD

- (ii) the recommendation of the Independent Board Committee to the Independent Shareholders on the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver;
- (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver;
- (iv) the letter from Ernst & Young to the Directors confirming that it has reviewed the arithmetical accuracy of the discounted cash flow forecast for the Future Income;
- (v) the letter from the Independent Financial Adviser confirming that they are satisfied that the forecast has been made by the Directors with due care, consideration and objectivity and on a reasonable basis;
- (vi) the Valuation Report prepared by CBRE; and
- (vii) a notice of the SGM.

THE MASTER AGREEMENT

Date:

26 September 2012

Parties:

the Company
BEWG (China)
Fortunate Sight

(each a “**Purchaser**” and collectively, the “**Purchasers**”)

BEHL
BE Water (Beijing)
BEH Environment Technology

(each a “**Vendor**” and collectively, the “**Vendors**”)

As the Latest Practicable Date, BEHL is a controlling shareholder of the Company (as defined in the Listing Rules) and is therefore a connected person of the Company.

LETTER FROM THE BOARD

Subjects of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer

Subject to the satisfaction of certain conditions precedent as set out in the Master Agreement, the Company itself and, through BEWG (China) and Fortunate Sight, agreed to acquire, and the Vendors agreed to transfer (i) the Future Income in relation to the Beijing Water Plant; (ii) the entire equity interests in BE Water (Weifang); (iii) the entire beneficial shareholding interests in BE Water (BVI); and (iv) 90% equity interests in BE Water (Hainan).

Conditions Precedent

The respective Completion of each of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer under the Master Agreement is subject to the fulfillment or the waiver (as the case may be) of the following conditions (of which, conditions precedent (1) to (7) shall apply to the Proposed Asset Injection and conditions precedent (1) to (8) shall apply to the Proposed BE Water (Hainan) Transfer):

- (1) the Purchasers having completed the due diligence investigation (including but not limited to legal, financial and business aspects) on the Target Companies, its subsidiaries and affiliated companies, BE Water (Hainan) and the Target Asset, and the Purchasers consider that the results of the due diligence investigation are acceptable and fully satisfactory in all respects;
- (2) the warranties given by each party under the Master Agreement remaining true and accurate in all material respects;
- (3) the compliance with and performance of the respective obligations and undertakings of the Company and each party to the Master Agreement prior to Completion;
- (4) the despatch of the circular of the Company in relation to the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement and the Whitewash Waiver to all Shareholders;
- (5) the obtaining of specific approval of the Independent Shareholders by way of poll at the SGM for the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement and the granting of the Whitewash Waiver;
- (6) the granting by the Executive, and not having withdrawn or revoked such grant, of the Whitewash Waiver, and the fulfillment of all conditions, if any, attached thereto;
- (7) the granting or the agreement to grant (subject to allotment) by the Listing Committee of the Stock Exchange, and not having withdrawn or revoked such grant, the listing of and permission to deal in all the Consideration Shares, either unconditionally or subject to such conditions as are accepted by the Company, by no later than the first day of their dealings; and

LETTER FROM THE BOARD

- (8) in respect of the Proposed BE Water (Hainan) Transfer only, 海口市水務局 (Haikou Water Authority) and 海口長豐水務投資有限公司 (Haikou Zhangfeng Water Investment Co. Ltd.[^]) (as further described below) approving the proposed transfer of 90% equity interests in BE Water (Hainan).

None of conditions precedent (4) to (8) are waivable by the any party to the Master Agreement pursuant to the terms of the Master Agreement. As at the Latest Practicable Date, none of the above conditions has been fulfilled.

If any of the conditions has not been fulfilled or waived (as the case may be) by the parties pursuant to the Master Agreement on or before 30 May 2013, or such other date as all parties may agree, either party shall be entitled to rescind the Master Agreement whereupon the provisions of the Master Agreement shall from such date have no further force and effect and no party to the Master Agreement shall have any liability hereunder (without prejudice to the rights of the parties in respect of any antecedent breaches).

Completion

The respective Completion of each of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, and the issue of the Consideration Shares in relation thereto, shall take place within five business days after all the conditions (as applicable) as set out above have been fulfilled or waived (as the case may be) or such later date as may be agreed between the parties. The respective Completion of each of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer is not inter-conditional with each other. Upon the Completion:-

- (1) Fortunate Sight will become entitled to the Future Income in the coming six financial years until 2018;
- (2) BE Water (Weifang) will become a wholly-owned subsidiary of BEWG (China);
- (3) BE Water (BVI) will become a wholly-owned subsidiary of the Company; and
- (4) BE Water (Hainan) will become a non-wholly-owned subsidiary of BEWG (China).

Consideration

The consideration of HK\$1,066,539,552 in respect of the Proposed Asset Injection is comprised of:

- (1) RMB804,000,000 (equivalent to approximately HK\$982,692,872) as consideration for acquiring the Future Income, which was determined after arm's length negotiation between the Purchasers and the Vendors on the basis of a discounted cash flow forecast performed on the Future Income in relation to the Beijing Water Plant in the coming six financial years until 2018 (as further detailed in the section of this letter from the Board headed "Information on the Subject Assets and BE Water (Hainan) — Target Asset");

[^] For illustration purpose only

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- (2) RMB6,600,000 (equivalent to HK\$8,066,881) as consideration for acquiring the entire equity interests in BE Water (Weifang), which was determined after arm's length negotiation between the Purchasers and the Vendors by reference to the earnings capability (in terms of historical earnings), growth prospects and financial and operating performance of BE Water (Weifang); and
- (3) HK\$75,779,799 as consideration for acquiring the entire shareholding interest in BE Water (BVI) which was determined after arm's length negotiation between the Purchasers and the Vendors by reference to the growth prospects, and the net asset value of BE Water (BVI) as at 31 December 2011 after considering the research and preparation stage of operation of BE Water (BVI).

The consideration of RMB157,000,000 (equivalent to approximately HK\$191,894,006) in respect of the Proposed BE Water (Hainan) Transfer was determined after arm's length negotiation between the Purchasers and the Vendors by reference to the earnings capability (in terms of historical earnings), growth prospects and financial and operating performance of BE Water (Hainan).

As the discounted cash flow forecast approach was adopted in the valuation of the Future Income (the purpose of the valuation being to evaluate the fair value of the Future Income) as at 1 August 2012 carried out by CBRE, as the Company's independent valuer, pursuant to Rule 14.61 of the Listing Rules and Rule 11.1(a) of the Takeovers Code, any valuation of assets (other than land and buildings) or businesses acquired by a listed issuer based on discounted cash flows or projects of profits, earnings or cash flows and where it is possible to derive a forecast or profits from such valuations, will normally be regarded as a profit forecast. Accordingly, such valuation of Future Income will be regarded as profit forecast, and therefore, the Company is required to comply with Rules 14.60A, 14.62 and 14A.56(8) of the Listing Rules and Rules 10 and 11 of the Takeovers Code.

Pursuant to Rules 14.60A, 14.62 and 14A.56(8) of the Listing Rules and Rule 10 of the Takeovers Code, financial advisers must satisfy themselves that the forecast has been prepared by the directors with due care and consideration, and auditors or reporting accountants must satisfy themselves that the forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made.

In compliance with the requirement under Rule 10 of the Takeovers Code and Rule 14.62 of the Listing Rules, this forecast has been reported on in accordance with the Takeovers Code and the Listing Rules and the requisite reports from Ernst & Young and the Independent Financial Adviser prepared for the purposes of Rule 10.4 of the Takeovers Code and Rule 14.62 of the Listing Rules and a letter of confirmation from the Board prepared for the purpose of Rule 14.62 of the Listing Rules have been lodged with the Executive and the Stock Exchange. Pursuant to Rule 14.62(1) of the Listing Rules, the following sets out details of the assumptions, including commercial assumptions of the forecast of the Future Income, prepared by the Directors and endorsed by CBRE:

1. BEHL will continue to manage and operate the water purification business at the Beijing Water Plant and fulfill all legal and regulatory requirements for the continuation of the water purification business.

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2. There will be no material changes in politics, laws, rules or regulations, or financial or economic or market conditions where Beijing Water Plant currently operates which may materially and adversely affect the operations of the water purification business.
3. There will not be any adverse events beyond the management's control, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect the operation of Beijing Water Plant.
4. the Future Income in relation to the Beijing Water Plant shall remain constant based on the Meeting Decisions (as further detailed in the section of this circular headed "Information on the Subject Assets and BE Water (Hainan) — Target Asset"), which according to the Company's PRC legal adviser, Haiwen & Partners, are legally binding on Beijing Municipal Water under the current PRC legal regime. The assumption of the Future Income remaining constant is based on a "net" basis after the deductions of all state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant. In these regards, the forecast of the amount of RMB190 million in respect of the Future Income for the six financial years until 2018 on an annual basis is net of the deductions, irrespective of whether the operating costs are variable or remain constant.
5. There will be no major changes in the current taxation law in the PRC where Beijing Water Plant currently operates which will materially affect the profits, that the rates of tax payable remain unchanged and that all applicable laws and regulations in relation to taxation in the PRC will be complied with.
6. The Company will receive the Future Income on time based on the confirmation from BEHL.

The report on valuation of the Future Income ("**Valuation Report**") has been prepared by CBRE. Ernst & Young, being the auditors of the Company, have checked the arithmetical accuracy of the calculations and the compilation in respect to the discounted cash flow forecast underlying the valuation prepared by CBRE on the basis of the assumptions prepared by the Directors and endorsed by CBRE without reference to any particular accounting policy as the forecast of the Future Income reflects estimated net cash inflow from BEHL to the Company which does not involve the adoption of any accounting policy. The expected net cash inflow from BEHL to the Company in the coming six financial years until 2018 represents only the economic reality of the cash inflow. No accounting policy is needed to be adopted in order to reflect such expected actual cash inflow. CBRE, in preparing the discounted cash flow forecast underlying the valuation had input the expected annual payment of RMB190 million by BEHL to the Company with a discounted rate applied to the model to obtain the net present value of the cash inflow from BEHL. It is solely arithmetic and does not involve any accounting policy.

The forecast of the Future Income has also been reported on by the Independent Financial Adviser in accordance with Rule 11.1(b) of the Takeovers Code. On the basis of the review work conducted by it, the Independent Financial Adviser is satisfied that CBRE has the qualifications and experience to compile the valuation of the Future Income.

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The Independent Financial Adviser has reviewed the Valuation Report and discussed with the Directors and CBRE regarding the Valuation Report, including, in particular, the valuation approach, and bases and assumptions, and is of the opinion that the bases and assumptions set out therein have been made with due care, consideration and objectivity, and on a reasonable basis.

In accordance with the Listing Rules, the Directors confirm that the valuation of the Future Income has been made after due and careful enquiry.

A letter of confirmation from the Board is included in Appendix V to this circular for the purpose of Rule 14.62 of the Listing Rules. A comfort letter from the Independent Financial Adviser is included in Appendix IV to this circular for the purpose of Rule 10.4 of the Takeovers Code and a letter from Ernst & Young is included in the Appendix III to this circular for the purpose of Rule 10.4 of the Takeovers Code and Rule 14.62 of the Listing Rules.

As at the Latest Practicable Date, neither the Independent Financial Adviser nor Ernst & Young (certified public accountants) has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in any member of the Group.

The Independent Financial Adviser and Ernst & Young have given and have not withdrawn their written consents to the publication of this circular with inclusion of their letters and report and all references to their names in the form and context in which they are included.

Consideration Shares

The Consideration Shares represent (i) approximately 11.24% of the issued share capital of the Company as at the Latest Practicable Date and (ii) approximately 10.11% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Issue Price of HK\$1.62 per Consideration Share is determined after arm's length negotiations between the Purchasers and the Vendors with reference to the recent market price of the Shares and represents:

- (a) a discount of approximately 10.99% to the closing price of HK\$1.82 per Share as quoted on the Stock Exchange on 26 September 2012, being the Last Trading Day;
- (b) a discount of approximately 10.99% to the average closing price of approximately HK\$1.82 per Share as quoted on the Stock Exchange for the last 5 consecutive full trading days up to and including the Last Trading Day; and
- (c) a discount of approximately 8.99% to the average closing price of approximately HK\$1.78 per Share as quoted on the Stock Exchange for the last 10 consecutive full trading days up to and including the Last Trading Day.

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The Consideration Shares will be allotted and issued under a specific mandate to be sought from the Independent Shareholders at the SGM. Application has been made by the Company to the Stock Exchange for the approval for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will rank *pari passu* in all respects with all other Shares in issue on the date of their allotment and issue, including the right to all dividends, distributions and other payments made or to be made, the record date for which falls on or after the date of such allotment and issue. There is no restriction on the subsequent sale of the Consideration Shares by the Vendors and/or their nominee, BE Environmental.

The payment method of issuing the Consideration Shares as settlement of the Consideration will not only enlarge the equity base of the Company, but also eliminate the burden of the Group arising from cash settlement. The Directors consider that the terms and Consideration under the Master Agreement and the Issue Price are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE SUBJECT ASSETS AND BE WATER (HAINAN)

Target Asset

The Beijing Water Plant is situated in the northern district of Beijing Municipality. The Beijing Water Plant is one of the largest water purification plants in Beijing Municipality in terms of production capacity and one of water purification plants that use surface water as their source of raw water. By a concession agreement dated 13 July 1998 entered into between BEHL and Beijing Municipal Water regarding the purchase of an operating concession right to operate the Beijing Water Plant (supplemental agreements were further entered into on 8 April 2011), Beijing Municipal Water granted an operation concession to BEHL for a concession fee of RMB1,500 million to operate water purification business at the Beijing Water Plant for a term of 20 years expiring in 2018 (“**Concession Agreement**”). Target Asset is the Future Income in relation to the Beijing Water Plant in the coming six financial years commencing from 1 January 2013 until 2018.

Under the Concession Agreement, Beijing Municipal Water shall pay BEHL the water purification fee in relation to the operation of the Beijing Water Plant. BEHL is responsible for paying all state and local taxes in the PRC and operating costs in relation to the operation of the Beijing Water Plant. In accordance with the Master Agreement, BEHL is responsible for paying any amount so received as water purification fee under the Concession Agreement to the Company after deducting all state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant in the coming six financial years commencing from 1 January 2013 until 2018. The annual amount of Future Income to be received by the Company pursuant to the Master Agreement therefore is the water purification fee for that particular financial year after deducting the state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant in respect of that particular financial year. The Future Income shall be paid in cash during the second half of each coming six financial years until 2018.

In an attempt of the Beijing Municipal Government to further regulate arrangements and stipulate matters concerning the abovementioned water purification fee payable under the Concession Agreement, and requiring Beijing Municipal Water, as its subordinate regulatory authority, to observe

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such stipulated arrangements and matters, on the basis of the decisions of a meeting among the Beijing Municipal Government, Beijing Municipal Water and BEHL on 29 June 2010, BEHL would be entitled under the Concession Agreement to a non-guaranteed annual net income (namely, water purification fee less operating costs) after tax amount of RMB190 million (reduced from RMB210 million) (“**Meeting Decisions**”). According to the Company’s PRC legal adviser, Haiwen & Partners, the Meeting Decisions are legally binding on Beijing Municipal Water under the current PRC legal regime. In accordance with the Meeting Decisions, the Future Income shall be RMB190 million annually in the coming six financial years until 2018. According to the Company’s PRC legal adviser, the Meeting Decisions are government papers of the Beijing Municipal Government and abovementioned the stipulations thereunder are legally binding on Beijing Municipal Water under the current PRC legal regime and must be observed by Beijing Municipal Water as a subordinate regulatory authority of the Beijing Municipal Government. According to the Company’s PRC legal adviser, Haiwen & Partners, the Beijing Municipal Government may exercise its administrative powers to request Beijing Municipal Water to comply with the abovementioned stipulations under the Meeting Decisions. In addition, according to the information provided by BEHL, the total annual net income (namely, water purification fee less operating costs) that BEHL had been entitled for the operation of the Beijing Water Plant (after deduction of all state and local taxes in the PRC) since 1998 until 2011 had ranged from RMB190 million to RMB210 million per year as a result of the regulatory decisions of the Beijing Municipal Government as mentioned above.

There is no adjustment mechanism in respect of any amount of the Future Income receivable by the Company from BEHL under the Master Agreement, nor is there any guarantee provision by BEHL. The Company is not a party to the Meeting Decisions and the Future Income is not guaranteed by BEHL under the Master Agreement. As there is no guarantee over any amount so receivable by BEHL from Beijing Municipal Water as water purification fee in any particular year under the Concession Agreement, BEHL has not provided any guarantee over any aspect of the Future Income under the Master Agreement and is only liable under the Master Agreement to pay to the Company the amount that it actually receives from Beijing Municipal Water as water purification fee under the Concession Agreement after deducting all state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant in the coming six financial years commencing from 1 January 2013 until 2018.

Based on the Meeting Decisions and information provided by BEHL as mentioned above however, the Board expects the annual Future Income to remain constant and shall be at an annual amount of RMB190 million for the duration of the assignment of the Future Income by BEHL under the Master Agreement. In addition, pursuant to the Master Agreement, BEHL shall use all reasonable endeavours through the taking of all necessary pro-active actions as described below to avoid any delay and shortfall in the payment from Beijing Municipal Water and the onward remittance to the Company and to conduct all liaison and take all necessary and timely steps in this regard. Proactive actions include seeking the assistance of the Beijing Municipal Government to request Beijing Municipal Water to comply with the Meeting Decisions, and taking of action to seek enforcement of the obligations under the Concession Agreement and, apart from agreeing to provide the Company with the information right to review all documentation between BEHL and Beijing Municipal Water regarding the payment from Beijing Municipal Water under the Concession Agreement, to report to the Company on the reason after enquiry for any such delay and shortfall and to take all necessary steps to ensure the timely payment of the Future Income. There are no other conditions attached to the Future Income.

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BE Water (Weifang)

BE Water (Weifang) is a company established in the PRC on 28 November 2003 with limited liability which is wholly-owned by BE Water (Beijing), which in turn is an investment holding company owned by 北京北控制水有限公司 (Beijing Beikong Water Production Co., Ltd.[^]), and ultimately owned by BEHL. The total original purchase costs to BE Water (Beijing) in acquiring BE Water (Weifang) paid on 20 May 2005 amounted to RMB7 million. The principal businesses of BE Water (Weifang) include centralised supply of drinking water; reuse of water; operation and management of water plant and sewage treatment plant; installation and maintenance of water facilities; sale of plumbing equipments; and sewage treatment services and utilisation. BE Water (Weifang) has a water supply project in Shandong under a concession agreement for a term of 21 years until 2025. Its daily design capacity is 40,000 tonnes. As at 31 December 2011, the audited net asset value of BE Water (Weifang) was approximately RMB12,196,000. For the financial years ended 31 December 2010 and 2011, the audited net profits (before and after taxation) of BE Water (Weifang) were:-

	2011 (RMB)	2010 (RMB)
Audited net profit/(loss) (before taxation)	(86,000)	154,000
Audited net profit/(loss) (after taxation)	(102,000)	138,000

* The above financial figures on audited net asset value and net profits (before and after taxation) have been prepared based on the PRC Generally Accepted Accounting Principles.

Net loss incurred in 2011 was mainly due to the increase in electricity charges and staff cost, which were mainly as a result of the increase in electricity unit rates and pay rise of staff in general, and not mainly due to the scale of operations.

BE Water (Hainan)

BE Water (Hainan) is a company incorporated in the PRC on 10 April 2008 with limited liability which, as at Latest Practicable Date, 90% of its equity interest and shareholding is owned by BEH Environment Technology. The remaining 10% is held by 海口長豐水務投資有限公司 (Haikou Zhangfeng Water Investment Co. Ltd.[^]), a company incorporated in the PRC and an Independent Third Party. BEH Environment Technology has made capital contribution of RMB40 million as payment for its share of the total registered capital of BE Water (Hainan). The principal businesses of BE Water (Hainan) includes operations in water project investments, construction and management, waste treatment projects (excluding dangerous wastes), environmental consultancy services and sales of equipments and devices for environmental protections. BE Water (Hainan) has two sewage treatment projects in Hainan under a concession agreement for a term of 25 years until 2033. One of the projects is located in Baishamen, Haikou City, PRC and the other is located in Changliu, Haikou City, PRC. Its daily design capacity is 250,000 tonnes. As at 31 December 2011, the audited net asset value of

[^] For illustration purpose only

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BE Water (Hainan) was approximately RMB131,848,000. For the financial years ended 31 December 2010 and 2011, the audited net profits (before and after taxation) of BE Water (Hainan) were as follows:

	2011 (RMB)	2010 (RMB)
Audited net profit/(loss) (before taxation)	16,070,000	16,778,000
Audited net profit/(loss) (after taxation)*	16,070,000	16,778,000

* BE Water (Hainan) is exempted from profit tax in accordance with the tax policy approved by the PRC government for the financial years ended 31 December 2010 and 2011 and the financial year ending on 31 December 2012. Exemption of profit tax will expire after 31 December 2012.

The above financial figures on audited net asset value and net profits (before and after taxation) have been prepared on the basis of PRC Generally Accepted Accounting Principles.

BE Water (BVI)

BE Water (BVI) is an investment holding company incorporated by BEHL in the BVI on 6 December 2004, which, as at the Latest Practicable Date, owns 50.5% shareholding of BJA Holdings with the remaining 49.5% held by Golden State Water Group Corporation, a company incorporated in the Cayman Islands and which together with its ultimate shareholders are Independent Third Parties. BJA Holdings is a company incorporated in the BVI and is an investment holding company holding the entire issued share capital of Beikong Jinzhou Water (HK). Beikong Jinzhou Water (HK) is an investment holding company incorporated in Hong Kong. As at the Latest Practicable Date, BJA Holdings is directly interested in 67% equity interests in Beijing Anling, with the remaining 33% equity interests in Beijing Anling being held directly by Beijing Municipal Water, which, together with its ultimate shareholders are Independent Third Parties. The principal business of Beijing Anling includes construction and operations of Phase A of No.10 water plant in Beijing, technical research and development, technical consultancy and technical services of water treatment projects. As at 31 December 2011, the audited net asset value of Beijing Anling was approximately RMB182,540,000, the principal assets of Beijing Anling comprise cash of RMB84 million and work in progress (comprising design, research and development fees) of RMB76 million. The principal liabilities of Beijing Anling are account payables of RMB4 million. For the financial years ended 31 December 2010 and 2011, the audited net profits (before and after taxation) of Beijing Anling were nil as construction of the abovementioned Phase A of No. 10 water plant has yet to commence, therefore Beijing Anling had no business operation for the financial years ended 31 December 2010 and 2011. These financial figures on audited net asset value and net profits (before and after taxation) have been prepared on the basis of PRC Generally Accepted Accounting Principles. As at 31 December 2011, the unaudited consolidated net asset value of BE Water (BVI) was approximately HK\$75,764,000. For the financial years ended 31 December 2010 and 2011, the unaudited consolidated net loss (before and after taxation) of BE Water (BVI) were HK\$45,000 and HK\$91,000 respectively. The original purchase costs to BEHL for acquiring the group of companies comprising BJA Holdings, Beikong Jinzhou Water (HK) and Beijing Anling, through BE Water (BVI) on 21 December 2006, was HK\$46,107,000.

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CHANGES IN THE SHAREHOLDINGS STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) immediately before completion of the issue of the Consideration Shares as at the Latest Practicable Date; (ii) immediately after completion of the issue of the Consideration Shares for the Proposed Asset Injection; and (iii) immediately after completion of the issue of the Consideration Shares for the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer:

Name of Shareholders	Shareholding immediately before completion of the issue of the Consideration Shares as at the Latest Practicable Date		Shareholding immediately after completion of the issue of the Consideration Shares for the Proposed Asset Injection		Shareholding immediately after completion of the issue of the Consideration Shares for the Proposed Asset Injection and Proposed BE Water (Hainan) Transfer	
	<i>Approximate</i>		<i>Approximate</i>		<i>Approximate</i>	
	<i>Number of Shares</i>	<i>percentage</i>	<i>Number of Shares</i>	<i>percentage</i>	<i>Number of Shares</i>	<i>percentage</i>
BE Environmental and parties acting in concert with it (Note 1)	3,047,556,993	44.11	3,705,914,741	48.97	3,824,367,831	49.76
Existing public Shareholders	<u>3,861,613,493</u>	<u>55.89</u>	<u>3,861,613,493</u>	<u>51.03</u>	<u>3,861,613,493</u>	<u>50.24</u>
Total	<u><u>6,909,170,486</u></u>	<u><u>100.00</u></u>	<u><u>7,567,528,234</u></u>	<u><u>100.00</u></u>	<u><u>7,685,981,324</u></u>	<u><u>100.00</u></u>

Notes: As at the Latest Practicable Date, Beijing Enterprises Group Company Limited is deemed to be interested in 3,047,556,993 Shares as a result of its indirect holding of such Shares through the following entities including its wholly-owned subsidiaries:

Name	Long position in Shares
BE Environmental	3,047,556,993
BEHL	3,047,556,993
Beijing Enterprises Group (BVI) Company Limited	3,047,556,993
Beijing Enterprises Group Company Limited	3,047,556,993

As at the Latest Practicable Date, BEHL is deemed to be interested in the 3,047,556,993 Shares directly held by BE Environmental (as to 3,047,550,993) and New Profit Investment Limited (as to 3,000 Shares) (both are wholly-owned subsidiaries of BEHL) and Ms. Kwok Kar Wai, as the other nominee of BE Environmental (as to 3,000 Shares) (“**Nominee**”), who is an Independent Third Party. Each of New Profit Investment Limited and the Nominee is holding the Shares as trustee on behalf of BE Environmental. BEHL is held directly as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited (“**BE Group BVI**”) while BE Group BVI’s 72.72%-owned subsidiary, Beijing Enterprises Investments Limited, a company incorporated in the BVI with limited liability, directly and indirectly owns an aggregate of approximately 23.19% of the issued share capital of BEHL. Accordingly, BE Group BVI together with Beijing Enterprises Investments Limited effectively own an aggregate of approximately 53.01% of the issued share capital of BEHL. BE Group BVI is therefore deemed to be interested in the Shares owned by BEHL. BE Group BVI is held directly as to 100% by Beijing Enterprises Group Company Limited (“**Beijing Enterprises**”).

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Group”), a company established in the PRC and is wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administrative Commission of People’s Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會). Accordingly, Beijing Enterprises Group is deemed to be interested in the Shares held by BE Group BVI.

WHITEWASH WAIVER

Prior to the Completion, BE Environmental and parties acting in concert with it are interested in 3,047,556,993 Shares, representing approximately 44.11% of the issued share capital of the Company as at the Latest Practicable Date. In the event that there is Completion of the Proposed Asset Injection, the shareholding of BE Environmental and parties acting in concert with it will increase from 3,047,556,993 Shares, representing approximately 44.11% of the entire issued share capital of the Company as at the Latest Practicable Date, to a total of 3,705,914,741 Shares, representing approximately 48.97% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares in respect of the Proposed Asset Injection. In the event that there is Completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, the shareholding of BE Environmental and parties acting in concert with it will increase from 3,047,556,993 Shares, representing approximately 44.11% of the entire issued share capital of the Company as at the date of Latest Practicable Date, to a total of 3,824,367,831 Shares, representing approximately 49.76% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer.

Accordingly, the issuance of Consideration Shares by the Company will trigger an obligation for BE Environmental together with parties acting in concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code for all of the Shares not already owned or agreed to be acquired by them. An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. BE Environmental and parties acting in concert with it, together with other Shareholders (if any) who are involved in or are interested in the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and/or the Whitewash Waiver shall abstain from voting at the SGM in respect of the ordinary resolutions to approve the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver. Completion of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement are conditional on, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders at the SGM. If the Whitewash Waiver is not granted or is withdrawn or revoked by the Executive or is not approved by the Independent Shareholders, the Master Agreement will not become unconditional and the Proposed Asset Injection and Proposed BE Water (Hainan) Transfer will not proceed.

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DEALINGS OF THE SHARES BY BE ENVIRONMENTAL AND PARTIES ACTING IN CONCERT WITH IT AND OTHER MISCELLANEOUS MATTERS

There has been no dealing of the Shares and other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company by BE Environmental and parties acting in concert with it during the six month period immediately prior to the date of the Announcement and up to the Latest Practicable Date. As at the Latest Practicable Date, other than the approximately 44.11% of the issued share capital of the Company owned by BE Environmental and parties acting in concert with it (the details of which are set out under the section headed “CHANGES IN SHAREHOLDINGS STRUCTURE OF THE COMPANY” of this letter from the Board) and transactions contemplated under the Master Agreement (to which BE Environmental and/or parties acting in concert with it is/are a party(ies)):

- i. BE Environmental and parties acting in concert with it did not hold, control or direct any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
- ii. with reference to Note 8 to Rule 22 of the Takeovers Code, there was no other arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of BE Environmental or the Company and which may be material to the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and/or the Whitewash Waiver;
- iii. there was no other agreement or arrangement to which BE Environmental or any parties acting in concert with it was a party which related to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and/or the Whitewash Waiver;
- iv. BE Environmental and parties acting in concert with it had not received any irrevocable commitment to accept or reject the Proposed Asset Injection and/or the Proposed BE Water (Hainan) Transfer or to vote in favour of or against the ordinary resolutions on the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver to be proposed at the SGM; and
- v. BE Environmental and parties acting in concert with it had not borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

REASONS FOR AND BENEFITS OF THE PROPOSED ASSET INJECTION AND THE PROPOSED BE WATER (HAINAN) TRANSFER

The Subject Assets and BE Water (Hainan) are principally involved or engaged in the business of water treatment. The Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer would be beneficial to both the Target Companies and the Group in that it would expand the business operations and scope of business in the area of water treatment in the PRC. Having considered the opinion of the Company’s PRC legal adviser regarding the legally binding Meeting Decisions, and the

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information provided by BEHL regarding the total annual net income that BEHL had been entitled under the Concession Agreement for operating the Beijing Water Plant since 1998 until 2011 with details as set out further under the paragraph headed “Information On The Subject Assets and BE Water (Hainan) — Target Asset”, the Board believes that the amounts receivable as the Future Income under the Master Agreement will have a positive cash-flow effect for the Group. The Target Companies will also become subsidiaries of the Group and this would enable the Group to fully secure and control the Target Companies and their respective subsidiaries and their water treatment businesses. As such, the Directors consider that the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer are in line with the strategy of the Company in expanding its businesses of water supply and treatment, and sewage treatment.

The Directors have discussed with the auditors of the Company about the accounting treatments in respect of the Proposed Asset Injection and Proposed BE Water (Hainan) Transfer. These accounting treatments however have not been audited. The Directors understand that Hong Kong Accounting Standard 39 (“**HKAS 39**”), the title of which is “Financial Instruments: Recognition and Measurement”, and Hong Kong Financial Reporting Standard 3 (“**HKFRS 3**”), the title of which is “Business Combinations”, issued by the Hong Kong Institute of Certified Public Accountants shall need to be considered and applied. Accounting treatments are important considerations on the analysis of the financial effects of the transactions. Following is the analysis of financial effects of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer:

Financial effect on earnings

Given the much bigger size of the transaction relating to the Target Asset relative to other transactions being analysed, and the fact that some subject companies proposed to be acquired pursuant to the Proposed BE Water (Hainan) Transfer and the Proposed Asset Injection are either in relatively early stage of operation or derive relatively small earnings or losses according to their respective financial statements for the year ended 31 December 2011, the focus at this stage of the analysis on the financial effects on earnings of the Group shall be in relation to the Target Asset.

The Target Asset is not an operating company but represents the rights of entitlement to the future earnings of Beijing Water Plant for the six financial years until 2018, which is expected to be RMB190 million annually based on the Meeting Decisions.

The Directors understand that according to the requirement of HKAS 39, immediately after the completion of the acquisition of the Target Asset, an effective interest rate method will be used to allocate the interest income (“**Interest Income**”) in respect of the Target Asset over the six financial years ending 31 December 2018. The amount of profit generated from the Future Income to be booked for each of the six financial years ending 31 December 2018 shall depend on, inter alia, the amounts of Interest Income to be amortised over each of such financial years, and is expected not to be constant. Given the Interest Income to be generated from the Target Asset, the net profits of the Group will be enhanced after the completion of the acquisition of the Target Asset.

LETTER FROM THE BOARD

Financial effect on net asset value

The Directors have discussed with the auditors of the Company about the accounting treatment regarding the booking of assets in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer. These accounting treatments however have not been audited. The Directors understand that HKAS 39 and HKFRS 3 shall need to be considered and applied.

The net asset value to be booked upon the completion of the acquisition of the Target Companies and 90% interest in BE Water (Hainan) shall depend on, inter alia, the fair value of the 170,210,300 Consideration Shares to be calculated based on the closing price of the Shares on the date of issue of the Consideration Shares, as well as the fair value of the assets and liabilities of the Target Companies and BE Water (Hainan) pursuant to HKFRS 3.

The total estimated Future Income for the six financial years until 2018, after netting off the total Interest Income, shall be booked as accounts receivable pursuant to HKAS 39. The Directors consider that the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer shall increase the net asset value of the Group as (i) the issue of the Consideration Shares is expected to enhance the capital base of the Group, and (ii) the net amount of the estimated Future Income to be booked as accounts receivable is expected to enhance the net asset value of the Group, immediately following completion of those transactions.

Based on the above analysis, the Directors consider that the dilution in the shareholding interests of the Independent Shareholders in the Company upon completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer is not prejudicial to their interests and, as such, is considered to be fair and reasonable.

The Directors (including the members of the Independent Board Committee who have expressed their view in the “Letter from the Independent Board Committee” in this circular after having received advice from the Independent Financial Adviser) consider that the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement are on normal commercial terms and the terms of the Master Agreement, which were determined after arm’s length negotiations between the Purchasers and the Vendors, are fair and reasonable and in the best interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Since BEHL, through BE Environmental, is a controlling shareholder of the Company and BE Water (Beijing) and BEH Environment Technology are both the ultimate wholly-owned subsidiaries of BEHL, the Vendors are connected persons of the Company as defined under the Chapter 14A of the Listing Rules and the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement constitute connected transactions of the Company. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, when

LETTER FROM THE BOARD

aggregated with the acquisitions of the Subject Assets and BE Water (Hainan), are greater than 5% but less than 25%, the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer together also constitute a discloseable transaction for the Company and are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

To the extent that the Company is aware and having made all reasonable enquiries, as at the Latest Practicable Date, neither BE Environmental nor parties acting in concert with it had:

- (i) any voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon it; or
- (ii) any obligation or entitlement,

whereby it/he/she had or may have temporarily or permanently passed control over the exercise of the voting right in respect of its/his/her shareholding in the Company to a third party, either generally or on a case-by-case basis, and there was no discrepancy between its/his/her beneficial shareholding interest (direct or indirect) in the Company and the number of Shares in respect of which it/he/she would control or would be entitled to exercise control over the voting right at the SGM.

GENERAL

The Company is an investment holding company and the holding company of the Group. The Group is principally engaged in construction of sewage and reclaimed water treatment and seawater desalination plants, and the provision of construction services for comprehensive renovation projects in the PRC and Malaysia; the provision of sewage treatment services in the PRC; the provision of reclaimed water treatment services and distribution and sales of piped water in the PRC; the provision of technical and consultancy services that are related to sewage treatment and construction comprehensive renovation projects in the PRC; and the licensing of technical know-how that is related to sewage treatment in the PRC.

BEHL is a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 392). BEHL and its subsidiaries are principally engaged in natural gas operations, brewery operations, sewage and water treatment operations and toll road operations in the PRC. BE Water (Beijing), BEH Environment Technology and BE Environmental are all investment holding companies and are ultimate wholly-owned subsidiaries of BEHL.

The Independent Board Committee has been established to make recommendations to the Independent Shareholders in respect of the reasonableness and fairness of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver. The Independent Financial Adviser has been appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in this regard. The appointment of the Independent Financial Adviser has been approved by the Independent Board Committee.

LETTER FROM THE BOARD

An application has been made to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares. Dealings in the Consideration Shares will be subject to the payment for stamp duty in Hong Kong (where applicable).

INFORMATION ON AND INTENTION OF BE ENVIRONMENTAL

BE Environmental is a limited liability company incorporated in the British Virgin Islands. It is an investment holding company and is wholly owned by BEHL, a company incorporated in Hong Kong with limited liability and which is held as to 36.15% by Beijing Enterprises Group (BVI) Company Limited and which in turn is wholly-owned by 北京控股集團有限公司 (“Beijing Enterprises Group”), a company established in the PRC and is wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administrative Commission of People’s Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會). As at the Latest Practicable Date, the directors of BE Environmental are Mr. E Meng and Mr. Tam Chun Fai, and the directors of BEHL are Mr. Wang Dong, Mr. Zhang Honghai, Mr. Lin Fusheng, Mr. Li Fucheng, Mr. Zhou Si, Mr. Hou Zibo, Mr. Guo Pujin, Mr. Liu Kai, Mr. Lei Zhengang, Mr. E Meng, Mr. Jiang Xinhao and Mr. Tam Chun Fai (as executive directors) and Mr. Wu Jiesi, Mr. Robert A. Theleen, Mr. Lam Hoi Ham and Mr. Fu Tingmei (as independent non-executive directors).

BE Environmental has been the controlling shareholder of the Company since 2008. As a long-term commercial justification for the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement, the Company was informed by BE Environmental that BE Environmental shares the same view with the Company that the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement should help enhancing the Company’s development in the traditional water supply and treatment business, and sewage treatment business while the Company is able to maintain the growing momentum in the future and thereby continues to contribute profits to the Group in long-term. BE Environmental intends that the Group will continue its existing business and has no intention or any plans, other than the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer contemplated under the Master Agreement, to inject any other assets into the Group’s assets. It also has no intention to introduce any major changes to the business of the Group, including any redeployment of the fixed assets of the Group. The implementation of any future injection or disposal of assets of the Group will be subject to the relevant provisions of the Listing Rules. BE Environmental and parties acting in concert with it have no intention or any plans to make any change whatsoever to the continued employment of the employees of the Company and of its subsidiaries.

SPECIAL GENERAL MEETING

A notice convening the SGM to be held at 3:00 p.m. on Tuesday, 18 December 2012 at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong is set out on pages N-1 to N-2 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions as set out therein. Whether or not you are able to attend the SGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the

LETTER FROM THE BOARD

Company in Hong Kong, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

The SGM will be convened at which ordinary resolutions will be proposed to seek the approval of the Independent Shareholders for, among other things, the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver by way of poll.

Pursuant to Rule 13.39(4) of the Listing Rules and Rule 2.9 of the Takeovers Code, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the voting of the ordinary resolutions as set out in the notice of SGM shall be taken by way of poll at the SGM.

As at the Latest Practicable Date, BE Environmental and parties acting in concert with it are interested in or controlled or are entitled to exercise control over the voting rights in respect of, directly and indirectly, an aggregate of 3,047,556,993 Shares (representing 44.11% of the total issued Shares) and BE Environmental and parties acting in concert with it are the controlling Shareholders of the Company. BE Environmental and parties acting in concert with it and Shareholders who are otherwise involved in or interested in the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement and/or the Whitewash Waiver shall abstain from voting on the ordinary resolutions to approve the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and/or the Whitewash Waiver at the SGM. None of the Directors has any material interest in the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares or the Whitewash Waiver or was required to abstain from voting on the Board resolutions for considering and approving the same.

RECOMMENDATION

The executive Directors believe that the terms of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement and the Whitewash Waiver to be fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement and the Whitewash Waiver.

You are advised to read carefully the letter from the Independent Board Committee on page 30 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 31 to 51 of this circular, considers that the terms of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement and the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement and the Whitewash Waiver at the SGM.

Your attention is drawn to the additional information set out in the Appendices to this circular. The English text shall prevail over the Chinese text in this circular.

Yours faithfully,
By Order of the Board
Beijing Enterprises Water Group Limited
Hu Xiaoyong
Executive Director & Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 371)

30 November 2012

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular dated 30 November 2012 (“Circular”) to the shareholders of the Company of which this letter forms part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee of the Company to advise the Independent Shareholders in respect of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver, details of which are set out in the “Letter from the Board” contained in the Circular. Mizuho Securities Asia Limited has been appointed to advise the Independent Shareholders and us in this regard.

Details of the advice of Mizuho Securities Asia Limited and the principal factors and reasons they have taken into consideration in giving such advice are set out in the “Letter from Mizuho Securities Asia Limited” in the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendices thereto.

Having considered, among other matters, the factors and reasons considered by and the advices of Mizuho Securities Asia Limited as stated in its letter of advice, we consider that the terms of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares are on normal commercial terms, and the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders (including Independent Shareholders) as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, the transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Independent Board Committee
Shea Chun Lok Quadrant
Zhang Gaobo
Guo Rui
Hang Shijun
Wang Kaijun
Independent non-executive Director

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

The following is the text of the letter of advice from Mizuho Securities Asia Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, in respect of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement and the Whitewash Waiver which has been prepared for the purpose of inclusion in this circular.

The Mizuho logo is displayed in white capital letters on a dark grey rectangular background.

Mizuho Securities Asia Limited

12th Floor, Chater House,
8 Connaught Road Central, Hong Kong
Tel: 2685-2000 Fax: 2685-2400

30 November 2012

*To the Independent Board Committee and
the Independent Shareholders*

Beijing Enterprises Water Group Limited

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
INVOLVING A PROPOSED ISSUE OF
CONSIDERATION SHARES;
AND APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver. Further details of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver are set out in the letter from the Board (the “**Letter from the Board**”) in the circular of the Company to its Shareholders dated 30 November 2012 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 26 September 2012, the Company, along with other Purchasers entered into the Master Agreement with the Vendors, pursuant to which the Company itself and, through BEWG (China) and Fortunate Sight, agreed to acquire, and the Vendors agreed to transfer (i) the Future Income in relation to the Beijing Water Plant; (ii) the entire equity interests in BE Water (Weifang); (iii) the entire beneficial shareholding interests in BE Water (BVI); and (iv) 90% equity interests in BE Water (Hainan).

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

As consideration for the Proposed Asset Injection, there shall be payable to BE Environmental, by the issue and allotment of a total of 658,357,748 Consideration Shares at HK\$1.62 per Share (equivalent to a total value of HK\$1,066,539,552) to BE Environmental. As consideration for the Proposed BE Water (Hainan) Transfer, there shall be payable to BE Environmental, by the issue and allotment of 118,453,090 Consideration Shares at HK\$1.62 per Share (equivalent to a total value of HK\$191,894,006) to BE Environmental. As a result, the total Consideration Shares to be issued upon the completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer are 776,810,838 Consideration Shares (equivalent to a total value of HK\$1,258,433,558), which represents approximately 11.24% of the issued share capital of the Company as at the Latest Practicable Date.

Since BEHL, through BE Environmental, is a controlling shareholder of the Company and BE Water (Beijing) and BEH Environment Technology are both the ultimate wholly-owned subsidiaries of BEHL, the Vendors are connected persons of the Company as defined under Chapter 14A of the Listing Rules, and the Master Agreement and the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer contemplated therein constitute connected transactions of the Company. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, when aggregated with the acquisitions of the Subject Assets and BE Water (Hainan) are greater than 5% but less than 25%, the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer together also constitute discloseable transactions for the Company and are subject to the reporting and announcement requirements under the Listing Rules.

Prior to the Completion, BE Environmental and parties acting in concert with it are interested in 3,047,556,993 Shares, representing approximately 44.11% of the issued share capital of the Company as at the Latest Practicable Date. In the event that there is completion of both the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, the shareholding of BE Environmental and parties acting in concert with it will increase from approximately 44.11% of the entire issued share capital of the Company as at the Latest Practicable Date to a total of 3,824,367,831 Shares, representing approximately 49.76% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer. The issuance of Consideration Shares by the Company will trigger an obligation for BE Environmental (together with parties acting in concert with it) to make a mandatory general offer under Rule 26 of the Takeovers Code for all of the Shares not already owned or agreed to be acquired by them. An application has been made to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the SGM by way of poll. BE Environmental and parties acting in concert with it, together with other Shareholders (if any) who have been involved in or are interested in the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver shall abstain from voting at the SGM in respect of the ordinary resolutions to approve the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver. Completion of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement are conditional on, among other things, the granting of the Whitewash Waiver by the Executive and the approval of the Whitewash Waiver by the Independent Shareholders at the SGM.

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Our scope of work under this engagement is to assess whether the terms of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, and whether the Whitewash Waiver, are fair and reasonable so far as the Shareholders are concerned, and, from that perspective, whether the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. We would also provide our recommendation to the Independent Board Committee and Independent Shareholders as to voting at the SGM regarding the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement, as well as the Whitewash Waiver.

BASIS OF OUR OPINION

In arriving at our opinion, we have relied on the information, opinions and facts supplied, and representations made to us, by the Directors, advisers and representatives of the Company (including those contained or referred to in the Circular). We have also assumed that the information and representations contained or referred to in the Circular were true and accurate in all respects at the time they were made and continue to be so at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have been advised by the Directors and believe that no material facts have been omitted from the Circular. Shareholders will be informed of any material changes of information contained in our letter as soon as possible prior to the holding of the SGM.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of investigation into the businesses and affairs or prospects of the Company and BEHL and/or any of their respective subsidiaries or associates, and the Subject Assets.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In forming our opinion, we have considered the following principal factors and reasons:

1. BACKGROUND

Business of the Group

The Group is principally engaged in construction of sewage and reclaimed water treatment and seawater desalination plants, and the provision of construction services for comprehensive renovation projects in the PRC and Malaysia; the provision of sewage treatment services in the PRC; the provision of reclaimed water treatment services and distribution and sales of piped water in the PRC; the provision of technical and consultancy services that are related to sewage treatment and construction comprehensive renovation projects in the PRC; and the licensing of technical know-how that is related to sewage treatment in the PRC.

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Based on the interim report of the Company for the six months ended 30 June 2012 (“**Interim Report 2012**”), the coverage of the Group’s water plants has extended to 19 provinces across Mainland China. As at 30 June 2012, the Group participated in 144 water plants either in operation or going to operate in the future including 111 sewage treatment plants, 28 water supply plants, 4 reclaimed water treatment plants and 1 seawater desalination plant. The total daily designed capacity during the six months ended 30 June 2012 was increased by 980,000 tonnes to 9,708,950 tonnes, representing an increase of approximately 11% as compared with that in 2011. The increment of 980,000 tonnes daily designed capacity includes Build-Operate-Transfer projects of 240,000 tonnes, Transfer-Operate-Transfer projects of 135,000 tonnes, entrustment operation projects of 25,000 tonnes and acquired project of 580,000 tonnes.

We note that the Group has clear business strategy and the nature of the Subject Assets is in line with the business focus of the Group.

Historical performance of the Group

The following tables summarise the audited financial information of the Group for the three years ended 31 December 2011 and the unaudited financial information of the Group for the six months ended 30 June 2011 and 30 June 2012, which are extracted from the published annual reports and interim reports of the Group for the corresponding periods.

	For the six months ended 30 June		For the year ended 31 December		
(HK\$ million)	2011	2012	2009	2010	2011
<i>Revenue</i>					
Sewage and reclaimed water treatment services	420.7	624.2	439.7	591.6	994.7
Water supply services	35.7	53.5	60.5	75.5	83.2
Construction services	279.3	536.7	1,065.8	5,431.6	1,365.0
Technical services	164.8	187.1	69.2	249.4	211.6
Sale of sewage treatment facilities	—	—	94.8	—	—
Total revenue	900.5	1,401.5	1,730.0	6,348.1	2,654.5
<i>Profit attributable to shareholders of the Company</i>					
Sewage treatment services	189.7	335.5	196.3	248.3	490.9
Water supply services	9.6	8.8	9.4	10.3	12.3
Construction services	103.9	141.7	81.5	375.2	235.7
Technical services	127.4	128.6	51.7	203.1	169.1
Sale of sewage treatment facilities	—	—	24.1	—	—
Others	(120.9)	(228.0)	(170.3)	(324.4)	(307.3)
Total profit attributable to shareholders of the Company	309.7	386.6	192.7	512.5	600.7

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

According to the annual report (“**Annual Report 2010**”) of the Company for the financial year ended 31 December 2010 (“**FY2010**”), the Group recorded revenue of approximately HK\$6,348.1 million, which represents approximately 266.9% increase when compared to the revenue for the financial year ended 31 December 2009 (“**FY2009**”) of approximately HK\$1,730.0 million. The significant increase was mainly driven by the increase in construction revenue from comprehensive water environmental renovation projects from HK\$82.3 million for FY2009 to HK\$4,600.0 million for FY2010. In FY2010, two new comprehensive water environmental renovation projects were undertaken by the Group. These projects are located in Kunming and Dalian, the PRC, and contributed approximately HK\$4,433.4 million of revenue to the Group for FY2010.

Profit attributable to the Shareholders for FY2010 was approximately HK\$512.5 million, which represents approximately 166.0% increase when compared to that of approximately HK\$192.7 million for FY2009. The substantial increase in revenue and profit attributable to Shareholders were mainly attributable to the increase in revenue and profit from construction services and technical services.

According to the annual report (“**Annual Report 2011**”) of the Company for the financial year ended 31 December 2011, (“**FY2011**”), the Group recorded revenue of approximately HK\$2,654.5 million, which represents approximately 58.2% decrease when compared to that for FY2010. The decrease in revenue was mainly due to the decrease in revenue from construction services and technical services, which were partly offset by the increase in revenue from sewage treatment services and water supply services. The decrease in revenue from construction services and technical services was mainly due to the substantial completion of two comprehensive water environmental renovation projects in Kunming and Dalian. As advised by the management of the Company, the related revenue from these two projects decreased by an aggregate of approximately HK\$4,283.8 million during FY2011. The effect was partly offset by the increase in revenue from sewage treatment and water supply services as a result of the increase in processing volume from approximately 611.4 million tonnes to 1,128 million tonnes with 28 water plants becoming operational during FY2011.

Profit attributable to the Shareholders for FY2011 was approximately HK\$600.7 million, which represents approximately 17.2% increase when compared to that for FY2010. The increase in profit attributable to Shareholders was mainly attributable to the increase in profit from sewage treatment services and water supply services.

According to the Interim Report 2012, the Group recorded revenue of approximately HK\$1,401.5 million, representing an increase of approximately 55.64% from the revenue of approximately HK\$900.5 million for the six months ended 30 June 2011 (“**1H2011**”). The increase was mainly due to the increase in revenue from sewage and reclaimed water treatment services and construction of comprehensive renovation projects. The revenue from construction of comprehensive renovation projects increased by approximately HK\$183.7 million and the revenue from sewage and reclaimed water treatment services increased by HK\$203.5 million for the six months ended 30 June 2012 (“**1H2012**”).

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Profit attributable to the Shareholders for 1H2012 was approximately HK\$386.6 million, which represents approximately 24.83% increase when compared to that for 1H2011. The increase in profit attributable to Shareholders was mainly contributed by the increase in profit from sewage and reclaimed water treatment services, as well as increase in profit from construction services.

As at 30 June 2012, the Group had total equity of approximately HK\$9,761.10 million, representing an increase of approximately 0.52% when compared to its total equity of approximately HK\$9,710.88 million as at 31 December 2011. The Group had total bank and other borrowings, and corporate bonds issued and outstanding (“**Total Borrowings**”) in the aggregate amount of approximately HK\$10,042.83 million as well as cash and cash equivalents of approximately HK\$1,853.66 million as at 30 June 2012. The net gearing ratio of the Group (which is calculated by Total Borrowings, net of cash and cash equivalents, divided by total equity) was approximately 83.90%.

The Directors consider that the issue of Consideration Shares may not only enlarge the equity base of the Company, but also eliminate any potential cash flow burden of the Group arising from cash settlement. Having considered the financial position of the Group, we agree that it is reasonable to issue Shares as consideration for the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer.

Information on the Subject Assets and BE Water (Hainan)

Target Asset

The Target Asset is the Future Income in relation to the Beijing Water Plant in the coming six financial years commencing from 1 January 2013 until 2018.

As explained in the Letter from the Board, the Beijing Water Plant is situated in the northern district of Beijing Municipality. The Beijing Water Plant is one of the largest water purification plants in Beijing Municipality in terms of production capacity and one of water purification plants that use surface water as their source of raw water. By a concession agreement dated 13 July 1998 entered into between BEHL and Beijing Municipal Water regarding the purchase of an operating concession right to operate the Beijing Water Plant (supplemental agreements have been further entered into on 8 April 2011), Beijing Municipal Water granted an operation concession to BEHL for a concession fee of RMB1,500 million to operate water purification business at the Beijing Water Plant for a term of 20 years expiring in 2018 (the “**Concession Agreement**”).

Under the Concession Agreement, Beijing Municipal Water shall pay BEHL the water purification fee in relation to the operation of the Beijing Water Plant. BEHL is responsible for paying all state and local taxes in the PRC and operating costs in relation to the operation of the Beijing Water Plant. In accordance with the Master Agreement, BEHL is responsible for paying any amount so received as water purification fee under the Concession Agreement to the Company after deducting all state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant in the coming six financial years commencing from 1 January 2013 until 2018. The annual amount of Future Income to be received by the Company pursuant to the Master Agreement therefore

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

is the water purification fee for that particular financial year after deducting the state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant in respect of that particular financial year. The Future Income shall be paid in cash during the second half of each coming six financial years until 2018.

In an attempt of the Beijing Municipal Government to further regulate arrangements and stipulate matters concerning the water purification fee payable under the Concession Agreement, and requiring Beijing Municipal Water, as its subordinate regulatory authority, to observe such stipulated arrangements and matters, on the basis of the decisions of a meeting among the Beijing Municipal Government, Beijing Municipal Water and BEHL on 29 June 2010, BEHL would be entitled under the Concession Agreement to a non-guaranteed annual net income (that is, water purification fee less operating costs) after tax amount of RMB190 million (reduced from RMB210 million) (the “**Meeting Decisions**”). According to the Company’s PRC legal adviser, Haiwen & Partners, the Meeting Decisions are legally binding on Beijing Municipal Water under the current PRC legal regime. In accordance with the Meeting Decisions, the Future Income shall be RMB190 million annually in the coming six financial years until 2018. According to the Company’s PRC legal adviser, the Meeting Decisions are government papers of the Beijing Municipal Government and the stipulations thereunder are legally binding on Beijing Municipal Water under the current PRC legal regime and must be observed by Beijing Municipal Water as a subordinate regulatory authority of the Beijing Municipal Government. According to Haiwen & Partners, the Beijing Municipal Government may exercise its administrative powers to request Beijing Municipal Water to comply with the stipulations under the Meeting Decisions. In addition, as stated in the Letter from the Board, according to the information provided by BEHL, the total annual net income (that is, water purification fee less operating costs) that BEHL had been entitled for the operation of the Beijing Water Plant (after deduction of all state and local taxes in the PRC) since 1998 until 2011 had ranged from approximately RMB190 million to RMB210 million per year as a result of the regulatory decisions of the Beijing Municipal Government as mentioned above.

Based on the Meeting Decisions and information provided by BEHL as mentioned above, the Board expects the annual Future Income to remain constant and shall be at an annual amount of RMB190 million for the duration of the assignment of the Future Income by BEHL under the Master Agreement. In addition, pursuant to the Master Agreement, BEHL shall use all reasonable endeavours through the taking of all necessary pro-active actions as described below to avoid any delay and shortfall in the payment from Beijing Municipal Water and the onward remittance to the Company and to conduct all liaison and take all necessary and timely steps in this regard. Pro active actions include seeking the assistance of the Beijing Municipal Government to request Beijing Municipal Water to comply with the Meeting Decisions, and taking of action to seek enforcement of the obligations under the Concession Agreement and, apart from agreeing to provide the Company with the information right to review all documentation between BEHL and Beijing Municipal Water regarding the payment from Beijing Municipal Water under the Concession Agreement, to report to the Company on the reason after enquiry for any such delay and shortfall and to take all necessary steps to ensure the timely payment of the Future Income.

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We would highlight that the annual net income in the form of water purification fee less operating costs from the Beijing Water Plant entitled by BEHL is of non-guaranteed basis, and, according to our understanding from the Company, such has been the contractual arrangement in respect of the Beijing Water Plant all the time. However, notwithstanding this, and on the basis of the PRC legal opinion discussed above, the Meeting Decisions are legally binding on Beijing Municipal Water under the current PRC legal regime. As such, the Directors expect the annual Future Income to remain constant and shall be at an annual amount of RMB190 million for the duration of the assignment of the Future Income by BEHL under the Master Agreement. Such consideration forms the important basis for the relevant assumptions for the valuation of the Future Income as set out in the section headed “Valuation assumptions” in Appendix II to the Circular. On the basis of the PRC legal opinion, we consider that the relevant assumptions by the Directors to be reasonable.

BE Water (Weifang)

As discussed in the Letter from the Board, BE Water (Weifang) is a company established in the PRC on 28 November 2003 with limited liability which is wholly-owned by BE Water (Beijing), which in turn is an investment holding company owned by 北京北控制水有限公司 (Beijing Beikong Water Production Co., Ltd.), and ultimately owned by BEHL. The total original purchase costs to BE Water (Beijing) in acquiring BE Water (Weifang) paid on 20 May 2005 amounted to RMB7 million. The principal businesses of BE Water (Weifang) include centralised supply of drinking water; reuse of water; operation and management of water plant and sewage treatment plant; installation and maintenance of water facilities; sale of plumbing equipment; and sewage treatment services and utilisation. BE Water (Weifang) has a water supply project in Shandong under a concession agreement for a term of 21 years until 2025. The daily design capacity is 40,000 tonnes. As at 31 December 2011, the audited net asset value of BE Water (Weifang) was approximately RMB12,196,000. For the financial years ended 31 December 2010 and 2011, the audited net profits (before and after taxation) of BE Water (Weifang) were:-

	2011	2010
	(RMB)	(RMB)
Audited net profit / (loss) (before taxation)	(86,000)	154,000
Audited net profit / (loss) (after taxation)	(102,000)	138,000

Note: The above financial figures on audited net asset value and net profits (before and after taxation) have been prepared on the basis of PRC Generally Accepted Accounting Principles

We were advised by the management of the Company that the loss of BE Water (Weifang) for FY2011 was mainly due to the increase in electricity charges and staff cost, which were mainly as a result of the increase in electricity unit rates and pay rise of staff in general, and not mainly due to the scale of operations.

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BE Water (Hainan)

As discussed in the Letter from the Board, BE Water (Hainan) is a company incorporated in the PRC on 10 April 2008 with limited liability which 90% of its equity interest and shareholding is owned by BEH Environment Technology. The remaining 10% is held by 海口長豐水務投資有限公司 (Haikou Zhangfeng Water Investment Co. Ltd.), a company incorporated in the PRC and an Independent Third Party. BEH Environment Technology had made capital contribution of RMB40 million as payment of its share of the total registered capital of BE Water (Hainan). The principal businesses of BE Water (Hainan) include operations in water project investments, construction and management, waste treatment project (excluding dangerous wastes), environmental consultancy services and sales of equipment and device for environmental protections. BE Water (Hainan) has two sewage treatment projects in Hainan under a concession agreement for a term of 25 years until 2033. One of the projects is located in Baishamen, Haikou City and the other is located in Changliu, Haikou City. The total daily designed capacity is 250,000 tonnes. As at 31 December 2011, the audited net asset value of BE Water (Hainan) was approximately RMB131,848,000. For the financial years ended 31 December 2010 and 2011, the audited net profits (before and after taxation) of BE Water (Hainan) were as follows:

	2011 (RMB)	2010 (RMB)
Audited net profit / (loss) (before taxation)	16,070,000	16,778,000
Audited net profit / (loss) (after taxation) ⁽¹⁾	16,070,000	16,778,000

Notes:

- (1) BE Water (Hainan) was exempted from profit tax in accordance with the tax policy approved by the PRC government for the financial years ended 31 December 2010 and 2011 and the financial year ending 31 December 2012. Exemption of profit tax will expire after 31 December 2012.
- (2) The above financial figures on audited net asset value and net profits (before and after taxation) have been prepared on the basis of PRC Generally Accepted Accounting Principles ("PRC GAAP").

BE Water (BVI)

As discussed in the Letter from the Board, BE Water (BVI) is an investment holding company incorporated by BEHL in the BVI on 6 December 2004, which, as at the Latest Practicable Date, owned 50.5% shareholding of BJA Holdings with the remaining 49.5% held by Golden State Water Group Corporation, a company incorporated in the Cayman Islands and which it together with its ultimate shareholders are Independent Third Parties. BJA Holdings is a company incorporated in the BVI and is an investment holding company holding the entire issued share capital of Beikong Jinzhou Water (HK). Beikong Jinzhou Water (HK) is a company incorporated in Hong Kong and is itself an investment holding company. As at the Latest Practicable Date, BJA Holdings was directly interested in 67% equity interests in Beijing Anling, with the remaining 33% equity interests in Beijing Anling

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being held directly by Beijing Municipal Water, which, together with its ultimate shareholders are Independent Third Parties. The principal business of Beijing Anling includes construction and operations in Phase A of No.10 water plant in Beijing; technical research and development, technical constancy and technical services of water treatment project. As at 31 December 2011, the audited net asset value of Beijing Anling was approximately RMB182,540,000. The principal assets of Beijing Anling comprised cash of RMB84 million and work in progress (comprising design and research and development fees) of RMB76 million. The principal liabilities of Beijing Anling were account payables of RMB4 million. For the financial years ended 31 December 2010 and 2011, the audited net profits (before and after taxation) of Beijing Anling were nil as construction of the abovementioned Phase A of No. 10 water plant has yet to commence, and therefore Beijing Anling had no business operation for the financial years ended 31 December 2010 and 2011. These financial figures on audited net asset value and net profits (before and after taxation) have been prepared on the basis of PRC Generally Accepted Accounting Principles. As at 31 December 2011, the unaudited consolidated net asset value of BE Water (BVI) was approximately HK\$75,764,000. For the financial years ended 31 December 2010 and 2011, the unaudited consolidated net loss (before and after taxation) of BE Water (BVI) were HK\$45,000 and HK\$91,000 respectively. The original purchase costs to BEHL for acquiring the group of companies, comprising BJA Holdings, Beikong Jinzhou Water (HK) and Beijing Anling, through BE Water (BVI) was HK\$46,107,000, and such acquisition took place on 21 December 2006.

2. REASONS FOR AND BENEFITS OF THE PROPOSED ASSET INJECTION AND THE PROPOSED BE WATER (HAINAN) TRANSFER

The Subject Assets and BE Water (Hainan) are principally engaged in or operate in the business of water supply and treatment, and sewage treatment which are within the core businesses of the Group. Upon Completion, the Target Companies will become subsidiaries of the Group and this would enable the Group to fully secure and control the Target Companies and their respective subsidiaries and expand the core businesses of the Group.

We note that the Group had 8 water treatment plants in Shandong and 8 water treatment plants in Hainan Province as at 30 June 2012. BE Water (Weifang) has a water supply project in Shandong and BE Water (Hainan) has two sewage treatment projects in Hainan. We have discussed with the management of the Company and note that the Group intends to reduce the operating costs of the water plants of BE Water (Weifang) and BE Water (Hainan), as well as the water plants of the Group in Shandong and Hainan through cost saving from bulk-purchase of raw materials (such as chemicals used in water treatment) and sharing of certain technical staff costs (including those relating to, installation, inspection and maintenance of water plant facilities and equipment). Furthermore, the Group can share its expertise and experience in water treatment with the Target Companies. In this connection, we concur with the Directors that synergies in water supply and treatment, and sewage treatment projects in the PRC is possible and that the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer would be beneficial to both the Target Companies and the Group given the synergies.

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On the basis of the above, we consider that the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer are in line with the strategy of the Company in expanding its businesses of water supply and treatment, and sewage treatment.

As mentioned in the section headed “Background” above, one of the principal businesses of the Group is the provision of sewage treatment services; the provision of reclaimed water treatment services and distribution and sales of piped water in the PRC. We have discussed with the management of the Company and have reviewed the annual and interim reports of the Group, and note that the Group has been making investment in water treatment and sewage treatment projects in the past few years, in line with the stated strategies of the Group. The Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer are further acquisitions in the direction of the business expansion plans of the Group. On this basis, we agree with the Directors that the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer are in the ordinary and usual course of business of the Company.

We highlight that the Future Income is not guaranteed. In this regard, we note the opinion of the Company’s PRC legal adviser regarding the legally binding Meeting Decisions, and the information provided by BEHL regarding the total annual net income that BEHL had been entitled under the Concession Agreement for operating the Beijing Water Plant since 1998 until 2011 with details as further set out under the paragraph headed “Information On The Subject Assets and BE Water (Hainan) - Target Asset” in the Letter from the Board. In addition, having considered that BEHL shall pay the Future Income to the Group in cash and the Group will issue new Shares, rather than paying cash, to settle the consideration for the acquisition of the Target Asset, we consider that the amounts receivable as Future Income under the Master Agreement may have a positive cashflow effect for the Group.

3. TERMS OF THE PROPOSED ASSET INJECTION AND THE PROPOSED BE WATER (HAINAN) TRANSFER

On 26 September 2012, subject to the satisfaction of certain conditions precedent as set out in the Master Agreement, the Company, along with other Purchasers entered into the Master Agreement with the Vendors, pursuant to which the Company itself and, through BEWG (China) and Fortunate Sight, agreed to acquire, and the Vendors agreed to transfer (i) the Future Income in relation to the Beijing Water Plant; (ii) the entire equity interests in BE Water (Weifang); (iii) the entire beneficial shareholding interests in BE Water (BVI); and (iv) 90% equity interests in BE Water (Hainan). The conditions precedent is set out in the Letter from the Board.

The Consideration

As advised by the management of the Company, the consideration of HK\$1,066,539,552 in respect of the Proposed Asset Injection is comprised of:

- (1) RMB804,000,000 (equivalent to approximately HK\$982,692,872) as consideration for acquiring the Future Income, which was determined after arm’s length negotiation between the Purchasers and the Vendors on the basis of a discounted cash flow forecast performed

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on the Future Income in relation to the Beijing Water Plant in the coming six financial years until 2018 (as further detailed in the section of headed “Information on the Subject Assets and BE Water (Hainan) — Target Asset” in the Letter from the Board);

- (2) RMB6,600,000 (equivalent to HK\$8,066,881) as consideration for acquiring the entire equity interests in BE Water (Weifang), which was determined after arm’s length negotiation between the Purchasers and the Vendors by reference to the historical earnings before interest and tax, growth prospects and financial and operating performance of BE Water (Weifang); and
- (3) HK\$75,779,799 as consideration for acquiring the entire shareholding interests in BE Water (BVI) which was determined after arm’s length negotiation between the Purchasers and the Vendors by reference to the growth prospects, and the net asset value of BE Water (BVI) as at 31 December 2011 after considering the research and preparation stage of operation of BE Water (BVI).

As consideration for the Proposed Asset Injection, there shall be payable to the Vendors and/or their nominee, by issue and allotment of a total of 658,357,748 Consideration Shares at HK\$1.62 per Share. Such Consideration Shares represent (i) approximately 9.53% of the issued share capital of the Company as at the Latest Practicable Date and (ii) approximately 8.70% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares in respect of the Proposed Asset Injection.

The consideration of RMB157,000,000 (equivalent to approximately HK\$191,894,006) in respect of the Proposed BE Water (Hainan) Transfer was determined after arm’s length negotiation between the Purchasers and the Vendors by reference to the historical earnings, growth prospects and financial and operating performance of BE Water (Hainan).

As consideration for the Proposed BE Water (Hainan) Transfer, there shall be payable to the Vendors and/or their nominee, by issue and allotment of a total of 118,453,090 Consideration Shares at HK\$1.62 per Share. Such Consideration Shares represent (i) approximately 1.71% of the issued share capital of the Company as at the Latest Practicable Date and (ii) approximately 1.69% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares in respect of the Proposed BE Water (Hainan) Transfer.

Upon completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, the shareholding of BE Environmental and parties acting in concert with it will increase from approximately 44.11% of the entire issued share capital of the Company as at the Latest Practicable Date to a total of 3,824,367,831 Shares, representing approximately 49.76% of the entire issued share capital of the Company as enlarged by the issue of the Consideration Shares in respect of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer.

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Valuation of the Future Income

We have reviewed the valuation report (“**Valuation Report**”) prepared by CBRE in respect of the valuation (“**Valuation**”) of the Future Income as at 1 August 2012, and discussed with CBRE and the Directors regarding the Valuation report, including the valuation approach, and bases and assumptions set out therein.

In determining the fair value of the Future Income, CBRE has considered three generally accepted valuation approaches for the Valuation, namely the market approach, the asset approach and the income approach. CBRE considers that (i) the market approach is considered inappropriate since it relies heavily on data from market transactions of comparable assets which is not generally available due to the different attributes of projects in the water and sewage related sectors; (ii) the asset approach is also considered inappropriate since the cost to reproduce or replace the Future Income cannot be reliably measured; and (iii) the income approach is considered an appropriate method as it captures the expected future benefits of the Future Income. Having considered the above, particularly the limitations of using the market approach and the asset approach as valuation method in determining the fair value of the Future Income, we concur with the view of CBRE that it is reasonable to adopt the income approach as valuation method.

The valuation of the Future Income at RMB804,000,000 was arrived at using discounted cash flow analysis approach (which is one of the common methods under the income approach) and based on the forecast of the Future Income of RMB190 million per year for the coming six years until 2018 from 2013 prepared by the Directors. The discount rate used by CBRE in the determination of the Valuation is 11%.

As explained in the Valuation Report, CBRE considers that internal rate of return (“**IRR**”) is often adopted as discount rate for projects of similar nature. In this connection, CBRE determined the discount rate for the Valuation after making reference to the Company’s project investments management criteria in term of IRR requirement. CBRE advised that it had reviewed the IRRs of all the 52 water plant investments of the Company undertaken during the period from January 2010 to September 2012. On the basis of the criteria described above, we are of the view that these water plant investments of the Company are fair and representative projects for review. The median and mean of these 52 projects are approximately 11.1% and 11.7% respectively. Furthermore, as set out in the Valuation Report, among the above-mentioned water plant investments, there were 10 water plant investments with designed capacities of 80,000 tonnes or above per day, which are considered to be of relatively large scale and of similar scale of the Beijing Water Plant. The IRRs of these 10 projects range from approximately 10.5% to 13.9% with median and mean of approximately 11.1% and 11.5%, respectively.

CBRE advised that it had further made reference to its internal database for data since 2006, and identified 7 Transfer-Operate-Transfer projects in the water treatment industry in mainland China with similar business model as Beijing Water Plant. The IRRs of these projects range from approximately 10% to 12% with the median and mean of 11.2% and 11.1%, respectively.

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Having considered the substantial number of projects made reference to by CBRE, and the IRRs of such projects, we are of the opinion that the discount rate used for the Valuation is reasonably determined and is appropriate under the context.

Based on the Meeting Decisions and information provided by BEHL as mentioned in the section headed “Information on the Subject Assets and BE Water (Hainan) — Target Asset” above, in particular, BEHL would be entitled under the Concession Agreement to a non-guaranteed annual net income after tax amount of RMB190 million based on the Meeting Decisions, and according to the Company’s PRC legal adviser, the Meeting Decisions are legally binding on Beijing Municipal Water under the current PRC legal regime and must be observed by Beijing Municipal Water as a subordinate regulatory authority of the Beijing Municipal Government, the Board expects the annual Future Income to remain constant and shall be at an annual amount of RMB190 million for the duration of the assignment of the Future Income by BEHL under the Master Agreement. On the basis of the above analysis, and the information comprising the Valuation Report, we are of the opinion that the bases and assumptions set out therein, have been made with due care, consideration and objectivity, and on a reasonable basis.

We have reviewed the terms of the engagement between the Company and CBRE in respect of the Valuation and the scope of work stated in the Valuation Report. As mentioned in the Valuation Report, the service provided by CBRE will be performed in accordance with the HKIS Valuation Standards on Trade-Related Business Assets and business Enterprises (First Edition 2004), business Valuations (2005) of the Hong Kong Business Valuation Forum and International Valuation Standards. We consider that the scope of work is appropriate to provide the opinion set out in the Valuation Report. We are not aware of any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuation Report.

We note that certain bases and assumptions in relation to the Valuation (including the forecast of the Future Income) may depend on the legality of the Meeting Decisions. According to the Company’s PRC legal adviser, Haiwen & Partners, the Meeting Decisions are legally binding on Beijing Municipal Water under the current PRC legal regime. We consider that such legal opinion has provided a reasonable degree of comfort on the relevant basis of the Valuation Report. It is worth noting that the forecast of the Future Income underlying the Valuation has been prepared on the bases and assumptions disclosed in the Circular by the Directors, and endorsed by CBRE.

We have separately issued a comfort letter addressed to the Directors regarding the forecast of the Future Income pursuant to Rule 10 of the Takeovers Code. The comfort letter is set out in Appendix IV to the Circular.

In this connection, we consider that the consideration of RMB804,000,000 (equivalent to approximately HK\$982,692,872) for the Proposed Asset Injection is reasonably determined.

BE Water (BVI)

As mentioned in the Letter from the Board, the consideration for acquiring the entire shareholding interests in BE Water (BVI) of HK\$75,779,799 was determined after arm’s length negotiation between the Purchasers and the Vendors by reference to the growth prospects, the research

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and preparation stage of operation of BE Water (BVI) and the net asset value of BE Water (BVI) as at 31 December 2011. As at 31 December 2011, the unaudited consolidated net asset value of BE Water (BVI) was approximately HK\$75,764,000. We note that the principal business of Beijing Anling, the operating subsidiary of BE Water (BVI), includes, among other, construction and operations in Phase A of No. 10 water plant in Beijing. Since construction of the abovementioned Phase A of No. 10 water plant has yet to commence, Beijing Anling had no business operation for FY2011. The audited net assets of Beijing Anling as at 31 December 2011 mainly comprised cash and work in progress, which was mainly related to design and research and development fees. Since the business operation of Beijing Anling has yet to commence, it is reasonable to consider its net asset value when determining the consideration. The consideration for BE Water (BVI) represents a slight premium of approximately 0.02% over the unaudited net asset value of BE Water (BVI) as at 31 December 2011. We have discussed with the Directors and understand that the Company has reviewed the latest available management accounts of BE Water (BVI) as at 30 September 2012, there has been no substantial change in the net asset position of BE Water (BVI) subsequent to 31 December 2011. We have also reviewed such management accounts. Based on the above analysis, we are of the opinion that the consideration for BE Water (BVI) is reasonably determined.

BE Water (Weifang)

BE Water (Weifang) recorded net profit of approximately RMB138,000 and net loss of approximately RMB102,000 for the financial year ended 31 December 2010 and 31 December 2011, respectively. As at 31 December 2011, the audited net asset value of BE Water (Weifang) was approximately RMB12,196,000. Based on the audited financial statements of BE Water (Weifang) for FY2011, BE Water (Weifang) recorded earnings before interest and tax (“**EBIT**”) of approximately RMB239,000 and cash on hand of approximately RMB3,955,000. BE Water (Weifang) did not record any debt as at 31 December 2011.

As BE Water (Weifang) was loss-making during FY2011, in assessing the fairness and reasonableness of the consideration, we have reviewed the net asset value of BE Water (Weifang). Based on the audited net asset value of BE Water (Weifang) as at 31 December 2011 of approximately RMB12,196,000, the consideration for the acquisition of BE Water (Weifang) represents approximately 45.88% discount to the audited net asset value of BE Water (Weifang).

Having considered the above, we consider that the consideration for BE Water (Weifang) is reasonably determined.

BE Water (Hainan)

For FY2011, the audited net profits of BE Water (Hainan) was approximately RMB16,070,000. As at 31 December 2011, the audited net asset value of BE Water (Hainan) was approximately RMB131,848,000. The consideration for the Proposed BE Water (Hainan) Transfer of RMB157,000,000 implies a price to earnings multiple (“**PE**”) and price to book multiple (“**PB**”) of approximately 10.86 times and 1.32 times, respectively.

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BE Water (Hainan) has two sewage treatment projects in Hainan, one of which has daily designed capacity of 50,000 tonnes and the other one has daily designed capacity of 200,000 tonnes. In order to assess the fairness and reasonableness of the consideration for the Proposed BE Water (Hainan) Transfer, we have reviewed all 6 acquisitions of water treatment plants in the PRC by the Group from independent third parties for the period from January 2012 to September 2012 which recorded profits for the latest full financial year prior to the date of acquisitions. We note that the average PE and average PB of these 6 acquisitions were approximately 131.57 times and 6.35 times, respectively. Having considered that there was one water treatment project (“**Outliner**”) which has exceptionally high PE and PB of approximately 670.10 times and 28.19 times, respectively, we have further reviewed the average PE and PB of these projects excluding the Outliner, which amounted to approximately 23.86 times and 1.98 times, respectively. The average PE and PB of these projects excluding the Outliner were above the implied PE and PB based on the consideration for the Proposed BE Water (Hainan) Transfer, respectively. In this connection, we consider that the consideration for the Proposed BE Water (Hainan) Transfer is reasonably determined.

Issue price of the Consideration Shares

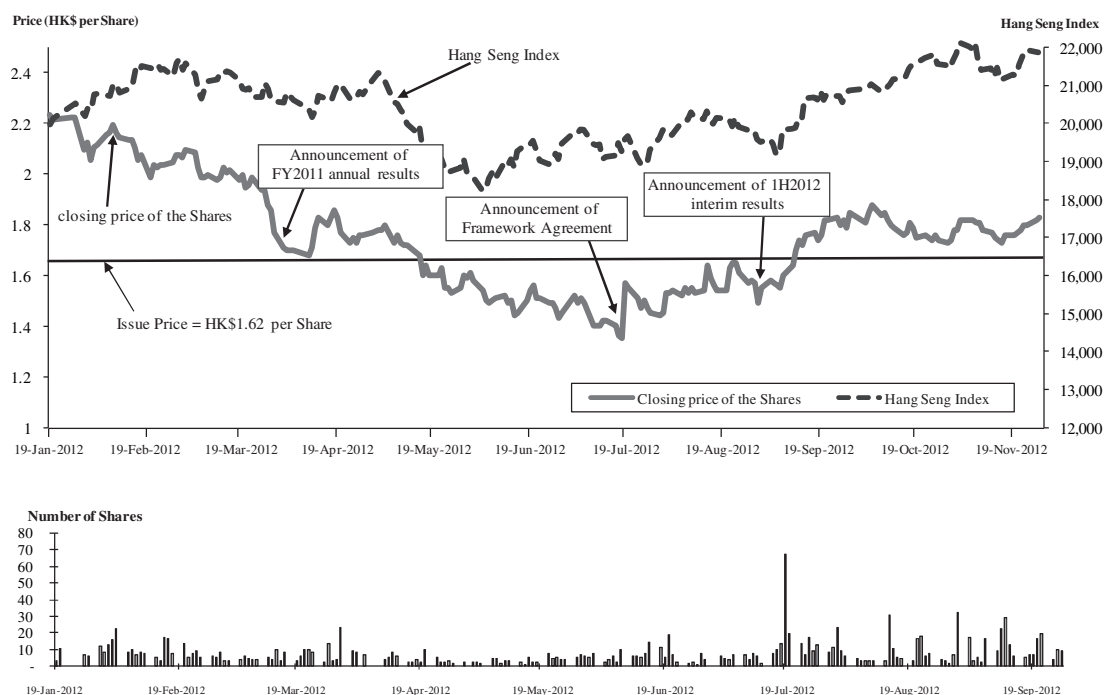
The Issue Price of HK\$1.62 represents:

- (i) a premium of approximately 20% over the closing price of the Shares of HK\$1.35 as quoted on the Stock Exchange on 18 July 2012, the date of announcement of the entering into of the Framework Agreement (as defined below);
- (ii) a premium of approximately 3.18% over the closing price of the Shares of HK\$1.57 as quoted on the Stock Exchange on 19 July 2012, the next trading date after the announcement of the entering into of the Framework Agreement (as defined below);
- (iii) a discount of approximately 10.99% to the closing price of the Shares of HK\$1.82 as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a discount of approximately 8.99% to the closing price of the Shares of HK\$1.78 as quoted on the Stock Exchange for the 10 consecutive Trading Days up to and including the Last Trading Day;
- (v) a discount of approximately 11.48% to the closing price of the Shares of HK\$1.83 as quoted on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 38.46% over the consolidated net assets value per Share of approximately HK\$1.17 as at 31 December 2011 (based on the consolidated net assets value of the Group over the number of issued Shares as at 31 December 2011).

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Share price performance

We have reviewed the closing price of the Shares for the period from 19 January 2012, being 6 months prior to the date of the announcement of the entering into of the framework agreement (“**Framework Agreement**”) with BEHL in respect of the proposed asset injection and the issue price of the Consideration Shares of HK\$1.62 per Share, up to the Latest Practicable Date (the “**Review Period**”). The charts below illustrate the daily closing price of the Shares, Hang Seng Index, the Issue Price and the trading volume of the Shares during the Review Period:



Source: Bloomberg, Stock Exchange website

We consider that a review period of six months for the share price trend of the Company under the context is appropriate, as this is neither too long nor too short for the analysis, and commercially the buyer and vendor of businesses might make primary reference to more recent share prices if new shares are to be issued as part of the consideration for the transactions.

As shown in the chart above, the closing prices of the Shares were within the range of HK\$1.35 per Share to HK\$2.24 per Share during the Review Period. The Shares were generally trading in line with the Hang Seng Index. The closing price of the Shares generally dropped from HK\$2.24 on 19 January 2012 to HK\$1.35 on 18 July 2012. The closing price of the Shares increased approximately 16.3% to HK\$1.57 per Share and trading volume of the Shares also increased significantly on 19 July 2012, the next trading date after the Company announced the entering into of the Framework Agreement and the issue price of the Consideration Shares of HK\$1.62 per Share. As a reference, the Hang Seng Index closed up only by approximately 1.66% on 19 July 2012. The closing prices of the Shares were generally in an upward trend afterwards.

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We note that the closing prices of the Shares have been trading above the Issue Price since 10 September 2012 up to the date of the Announcement, and the average premium of the closing prices of the Shares over the Issue Price during such period was approximately 8.83%. Based on the share price trend of the Shares during the six-month period prior to the date of the announcement of the Framework Agreement and the period afterwards up to 26 September 2012, the date of the Announcement, in particular, that the closing prices of the Shares were trading generally below the Issue Price during the two month period prior to the announcement of the Framework Agreement and significantly increased to HK\$1.57 on the day after the Company announced that the Issue Price is set at HK\$1.62, we consider that it is possible that the Share prices reacted positively to the Proposed Asset Injection and the Proposed BW Water (Hainan) Transfer. Even though the Issue Price was at a discount to the closing prices of the Shares since 10 September 2012 up to the date of the Announcement, the Issue Price was set at a premium to the closing price of the Shares on the date of announcement of the entering into of the Framework Agreement. On the basis of our above analysis, we consider that the Issue Price is reasonably determined.

4. FINANCIAL EFFECTS

Earnings

We have discussed with the Directors and the auditors of the Company about the accounting treatments in respect of the Proposed Asset Injection and Proposed BE Water (Hainan) Transfer. These accounting treatments however have not been audited. We understand that Hong Kong Accounting Standard 39 (“**HKAS 39**”), the title of which is “Financial Instruments: Recognition and Measurement”, and Hong Kong Financial Reporting Standard 3 (“**HKFRS 3**”), the title of which is “Business Combinations”, issued by the Hong Kong Institute of Certified Public Accountants shall need to be considered and applied. Accounting treatments are important considerations on the analysis of the financial effects of the transactions.

Given the much bigger size of the transaction relating to the Target Asset relative to other transactions being analysed, and the fact that some subject companies proposed to be acquired pursuant to the Proposed BE Water (Hainan) Transfer and the Proposed Asset Injection are either in relatively early stage of operation or derived relatively small earnings or losses according to their respective financial statements for the year ended 31 December 2011, the focus at this stage of the analysis on the financial effects on earnings of the Group shall be in relation to the Target Asset.

The Target Asset is not an operating company but represents the rights on entitlement of future earnings of Beijing Water Plant for the six financial years ending 31 December 2018, which is expected to be RMB190 million annually on the basis of the Meeting Decisions.

We understand that according to the requirement of HKAS 39, immediately after the completion of the acquisition of the Target Asset, an effective interest rate method will be used to allocate the interest income (“**Interest Income**”) in respect of the Target Asset over the six financial years ending 31 December 2018. The amount of profit generated from the Future Income to be booked for each of

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

the six financial years ending 31 December 2018 shall depend on, inter alia, the amounts of Interest Income to be amortised over each of such financial years, and is expected not to be constant. Given the Interest Income to be generated from the Target Asset, the net profits of the Group will be enhanced after the completion of the acquisition of the Target Asset.

Net asset value

We have discussed with the Directors and the auditors of the Company about the accounting treatments regarding the booking of assets in respect of the Proposed Asset Injection and Proposed BE Water (Hainan) Transfer. These accounting treatments however have not been audited. We understand that HKAS 39 and HKFRS 3 shall need to be considered and applied.

The net asset value to be booked upon the completion of the acquisition of the Target Companies and 90% interest in BE Water (Hainan) shall depend on, inter alia, the fair value of the 170,210,300 Consideration Shares to be calculated based on the closing price of the Shares on the date of issue of the Consideration Shares, as well as the fair value of the assets and liabilities of the Target Companies and BE Water (Hainan) pursuant to HKFRS 3.

The total estimated Future Income for the six financial years ending 31 December 2018, after netting off the total Interest Income, shall be booked as accounts receivable pursuant to HKAS39. On the basis of our analysis after discussing with the management of the Company, we consider that the Proposed Asset Injection and Proposed BE Water (Hainan) Transfer shall increase the net asset value of the Group as (i) the issue of Consideration Shares is expected to enhance the capital base of the Group, and (ii) the net amount of the estimated Future Income to be booked as accounts receivable is expected to enhance the net asset value of the Group, immediately following completion of those transactions.

Gearing and cash flow

According to the Interim Report 2012, as at 30 June 2012, the Group had Total Borrowings of approximately HK\$10,042.83 million, cash and cash equivalents of approximately HK\$1,853.66 million, total equity of approximately HK\$9,761.10 million and net gearing ratio of approximately 83.90%. Having considered the increase in the net asset value of the Group upon Completion as mentioned in the paragraph headed “Net asset value” above, the net gearing ratio of the Group is expected to be reduced immediately upon Completion.

Furthermore, since the consideration of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer will be settled by the issue of new Shares, there will be no cash outflow as a result of the settlement of the consideration by the Group upon Completion.

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5. POTENTIAL DILUTION EFFECT ON THE SHAREHOLDING OF THE INDEPENDENT SHAREHOLDERS AND WHITEWASH WAIVER

Potential dilution effect

As at the Latest Practicable Date, the Independent Shareholders were interested in approximately 55.89% of the issued share capital of the Company. Upon completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, the aggregate shareholding interests of the Independent Shareholders in the Company will be reduced to approximately 50.24% and the interests of the Independent Shareholders will be diluted by approximately 10.11% immediately upon completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer.

Having considered the financial position of the Group, the reasons and benefits of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, and the analysis on the reasonableness of the Issue Price, we consider that the dilution in the shareholding interests of the Independent Shareholders in the Company upon completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer is not prejudicial to their interests and, as such, is considered to be fair and reasonable.

Whitewash Waiver

Prior to the Completion, the Vendor and/or its nominees are interested in 3,047,556,993 Shares, representing approximately 44.11% of the issued share capital of the Company. As a result of the Completion, the shareholding of Vendor and/or its nominees in the Company will increase from approximately 44.11% to approximately 49.76%, which shall trigger an obligation to make a general offer for all of the issued Shares other than those already owned by the Vendor and any parties acting in concert with it in the Company will arise under Rule 26 of the Takeovers Code. An application has been made to the Executive for the granting of waiver under Note 6 on dispensation from Rule 26 of the Takeovers Code.

We note that the Group had a Total Borrowing of approximately HK\$8,760.15 million as at 31 December 2011 and the prices of the Shares had been in a downward trend for a few months prior to the entering into of the Framework Agreement. We understand that the Group has considered other fund raising means for the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, such as bank borrowing. In view of the amount of the consideration of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, the gearing ratio of the Group shall increase significantly should the Group raise fund through bank borrowings for financing the transactions.

Furthermore, we understand from the management of the Company that BEHL would continue to support the Company after the completion of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer. The fact that BEHL receiving Shares as Consideration for the Proposed Asset Injection and the Proposed (Hainan) Transfer has the impact of the demonstration of BEHL's intention to continue to support the Company. Having considered the reasons for and benefits of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer, including the further expansion of the water treatment business through the Proposed Asset Injection and the Proposed BE Water (Hainan)

LETTER FROM MIZUHO SECURITIES ASIA LIMITED

Transfer, the fact that Issue Price is reasonably determined, and that the terms of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer are fair and reasonable, we consider that the Whitewash Waiver is in the interests of the Independent Shareholders and the Company as a whole.

6. OPINION

Having considered the principal factors and reasons described above, we are of the opinion that the terms of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver are on normal commercial terms and are fair and reasonable as far as the interests of the Independent Shareholders are concerned, and, from this perspective, the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer, and the transactions contemplated under the Master Agreement and the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,

For and on behalf of

MIZUHO SECURITIES ASIA LIMITED

Kelvin S. K. Lau

Managing Director

Equity Capital Markets & Corporate Finance

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****A. SUMMARY OF FINANCIAL INFORMATION**

The auditors of the Company for the years ended 31 December 2009, 31 December 2010 and 31 December 2011 are Ernst and Young. The audit opinions of Ernst and Young are not qualified. A summary of the audited consolidated income statement of the Group as extracted from the annual reports of the Company for the years ended 31 December 2009, 31 December 2010 and 31 December 2011, together with the unaudited consolidated income statement of the Company for the six months ended 30 June 2012 and 30 June 2011 are set out below:

	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	Year ended	Year ended	Year ended	Six months	Six months
	31 December	31 December	31 December	ended	ended
	2011	2010	2009	30 June	30 June
	2011	2010	2009	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE	2,654,454	6,348,060	1,730,013	1,401,506	900,458
Cost of sales	<u>(1,746,217)</u>	<u>(5,226,252)</u>	<u>(1,214,083)</u>	<u>(755,490)</u>	<u>(435,483)</u>
Gross profit	908,237	1,121,808	515,930	646,016	464,975
Other income and gains, net	529,620	83,464	26,178	194,714	203,777
Administrative expenses	(301,221)	(219,465)	(127,008)	(148,762)	(149,550)
Other operating expenses, net	<u>16,402</u>	<u>(56,608)</u>	<u>(17,150)</u>	<u>(28,321)</u>	<u>(16,667)</u>
PROFIT FROM OPERATING					
ACTIVITIES	1,153,038	929,199	397,950	663,647	502,535
Finance costs	(312,989)	(234,908)	(125,132)	(227,065)	(124,589)
Share of profits and losses of:					
Jointly-controlled entities	20,798	824	—	29,695	22,484
An associate	<u>—</u>	<u>—</u>	<u>4,565</u>	<u>—</u>	<u>—</u>
PROFIT BEFORE TAX	860,847	695,115	277,383	466,277	400,430
Income tax	<u>(169,861)</u>	<u>(130,950)</u>	<u>(48,637)</u>	<u>(69,274)</u>	<u>(66,282)</u>
PROFIT FOR THE					
YEAR/PERIOD	<u>690,986</u>	<u>564,165</u>	<u>228,746</u>	<u>397,003</u>	<u>334,148</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	Year ended	Year ended	Year ended	Six months	Six months
	31 December	31 December	31 December	ended	ended
	2011	2010	2009	30 June	30 June
	2011	2010	2009	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ATTRIBUTABLE TO:					
Shareholders of the Company	600,736	512,512	192,711	386,593	309,670
Non-controlling interests	<u>90,250</u>	<u>51,653</u>	<u>36,035</u>	<u>10,410</u>	<u>24,478</u>
PROFIT FOR THE YEAR/PERIOD	<u>690,986</u>	<u>564,165</u>	<u>228,746</u>	<u>397,003</u>	<u>334,148</u>
EARNINGS PER SHARE					
ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY					
— Basic	HK8.94 cents	HK10.75 cents	HK6.11 cents	HK5.60 cents	HK4.73 cents
— Diluted	<u>HK8.94 cents</u>	<u>HK9.95 cents</u>	<u>HK5.35 cents</u>	<u>HK5.60 cents</u>	<u>HK4.73 cents</u>

Note 1 The Company did not declare any dividend in respect of the years ended 31 December 2009, 31 December 2010 and the six months ended 30 June 2011.

Note 2 The Company declared final distributions of HK3 cents per ordinary share, totalling HK\$207,275,000, in respect of the year ended 31 December 2011.

Note 3 The Company declared interim distributions of HK2 cents per ordinary share, totalling HK\$138,183,000, in respect of six months ended 30 June 2012.

Note 4 There were no exceptional items because of size, nature and incidence during the years ended 31 December 2009, 31 December 2010, 31 December 2011 and the six months ended 30 June 2012 and 30 June 2011.

B. AUDITED ANNUAL FINANCIAL STATEMENTS

The following is an extract of audited financial statements of the Group for the year ended 31 December 2011 together with the notes thereto from the annual report of the Company for the year ended 31 December 2011:

“CONSOLIDATED INCOME STATEMENT**Year ended 31 December 2011**

		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	5	2,654,454	6,348,060
Cost of sales		<u>(1,746,217)</u>	<u>(5,226,252)</u>
Gross profit		908,237	1,121,808
Interest income	5	385,505	22,933
Other income and gains, net	5	144,115	60,531
Administrative expenses		(301,221)	(219,465)
Other operating expenses, net		<u>16,402</u>	<u>(56,608)</u>
PROFIT FROM OPERATING ACTIVITIES	6	1,153,038	929,199
Finance costs	7	(312,989)	(234,908)
Share of profits and losses of jointly-controlled entities	19(a)	<u>20,798</u>	<u>824</u>
PROFIT BEFORE TAX		860,847	695,115
Income tax	10	<u>(169,861)</u>	<u>(130,950)</u>
PROFIT FOR THE YEAR		<u>690,986</u>	<u>564,165</u>
ATTRIBUTABLE TO:			
Shareholders of the Company	11	600,736	512,512
Non-controlling interests		<u>90,250</u>	<u>51,653</u>
		<u>690,986</u>	<u>564,165</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	12		
— Basic		<u>HK8.94 cents</u>	(Restated) <u>HK10.75 cents</u>
— Diluted		<u>HK8.94 cents</u>	(Restated) <u>HK9.95 cents</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**Year ended 31 December 2011**

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>690,986</u>	<u>564,165</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
— Exchange differences on translation of foreign operations	451,838	182,958
— Share of other comprehensive loss of a jointly-controlled entity	<u>(7,370)</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX OF NIL	<u>444,468</u>	<u>182,958</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>1,135,454</u></u>	<u><u>747,123</u></u>
ATTRIBUTABLE TO:		
Shareholders of the Company	941,584	657,248
Non-controlling interests	<u>193,870</u>	<u>89,875</u>
	<u><u>1,135,454</u></u>	<u><u>747,123</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONSOLIDATED STATEMENT OF FINANCIAL POSITION****31 December 2011**

		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment	13	233,276	46,114
Goodwill	15	1,643,719	1,580,116
Operating concessions	16	763,381	749,718
Other intangible assets	17	6,455	5,305
Investments in jointly-controlled entities	19	1,973,493	118,619
Investment in an associate	20	37,038	—
Available-for-sale investments	21	2,964	1,647
Amounts due from contract customers	24	1,599,285	1,605,284
Receivables under service concession arrangements	16	5,003,117	2,736,583
Trade and bills receivables	25	261,850	120,905
Prepayments, deposits and other receivables	26	1,542,014	1,408,510
Deferred tax assets	37	28,874	31,806
Total non-current assets		<u>13,095,466</u>	<u>8,404,607</u>
Current assets:			
Land held for sale	22	999,626	—
Inventories	23	13,422	12,786
Amounts due from contract customers	24	87,865	759,109
Receivables under service concession arrangements	16	253,105	123,889
Trade and bills receivables	25	3,676,549	4,002,108
Prepayments, deposits and other receivables	26	4,583,574	1,367,995
Restricted cash and pledged deposits	28	92,367	592,507
Cash and cash equivalents	28	<u>1,947,768</u>	<u>1,961,828</u>
Total current assets		<u>11,654,276</u>	<u>8,820,222</u>
TOTAL ASSETS		<u><u>24,749,742</u></u>	<u><u>17,224,829</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONSOLIDATED STATEMENT OF FINANCIAL POSITION****31 December 2011**

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	29	690,917	456,676
Reserves	30(a)(i)	<u>7,391,072</u>	<u>3,436,184</u>
		8,081,989	3,892,860
Non-controlling interests		<u>1,628,892</u>	<u>1,175,094</u>
TOTAL EQUITY		<u><u>9,710,881</u></u>	<u><u>5,067,954</u></u>
Non-current liabilities:			
Other payables and accruals	39	279,909	22,644
Bank and other borrowings	31	5,364,905	3,231,442
Corporate bonds	33	2,325,633	—
Provision for major overhauls	35	167,296	123,374
Deferred income	36	25,163	23,978
Deferred tax liabilities	37	<u>205,179</u>	<u>138,688</u>
Total non-current liabilities		<u>8,368,085</u>	<u>3,540,126</u>
Current liabilities:			
Trade payables	38	2,049,236	2,637,650
Other payables and accruals	39	3,406,346	569,700
Income tax payables		145,585	108,286
Bank and other borrowings	31	1,069,609	5,296,200
Finance lease payable	34	<u>—</u>	<u>4,913</u>
Total current liabilities		<u>6,670,776</u>	<u>8,616,749</u>
TOTAL LIABILITIES		<u><u>15,038,861</u></u>	<u><u>12,156,875</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>24,749,742</u></u>	<u><u>17,224,829</u></u>

Zhang Honghai
Director

Zhou Min
Director

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Notes	Attributable to shareholders of the Company								Non-controlling interests	Total equity	
		Issued capital	Share premium account	Convertible surplus	Capital reserve	Contributed bond equity reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits			Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			HK\$'000
				(note 30(a)(ii))		(note 32)		(note 30(a)(iii))				
At 1 January 2010		348,219	1,817,378	(400)	—	216,986	(5,507)	47,350	198,879	2,622,905	388,911	3,011,816
Profit for the year		—	—	—	—	—	—	—	512,512	512,512	51,653	564,165
Other comprehensive income for the year												
— Exchange differences on translation of foreign operations		—	—	—	—	—	144,736	—	—	144,736	38,222	182,958
Total comprehensive income for the year		—	—	—	—	—	144,736	—	512,512	657,248	89,875	747,123
Conversion of convertible bonds	29(a), 32	108,457	715,053	—	—	(216,986)	—	—	—	606,524	—	606,524
Capital contributions from non-controlling equity holders		—	—	—	—	—	—	—	—	—	706,208	706,208
Acquisition of subsidiaries	41	—	—	—	—	—	—	—	—	—	24,989	24,989
Acquisition of non-controlling interests		—	—	—	4,129	—	—	—	—	4,129	(28,564)	(24,435)
Deemed disposal of partial interests in subsidiaries		—	—	—	2,054	—	—	—	—	2,054	—	2,054
Dividends paid to non-controlling equity holders		—	—	—	—	—	—	—	—	—	(6,325)	(6,325)
Transfer to reserves		—	—	—	1,265	—	—	54,016	(55,281)	—	—	—
At 31 December 2010		456,676	2,532,431*	(400)*	7,448*	—*	139,229*	101,366*	656,110*	3,892,860	1,175,094	5,067,954

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Notes	Attributable to shareholders of the Company								Non-controlling interests	Total equity
		Issued capital	Share premium account	Contributed surplus	Capital reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Total	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(note 30(a)(ii))				(note 30(a)(iii))			
At 1 January 2011		456,676	2,532,431	(400)	7,448	—	139,229	101,366	656,110	3,892,860	5,067,954
Profit for the year:		—	—	—	—	—	—	—	600,736	600,736	690,986
Other comprehensive income/(loss) for the year:											
— Exchange differences on translation of foreign operations		—	—	—	—	—	348,218	—	—	348,218	451,838
— Share of other comprehensive loss of a jointly-controlled entity		—	—	—	—	(7,370)	—	—	—	(7,370)	(7,370)
Total comprehensive income/(loss) for the year		—	—	—	—	(7,370)	348,218	—	600,736	941,584	1,135,454
Issue of new shares upon completion of an open offer	29(b)	228,338	3,157,024	—	—	—	—	—	—	3,385,362	3,385,362
Issue of new shares for acquisition of the non-controlling interest in a subsidiary	29(c)	5,903	120,079	—	(187,233)	—	—	—	—	(61,251)	(109,390)
Acquisition of other non-controlling interests		—	—	—	(76,576)	—	—	—	—	(76,576)	(187,612)
Capital contributions from non-controlling equity holders		—	—	—	—	—	—	—	—	—	484,886
Share of reserves of jointly-controlled entities		—	—	—	10	—	—	—	—	10	10
Dividends paid to non-controlling equity holders		—	—	—	—	—	—	—	—	—	(65,783)
Transfer to reserves		—	—	—	—	—	—	90,508	(90,508)	—	—
At 31 December 2011		690,917	5,809,534*	(400)*	(256,351)*	(7,370)*	487,447*	191,874*	1,166,338*	8,081,989	9,710,881

* These reserve accounts comprise the consolidated reserves of HK\$7,391,072,000 (2010: HK\$3,436,184,000) in the consolidated statement of financial position.

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONSOLIDATED STATEMENT OF CASH FLOWS****Year ended 31 December 2011**

		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		860,847	695,115
Adjustments for:			
Bank interest income	5	(21,875)	(6,481)
Imputed interest income on trade and bills receivables with extended credit periods	5	(241,369)	—
Interest income from non-controlling equity holders of a non-wholly owned subsidiary	5	(45,413)	—
Interest income on a loan to a jointly-controlled entity	5	(2,879)	—
Interest income on loans to government authorities in Yunnan Province, the PRC	5	(36,658)	—
Interest income on loans to related companies	5	(37,311)	—
Loss on disposal of items of property, plant and equipment, net	6	1,478	225
Gain on bargain purchase of the acquisition of subsidiaries	5	—	(2,824)
Gain on bargain purchase of the acquisition of a jointly-controlled entity	5	(42,235)	—
Depreciation	6	9,299	8,228
Amortisation of operating concessions	6	37,285	30,206
Amortisation of other intangible assets	6	903	502
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	6	(39,655)	32,495
Impairment of trade and bills receivables, net	6	17,945	239
Impairment of other receivables, net	6	1,808	223
Provision for major overhauls	35	33,207	24,895
Finance costs	7	321,561	242,985
Share of profits and losses of jointly-controlled entities		<u>(20,798)</u>	<u>(824)</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit before working capital changes		796,140	1,024,984
Increase in land held for sale		(999,626)	—
Decrease/(increase) in inventories		248	(5,392)
Decrease/(increase) in amounts due from contract customers		794,003	(308,574)
Increase in receivables under service concession arrangements		(1,691,617)	(765,232)
Decrease/(increase) in trade and bills receivables		598,756	(3,916,879)
Increase in prepayments, deposits and other receivables		(3,591,967)	(987,908)
Increase/(decrease) in trade payables		(726,021)	2,081,263
Increase/(decrease) in other payables and accruals		<u>2,727,030</u>	<u>(342,705)</u>
Cash used in operations		(2,093,054)	(3,220,443)
Mainland China income tax paid		(103,671)	(17,626)
Malaysia corporate tax paid		<u>(1,310)</u>	<u>—</u>
Net cash flows used in operating activities		<u>(2,198,035)</u>	<u>(3,238,069)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(65,987)	(25,163)
Purchases of operating concessions	16	(10,783)	(112,953)
Purchases of other intangible assets	17	(1,768)	(2,397)
Acquisition of subsidiaries	41	(245,218)	476
Acquisition of and increase in investments in jointly-controlled entities		(1,334,530)	(75,174)
Increase in an investment in an associate		(36,145)	—
Acquisition of non-controlling interests		(297,002)	—
Acquisition of an available-for-sale investment		(1,236)	(1,177)
Increase in loans to a jointly-controlled entity		(776)	(42,625)
Increase in time deposits with maturity of more than three months when acquired		(24,491)	—
Decrease/(increase) in restricted cash and pledged deposits		500,140	(578,484)
Interest received	5	<u>21,875</u>	<u>6,481</u>
Net cash flows used in investing activities		<u>(1,495,921)</u>	<u>(831,016)</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

		2011	2010
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions by non-controlling equity holders		484,886	706,208
Issue of corporate bonds		2,325,633	—
New loans		4,088,013	7,759,985
Repayment of loans		(6,319,116)	(3,135,538)
Proceeds from issue of shares upon the completion of an open offer	29(b)	3,385,362	—
Capital element of finance lease rental payments		(5,156)	(6,428)
Interest paid		(317,616)	(215,792)
Interest element of finance lease rental payments		(234)	(681)
Dividends paid to non-controlling equity holders		<u>(65,783)</u>	<u>(6,325)</u>
Net cash flows from financing activities		<u>3,575,989</u>	<u>5,101,429</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(117,967)	1,032,344
Cash and cash equivalents at beginning of year		1,961,828	876,861
Effect of foreign exchange rate changes, net		<u>79,416</u>	<u>52,623</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>1,923,277</u></u>	<u><u>1,961,828</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	28	1,947,768	1,961,828
Less: Time deposits with maturity of more than three months when acquired		<u>(24,491)</u>	<u>—</u>
Cash and cash equivalents as stated in the consolidated statement of cash flows		<u><u>1,923,277</u></u>	<u><u>1,961,828</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****STATEMENT OF FINANCIAL POSITION
31 December 2011**

	<i>Notes</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment	13	1,039	167
Investments in subsidiaries	18	7,943,852	6,802,932
Investments in jointly-controlled entities	19	1,282,778	1,269
Prepayments, deposits and other receivables	26	<u>1,051,225</u>	<u>1,048,071</u>
Total non-current assets		<u>10,278,894</u>	<u>7,852,439</u>
Current assets:			
Trade and bills receivables	25	19,696	19,696
Prepayments, deposits and other receivables	26	51,597	251,072
Due from subsidiaries	18	3,166,450	876,710
Cash and cash equivalents	28	<u>107,195</u>	<u>166,814</u>
Total current assets		<u>3,344,938</u>	<u>1,314,292</u>
TOTAL ASSETS		<u><u>13,623,832</u></u>	<u><u>9,166,731</u></u>
EQUITY AND LIABILITIES			
Equity:			
Issued capital	29	690,917	456,676
Reserves	30(b)	<u>5,675,232</u>	<u>2,390,719</u>
TOTAL EQUITY		<u><u>6,366,149</u></u>	<u><u>2,847,395</u></u>
Non-current liabilities:			
Bank and other borrowings	31	3,402,217	1,570,578
Corporate bonds	33	<u>2,325,633</u>	<u>—</u>
Total non-current liabilities		<u>5,727,850</u>	<u>1,570,578</u>
Current liabilities:			
Trade payables	38	2,416	12,022
Other payables and accruals	39	20,793	13,987
Due to subsidiaries	18	1,117,147	336,451
Bank and other borrowings	31	<u>389,477</u>	<u>4,386,298</u>
Total current liabilities		<u>1,529,833</u>	<u>4,748,758</u>
TOTAL LIABILITIES		<u><u>7,257,683</u></u>	<u><u>6,319,336</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>13,623,832</u></u>	<u><u>9,166,731</u></u>

Zhang Honghai
Director

Zhou Min
Director

NOTES TO FINANCIAL STATEMENTS**31 December 2011****1. CORPORATE INFORMATION**

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

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

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

2.1 BASIS OF PRESENTATION AND PREPARATION**Basis of presentation**

Despite that the Group had capital commitments of HK\$4,928,508,000 (comprising the Group’s capital commitments and the Group’s share of the jointly-controlled entities’ own capital commitments) in aggregate as at 31 December 2011 as detailed in note 45 to the financial statements, the directors consider that the Group will have adequate funds available to enable it to operate as a going concern, based on the Group’s profit forecast and cash flow projection which, inter alia, take into account the historical operating performance of the Group and the following:

- (a) the existing banking facilities available to the Group as at the date of approval of these financial statements and on the assumption that such facilities will continue to be available from the Group’s bankers;
- (b) the banking facilities of the Group to be made available from the banks for the purpose of financing certain of the Group’s new construction projects and service concession arrangements, and on the assumption that such facilities will be granted by the Group’s bankers;

- (c) Beijing Enterprises Holdings Limited (“BEHL”), a substantial shareholder of the Company, has the intention to maintain directly or indirectly of not less than 40% equity interest in the Company in the foreseeable future; and
- (d) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2012 with reference to the terms of respective agreements and the current status of the projects.

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

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the income statement. The Group’s share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

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

The principal effects of adopting these HKFRSs are as follows:

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

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 46 to the financial statements.

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

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

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

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

- *HKAS 1 Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.
- *HKAS 27 Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ¹
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans</i> ⁴

HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i> ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁶
HKFRS 10	<i>Consolidated Financial Statements</i> ⁴
HKFRS 11	<i>Joint Arrangements</i> ⁴
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ⁴
HKFRS 13	<i>Fair Value Measurement</i> ⁴
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> ³
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i> ²
HKAS 19 (2011)	<i>Employee Benefits</i> ⁴
HKAS 27 (2011)	<i>Separate Financial Statements</i> ⁴
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ⁴
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ⁵
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2014

⁶ Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

- (a) HKFRS 7 Amendments add new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013.
- (b) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the “Additions”) and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (“FVO”). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (“OCI”). The remainder of the change in fair value is presented in the income statement, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in the income statement. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

- (c) HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.
- (d) HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

- (e) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not

change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

- (f) Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.
- (g) HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any accumulated impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any accumulated impairment losses.

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of the associate

is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Related parties

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

- (a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

Business combinations and goodwill

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in the income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Leases

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

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

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

Service concession arrangements*Consideration given by the grantor*

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

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

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

Construction or upgrade services

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

Operating services

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

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

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

Intangible assets (other than goodwill)

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

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

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

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

Operating concessions

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

Patents

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

Computer software

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

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products or technical know-how is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

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

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs.

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

Subsequent measurement

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

(a) Loans and receivables

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

(b) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity investments that are designated as available for sale. After initial recognition, the available-for-sale investments are stated at cost less any accumulated impairment losses as the

fair value of the unlisted investments cannot be reliably measured, which is because (a) the variability in the range of reasonable fair value estimates is significant for these investments or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

Impairment

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

(a) Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

(b) Available-for-sale investments carried at cost

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

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

Financial liabilities (loans and borrowings)

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are all classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value, net of directly attributable transaction costs.

Subsequent measurement

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

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

Derecognition

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

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

Financial guarantee contracts

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

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Upon the exercise of the conversion options, the resulting ordinary shares issued are recorded by the Company as additional share capital at the nominal value of the ordinary shares issued, and the excess of the total carrying amount of the liability and equity components of the convertible bonds over the nominal value of the ordinary shares issued is recorded in the share premium account. When the convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in the income statement. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in the income statement upon conversion or expiration of the conversion option.

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Land held for sale and inventories

Land held for sale and inventories are stated at the lower of cost and net realisable value. Costs are determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises (i) the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services for comprehensive renovation projects and (ii) construction revenue recognised under Build-Operate-Transfer ("BOT") contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction services for comprehensive renovation projects is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from the construction of sewage and reclaimed water treatment plants and a seawater desalination plant (which is carried out by a jointly-controlled entity of the Group) under the terms of BOT contracts (service concession agreements) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in the income statement.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the income statement is recognised outside the income statement, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to

an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

For government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset received after 1 January 2009, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities (loans and borrowings)” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

For government loans granted with no or at a below-market rate of interest for the constructions of qualifying assets received prior to 1 January 2009, the benefits of the government loans granted are not quantified by the imputation of interest and the balances recognised were equivalent to the amounts of proceeds received.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from construction services, on the percentage-of-completion basis, as further explained in the accounting policy for “Construction contracts” above;
- (b) from the rendering of services, on the percentage-of-completion basis, as further explained in the accounting policy for “Contracts for services” above;
- (c) from the licensing of technical know-how, when the related technique has been delivered and accepted;
- (d) from the sale of water and goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the water and goods sold;
- (e) rental income, on a time proportion basis over the lease terms;
- (f) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (g) dividend income, when the equity holders’ right to receive payment has been established.

Employee benefits*Defined contribution pension schemes*

The employees of the Group's subsidiaries which operate in Mainland China and Malaysia are required to participate in central pension schemes operated by the local municipal governments, the assets of which are held separately from those of the Group. Contributions are made by the subsidiaries based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension schemes. The employer contributions vest fully once made.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Defined benefit plan

Employees of a jointly-controlled entity can enjoy other retirement benefits after retirement such as supplementary medical reimbursement, allowance and beneficiary benefits pursuant to a defined benefit plan of the jointly-controlled entity. These benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method and is charged to the income statement so as to spread the costs over the average service lives of the relevant employees in accordance with the actuarial report which contains valuation of the obligations for the year. The obligation is measured at the present value of the estimated future cash outflows using the interest rates of the PRC government bonds which have terms similar to those of related liabilities. Actuarial gains and losses are recognised in other comprehensive income immediately when they arise.

The past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The

capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change of fair value of the item.

The functional currency of certain Mainland China and overseas subsidiaries, jointly-controlled entities and the associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition date are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Mainland China and overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Classification between operating concessions and receivables under service concession arrangements

As explained in note 2.4 to the financial statements, if the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, it is necessary to account separately for each component of the operator's consideration. The consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

The segregation of the consideration for a service concession arrangement between the financial asset component and the intangible asset component, if any, requires the Group to make an estimate of a number of factors, which include, inter alia, the expected future sewage and reclaimed water treatment volume of the relevant sewage and reclaimed water treatment plant over its service concession period, future guaranteed receipts and unguaranteed receipts, and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the operating concessions and receivables under service concession arrangements carried as assets in the consolidated statement of financial position as at 31 December 2011 were HK\$763,381,000 (2010: HK\$749,718,000) and HK\$5,256,222,000 (2010: HK\$2,860,472,000), respectively. Further details of which are set out in note 16 to the financial statements.

Determination of fair value of contract revenue in respect of the construction services rendered

Revenue from the construction of sewage and reclaimed water treatment and seawater desalination plants under the terms of a BOT contract is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

The construction margin is determined based on the gross profit margins of market comparables by identifying relevant peer groups, which are listed on various stock exchanges in the world. Criteria for selection include:

- (i) the peer firm must be in the field of the construction of infrastructure, majoring in sewage and reclaimed water treatment and seawater desalination facilities in the PRC; and
- (ii) information of the peer firm must be available and from a reliable source.

Percentage of completion of construction work and service contracts

The Group recognises revenue for construction work and service contracts according to the percentage of completion of the individual contract of construction or service work. The Group's management estimates the percentage of completion of construction and service work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

Estimate of water consumption

Determination of the revenue for the distribution and sale of water may include an estimation of the water supplied to customers for whom actual meter reading is not available. The estimation is done mainly based on the past consumption records and the recent consumption pattern of individual customers.

The actual consumption could deviate from those estimates.

Provision for major overhauls of sewage and reclaimed water treatment and water distribution plants to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence and is the obligations require the Group (a) to maintain the sewage and reclaimed water treatment and water distribution plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, are recognised and measured in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The estimation of the expenditure requires the Group to estimate the expected future cash outlays on major overhauls of the sewage and reclaimed water treatment and water distribution plants over the service concession periods and also

to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of the provision for major overhauls carried as a liability in the consolidated statement of financial position as at 31 December 2011 was HK\$167,296,000 (2010: HK\$123,374,000), further details of which are set out in note 35 to the financial statements.

Useful lives and residual values of property, plant and equipment, and intangible assets (other than goodwill)

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment, and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment, and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of property, plant and equipment, and intangible assets (other than goodwill) carried as assets in the consolidated statement of financial position as at 31 December 2011 were HK\$233,276,000 (2010: HK\$46,114,000) and HK\$769,836,000 (2010: HK\$755,023,000), respectively. Further details of which are set out in notes 13, 16 and 17 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill carried as an asset in the consolidated statement of financial position as at 31 December 2011 was HK\$1,643,719,000 (2010: HK\$1,580,116,000), details of which are set out in note 15 to the financial statements.

Impairment of property, plant and equipment, and intangible assets (other than goodwill)

The carrying amounts of items of property, plant and equipment, and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to these financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Impairment of receivables under service concession arrangements, trade and bills receivables, and other receivables

The policy for provision for impairment of receivables under service concession arrangements, trade and bills receivables, and other receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of receivables under service concession arrangements, trade and bills receivables, and other receivables carried as assets in the consolidated statement of financial position as at 31 December 2011 were HK\$5,256,222,000 (2010: HK\$2,860,472,000), HK\$3,938,399,000 (2010: HK\$4,123,013,000) and HK\$6,101,173,000 (2010: HK\$2,764,894,000), respectively. Further details of which are set out in notes 16, 25 and 26 to the financial statements.

Defined benefit plan

The present value of the retirement benefit obligation under a jointly-controlled entity depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact on the carrying amount of the retirement benefit obligation. Key assumptions for the obligation are based in part on the current market conditions. The carrying amount of the obligation carried as a liability in the statement of financial position of the joint-controlled entity as at 31 December 2011 was HK\$288,377,000 and the Group's share of which, amounting to HK\$129,770,000 (2010: Nil), has been reflected in the Group's investments in jointly-controlled entities.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong and Mainland China. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made. The carrying amount of current tax payable carried as liabilities in the consolidated statement of financial position as at 31 December 2011 was HK\$145,585,000 (2010: HK\$108,286,000).

Deferred tax assets relating to certain temporary differences and tax losses are not recognised as management considered that these losses have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and tax in the periods in which such

estimates have been changed. The carrying amounts of deferred tax assets and liabilities carried as assets and liabilities in the consolidated statement of financial position as at 31 December 2011 were HK\$28,874,000 (2010: HK\$31,806,000) and HK\$205,179,000 (2010: HK\$138,688,000), respectively, details of which are set out in note 37 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

- (a) the sewage and reclaimed water treatment and construction services segment engages in the construction and operation of sewage and reclaimed water treatment plants, the construction of a seawater desalination plant, and the provision of construction services for comprehensive renovation projects;
- (b) the water supply services segment engages in the distribution and sale of piped water and the provision of related services; and
- (c) the technical and consultancy services segment engages in the provision of consultancy services that are related to sewage treatment and the construction of comprehensive renovation projects, and the licensing of technical know-how that is related to sewage treatment.

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

Segment assets exclude corporate and head office assets as these assets are managed on a group basis.

During the year, business operations of the jointly-controlled entities are organised into reportable operating segments according to the nature of their operations and the products and services they provide. Accordingly, share of profits and losses of jointly-controlled entities and interests in jointly-controlled entities are allocated to the relevant reportable operating segments. The corresponding comparative amounts of the segment information have been revised to reflect the above changes and to conform to the current year's presentation.

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****Year ended 31 December 2011**

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

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	Sewage and reclaimed water treatment and construction services HK\$'000	Water supply services HK\$'000	Technical and consultancy services HK\$'000	Total HK\$'000
Segment assets:				
Operating segments	<u>20,008,637</u>	<u>1,172,910</u>	<u>776,161</u>	21,957,708
Corporate and other unallocated items				<u>2,792,034</u>
				<u>24,749,742</u>
Other segment information:				
Depreciation				
— Operating segments	<u>5,835</u>	<u>810</u>	<u>1,023</u>	7,668
— Amount unallocated				<u>1,631</u>
				<u>9,299</u>
Amortisation of operating concessions	26,599	10,686	—	37,285
Amortisation of other intangible assets				
— Operating segments	91	105	172	368
— Amount unallocated				<u>535</u>
				<u>903</u>
Impairment/(reversal of impairment) of segment assets, net [*]	(39,529)	236	19,391	(19,902)
Provision for major overhauls	32,897	310	—	33,207
Capital expenditure ^{**}				
— Operating segments	28,988	7,037	1,110	37,135
— Amount unallocated				<u>166,463</u>
				<u>203,598</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****Year ended 31 December 2010**

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

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FINANCIAL INFORMATION ON THE GROUP

	Sewage and reclaimed water treatment and construction services <i>HK\$'000</i> (Restated)	Water supply services <i>HK\$'000</i>	Technical and consultancy services <i>HK\$'000</i>	Total <i>HK\$'000</i> (Restated)
Segment assets:				
Operating segments	<u>13,657,216</u>	<u>206,216</u>	<u>806,198</u>	14,669,630
Corporate and other unallocated items				<u>2,555,199</u>
				<u>17,224,829</u>
Other segment information:				
Depreciation				
— Operating segments	<u>5,021</u>	<u>1,351</u>	<u>631</u>	7,003
— Amount unallocated				<u>1,225</u>
				<u>8,228</u>
Amortisation of operating concessions	25,643	4,563	—	30,206
Amortisation of other intangible assets				
— Operating segments	3	34	198	235
— Amount unallocated				<u>267</u>
				<u>502</u>
Impairment of segment assets, net [*]				
— Operating segments	32,546	17	370	32,933
— Amount unallocated				<u>24</u>
				<u>32,957</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

	Sewage and reclaimed water treatment and construction services HK\$'000 (Restated)	Water supply services HK\$'000	Technical and consultancy services HK\$'000	Total HK\$'000 (Restated)
Provision for major overhauls	24,606	289	—	24,895
Capital expenditure**				
— Operating segments	119,225	2,821	14,465	136,511
— Amount unallocated				<u>4,002</u>
				<u><u>140,513</u></u>

* These amounts are recognised in the consolidated income statement and included impairment/(reversal of impairment) against receivables under service concession arrangements, trade and bills receivables and other receivables.

** Capital expenditure consists of additions to property, plant and equipment, operating concessions and other intangible assets, excluding assets from the acquisition of subsidiaries.

Geographical information

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

Information about major customers

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Customer 1	426,867	N/A*
Customer 2	N/A*	1,554,300
Customer 3	N/A*	1,755,791
Customer 4	<u>N/A*</u>	<u>1,108,363</u>
	<u>426,867</u>	<u>4,418,454</u>

* The corresponding revenue of these customers is not disclosed as they individually did not contribute over 10% of the Group's total gross revenue for the relevant year.

5. REVENUE, INTEREST INCOME, OTHER INCOME AND GAINS, NET

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

An analysis of the Group's revenue, interest income, other income and gains, net, is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue		
Sewage and reclaimed water treatment services*	994,682	591,648
Construction services*	1,364,997	5,431,562
Sale of water	83,198	75,460
Consultancy services	173,216	235,670
Licence fees	<u>38,361</u>	<u>13,720</u>
	<u>2,654,454</u>	<u>6,348,060</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Interest income		
Bank interest income	21,875	6,481
Imputed interest income on trade and bills receivables with extended credit periods	241,369	—
Interest income from non-controlling equity holders of a non-wholly owned subsidiary [@]	45,413	—
Interest income on a loan to a jointly-controlled entity (<i>note 19(c)</i>)	2,879	1,707
Interest income on loans to government authorities in Yunnan Province, the PRC (<i>note 26(a)(iv) and (v)</i>)	36,658	—
Interest income on loans to related companies (<i>note 27</i>)	<u>37,311</u>	<u>14,745</u>
	<u>385,505</u>	<u>22,933</u>
Other income		
Gross rental income [#]	734	223
Government grants ^{\$}	33,370	47,058
Sludge treatment income	6,039	5,754
Others	<u>21,635</u>	<u>4,672</u>
	<u>61,778</u>	<u>57,707</u>
Gains, net		
Gain on bargain purchase of subsidiaries (<i>note 41</i>)	—	2,824
Gain on bargain purchase of a jointly-controlled entity [†]	42,235	—
Foreign exchange differences, net	<u>40,102</u>	<u>—</u>
	<u>82,337</u>	<u>2,824</u>
Other income and gains, net	<u>144,115</u>	<u>60,531</u>

* Imputed interest income under service concession arrangements amounting to HK\$318,822,000 (2010: HK\$214,280,000) is included in the revenue derived from “Sewage and reclaimed water treatment services” and “Construction services” above.

[@] Pursuant to two loan agreements both dated 30 December 2011 entered into between the Company, China International Construction Investment Holding (Hong Kong) Limited (“CICI”, a 70% owned subsidiary of the Group) and the non-controlling equity holders of CICI, the non-controlling equity holders of CICI shall pay interest to the Company at the PRC 1-year bank loan rate per annum in respect of an interest-free loan of RMB716,428,000 provided by the Company to CICI.

[#] The Group leased certain areas of buildings, which form part of the operating assets transferred to the Group by the grantors in respect of the Group's sewage and reclaimed water treatment operations, to third parties under operating lease arrangements and accordingly, earned rental income therefrom for the year. Further details of the operating lease arrangements are set out in note 44(a) to the financial statements.

[§] The government grants recognised during the current year represented an incentive of RMB27,697,000 (equivalent to HK\$33,370,000) provided by a local government in Yunnan Province, the PRC, for the Group's act to withhold for the local tax bureau the business tax and surcharges levied on income of certain subcontractors for their services on certain construction contracts of the Group. The government grants recognised during the prior year represented (i) an incentive of RMB38,987,000 (equivalent to HK\$44,762,000) provided by a local government in Liaoning Province, the PRC, for investments by the Group in the region; and (ii) an incentive of RMB2,000,000 (equivalent to HK\$2,296,000) provided by a local government in Beijing, the PRC, for meeting certain criteria related to the set-up of the Group's Mainland China head office in Beijing.

[†] The gain on bargain purchase of a jointly-controlled entity arose from the acquisition of a 60% equity interest in 湖南北控景盛建設發展有限公司 ("Beikong Jingsheng") in April 2011 for a cash consideration of RMB34,956,000 (equivalent to HK\$42,116,000). Beikong Jingsheng is principally engaged in the construction of infrastructural facilities in Hunan Province, the PRC.

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

		2011	2010
	Notes	HK\$'000	HK\$'000
Cost of sewage and reclaimed water treatment services rendered		370,950	201,179
Cost of construction services		1,272,757	4,950,070
Cost of water sold		27,521	41,416
Cost of consultancy services rendered		35,968	2,041
Cost of licensing		1,736	1,340
Depreciation	13	9,299	8,228
Amortisation of operating concessions*	16	37,285	30,206
Amortisation of other intangible assets*	17	903	502
Minimum lease payments under operating leases of land and buildings		5,067	1,638
Auditors' remuneration		6,500	5,100
Employee benefit expense (including directors' remuneration (note 8)):			
Salaries, allowances and benefits in kind		208,779	117,759
Net pension scheme contributions		15,376	11,180
Welfare and other expenses		27,309	26,126
		<u>251,464</u>	<u>155,065</u>
Loss on disposal of items of property, plant and equipment, net		1,478	225
Impairment/(reversal of impairment) of receivables under service concession arrangements, net	16(b)	(39,655)	32,495
Impairment of trade and bills receivables, net	25(c)	17,945	239
Impairment of other receivables, net	26(c)	1,808	223
Provision for major overhauls	35	33,207	24,895
Foreign exchange differences, net		<u>(40,102)</u>	<u>1,045</u>

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

7. FINANCE COSTS

		Group	
	Notes	2011	2010
		<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years		266,965	208,248
Interest in other loans		5,557	7,544
Interest on corporate bonds		45,094	—
Imputed interest on convertible bonds	32	—	23,787
Interest on a finance lease		234	681
		<u>317,850</u>	<u>240,260</u>
Total interest expenses		317,850	240,260
Increase in discounted amounts of provision for major overhauls arising from the passage of time	35	3,711	2,725
		<u>321,561</u>	<u>242,985</u>
Total finance costs		321,561	242,985
Less: Interest included in cost of construction services		(8,572)	(8,077)
		<u>312,989</u>	<u>234,908</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	2,058	1,329
Other emoluments:		
Salaries, allowances and benefits in kind	6,212	12,065
Pension scheme contributions	36	36
	<u>6,248</u>	<u>12,101</u>
	<u>8,306</u>	<u>13,430</u>

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An analysis of the directors' remuneration, on a named basis, is as follows:

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2011				
Executive directors:				
Mr. Zhang Honghai	—	—	—	—
Mr. Liu Kai	—	—	—	—
Mr. E Meng	100	—	—	100
Mr. Jiang Xinhao	100	—	—	100
Mr. Hu Xiaoyong	253	1,597	12	1,862
Mr. Zhou Min	253	1,349	12	1,614
Mr. Li Haifeng	253	1,473	12	1,738
Mr. Zhang Tiefu	100	695	—	795
Mr. Hou Feng	100	1,098	—	1,198
Ms. Qi Xiaohong	100	—	—	100
Mr. Ju Yadong	67	—	—	67
Mr. Ke Jian	58	—	—	58
Mr. Tung Woon Cheung Eric	186	—	—	186
	<u>1,570</u>	<u>6,212</u>	<u>36</u>	<u>7,818</u>
Independent non-executive directors:				
Mr. Shea Chun Lok Quadrant	68	—	—	68
Mr. Zhang Gaobo	120	—	—	120
Mr. Guo Rui	100	—	—	100
Ms. Hang Shijun	100	—	—	100
Mr. Wang Kaijun	100	—	—	100
	<u>488</u>	<u>—</u>	<u>—</u>	<u>488</u>
Total	<u>2,058</u>	<u>6,212</u>	<u>36</u>	<u>8,306</u>

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	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2010				
Executive directors:				
Mr. Zhang Honghai	—	—	—	—
Mr. Liu Kai	—	—	—	—
Mr. E Meng	100	—	—	100
Mr. Jiang Xinhao	100	—	—	100
Mr. Hu Xiaoyong	100	3,618	12	3,730
Mr. Wang Taoguang	8	—	—	8
Mr. Zhou Min	100	3,056	12	3,168
Mr. Li Haifeng	100	2,648	12	2,760
Mr. Zhang Tiefu	100	1,825	—	1,925
Mr. Hou Feng	33	918	—	951
Ms. Qi Xiaohong	100	—	—	100
Mr. Ju Yadong	100	—	—	100
	<u>841</u>	<u>12,065</u>	<u>36</u>	<u>12,942</u>
Independent non-executive directors:				
Mr. Shea Chun Lok Quadrant	68	—	—	68
Mr. Zhang Gaobo	120	—	—	120
Mr. Guo Rui	100	—	—	100
Ms. Hang Shijun	100	—	—	100
Mr. Wang Kaijun	100	—	—	100
	<u>488</u>	<u>—</u>	<u>—</u>	<u>488</u>
Total	<u>1,329</u>	<u>12,065</u>	<u>36</u>	<u>13,430</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2010: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2011 and 2010 were all directors, details of whose remuneration are set out in note 8 above.

10. INCOME TAX

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

The income tax provisions in respect of operations in Mainland China and Malaysia are calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries enjoy income tax exemptions and reductions, by reason that these companies are engaged in the operations of sewage and reclaimed water treatment.

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current — PRC:		
Hong Kong	—	—
Mainland China	138,048	99,319
Overprovision in prior years	(3,655)	(1,617)
Current — Malaysia	1,310	—
Deferred (<i>note 37</i>)	34,158	33,248
	<u>169,861</u>	<u>130,950</u>
Total tax expense for the year	<u>169,861</u>	<u>130,950</u>

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A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — Year ended 31 December 2011

	Hong Kong and overseas		Mainland China		Total	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Profit/(loss) before tax	<u>(98,921)</u>		<u>959,768</u>		<u>860,847</u>	
Tax expense/(credit) at the statutory tax rate	(15,799)	16.0	239,942	25.0	224,143	26.0
Lower tax rates of specific provinces or enacted by local authorities	—	—	(11,402)	(1.2)	(11,402)	(1.3)
Tax concession enjoyed	—	—	(52,022)	(5.4)	(52,022)	(6.0)
Effect of withholding tax at 5% on the distributable profits of a PRC subsidiary of the Group	—	—	4,869	0.5	4,869	0.6
Adjustments in respect of current tax of previous periods	—	—	(3,655)	(0.4)	(3,655)	(0.4)
Profits and losses attributable to jointly-controlled entities	(344)	0.4	(4,678)	(0.5)	(5,022)	(0.6)
Income not subject to tax	(5,684)	5.7	(9,346)	(0.9)	(15,030)	(1.8)
Expenses not deductible for tax	23,137	(23.4)	7,966	0.8	31,103	3.6
Tax losses utilised from previous periods	—	—	(9,071)	(0.9)	(9,071)	(1.1)
Tax losses not recognised as deferred tax assets	<u>—</u>	<u>—</u>	<u>5,948</u>	<u>0.6</u>	<u>5,948</u>	<u>0.7</u>
Tax expense at the Group's effective rate	<u>1,310</u>	<u>(1.3)</u>	<u>168,551</u>	<u>17.6</u>	<u>169,861</u>	<u>19.7</u>

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	Hong Kong		Mainland China		Total	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Profit/(loss) before tax	<u>(133,330)</u>		<u>828,445</u>		<u>695,115</u>	
Tax expense/(credit) at the statutory tax rate	(21,999)	16.5	207,111	25.0	185,112	26.6
Lower tax rates of specific provinces or enacted by local authorities	—	—	(52,687)	(6.4)	(52,687)	(7.6)
Tax concession enjoyed	—	—	(60,457)	(7.3)	(60,457)	(8.7)
Adjustments in respect of current tax of previous periods	—	—	(1,617)	(0.2)	(1,617)	(0.2)
Profits and losses attributable to jointly-controlled entities	(140)	0.1	6	—	(134)	—
Income not subject to tax	(1,375)	1.0	(1,552)	(0.2)	(2,927)	(0.4)
Expenses not deductible for tax	24,498	(18.3)	15,237	1.9	39,735	5.7
Tax losses utilised from previous periods	(1,100)	0.8	(3)	—	(1,103)	(0.2)
Tax losses not recognised as deferred tax assets	<u>116</u>	<u>(0.1)</u>	<u>24,912</u>	<u>3.0</u>	<u>25,028</u>	<u>3.6</u>
Tax expense at the Group's effective rate	<u>—</u>	<u>—</u>	<u>130,950</u>	<u>15.8</u>	<u>130,950</u>	<u>18.8</u>

11. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2011 includes a profit of HK\$7,410,000 (2010: a loss of HK\$55,209,000), which has been dealt with in the financial statements of the Company (*note 30(b)*).

12. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to retrospectively reflect the issuance of 2,283,378,231 new ordinary

shares of the Company at an offer price of HK\$1.485 per ordinary share under an open offer (the “Open Offer”) of the Company completed on 15 March 2011, further details of the Open Offer are set out in note 29(b) to the financial statements.

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

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

	2011 HK\$'000	2010 HK\$'000
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic earnings per share calculation	600,736	512,512
Interest on dilutive convertible bonds	<u>—</u>	<u>23,787</u>
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	<u>600,736</u>	<u>536,299</u>
	2011	2010 (Restated)
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	6,719,431,905*	4,769,441,329*
Effect of dilution of dilutive convertible bonds — weighted average number of ordinary shares	<u>—</u>	<u>620,611,554*</u>
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<u>6,719,431,905</u>	<u>5,390,052,883</u>

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

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2011							
At 1 January 2011:							
Cost	13,742	1,078	3,829	17,912	31,253	2,552	70,366
Accumulated depreciation	(191)	(845)	(1,900)	(7,489)	(13,827)	—	(24,252)
Net carrying amount	<u>13,551</u>	<u>233</u>	<u>1,929</u>	<u>10,423</u>	<u>17,426</u>	<u>2,552</u>	<u>46,114</u>
Net carrying amount:							
At 1 January 2011	13,551	233	1,929	10,423	17,426	2,552	46,114
Acquisition of subsidiaries (note 41)	—	—	—	—	—	368	368
Additions	125,544	31,693	5,032	13,385	14,998	395	191,047
Depreciation provided during the year	(235)	(204)	(632)	(3,625)	(4,603)	—	(9,299)
Disposals	—	—	(54)	(104)	(1,320)	—	(1,478)
Exchange realignment	<u>3,754</u>	<u>766</u>	<u>117</u>	<u>757</u>	<u>293</u>	<u>837</u>	<u>6,524</u>
At 31 December 2011	<u>142,614</u>	<u>32,488</u>	<u>6,392</u>	<u>20,836</u>	<u>26,794</u>	<u>4,152</u>	<u>233,276</u>
At 31 December 2011:							
Cost	143,056	33,583	8,934	30,662	43,465	4,152	263,852
Accumulated depreciation	(442)	(1,095)	(2,542)	(9,826)	(16,671)	—	(30,576)
Net carrying amount	<u>142,614</u>	<u>32,488</u>	<u>6,392</u>	<u>20,836</u>	<u>26,794</u>	<u>4,152</u>	<u>233,276</u>

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	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Machinery, and sewage and water pipelines <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2010							
At 1 January 2010:							
Cost	153,982	1,041	95,579	13,741	22,111	3,059	289,513
Accumulated depreciation	<u>(21,519)</u>	<u>(816)</u>	<u>(20,006)</u>	<u>(5,141)</u>	<u>(10,004)</u>	<u>—</u>	<u>(57,486)</u>
Net carrying amount	<u>132,463</u>	<u>225</u>	<u>75,573</u>	<u>8,600</u>	<u>12,107</u>	<u>3,059</u>	<u>232,027</u>
Net carrying amount:							
At 1 January 2010	132,463	225	75,573	8,600	12,107	3,059	232,027
Acquisition of subsidiaries (note 41)	—	—	—	966	5,487	—	6,453
Additions	13,407	—	2,295	4,714	4,703	44	25,163
Depreciation provided during the year	(187)	—	(920)	(2,762)	(4,359)	—	(8,228)
Reclassification to operating concessions (note 16)	(132,463)	—	(75,069)	(1,315)	(1,012)	(683)	(210,542)
Disposals	—	—	(14)	(109)	(103)	—	(226)
Exchange realignment	<u>331</u>	<u>8</u>	<u>64</u>	<u>329</u>	<u>603</u>	<u>132</u>	<u>1,467</u>
At 31 December 2010	<u>13,551</u>	<u>233</u>	<u>1,929</u>	<u>10,423</u>	<u>17,426</u>	<u>2,552</u>	<u>46,114</u>
At 31 December 2010:							
Cost	13,742	1,078	3,829	17,912	31,253	2,552	70,366
Accumulated depreciation	<u>(191)</u>	<u>(845)</u>	<u>(1,900)</u>	<u>(7,489)</u>	<u>(13,827)</u>	<u>—</u>	<u>(24,252)</u>
Net carrying amount	<u>13,551</u>	<u>233</u>	<u>1,929</u>	<u>10,423</u>	<u>17,426</u>	<u>2,552</u>	<u>46,114</u>

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	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2011				
At 1 January 2011:				
Cost	—	34	490	524
Accumulated depreciation	—	(14)	(343)	(357)
Net carrying amount	—	20	147	167
Net carrying amount:				
At 1 January 2011	—	20	147	167
Additions	946	173	—	1,119
Depreciation provided during the year	(79)	(21)	(147)	(247)
At 31 December 2011	867	172	—	1,039
At 31 December 2011:				
Cost	946	207	490	1,643
Accumulated depreciation	(79)	(35)	(490)	(604)
Net carrying amount	867	172	—	1,039

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	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2010				
At 1 January 2010:				
Cost	—	34	490	524
Accumulated depreciation	<u>—</u>	<u>(7)</u>	<u>(196)</u>	<u>(203)</u>
Net carrying amount	<u>—</u>	<u>27</u>	<u>294</u>	<u>321</u>
Net carrying amount:				
At 1 January 2010	—	27	294	321
Depreciation provided during the year	<u>—</u>	<u>(7)</u>	<u>(147)</u>	<u>(154)</u>
At 31 December 2010	<u>—</u>	<u>20</u>	<u>147</u>	<u>167</u>
At 31 December 2010:				
Cost	—	34	490	524
Accumulated depreciation	<u>—</u>	<u>(14)</u>	<u>(343)</u>	<u>(357)</u>
Net carrying amount	<u>—</u>	<u>20</u>	<u>147</u>	<u>167</u>

14. PREPAID LAND PREMIUMS
Group

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	—	27,704
Reclassification to operating concessions (<i>note 16</i>)	<u>—</u>	<u>(27,704)</u>
Carrying amount at 31 December	<u>—</u>	<u>—</u>

15. GOODWILL**Group**

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	1,580,116	1,575,451
Acquisition of subsidiaries (<i>note 41</i>)	57,007	—
Exchange realignment	<u>6,596</u>	<u>4,665</u>
At 31 December	<u><u>1,643,719</u></u>	<u><u>1,580,116</u></u>

Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisitions of subsidiaries and non-controlling interests has been allocated to the relevant business units of the following individual operating segments of the Group for impairment testing, which is summarised as follows:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sewage and reclaimed water treatment and construction services segment	1,269,730	1,206,466
Water supply services segment	14,749	14,410
Technical and consultancy services segment	<u>359,240</u>	<u>359,240</u>
	<u><u>1,643,719</u></u>	<u><u>1,580,116</u></u>

The recoverable amounts of the relevant business units in each of the above operating segments have been determined by reference to business valuations performed by CB Richard Ellis Limited, independent professionally qualified valuers, on fair value less costs to sell estimations using cash flow projections which are based on financial forecast approved by senior management covering a period of 10 years and based on the assumption that the sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections for the first 10-year period are 11.5% for the business units of the sewage and reclaimed water treatment and construction services segment, and the water supply services segment, and 12.9% for the business unit of the technical and consultancy services segment, which are determined by reference to the average rates for similar industries and the business risks of the relevant business units. A growth rate of 3% is used for the perpetual period.

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2011 (2010: Nil).

Key assumptions used in fair value less costs to sell estimations

The following describes each key assumption adopted by management in the preparation of the cash flow projections for the purpose of impairment testing of goodwill:

- **Budgeted turnover**

- in respect of the revenue from the sewage and reclaimed water treatment and construction services segment, and the water supply services segment, the budgeted turnover is based on the projected sewage and reclaimed water treatment and water supply volume, and the latest sewage and reclaimed water treatment and water selling prices up to the date of valuation.
- in respect of the revenue from the technical and consultancy services segment, the budgeted turnover is based on the expected growth rate of the market.

- **Budgeted gross margins**

- the basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

- **Business environment**

- There have been no major changes in the existing political, legal and economic conditions in Mainland China.
- Under the service concession arrangements, the Group has been granted with priority for renewal of operating rights of its sewage and reclaimed water treatment and water supply plants. Given its historical performance record and its long-established relationship with the grantors, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of sewage and reclaimed water treatment and water supply plants shall be renewed upon expiry, and therefore the sizes of the operations of the sewage and reclaimed water treatment and water distribution operations are expected to remain constant perpetually which enables the Group to generate income perpetually.

16. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in Mainland China on a BOT or a Transfer-Operate-Transfer (“TOT”) basis in respect of its sewage and reclaimed water treatment, water distribution and seawater desalination. These service concession arrangements generally involve the Group as an operator (i) constructing sewage and reclaimed water treatment, water distribution and seawater desalination plants for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis;

and (iii) operating and maintaining the sewage and reclaimed water treatment, water distribution and seawater desalination plants at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 20 to 40 years (the “service concession periods”), and the Group will be paid for its services over the relevant periods of the service concession arrangements at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the sewage and reclaimed water treatment, water distribution and seawater desalination plants, however, the relevant governmental authorities as grantors will control and regulate the scope of services that the Group must provide with the sewage and reclaimed water treatment, water distribution and seawater desalination plants, and retain the beneficial entitlement to any residual interest in the sewage and reclaimed water treatment, water distribution and seawater desalination plants at the end of the term of the service concession periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the sewage and reclaimed water treatment, water distribution and seawater desalination plants to a specified level of serviceability at the end of the service concession periods, and arrangements for arbitrating disputes.

At 31 December 2011, the Group had 101 service concession arrangements on sewage treatment, 4 service concession arrangements on reclaimed water treatment, 12 service concession arrangements on water distribution and a service concession arrangement on seawater desalination with various governmental authorities in Mainland China and a summary of the major terms of principal service concession arrangements are set out as follows:

No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m ³ /day	Service concession period
Subsidiaries:							
1.	綿陽中科成污水淨化有限公司	綿陽市塔子壩 污水處理廠一期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	TOT on sewage treatment	100,000	30 years from 2002 to 2032
2.	綿陽中科成污水淨化有限公司	綿陽市塔子壩 污水處理廠二期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	BOT on sewage treatment	50,000	30 years from 2004 to 2034
3.	綿陽中科成污水淨化有限公司	綿陽市塔子壩 污水處理廠三期	Mianyang, Sichuan Province, the PRC	綿陽市人民政府	BOT on sewage treatment	50,000	30 years (Not yet started)
4.	長沙中科成污水淨化有限公司	長沙市金霞污水 處理廠	Changsha, Hunan Province, the PRC	長沙市公用事業 管理局	TOT on sewage treatment	180,000	20 years from 2004 to 2024
5.	青島膠南中科成污水淨化有限公司	膠南市污水 處理廠	Jiaonan, Shandong Province, the PRC	膠南市城鄉建設 局	BOT on sewage treatment	60,000	20 years from 2006 to 2026

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No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m ³ /day	Service concession period
6.	青島中科成污水淨化有限公司	山東省膠州市污水處理廠一期	Jiaozhou, Shandong Province, the PRC	山東省膠州市城建設局	BOT on sewage treatment	50,000	20 years from 2004 to 2024
7.	青島膠州北控水務有限公司	山東省膠州市污水處理廠二期	Jiaozhou, Shandong Province, the PRC	山東省膠州市城建設局	BOT on sewage treatment	50,000	20 years from 2011 to 2031
8.	荷澤中科成污水淨化有限公司	荷澤市污水處理廠	Heze, Shandong Province, the PRC	荷澤市建設局	TOT on sewage treatment	80,000	25 years from 2007 to 2032
9.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	100,000	25 years from 2008 to 2033
10.	廣州中業污水處理有限公司	廣州市花都區新華污水處理廠二期擴建工程	Guangzhou, Guangdong Province, the PRC	廣州市花都區市政園林管理局	BOT on sewage treatment	99,000	25 years from 2009 to 2034
11.	廣州中科成污水淨化有限公司	廣州南沙開發區黃閣污水處理廠一期	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT on sewage treatment	50,000	22 years from 2004 to 2026
12.	廣州中科成污水淨化有限公司	廣州南沙開發區黃閣污水處理廠二期	Guangzhou, Guangdong Province, the PRC	廣州南沙開發區建設局	BOT on sewage treatment	50,000	22 years from 2004 to 2026
13.	台州市路橋中科成污水淨化有限公司	路橋污水處理廠二期	Taizhou, Zhejiang Province, the PRC	台州市建設規劃局路橋分局	BOT on sewage treatment	50,000	27 years from 2006 to 2033
14.	佛山市三污水中成水質淨化有限公司	佛山市三水區中心工業園南部污水處理廠	Foshan, Guangdong Province, the PRC	佛山市三水工業園區管理委員會	BOT on sewage treatment	50,000	22 years from 2010 to 2032
15.	永州市北控污水淨化有限公司	永州市下河線污水處理廠一期	Yongzhou, Hunan Province, the PRC	永州市公用事業管理局	BOT on sewage treatment	50,000	30 years from 2008 to 2038
16.	永州市北控污水淨化有限公司	永州市下河線污水處理廠二期	Yongzhou, Hunan Province, the PRC	永州市公用事業管理局	BOT on sewage treatment	50,000	30 years from 2011 to 2041
17.	深北控創新投資有限公司 ("Bei Kong Chuang Xin")	深圳市龍崗區橫嶺處理廠二期	Shenzhen, Guangdong Province, the PRC	深圳市水務局	TOT on sewage treatment	400,000	20 years from 2011 to 2031

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No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m ³ /day	Service concession period
18.	深圳北控豐泰投資有限公司	深圳市龍崗區橫嶺污水處理廠一期	Shenzhen, Guangdong Province, the PRC	深圳市龍崗區人民政府	BOT on sewage treatment	200,000	25 years from 2003 to 2028
19.	濱州北控西海水務有限公司	濱州市西海供水廠	Binzhou, Shandong Province, the PRC	濱州市人民政府	BOT on water distribution	50,000	40 years from 2006 to 2046
20.	台州黃岩北控水務污水淨化有限公司	台州市黃岩區污水處理廠	Taizhou, Zhejiang Province, the PRC	台州市黃岩區建設局	TOT on sewage treatment	80,000	30 years from 2009 to 2039
21.	成都青白江中科成污水淨化有限公司	成都市青白江區污水處理廠	Chengdu, Sichuan Province, the PRC	成都市青白江區人民政府	TOT on sewage treatment	100,000	25 years from 2009 to 2034
22.	齊齊哈爾市北控污水淨化有限公司	齊齊哈爾市富拉爾基區污水處理廠	Qi Qi Har, Heilongjiang Province, the PRC	齊齊哈爾市環境保護局	BOT on sewage treatment	100,000	28 years (Not yet started)
23.	錦州市北控水務有限公司	錦州市一期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	TOT on sewage treatment	100,000	30 years from 2009 to 2039
24.	錦州市北控水務有限公司	錦州市二期污水處理廠	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on sewage treatment	100,000	30 years from 2010 to 2040
25.	錦州市北控水務有限公司	錦州市再生水項目	Jinzhou, Liaoning Province, the PRC	錦州市公用事業與房產局	BOT on reclaimed water treatment	180,000	30 years from 2010 to 2040
26.	Fuzhou Beijing Enterprises Water Purify Limited	福州市浮村污水處理廠	Fuzhou, Fujian Province, the PRC	福州市建設局	BOT on sewage treatment	50,000	27 years from 2010 to 2037
27.	Yueyang Beijing Enterprises Sewage Treatment Ltd.	湖南省化工農業產業基地污水處理廠	Linxiang, Hunan Province, the PRC	臨湘市人民政府	BOT on sewage treatment	50,000	25 years (Not yet started)
28.	Yueyang Beijing Enterprises Water Supply Limited	湖南省化工農業產業基地自來水廠	Linxiang, Hunan Province, the PRC	臨湘市人民政府	BOT on reclaimed water treatment	50,000	25 years (Not yet started)
29.	玉溪北控城投水質淨化有限公司	玉溪市污水處理廠	Yuxi, Yunnan Province, the PRC	玉溪市住房和城鄉建設局	TOT on sewage treatment	100,000	30 years from 2011 to 2041

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No.	Name of company as operator	Name of plant	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity m ³ /day	Service concession period
30.	廣西貴港北控水務有限公司	貴港市城西污水處理廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on sewage treatment	100,000	30 years from 2008 to 2038
31.	廣西貴港北控水務有限公司	龍床井水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	50,000	30 years from 2008 to 2038
32.	廣西貴港北控水務有限公司	南江水廠	Guigang, Guangxi Zhuang Autonomous Region, the PRC	貴港市市政管理局	BOT on water distribution	100,000	30 years from 2008 to 2038
33.	Zunyi BEWG Co., Ltd.	遵義市青山供水廠	Zunyi, Guizhou Province, the PRC	遵義市供排水有限責任公司	BOT on water distribution	100,000	25 years (Not yet started)
Jointly-controlled entities:							
34.	Aqualyng Caofeidian Seawater Desalination Co. Ltd. (“ACSD”)	曹妃甸海水淡化廠	Caofeidian, Hebei Province, the PRC	曹妃甸工業區管委會	BOT on seawater desalination	50,000	30 years (Not yet started)
35.	Guiyang BEWG Co. Ltd. (“Guiyang BEWG”)	貴陽市城市供水廠	Guiyang, Guizhou Province, the PRC	貴陽市城市管理局	BOT on water distribution	1,000,000	30 years from 2011 to 2041
36.	Yibin Beijing Enterprises Water Limited	宜賓市南岸污水處理廠	Yi Bin, Sichuan Province, the PRC	宜賓市水務局	TOT on sewage treatment	50,000	30 years from 2011 to 2041
An associate:							
37.	Henan Kaikong Water Business Co. Ltd.	河南龍宇煤化工原水淨化及預脫鹽水站	Shangqiu, Henan Province, the PRC	河南龍宇煤化工有限公司	BOT on reclaimed water treatment	79,200	20 years (Not yet started)

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

Pursuant to the service concession agreements entered into by the Group, the Group are granted the rights to use the property, plant and equipment of the sewage and reclaimed water treatment, water distribution and seawater desalination plants and related land, which are generally registered under the names of the relevant companies in the Group, during the service concession periods, but the Group is generally required to surrender these property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective service concession periods. At 31 December 2011, the Group was in the process of applying for the change of registration of the title certificates with respect to certain land use rights and buildings of certain sewage and reclaimed water treatment, water distribution and seawater desalination plants to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land to which the above-mentioned land use rights relate, and that the Group would not have any legal barriers in obtaining the proper title certificates.

At 31 December 2011, certain sewage treatment and water distribution concession rights of the Group (comprising operating concessions and receivables under service concession arrangements) in a then aggregate net carrying amount of HK\$2,740,254,000 (2010: HK\$2,323,198,000), are pledged to secure certain bank loans granted to the Group (*note 31(b)(i)*).

As further explained in the accounting policy for "Service concession arrangements" set out in note 2.4 to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate. The

following is the summarised information of the intangible asset component (operating concession) and the financial asset component (receivable under a service concession arrangement) with respect to the Group's service concession arrangements:

Operating concessions

	<i>Notes</i>	Group	
		2011	2010
		<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January:			
Cost		896,578	467,714
Accumulated amortisation		<u>(146,860)</u>	<u>(68,582)</u>
Net carrying amount		<u>749,718</u>	<u>399,132</u>
Net carrying amount:			
At 1 January		749,718	399,132
Additions		10,783	112,953
Amortisation provided during the year		(37,285)	(30,206)
Reclassification from:			
Property, plant and equipment	13	—	210,542
Prepaid land premiums	14	—	27,704
Exchange realignment		<u>40,165</u>	<u>29,593</u>
At 31 December		<u>763,381</u>	<u>749,718</u>
At 31 December:			
Cost		957,634	896,578
Accumulated amortisation		<u>(194,253)</u>	<u>(146,860)</u>
Net carrying amount		<u>763,381</u>	<u>749,718</u>

Receivables under service concession arrangements

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Receivables under service concession arrangements	5,257,134	2,900,344
Impairment (<i>note (b)</i>)	<u>(912)</u>	<u>(39,872)</u>
	5,256,222	2,860,472
Portion classified as current assets	<u>(253,105)</u>	<u>(123,889)</u>
Non-current portion	<u><u>5,003,117</u></u>	<u><u>2,736,583</u></u>

Notes:

- (a) In respect of the Group's receivables under service concession arrangements, the various group companies have different credit policies, depending on the requirements of the locations in which they operate. Aged analyses of receivables under service concession arrangements are closely monitored in order to minimise any credit risk 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:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Billed:		
Within 3 months	159,900	84,741
4 to 6 months	23,509	19,370
7 to 12 months	22,330	11,122
Over 1 year	<u>47,366</u>	<u>8,656</u>
	253,105	123,889
Unbilled	<u>5,003,117</u>	<u>2,736,583</u>
	<u><u>5,256,222</u></u>	<u><u>2,860,472</u></u>

- (b) The movements in provision for impairment of the Group's receivables under service concession arrangements during the year are as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	39,872	6,984
Impairment/(reversal of impairment) during the year recognised in the income statement, net (<i>note 6</i>)	(39,655)	32,495
Exchange realignment	695	393
	<u>912</u>	<u>39,872</u>
At 31 December	<u>912</u>	<u>39,872</u>

Included in the provision for impairment of receivables under service concession arrangements as at 31 December 2010 was a provision for individually impaired receivables of HK\$39,074,000 with an aggregate carrying amount before provision of HK\$63,072,000. The individually impaired receivables relate to customers that were in delinquency in principal payments and only a portion of the receivables was expected to be recovered. During the year, the Group re-assessed the recoverability of these receivables and are of the opinion that these individually impaired receivables would be fully recoverable, and hence the related provision for impairment was fully reversed during the year.

Apart from the foregoing, the above provision for impairment of receivables under service concession arrangements as at 31 December 2011 and 2010 also included the provision made against the remaining balances of the receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the billed receivables under service concession arrangements that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	85,682	47,276
Less than 1 month past due	42,996	21,018
1 to 3 months past due	48,214	27,645
4 to 6 months past due	14,949	8,320
7 months to 1 year past due	19,917	8,715
Over 1 year past due	41,347	10,915
	<u>253,105</u>	<u>123,889</u>

Unbilled receivables were classified as non-current and were neither past due nor impaired. The above receivables were mainly due from governmental authorities in Mainland China as grantors in respect of the Group's sewage and reclaimed water treatment and water distribution businesses. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

17. OTHER INTANGIBLE ASSETS

Group

	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2011			
At 1 January 2011:			
Cost	575	6,045	6,620
Accumulated amortisation	<u>(553)</u>	<u>(762)</u>	<u>(1,315)</u>
Net carrying amount	<u>22</u>	<u>5,283</u>	<u>5,305</u>
Net carrying amount:			
At 1 January 2011	22	5,283	5,305
Additions	—	1,768	1,768
Amortisation provided during the year	(26)	(877)	(903)
Exchange realignment	<u>4</u>	<u>281</u>	<u>285</u>
At 31 December 2011	<u>—</u>	<u>6,455</u>	<u>6,455</u>
At 31 December 2011:			
Cost	603	8,155	8,758
Accumulated amortisation	<u>(603)</u>	<u>(1,700)</u>	<u>(2,303)</u>
Net carrying amount	<u>—</u>	<u>6,455</u>	<u>6,455</u>

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	Patents <i>HK\$'000</i>	Computer software <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2010			
At 1 January 2010:			
Cost	555	3,521	4,076
Accumulated amortisation	<u>(505)</u>	<u>(278)</u>	<u>(783)</u>
Net carrying amount	<u>50</u>	<u>3,243</u>	<u>3,293</u>
Net carrying amount:			
At 1 January 2010	50	3,243	3,293
Additions	—	2,397	2,397
Amortisation provided during the year	(30)	(472)	(502)
Exchange realignment	<u>2</u>	<u>115</u>	<u>117</u>
At 31 December 2010	<u>22</u>	<u>5,283</u>	<u>5,305</u>
At 31 December 2010:			
Cost	575	6,045	6,620
Accumulated amortisation	<u>(553)</u>	<u>(762)</u>	<u>(1,315)</u>
Net carrying amount	<u>22</u>	<u>5,283</u>	<u>5,305</u>

18. INTERESTS IN SUBSIDIARIES

	<i>Notes</i>	Company	
		2011	2010
		<i>HK\$'000</i>	<i>HK\$'000</i>
Investments in subsidiaries, included in non-current assets			
Unlisted shares or investments, at cost		4,755,364	4,108,515
Due from subsidiaries	(a)	<u>3,188,488</u>	<u>2,694,417</u>
		7,943,852	6,802,932
Due from subsidiaries, included in current assets	(a)	3,166,450	876,710
Due to subsidiaries, included in current liabilities	(a)	<u>(1,117,147)</u>	<u>(336,451)</u>
Interests in subsidiaries		<u>9,993,155</u>	<u>7,343,191</u>

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for the following:

- (i) an amount of US\$31,000,000 (equivalent to HK\$240,749,000) (2010: Nil) due from Beijing Enterprises Water Guizhou Holdings Limited, a 60% owned subsidiary of the Company, which bears interest at the PRC 1-3 year bank loan rate per annum; and
- (ii) an amount of RMB67,000,000 (equivalent to HK\$82,716,000) (2010: Nil) due from Kunming Gatewin Road & Bridge Co., Ltd., a 70% indirectly-owned subsidiary of the Company, which bears interest at the PRC 1-3 year bank loan rate per annum and is repayable by December 2014.

In the opinion of the directors, the amounts advanced to subsidiaries included in the investments in subsidiaries above are considered as quasi-equity loans to the subsidiaries.

(b) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration/ operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
BEWG Environmental Group Co., Ltd ("BE-ZKC")	PRC/Mainland China	RMB417,969,071	—	100	Consultancy service and investment holding

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Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
深圳北控創新投資 有限公司	PRC/Mainland China	RMB300,000,000	—	100	Sewage treatment
深圳北控豐泰投資 有限公司	PRC/Mainland China	RMB70,000,000	—	100	Sewage treatment
綿陽中科成污水淨化 有限公司	PRC/Mainland China	RMB40,000,000	—	100	Sewage treatment
長沙中科成污水淨化 有限公司	PRC/Mainland China	RMB50,000,000	—	100	Sewage treatment
廣州中業污水處理 有限公司	PRC/Mainland China	RMB85,000,000	—	100	Sewage treatment
江油中科成污水淨化 有限公司	PRC/Mainland China	RMB8,000,000	—	100	Sewage treatment
成都雙流中科成污水淨化 有限公司	PRC/Mainland China	RMB30,000,000	—	100	Sewage treatment
青島膠南中科成污水淨化 有限公司	PRC/Mainland China	RMB30,000,000	—	100	Sewage treatment
青島中科成污水淨化 有限公司	PRC/Mainland China	RMB20,000,000	—	100	Sewage treatment
廣州中科成污水淨化 有限公司	PRC/Mainland China	RMB40,000,000	—	100	Sewage treatment
台州市路橋中科成污水 淨化有限公司	PRC/Mainland China	RMB55,500,000	—	100	Sewage treatment
成都龍泉中科成污水淨化 有限公司	PRC/Mainland China	RMB27,600,000	—	100	Sewage treatment
潯澤中科成污水淨化 有限公司	PRC/Mainland China	RMB30,000,000	—	100	Sewage treatment
濟南中科成水質淨化 有限公司	PRC/Mainland China	RMB20,000,000	—	100	Sewage treatment
彭州中科成污水淨化 有限公司	PRC/Mainland China	RMB28,000,000	—	100	Sewage treatment
佛山市三水中科成水質 淨化有限公司	PRC/Mainland China	RMB76,000,000	—	100	Sewage treatment
Beijing Enterprises Water (Guangxi) Group Co. Limited	PRC/Mainland China	HK\$130,000,000	—	100	Investment holding

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Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
永州市北控污水淨化有限公司 ^Ω	PRC/Mainland China	HK\$85,630,000	100	100	Sewage treatment
濱州北控西海水務有限公司	PRC/Mainland China	RMB50,000,000	—	83.80	Water supply
沾化華強水務環保有限公司	PRC/Mainland China	RMB10,000,000	—	92.71	Sewage treatment
北控水務(中國)投資有限公司 ^Ω	PRC/Mainland China	US\$100,000,000	100	100	Investment holding
雲南北控城投水務有限公司	PRC/Mainland China	RMB400,000,000	—	50 [†]	Investment holding
錦州市北控水務有限公司	PRC/Mainland China	RMB127,178,541	80	80	Sewage treatment and reclaimed water treatment
齊齊哈爾市北控污水淨化有限公司	PRC/Mainland China	RMB56,000,000	—	100	Sewage treatment
清鎮市北控水務有限公司	PRC/Mainland China	RMB20,000,000	—	60	Sewage treatment
北京北控污水淨化及回用有限公司	PRC/Mainland China	RMB26,360,000	—	100	Reclaimed water treatment
廣西貴港北控水務有限公司	PRC/Mainland China	RMB55,302,635	—	80	Sewage treatment and water supply
海南北控水務有限公司	PRC/Mainland China	RMB5,000,000	—	100	Sewage treatment
昆明空港北控城投水質淨化有限公司	PRC/Mainland China	RMB53,090,000	—	50 [†]	Sewage treatment
玉溪北控城投水質淨化有限公司	PRC/Mainland China	RMB91,380,000	—	50 [†]	Sewage treatment
北控(大連)投資有限公司 (formerly known as 北科(大連)投資有限公司) ^Ω	PRC/Mainland China	US\$343,630,000	60	60	Investment holding
北控(大連)開發建設有限公司 ^Ω	PRC/Mainland China	US\$205,630,000	—	60	Construction services

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Company name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
Kunming Gatewin Environmental Protection Engineering Co., Ltd. ^Ω	PRC/Mainland China	RMB680,000,000	—	70	Construction services
Kunming Gatewin Road & Bridge Co., Ltd. ^Ω	PRC/Mainland China	RMB1,200,000,000	—	70	Construction services
Fuzhou Beijing Enterprises Water Purify Limited ^Ω	PRC/Mainland China	US\$4,835,000	100	100	Sewage treatment
上海亞同環保工程有限公司 ^δ	PRC/Mainland China	RMB100,000,000	—	100	Investment holding
徐州創源污水處理有限公司 ^δ	PRC/Mainland China	RMB10,000,000	—	100	Sewage treatment
北控(大連)環保發展有限公司 ^Ω	PRC/Mainland China	US\$98,000,000	—	60	Construction services
大連旅順航空小鎮生態發展有限公司 ^{Ωδ}	PRC/Mainland China	US\$47,000,000	—	60	Sewage treatment and construction services
北控(大石橋)水務發展有限公司 ^{Ωδ}	PRC/Mainland China	US\$5,800,000	—	60	Sewage treatment, water supply and construction services
北控(營口經濟技術開發區)新型水務發展有限公司 ^{Ωδ}	PRC/Mainland China	RMB280,000,000	—	60	Sewage treatment and water supply
Zunyi BEWG Co., Ltd. ^{Ωδ}	PRC/Mainland China	RMB50,236,000	80	89	Water supply
BEWG (M) SDN BHD	Malaysia	RM50,000,000	100	100	Construction services

[†] These entities are accounted for as a subsidiary by virtue of the Company's control over it.

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

^δ Acquired/incorporated during the year.

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

Further details of the acquisition of subsidiaries during the year are disclosed in note 41 to the financial statements.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	<i>Notes</i>	Group		Company	
		2011	2010	2011	2010
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Investments in jointly-controlled entities, included in non-current assets:					
Unlisted shares or investments, at cost		—	—	1,282,778	1,269
Share of net assets	(a)	1,731,044	66,289	—	—
Goodwill on acquisition	(b)	<u>197,430</u>	<u>9,705</u>	—	—
		1,928,474	75,994	1,282,778	1,269
Loans to a jointly-controlled entity	(c)	<u>45,019</u>	<u>42,625</u>	—	—
		<u>1,973,493</u>	<u>118,619</u>	<u>1,282,778</u>	<u>1,269</u>
Due from jointly-controlled entities, included in current assets	(d), 26	470,480	588	1,022	—
Due to jointly-controlled entities, included in current liabilities	(d), 39	<u>(160,721)</u>	<u>(1,873)</u>	—	<u>(1,269)</u>
Interests in jointly-controlled entities		<u>2,283,252</u>	<u>117,334</u>	<u>1,283,800</u>	<u>—</u>

Notes:

(a) The following tables illustrate the summarised financial information of the Group's jointly-controlled entities:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of the jointly-controlled entities' assets and liabilities		
Non-current assets	1,598,057	101,343
Current assets	1,152,983	7,280
Non-current liabilities	(256,400)	(41,901)
Current liabilities	<u>(763,596)</u>	<u>(433)</u>
Net assets	<u>1,731,044</u>	<u>66,289</u>

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	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of the jointly-controlled entities' results		
Revenue	155,514	—
Other revenue	<u>17,745</u>	<u>—</u>
Total revenue	173,259	—
Share profit of a jointly-controlled entity	8,915	2,732
Total expenses	<u>(160,677)</u>	<u>(1,908)</u>
Profit before tax	21,497	824
Income tax	<u>(699)</u>	<u>—</u>
Profit for the year	<u><u>20,798</u></u>	<u><u>824</u></u>

- (b) The movement during the year of the amount of the goodwill included in the investments in jointly-controlled entities during the year is as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost and net carrying amount:		
At 1 January	9,705	—
Acquisition of jointly-controlled entities	<u>187,725</u>	<u>9,705</u>
At 31 December	<u><u>197,430</u></u>	<u><u>9,705</u></u>

The addition of goodwill during the year ended 31 December 2011 arose from the acquisition of 45% and 80% equity interests in Guiyang BEWG and 惠東縣北控華基污水項目投資有限公司 (2010: 50% equity interest in Aqualyng-BEWG China Desalination Company Limited (“ACL”)), respectively.

In respect of the acquisition of Guiyang BEWG, pursuant to the share transfer agreement entered into between the Company and 貴陽市供水總公司 (“Guiyang Corporation”) on 25 October 2010, the Group acquired a 45% equity interest in Guiyang BEWG for a cash consideration of RMB721,000,000. The acquisition transaction was completed on 26 April 2011. However, as at 31 December 2011 and the date of approval of these financial statements, the purchase price allocation for this acquisition is still preliminary, pending the agreement between the Group, Guiyang Corporation and The State-owned Assets Supervision and Administration Commission of the People's Government of Guiyang Municipality regarding certain assets and liabilities of Guiyang Corporation injected into Guiyang BEWG as its capital contribution. Accordingly, the acquisition consideration paid by the Group and the fair value of the identifiable assets and liabilities of Guiyang BEWG at the date of acquisition and hence the goodwill on acquisition are subject to change.

- (c) The loans to a jointly-controlled entity as at 31 December 2011 are loans with principal amounts of RMB34,780,000 (equivalent to HK\$42,938,000, the “RMB Loan”) and US\$100,000 (equivalent to HK\$776,000, the “US\$ Loan”) advanced to ACL, to finance its investment in a 50% equity interest in ACSD, which is a

jointly-controlled entity of ACL established in Mainland China for the construction and operation of a seawater desalination plant in Tangshan City, Hebei Province, the PRC. The RMB Loan bears interest at the PRC 5-year or above bank loan rate and is repayable in 2030 while the US\$ Loan is unsecured, interest free and repayable on demand. In the opinion of the directors, the loans are considered as quasi-equity investments in ACL. Interest income of RMB2,390,000 (equivalent to HK\$2,879,000) (2010: RMB1,487,000 (equivalent to HK\$1,707,000)) was recognised in the consolidated income statement during the year ended 31 December 2011 in respect of the RMB Loan.

(d) The amounts due from/to jointly-controlled entities included in current assets and current liabilities of the Group and the Company as at 31 December 2011 are unsecured, interest-free and have no fixed terms of repayment.

(e) Particulars of the principal jointly-controlled entities are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of paid-up capital/ registered capital	Percentage of				Principal activity
			Ownership interest attributable to the Group	Voting power	Profit sharing		
Aqualyng-BEWG China Desalination Company Limited [@]	Hong Kong	HK\$1,000,000	50	50	50	Investment holding	
Yibin Beijing Enterprises Water Limited [@]	PRC/Mainland China	RMB75,563,400	65	65	65	Sewage treatment	
Guiyang BEWG Co. Ltd. [#]	PRC/Mainland China	RMB1,456,162,145	45	45	45	Water supply	
惠東縣北控華基污水項目投資有限公司 [@]	PRC/Mainland China	RMB10,000,000	80	80	80	Sewage treatment	
北控曹妃甸水務投資有限公司 [#]	PRC/Mainland China	RMB500,000,000	70	70	70	Investment holding	
成都北控蜀都環境投資有限公司 [@]	PRC/Mainland China	RMB537,200,000	50	50	50	Construction services and sewage treatment	
湖南北控景盛建設發展有限公司 [@]	PRC/Mainland China	RMB100,000,000	60	60	60	Construction services	
四川三岔湖北控海天投資有限公司 [@]	PRC/Mainland China	RMB160,000,000	50	50	50	Sewage treatment and water supply	

[#] The equity interests of these jointly-controlled entities are directly held by the Company.

[@] The equity interests of these jointly-controlled entities are indirectly held by certain wholly-owned subsidiaries of the Company.

[§] Acquired/incorporated during the year.

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

20. INVESTMENT IN AN ASSOCIATE

Particulars of the Group's associate, which was established by the Group during the year and is an unlisted entity indirectly held by the Company, are as follows:

Company name	Place of incorporation/ registration and operation	Nominal value of paid-up capital/ registered capital	Percentage of			
			Ownership interest attributable to the Group	Voting power	Profit sharing	Principal activity
Henan Kaikong Water Business Co. Ltd.	PRC/Mainland China	RMB100,000,000	30	30	30	Reclaimed water treatment

The following tables illustrate the summarised financial information of the Group's associate:

	2011 HK\$'000	2010 HK\$'000
Share of the associate's assets and liabilities		
Non-current assets	19,995	—
Current assets	17,203	—
Current liabilities	(160)	—
Net assets	<u>37,038</u>	<u>—</u>

The Group did not share any of the associate's operating results for the year ended 31 December 2011 as the operating profits generated by the associate during the year was insignificant to the Group.

21. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments of the Group are unlisted equity investments in Mainland China, which are not stated at fair value but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market and hence, in the opinion of the directors, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

22. LAND HELD FOR SALE

Land held for sale as at 31 December 2011 represented certain land use rights held under medium and long term leases and located in Liaoning Province, the PRC, covering a total land area of 3,566,473 square metres. The Group intends to hold these land use rights for trading and hence they are classified as land held for sale.

These land use rights were acquired by the Group during the year incidental to a construction service contract with an initial contract value of RMB350,000,000 in accordance with a land use right transfer agreement entered into between the Group, the vendor of the land use rights (the “Vendor of the Land”, an entity controlled by a government authority in Mainland China) and another entity controlled by a government authority in Mainland China (the “Contract Customer”) on 3 December 2011, pursuant to which, the Group will perform construction services for the Contract Customer which will settle the construction service fee by way of certain land use rights held by the Vendor of the Land with a mutually-agreed total value of RMB800,000,000. The excess of the mutually-agreed value of the land use rights over the construction service fees, being RMB450,000,000, will be settled by the Group in cash. Accordingly, separate land use rights transfer agreements dated 5 December 2011 (the “Land Transfer Agreements”) were entered into between the Group and the Vendor of the Land to effect such arrangement. As at 31 December 2011, in connection with the Land Transfer Agreements, a cash consideration of RMB300,000,000 has been settled by the Group and the Group has obtained the legal titles to these land use rights, notwithstanding that the construction services under the aforesaid construction service contract have not been commenced.

For accounting purposes, the land use rights were measured in the consolidated statement of financial position on initial recognition at their then fair value less costs to sell of RMB809,697,000 (equivalent to HK\$999,626,000), determined by reference to a valuation carried out by Asset Appraisal Limited, independent professionally qualified valuers, on an open market value basis using the direct comparison approach. In addition, the unpaid cash consideration of RMB150,000,000 (equivalent to HK\$185,185,000) and the difference of RMB359,697,000 (equivalent to HK\$444,070,000) between the value of these land use rights on initial recognition and the cash consideration paid and payable were recognised as an other payable and a receipt in advance for construction services in the consolidated statement of financial position as at 31 December 2011.

23. INVENTORIES

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	11,104	11,214
Low value consumables	<u>2,318</u>	<u>1,572</u>
	<u>13,422</u>	<u>12,786</u>

24. AMOUNTS DUE FROM CONTRACT CUSTOMERS

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contract costs incurred plus recognised profits less recognised losses to date	1,687,150	2,364,393
Impairment (<i>note</i>)	—	—
	1,687,150	2,364,393
Portion classified as current assets	(87,865)	(759,109)
	1,599,285	1,605,284
Non-current portion		

Note: The movements in provision for impairment of amounts due from contract customers during the year are as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	—	6,273
Amount written off as uncollectible	—	(6,340)
Exchange realignment	—	67
	—	—
At 31 December	—	—

25. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	3,958,371	4,124,522	19,696	19,696
Impairment (<i>note (c)</i>)	(19,972)	(1,509)	—	—
	3,938,399	4,123,013	19,696	19,696
Portion classified as current assets	(3,676,549)	(4,002,108)	(19,696)	(19,696)
	261,850	120,905	—	—
Non-current portion				

Notes:

- (a) The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which would settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade and bills receivables of the construction services for comprehensive renovation projects which bear interest at rates ranging from 6.56% to 6.65%, 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:

	Group		Company	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Billed:				
Within 3 months	234,442	282,257	—	—
4 to 6 months	42,522	82,702	—	—
7 to 12 months	11,220	7,474	—	—
Over 1 year	146,671	21,574	19,696	19,696
Balance with extended credit period	<u>181,111</u>	<u>169,000</u>	<u>—</u>	<u>—</u>
	615,966	563,007	19,696	19,696
Unbilled*	<u>3,322,433</u>	<u>3,560,006</u>	<u>—</u>	<u>—</u>
	<u>3,938,399</u>	<u>4,123,013</u>	<u>19,696</u>	<u>19,696</u>

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

- (b) Included in the trade and bills receivables of the Group as at 31 December 2011 are (1) an aggregate amount of HK\$27,387,000 (2010: HK\$19,696,000) due from 北京北控環保工程技術有限公司 and 北控水務集團(海南)有限公司, both being related companies of the Group, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (2) an amount of HK\$2,303,000 (2010: Nil) due from ACSD arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies were unsecured, interest-free and repayable on similar credit terms to those offered to the major customers of the Group.

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- (c) The movements in the Group's provision for impairment of trade and bills receivables during the year are as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	1,509	1,221
Impairment during the year recognised in the income statement, net (note 6)	17,945	239
Exchange realignment	518	49
At 31 December	<u>19,972</u>	<u>1,509</u>

The above provision for impairment of trade and bills receivables was made against the whole balances of trade and bills receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the billed trade and bills receivables as at the end of the reporting period that are neither individually nor collectively considered to be impaired is as follows:

	Group		Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	331,416	368,423	—	—
Less than 1 month past due	9,836	27,944	—	—
1 to 3 months past due	74,301	82,538	—	—
4 to 6 months past due	42,522	55,054	—	—
7 months to 1 year past due	11,220	7,474	—	—
Over 1 year past due	<u>146,671</u>	<u>21,574</u>	<u>19,696</u>	<u>19,696</u>
	<u>615,966</u>	<u>563,007</u>	<u>19,696</u>	<u>19,696</u>

Receivables that were neither past due nor impaired mainly relate to the construction services rendered for comprehensive renovation projects with settlement periods ranging from 1 year to 25 years by specified instalments. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

A customer of a construction service for comprehensive renovation project has pledged the future proceeds from its disposal of certain land use rights in an amount of RMB2,486,000,000 (equivalent to HK\$3,069,136,000) to secure the trade receivables due by it. As at 31 December 2011, the trade and bills receivables owed by this customer amounted to RMB1,251,268,000 (equivalent to HK\$1,544,775,000) (2010: RMB1,699,052,000 (equivalent to HK\$1,998,885,000)). Save as the foregoing, the Group does not hold any collateral or other credit enhancements over trade and bills receivable balances.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<i>Notes</i>	Group		Company	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments		24,415	11,611	4,024	3,121
Deposits and other debtors	(a)	2,035,215	1,483,291	1,138	671,254
Advances to suppliers	(b)	2,213,520	410,740	—	—
Due from jointly-controlled entities	19(d)	470,480	588	1,022	—
Due from related parties	27	<u>1,387,489</u>	<u>873,806</u>	<u>1,096,638</u>	<u>624,768</u>
		6,131,119	2,780,036	1,102,822	1,299,143
Impairment	(c)	<u>(5,531)</u>	<u>(3,531)</u>	<u>—</u>	<u>—</u>
		6,125,588	2,776,505	1,102,822	1,299,143
Portion classified as current assets		<u>(4,583,574)</u>	<u>(1,367,995)</u>	<u>(51,597)</u>	<u>(251,072)</u>
Non-current portion		<u>1,542,014</u>	<u>1,408,510</u>	<u>1,051,225</u>	<u>1,048,071</u>

Notes:

- (a) The Group's deposits and other debtors as at 31 December 2011 included, inter alia, the following:
- (i) an instalment deposit of RMB202,000,000 (equivalent to HK\$249,383,000) paid by the Group to a government authority in Mainland China in relation to the Group's acquisition of certain land use rights in Liaoning Province, the PRC. In the opinion of the directors, the purchase of the land use rights will be completed in 2012. As the Group intends to hold the land use rights for trading, the balance is classified as a current asset.
 - (ii) an instalment of RMB60,000,000 (equivalent to HK\$74,074,000) paid by the Group to a government authority in Mainland China for the procurement of a concession right to operate a sewage treatment plant in Liaoning Province, the PRC, on a TOT basis. The balance is classified as a non-current asset.
 - (iii) an investment deposit of RMB304,062,000 (equivalent to HK\$375,385,000) paid by the Group to The State-owned Assets Supervision and Administration Commission of the People's Government of Luoyang Municipality, a government authority in Mainland China, in connection with the Group's acquisition of a 40% equity interest in 洛陽市水務集團有限公司 ("Luoyang Water"). The balance is classified as a non-current asset. Luoyang Water is engaged in the distribution and sale of piped water and is accounted for as a jointly-controlled entity upon the completion of the acquisition transaction in January 2012.

In addition, in connection with the acquisition of Luoyang Water, the Group provided an interest-free loan of RMB150,000,000 (equivalent to HK\$185,185,000) in November 2011 to a joint venture partner holding a 50% equity interest in Luoyang Water. The loan is unsecured and repayable in November 2012. In the opinion of the directors, no provision for impairment is considered necessary against the loan. The amortised cost of the loan of RMB141,617,000 (equivalent to HK\$174,836,000) is classified as a current asset.

- (iv) a loan of RMB300,000,000 (equivalent to HK\$370,370,000) provided to a government authority in Yunnan Province, the PRC, in November 2011, as part of the construction funding for a land renovation project undertaken by the government authority. The loan is repayable in May 2012, provides the Group with a fixed return of 15% on the loan principal, and is secured by a pledge over the borrower's future receivable related to the land renovation project to the extent of RMB1,200,000,000 (equivalent to HK\$1,481,481,000). Interest income of RMB11,475,000 (equivalent to HK\$13,825,000) was recognised in the consolidated income statement during the year in respect of the loan. The balance is classified as a current asset.
- (v) two loans of RMB200,000,000 (equivalent to HK\$246,914,000) in aggregate provided to two government authorities in Yunnan Province, the PRC, in July 2011, as part of the construction funding for certain land renovation projects undertaken by these government authorities. The loans are unsecured, repayable in July 2012 and provide the Group with a fixed return of 15% on the loan principals plus interest at the PRC 1-year bank loan rate per annum. Interest income of RMB18,951,000 (equivalent to HK\$22,833,000) in aggregate was recognised in the consolidated income statement during the year in respect of the loans. The balances are classified as current assets.
- (vi) two performance bonds of RMB61,525,000 (equivalent to HK\$75,956,000) (2010: RMB61,525,000 (equivalent to HK\$72,382,000)) in aggregate paid by the Group to contract customers in respect of the construction services under certain contracts for the comprehensive renovation projects in Liaoning Province, the PRC. These performance bonds are classified as current assets as the performance obligations are expected to be fulfilled in 2012.
- (b) During the year, advance payments in an aggregate amount of RMB1,281,455,000 (equivalent to HK\$1,582,043,000) were made by certain subsidiaries of the Group to subcontractors for construction services to be performed on certain comprehensive renovation projects signed between the Group and government authorities in Liaoning Province, the PRC. The construction of these projects was delayed and the subcontractors returned RMB1,115,470,000 (equivalent to HK\$1,377,124,000) of these advance payments to the other subsidiaries of the Group during the year. As the criteria for offsetting financial instruments are not met, the refunded amounts are included in "Other payables and accruals" on the face of the consolidated statement of financial position (note 39(a)(iv)).
- (c) The movements in provision for impairment of other receivables during the year are as follows:

	Group	
	2011	2010
	HK\$'000	HK\$'000
At 1 January	3,531	3,188
Impairment during the year recognised in the income statement, net (note 6)	1,808	223
Exchange realignment	192	120
At 31 December	<u>5,531</u>	<u>3,531</u>

The above provision for impairment of other receivables was made against the whole balances of other receivables collectively as at that date. The Group does not hold any collateral or other credit enhancements over these balances.

27. BALANCES WITH RELATED PARTIES

The amounts due from/to related parties are unsecured, interest-free and have no fixed terms of repayment, except for amounts of RMB183,485,000 (equivalent to HK\$226,525,000) (2010: RMB175,376,000 (equivalent to HK\$206,325,000)) and US\$135,365,000 (equivalent to HK\$1,051,226,000, (2010: US\$60,159,000 (equivalent to HK\$468,253,000)) due from two joint venture partners of two subsidiaries, which bear interest at the rate of 4.77% per annum and the PRC 1-3 year bank loan rate per annum, respectively, and are repayable in May 2012 and May 2014, respectively. Interest income of HK\$8,165,000 (2010: HK\$6,173,000) and HK\$29,146,000 (2010: HK\$8,572,000), respectively, were recognised in the consolidated income statement during the year in respect of the two aforementioned interest-bearing balances with related parties.

The balances with related companies of the Group included in trade and bills receivables, deposits and other debtors, and other liabilities are disclosed in notes 25(b), 26 and 39 to the financial statements, respectively.

28. RESTRICTED CASH AND PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances other than time deposits	1,582,188	2,403,841	107,195	166,814
Time deposits	<u>457,947</u>	<u>150,494</u>	<u>—</u>	<u>—</u>
Total cash and bank balances	2,040,135	2,554,335	107,195	166,814
Less: Restricted cash and pledged deposits (<i>note (a)</i>)	<u>(92,367)</u>	<u>(592,507)</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u><u>1,947,768</u></u>	<u><u>1,961,828</u></u>	<u><u>107,195</u></u>	<u><u>166,814</u></u>

Notes:

(a) The Group's restricted cash and pledged deposits as at 31 December 2011 included the following:

- (i) bank deposits of RMB54,421,000 (equivalent to HK\$67,186,000) (2010: RMB114,411,000 (equivalent to HK\$134,600,000)) which could only be applied on construction of sewage treatment plants and other infrastructural facilities undertaken by the Group;

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- (ii) bank deposits of RMB18,986,000 (equivalent to HK\$23,440,000) (2010: RMB22,500,000 (equivalent to HK\$26,471,000)) pledged to banks for the issuance of guarantees by the banks to the grantors in respect of the specific performance of the duties by the Group under the relevant service concession agreements; and
- (iii) bank deposits of RMB1,410,000 (equivalent to HK\$1,741,000) (2010: RMB366,823,000 (equivalent to HK\$431,436,000)) pledged to banks to secure certain banking facilities granted to the Group (*note 31(b)(iv)*).
- (b) The carrying amounts of the Group's and the Company's cash and bank balances are denominated in the following currencies:

	Group		Company	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
HK\$	97,570	193,043	77,289	166,738
RMB	1,232,662	1,970,390	29,831	—
US\$	653,043	390,902	75	76
RM	56,860	—	—	—
	<u>2,040,135</u>	<u>2,554,335</u>	<u>107,195</u>	<u>166,814</u>

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

- (c) The Group's bank balances are deposited with creditworthy banks with no recent history of defaults.

29. SHARE CAPITAL

	2011 HK\$'000	2010 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.10 each	<u>1,500,000</u>	<u>1,500,000</u>
Issued and fully paid:		
6,909,170,486 (2010: 4,566,756,463) ordinary shares of HK\$0.10 each	<u>690,917</u>	<u>456,676</u>

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A summary of the movements in the Company's issued share capital during the years ended 31 December 2011 and 2010 is as follows:

		Number of ordinary shares in issue	Issued capital	Share premium account	Total
	<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2010		3,482,196,992	348,219	1,817,378	2,165,597
Shares issued upon conversion of convertible bonds	(a)	<u>1,084,559,471</u>	<u>108,457</u>	<u>715,053</u>	<u>823,510</u>
At 31 December 2010 and 1 January 2011		4,566,756,463	456,676	2,532,431	2,989,107
Issue of new shares upon completion of the Open Offer	(b)	2,283,378,231	228,338	3,157,024	3,385,362
Issue of new shares for acquisition of the non-controlling interest in a subsidiary	(c)	<u>59,035,792</u>	<u>5,903</u>	<u>120,079</u>	<u>125,982</u>
At 31 December 2011		<u><u>6,909,170,486</u></u>	<u><u>690,917</u></u>	<u><u>5,809,534</u></u>	<u><u>6,500,451</u></u>

Notes:

- (a) During the year ended 31 December 2010, convertible bonds of the Company with an aggregate principal amount of approximately HK\$748,346,000 were converted by bondholders into 1,084,559,471 new ordinary shares of the Company in total at a conversion price of HK\$0.69 per ordinary share. The difference of HK\$715,053,000 between the nominal value of the ordinary shares issued and the then aggregate carrying amounts of the liability and equity components of the relevant convertible bonds at the dates of conversion was transferred to the Company's share premium account.
- (b) On 15 March 2011, as approved by the shareholders of the Company at a special general meeting held on 17 February 2011, 2,283,378,231 new ordinary shares of the Company were issued for total net proceeds of HK\$3,385,362,000 under the Open Offer made to shareholders of the Company on the register of members on 17 February 2011 at an offer price of HK\$1.485 per ordinary share on the basis of one offer share for every two existing shares, for the purpose of raising long-term equity capital to finance its future expansion plan. The difference of HK\$3,157,024,000 between the nominal value of the ordinary shares issued and the total net proceeds was recognised in the Company's share premium account. Further details of the Open Offer are set out in the Company's prospectus dated 22 February 2011.

- (c) Pursuant to a master agreement dated 5 July 2011 entered into between, among others, BE-ZKC (a subsidiary of the Company) and 深圳市泰合環保有限公司 (“Shenzhen Taihe”, a then non-controlling equity holder of Bei Kong Chuang Xin), BE-ZKC acquired the 11.03% equity interest in Bei Kong Chuang Xin held by Shenzhen Taihe for a total consideration of RMB195,360,000, satisfied as to RMB90,680,000 in cash and HK\$125,982,000 by way of the issuance of 59,035,792 ordinary shares of the Company at HK\$2.134 per share. The transaction was completed on 12 July 2011 and the consideration shares were issued on 7 September 2011. Further details of the transaction are set out in the Company’s circular dated 29 July 2011.

30. RESERVES

(a) Group

- (i) The amounts of the Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (ii) The Group’s contributed surplus account represents the difference between the nominal value of the shares and the share premium account of the subsidiaries acquired pursuant to the group reorganisation undertaken in prior years, over the nominal value of the Company’s ordinary shares issued in exchange therefor.
- (iii) The PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group’s subsidiaries. None of the Group’s PRC reserve funds as at 31 December 2011 were distributable in the form of cash dividends.

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		Share premium account	Contributed surplus	Convertible bond equity reserve	Accumulated losses	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010		1,817,378	60,859	216,986	(147,362)	1,947,861
Loss for the year and total comprehensive loss for the year	11	—	—	—	(55,209)	(55,209)
Conversion of convertible bonds	29(a), 32	<u>715,053</u>	<u>—</u>	<u>(216,986)</u>	<u>—</u>	<u>498,067</u>
At 31 December 2010 and 1 January 2011		2,532,431	60,859	—	(202,571)	2,390,719
Profit for the year and total comprehensive profit for the year	11	—	—	—	7,410	7,410
Issue of new shares upon completion of the Open Offer	29(b)	3,157,024	—	—	—	3,157,024
Issue of new shares for acquisition of the non-controlling interest in a subsidiary	29(c)	<u>120,079</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>120,079</u>
At 31 December 2011		<u>5,809,534</u>	<u>60,859</u>	<u>—</u>	<u>(195,161)</u>	<u>5,675,232</u>

The Company's contributed surplus account represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation undertaken in prior years, over the nominal value of the Company's shares in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of contributed surplus subject to the Company's bye-laws and provided that the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

31. BANK AND OTHER BORROWINGS

	Group		Company	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans:				
Secured	2,386,829	2,316,606	—	—
Unsecured	<u>3,853,423</u>	<u>6,015,701</u>	<u>3,791,694</u>	<u>5,956,876</u>
	<u>6,240,252</u>	<u>8,332,307</u>	<u>3,791,694</u>	<u>5,956,876</u>
Other loans, unsecured	<u>194,262</u>	<u>195,335</u>	<u>—</u>	<u>—</u>
Total bank and other borrowings	<u>6,434,514</u>	<u>8,527,642</u>	<u>3,791,694</u>	<u>5,956,876</u>
Analysed into:				
Bank loans repayable:				
Within one year	1,004,505	5,252,147	389,477	4,386,298
In the second year	1,511,376	686,918	1,191,385	385,099
In the third to fifth years, inclusive	3,085,495	1,853,834	2,210,832	1,185,479
Beyond five years	<u>638,876</u>	<u>539,408</u>	<u>—</u>	<u>—</u>
	<u>6,240,252</u>	<u>8,332,307</u>	<u>3,791,694</u>	<u>5,956,876</u>
Other loans repayable:				
Within one year	65,104	44,053	—	—
In the second year	17,606	16,957	—	—
In the third to fifth years, inclusive	48,868	53,787	—	—
Beyond five years	<u>62,684</u>	<u>80,538</u>	<u>—</u>	<u>—</u>
	<u>194,262</u>	<u>195,335</u>	<u>—</u>	<u>—</u>
Total bank and other borrowings	6,434,514	8,527,642	3,791,694	5,956,876
Portion classified as current liabilities	<u>(1,069,609)</u>	<u>(5,296,200)</u>	<u>(389,477)</u>	<u>(4,386,298)</u>
Non-current portion	<u>5,364,905</u>	<u>3,231,442</u>	<u>3,402,217</u>	<u>1,570,578</u>

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Notes:

- (a) The carrying amounts of the Group's and the Company's bank and other borrowings are denominated in the following currencies:

	Group		Company	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	3,645,718	3,637,532	3,645,718	3,637,532
RMB	2,572,030	2,498,207	—	—
US\$	<u>216,766</u>	<u>2,391,903</u>	<u>145,976</u>	<u>2,319,344</u>
	<u>6,434,514</u>	<u>8,527,642</u>	<u>3,791,694</u>	<u>5,956,876</u>

- (b) Certain of the Group's bank loans are secured by:
- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising 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 (*note 16*);
 - (ii) guarantees given by the Company and/or its subsidiaries;
 - (iii) pledges over certain of the Group's equity interests in subsidiaries; and/or
 - (iv) pledges over certain of the Group's bank balances of HK\$1,741,000 (2010: HK\$431,436,000) in aggregate (*note 28(a)(iii)*).
- (c) Except for two interest-free government loans of HK\$13,580,000 (2010: except for an interest-free government loan of HK\$7,059,000 and a government loan of HK\$14,118,000 which bears interest at a fixed rate of 2.96% per annum), all the Group's bank and other borrowings bear interest at floating rates.
- (d) Loan agreements of certain unsecured bank loans of the Company in an aggregate carrying amount of HK\$3,447,049,000 (2010: HK\$5,219,170,000) as at 31 December 2011 include covenants imposing specific performance obligations on BEHL, a substantial shareholder of the Company, among which are the following events which would constitute an event of default on the loan facilities:
- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% or 40%, where applicable, of the issued share capital of the Company; and/or
 - (ii) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Within the best knowledge of the directors, none of the above events took place during the year and as at the date of approval of these financial statements.

32. CONVERTIBLE BONDS

The Company had two batches of convertible bonds outstanding during the year ended 31 December 2010, the summary information of which is set out as follows:

Group and Company

	ZKC Convertible Bonds 1*	ZKC Convertible Bonds 2*
Issuance date	24/7/2008	6/4/2010
Maturity date	23/7/2013	23/7/2013
Original principal amount (<i>HK\$'000</i>)	589,304	238,696
Coupon rate	Zero	Zero
Conversion price per ordinary share (<i>HK\$</i>)	0.69	0.69

* As defined in the Company's circular dated 30 June 2008.

Each batch of these convertible bonds is bifurcated into a liability component and an equity component for accounting purposes, as further described in the accounting policy for "Convertible bonds" set out in note 2.4 to the financial statements. The following tables summarise the movements in the principal amounts, the liability and equity components of the Company's convertible bonds during the years ended 31 December 2011 and 2010:

Group and Company

	ZKC Convertible Bonds 1 <i>HK\$'000</i>	ZKC Convertible Bonds 2 <i>HK\$'000</i>	Total <i>HK\$'000</i>
Principal amount outstanding			
At 1 January 2010	555,059	193,287	748,346
Conversion to ordinary shares	<u>(555,059)</u>	<u>(193,287)</u>	<u>(748,346)</u>
At 31 December 2010, 1 January 2011 and 31 December 2011	<u>—</u>	<u>—</u>	<u>—</u>

	ZKC Convertible Bonds 1 HK\$'000	ZKC Convertible Bonds 2 HK\$'000	Total HK\$'000
Liability component			
At 1 January 2010	424,468	158,269	582,737
Imputed interest expense (<i>note 7</i>)	17,958	5,829	23,787
Transfer to share capital and share premium account upon conversion to ordinary shares (<i>notes 29(a) and 30(b)</i>)	<u>(442,426)</u>	<u>(164,098)</u>	<u>(606,524)</u>
At 31 December 2010, 1 January 2011 and 31 December 2011	<u>—</u>	<u>—</u>	<u>—</u>
Equity component (included in convertible bond equity reserve)			
At 1 January 2010	174,288	42,698	216,986
Transfer to share capital and share premium account upon conversion to ordinary shares (<i>notes 29(a) and 30(b)</i>)	<u>(174,288)</u>	<u>(42,698)</u>	<u>(216,986)</u>
At 31 December 2010, 1 January 2011 and 31 December 2011	<u>—</u>	<u>—</u>	<u>—</u>

Note: ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 were issued to three third parties as part of the consideration for the acquisition of the 100% equity interest in Gainstar Limited, which held indirectly an 88.43% equity interest in BE-ZKC at the date of acquisition of 31 August 2008. Further details of the ZKC Convertible Bonds 1 and ZKC Convertible Bonds 2 are set out in the Company's circular dated 30 June 2008.

33. CORPORATE BONDS

	Group and Company	
	2011	2010
	HK\$'000	HK\$'000
Unsecured corporate bonds, repayable in the third to fifth years, inclusive	<u>2,325,633</u>	<u>—</u>

During the year, the following batches of corporate bonds were issued by the Company:

- (a) Pursuant to the subscription agreement dated 24 June 2011, corporate bonds with an aggregate principal amount of RMB1,450,000,000 (the “Bonds”) were issued to certain institutional investors on 30 June 2011, of which (1) RMB1,000,000,000 is due on 30 June 2014 bearing interest at the rate of 3.75% per annum, and (2) RMB450,000,000 is due on 30 June 2016 bearing interest at the rate of 5% per annum; and
- (b) Pursuant to the subscription agreement dated 30 September 2011, corporate bonds with an aggregate principal amount of RMB500,000,000 (the “Further Bonds”) were issued to certain institutional investors on 11 October 2011, of which (1) RMB450,000,000 is due on 30 June 2014 bearing interest at the rate of 3.75% per annum, and (2) RMB50,000,000 is due on 30 June 2016 bearing interest at the rate of 5% per annum.

The Bonds and the Further Bonds are unsecured and would be due for repayment on the aforementioned maturity dates unless being redeemed prior to their maturity pursuant to the terms thereof and of the indenture. In addition, the Bonds and Further Bonds include covenants imposing specific performance obligations on BEHL, among which are the following events which would constitute an event of default:

- (i) if BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;
- (ii) if BEHL does not or ceases to, directly or indirectly, supervise the Company or be the single largest shareholder of the Company;
- (iii) if the nominees of BEHL cease to comprise the majority of the members of the Company’s board of directors; and/or
- (iv) if BEHL ceases to be controlled and supervised by The State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality.

Within the best knowledge of the directors, none of the above events took place during the year and as at the date of approval of these financial statements.

Further details of the Bonds and the Further Bonds are set out in the Company’s announcements dated 28 June 2011 and 7 October 2011.

34. FINANCE LEASE PAYABLE

The purchase of certain equipment, which forms part of a sewage treatment plant constructed by the Group, was financed by a finance lease arrangement with an original lease term of five years. The finance lease payable was fully settled by the Group during the year.

At 31 December 2011, the total future minimum lease payments under the finance lease and their present values were as follows:

Group	Minimum lease payments 2011 HK\$'000	Minimum lease payments 2010 HK\$'000	Present value of minimum lease payments 2011 HK\$'000	Present value of minimum lease payments 2010 HK\$'000
Amounts payable within one year and total minimum finance lease payments	—	5,153	—	4,913
Future finance charges	—	(240)		
Total net finance lease payable wholly classified as a current liability	—	4,913		

35. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession agreements entered into by the Group, the Group has contractual obligations to maintain the sewage and reclaimed water treatment and water distribution plants it operates to a specified level of serviceability and/or to restore the plants to a specified condition before they are handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the sewage and reclaimed water treatment and water distribution plants, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as “major overhauls”. The estimation basis is reviewed on an ongoing basis, and revised where appropriate.

The movements in the provision for major overhauls of sewage and reclaimed water treatment and water distribution plants during the year are as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	123,374	91,792
Additional provision (<i>note 6</i>)	33,207	24,895
Increase in discounted amounts arising from the passage of time (<i>note 7</i>)	3,711	2,725
Exchange realignment	<u>7,004</u>	<u>3,962</u>
At 31 December	<u>167,296</u>	<u>123,374</u>

36. DEFERRED INCOME

Deferred income of the Group represented subsidies received from fresh water customers in respect of the Group's construction of a sewage treatment plant. The subsidies are interest-free and not required to be repaid, and are recognised in the consolidated income statement on the straight-line basis over the expected useful life of the relevant asset.

37. DEFERRED TAX

Net deferred tax assets/(liabilities) recognised in the consolidated statement of financial position are as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	28,874	31,806
Deferred tax liabilities	<u>(205,179)</u>	<u>(138,688)</u>
	<u>(176,305)</u>	<u>(106,882)</u>

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The components of deferred tax assets and liabilities and their movements during the year are as follows:

Group

	Notes	Attributable to					Net deferred tax assets/ (liabilities)
		Fair value adjustments arising from acquisition of subsidiaries	Impairment provision	Provision for major overhauls	Temporary differences related to service concession arrangements	Losses available for offsetting against future taxable profits	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010		49,939	2,649	22,201	(148,460)	4,437	(69,234)
Net deferred tax credited/(charged) to the income statement during the year	10	(1,247)	80	6,834	(38,053)	(862)	(33,248)
Exchange realignment		750	97	1,736	(7,038)	55	(4,400)
At 31 December 2010 and 1 January 2011		49,442	2,826	30,771	(193,551)	3,630	(106,882)
Acquisition of subsidiaries	41	(27,487)	—	—	—	—	(27,487)
Net deferred tax credited/(charged) to the income statement during the year	10	(1,247)	—	9,229	(42,140)	—	(34,158)
Exchange realignment		1,070	139	1,550	(10,599)	62	(7,778)
At 31 December 2011		21,778	2,965	41,550	(246,290)	3,692	(176,305)

Notes:

- At 31 December 2011, deferred tax assets have not been recognised in respect of unused tax losses of HK\$35,820,000 (2010: HK\$122,909,000) as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised. Out of this amount, unrecognised tax losses of HK\$35,117,000 (2010: HK\$122,206,000) will expire in one to five years.
- Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$745,251,000 at 31 December 2011 (2010: HK\$383,985,000).

38. 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:

	Group		Company	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 3 months	196,621	966,598	—	—
4 to 6 months	8,744	811,344	—	—
7 months to 1 year	31,203	586,585	—	—
1 to 2 years	1,666,311	268,447	—	12,022
2 to 3 years	142,164	4,500	2,416	—
Over 3 years	4,193	176	—	—
	<u>2,049,236</u>	<u>2,637,650</u>	<u>2,416</u>	<u>12,022</u>

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

39. OTHER PAYABLES AND ACCRUALS

	Notes	Group		Company	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals		118,952	98,087	20,632	12,718
Other liabilities	(a)	3,257,359	405,126	—	—
Other taxes payables	40	33,817	31,003	161	—
Due to jointly-controlled entities	19(d)	160,721	1,873	—	1,269
Due to related parties	27	<u>115,406</u>	<u>56,255</u>	<u>—</u>	<u>—</u>
		3,686,255	592,344	20,793	13,987
Portion classified as current liabilities		<u>(3,406,346)</u>	<u>(569,700)</u>	<u>(20,793)</u>	<u>(13,987)</u>
Non-current portion		<u>279,909</u>	<u>22,644</u>	<u>—</u>	<u>—</u>

Notes:

- (a) The Group's other liabilities as at 31 December 2011 included, inter alia, the following:
- (i) outstanding considerations in the amount of RMB31,664,000 (equivalent to HK\$39,091,000) (2010: RMB41,159,000 (equivalent to HK\$48,422,000)), payable to the Mianyang Government for the transfer and construction of sewage treatment facilities under a BOT arrangement. The outstanding considerations are repayable in an annual instalment of RMB15,000,000 and the last instalment of RMB14,839,000 being due for repayment in 2012;
 - (ii) performance bonds of RMB60,578,000 (equivalent to HK\$74,788,000) (2010: RMB106,272,000 (equivalent to HK\$125,026,000)) in aggregate received from various subcontractors of the construction services for comprehensive renovation projects in Yunnan Province, the PRC. The balances are fully repayable upon the completion of final inspection by government authorities which, in the opinion of the directors, will be in 2012;
 - (iii) outstanding considerations in an aggregate amount of RMB345,179,000 (equivalent to HK\$426,147,000) (2010: RMB60,900,000 (equivalent to HK\$71,647,000)) payable to various governmental authorities in Mainland China for the transfers of sewage treatment facilities to the Group under TOT arrangements;
 - (iv) refunds from certain subcontractors of advances made by the Group for certain construction services for comprehensive renovation projects of RMB1,115,470,000 (equivalent to HK\$1,377,124,000), as detailed in note 26(b) to the financial statements; and
 - (v) an other payable and a receipt in advance of RMB150,000,000 (equivalent to HK\$185,185,000) and RMB359,697,000 (equivalent to HK\$444,070,000) respectively in respect of the land held for sale as detailed in note 22 to the financial statements.
- (b) Other payables are non-interest-bearing and have an average term of three months.

40. OTHER TAXES PAYABLES

	Group		Company	
	2011	2010	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Business tax	18,048	20,386	—	—
Value-added tax	6,487	5,780	—	—
Others	9,282	4,837	161	—
	<u>33,817</u>	<u>31,003</u>	<u>161</u>	<u>—</u>

41. BUSINESS COMBINATIONS

Except for the receivables under service concession arrangements with an aggregate carrying amount of HK\$403,623,000 immediately before the acquisitions, the fair values of the identifiable assets and liabilities of the subsidiaries acquired during the year as at their respective dates of acquisition have no significant differences from their then respective carrying amounts. In respect of the prior year, the fair values of the identifiable assets and liabilities of its subsidiaries acquired during the year ended 31 December 2010 as at the date of acquisition have no significant differences from their then respective carrying amounts.

The fair values of the identifiable assets and liabilities of subsidiaries as at their respective dates of acquisition are set out as follows:

	<i>Notes</i>	2011 <i>HK\$'000</i> <i>(note (a))</i>	2010 <i>HK\$'000</i> <i>(note (b))</i>
Net assets acquired:			
Property, plant and equipment	13	368	6,453
Receivables under service concession arrangements		523,220	—
Inventories		253	—
Amounts due from contract customers		—	879,574
Trade and bills receivables		—	463
Prepayments, deposits and other receivables		49,391	1,067,585
Pledged deposit		—	4
Cash and cash equivalents		5,037	1,384
Trade payables		(7,353)	(95,237)
Other payables and accruals		(337,629)	(623,629)
Income tax payables		(206)	(483)
Bank and other borrowings		(12,346)	(1,207,393)
Deferred tax liabilities	37	(27,487)	—
Non-controlling interests		—	(24,989)
		193,248	3,732
Goodwill on acquisition	15	57,007	—
Gain on bargain purchase	5	—	(2,824)
		<u>250,255</u>	<u>908</u>
Satisfied by:			
Cash		250,255	—
Capital contribution to the acquiree in the form of cash		—	908
		<u>250,255</u>	<u>908</u>
Profit/(loss) for the year since acquisition		<u>1,298</u>	<u>(4,850)*</u>

* The loss for the year since acquisition included interest expenses of HK\$69,092,000 charged by the Company.

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An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(note (a))</i>	<i>(note (b))</i>
Cash consideration	(250,255)	—
Cash injected by the Group as capital contribution	—	(908)
Cash and cash equivalents acquired	<u>5,037</u>	<u>1,384</u>
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(245,218)</u>	<u>476</u>

Had the above business combinations taken place at the beginning of the year, the Group's profit for the year would have been HK\$720,146,000 (2010: HK\$570,322,000) and the Group's revenue (comprising turnover, interest income and other income and gains, net) would have been HK\$2,751,570,000 (2010: HK\$7,365,656,000).

Notes:

(a) Business combinations during the year ended 31 December 2011 included, inter alia, the following transactions:

- (i) In April 2011, the Group acquired the entire equity interest in 徐州創源污水處理有限公司 (“Xuzhou Chuangyuan”) for a cash consideration of RMB30,980,000 (equivalent to HK\$38,247,000). Xuzhou Chuangyuan is principally engaged in the provision of sewage treatment services in Jiangsu Province, the PRC.
- (ii) In October 2011, the Group acquired the entire equity interest in 上海亞同環保工程有限公司 and its subsidiaries (the “Shanghai Yatong Group”) for a cash consideration of RMB113,890,000 (equivalent to HK\$140,605,000). The Shanghai Yatong Group is principally engaged in the provision of sewage treatment services in Jiangsu, Xinjiang, Fujian and Anhui Provinces, the PRC.
- (iii) In October 2011, the Group acquired the entire equity interest in 亞同環保(安慶)有限公司 (“Yatong Anqing”) for a cash consideration of RMB26,800,000 (equivalent to HK\$33,086,000). Yatong Anqing is principally engaged in the provision of sewage treatment services in Anhui Province, the PRC.
- (iv) In October 2011, the Group acquired the entire equity interest in 江蘇匯同水處理發展有限公司 (“Huitong Water”) for a cash consideration of RMB31,037,000 (equivalent to HK\$38,317,000). Huitong Water is principally engaged in the provision of sewage treatment services in Jiangsu Province, the PRC.

(b) Pursuant to a share subscription agreement entered into between the Company and CICI on 23 April 2010, the Company acquired a 70% equity interest in CICI by subscription of 116,667 ordinary shares of CICI at US\$1 each at a cash consideration of US\$116,667 (equivalent to HK\$908,000). The transaction was completed on 29 April 2010 and the transaction was accounted for as a business combination in accordance with HKFRS 3.

CICI and its subsidiaries are principally engaged in the provision of construction services for comprehensive renovation projects in Yunnan Province, the PRC.

42. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**Major non-cash transactions**

Pursuant to a series of offsetting agreements entered into between the Group, the former controlling shareholder of CICI and various third parties on 20 October 2010, the amounts due from the various third parties in an aggregate amount of HK\$227,286,000 were offset against part of the Group's amount due to the former controlling shareholder of CICI during the year ended 31 December 2010.

Save as disclosed above and the transactions detailed in notes 29 and 32 to the financial statements, the Group had no major non-cash transactions of investing and financing activities during the years ended 31 December 2011 and 2010.

43. CONTINGENT LIABILITIES

During the year, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK\$120,403,000) 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 31 December 2011, the Group did not have any significant contingent liabilities (2010: Nil).

At 31 December 2011, corporate guarantees of RMB330,000,000 (equivalent to HK\$407,407,000) (2010: RMB445,000,000 (equivalent to HK\$523,529,000)) were given by the Company to banks in connection with bank loans of an even total amount granted to certain subsidiaries of the Company.

44. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases certain portion of buildings under operating lease arrangements, with the leases negotiated for ranging from 3 to 10.5 years (2010: 7 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

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At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	4,907	245
In the second to fifth years, inclusive	18,787	1,137
After five years	<u>20,976</u>	<u>—</u>
	<u>44,670</u>	<u>1,382</u>

At 31 December 2011, the Company did not have any operating lease arrangements as lessor (2010: Nil).

(b) As lessee

The Group leases a piece of land, a motor vehicle and certain office properties under operating lease arrangements with the leases negotiated for terms ranging from 1 to 46 years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	6,413	3,734
In the second to fifth years, inclusive	12,108	9,862
After five years	<u>74,738</u>	<u>73,835</u>
	<u>93,259</u>	<u>87,431</u>

At 31 December 2011, the Company did not have any operating lease commitments as lessee (2010: Nil).

45. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 44(b) above, the Group had the following capital commitments as at the end of the reporting period:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
New service concession arrangements on a TOT basis:		
Authorised, but not contracted for	230,827	415,294
Contracted, but not provided for	<u>396,699</u>	<u>439,529</u>
	<u>627,526</u>	<u>854,823</u>
New service concession arrangements on a BOT basis:		
Authorised, but not contracted for	339,440	227,219
Contracted, but not provided for	<u>2,369,592</u>	<u>185,457</u>
	<u>2,709,032</u>	<u>412,676</u>
Capital contribution to jointly-controlled entities:		
Contracted, but not provided for	<u>235,706</u>	<u>427,576</u>
Acquisition of subsidiaries:		
Contracted, but not provided for	<u>145,679</u>	<u>—</u>
Total capital commitments	<u><u>3,717,943</u></u>	<u><u>1,695,075</u></u>

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are not included in the above, is as follows:

	Group	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised, but not contracted for	707,596	—
Contracted, but not provided for	<u>502,969</u>	<u>—</u>
	<u><u>1,210,565</u></u>	<u><u>—</u></u>

At 31 December 2011, the Company had a capital commitment of HK\$46,692,000 (2010: HK\$149,260,000) in respect of its capital contributions to subsidiaries, which is contracted but not provided for.

46. RELATED PARTY DISCLOSURES

- (a) On 17 February 2011, the Company's shareholders approved an exclusivity agreement entered into between the Company and BEHL on 21 December 2010, pursuant to which, among other things, BEHL has given the Company an undertaking that during a period of 18 months ending on 16 August 2012, it shall not, directly or indirectly, enter into any discussion or agreement with any person except the Company relating to the proposed injection to the Company of certain sewage treatment and water supply and waste treatment plants currently owned by BEHL and/or its subsidiaries. A refundable earnest money of HK\$900,000 was paid by the Company to BEHL in December 2010. Further details of the exclusivity agreement are set out in the Company's circular dated 26 January 2011.

In addition, during the year, the Group provided technical services to ACSD and a service fee of RMB25,866,000 (equivalent to HK\$31,164,000) was charged at a rate mutually agreed between the Group and ACSD.

Save as disclosed above and the transactions and balances detailed in notes 19, 25, 26, 27, 29, 31, 32, 39 and 42 to the financial statements, the Group had no material transactions and outstanding balances with related parties during the years ended 31 December 2011 and 2010.

(b) **Transactions with other state-owned entities in Mainland China**

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Other SOEs"). During the year, the Group had transactions with the Other SOEs including, but not limited to, the sale of piped water, provision of sewage treatment and construction services, bank deposits and borrowings, and utilities consumptions. The directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies are not carried out on non-market terms and do not depend on whether or not the customers are the Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(c) Compensation of key management personnel of the Group

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	8,270	13,394
Pension scheme contributions	<u>36</u>	<u>36</u>
Total compensation paid to key management personnel	<u>8,306</u>	<u>13,430</u>

Further details of directors' emoluments are included in note 8 to the financial statements.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, corporate bonds, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, deposits and other receivables, trade payables, other payables and amounts due from/to related parties which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and fair value risk. The directors of Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the value and the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long term debt obligations.

Banks and other borrowings, corporate bonds, and cash and bank balances are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred.

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FINANCIAL INFORMATION ON THE GROUP

The following table sets out the carrying amounts, by maturity, of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 3 years HK\$'000	More than 3 years but less than 4 years HK\$'000	More than 4 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	Effective interest rate %
31 December 2011								
Floating rate:								
Restricted cash and pledged deposits	88,664	—	—	—	—	—	88,664	0.50
Cash and cash equivalents	1,580,368	—	—	—	—	—	1,580,368	0.47
Bank and other borrowings	1,056,029	1,528,982	328,501	291,986	2,513,876	701,560	6,420,934	3.88
Fixed rate:								
Restricted cash and pledged deposits	3,703	—	—	—	—	—	3,703	1.49
Cash and cash equivalents	457,947	—	—	—	—	—	457,947	1.67
Corporate bonds	—	—	1,729,586	—	596,047	—	2,325,633	4.07
31 December 2010								
Floating rate:								
Restricted cash and pledged deposits	588,978	—	—	—	—	—	588,978	0.36
Cash and cash equivalents	2,402,703	—	—	—	—	—	2,402,703	0.34
Bank and other borrowings	5,289,141	703,875	1,440,771	241,652	225,198	605,828	8,506,465	2.75
Fixed rate:								
Restricted cash and pledged deposits	3,529	—	—	—	—	—	3,529	1.36
Cash and cash equivalents	150,494	—	—	—	—	—	150,494	1.36
Bank and other borrowings	—	—	—	—	—	14,118	14,118	2.96

At 31 December 2011, it is estimated that a general decrease/increase of 100 basis points in the interest rate of average balances of bank and other borrowings, cash and bank balances during the year, with all other variables held constant, would increase/decrease the Group's profit before tax for the year ended 31 December 2011 by approximately HK\$51,333,000 (2010, increase/decrease the Group's profit before tax by approximately HK\$35,615,000).

Foreign currency risk

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. As a result of its significant investment operations in Mainland China, the Group's statement of financial position can be affected significantly by movements in the RMB/HK\$ exchange rate.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in RMB/HK\$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in profit before tax <i>HK\$'000</i>	Increase/ (decrease) in equity <i>HK\$'000</i>
31 December 2011		
If Hong Kong dollar weakens against RMB by 5%	47,201	369,577
If Hong Kong dollar strengthens against RMB by 5%	<u>(47,201)</u>	<u>(369,577)</u>
31 December 2010		
If Hong Kong dollar weakens against RMB by 5%	37,724	281,400
If Hong Kong dollar strengthens against RMB by 5%	<u>(37,724)</u>	<u>(281,400)</u>

The Group has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than unit's functional currency.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The main credit risk exposure to the Group arises from default or delinquency in principal payment of trade and bills receivables, receivables under service concession arrangements and amounts due from contract customers. In respect of trade and bills receivables, receivables under service concession arrangements and amounts due from contract customers, the Group trades mainly with municipal governments in different provinces which do not have significant credit risk. In addition, trade and bills receivable balances, receivables under service concession arrangements and amounts due from contract customers are monitored on an ongoing basis, in the opinion of the directors, the credit risk is not significant.

With respect to credit risk arising from the other major financial assets of the Group, which comprise deposits and other receivables, amounts due from related parties and cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

In light of the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements and the capital commitments of the Group of HK\$4,928,508,000 (comprising the Group's capital commitments and the Group's share of the jointly-controlled entities' own capital commitments) in aggregate as at 31 December 2011 as detailed in note 45 to the financial statements. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and corporate bonds, as well as the strict control over its receivables due in day to day business. In the opinion of the directors of the Company, new bank borrowings will be obtained to finance certain of the new construction projects and service concession arrangements, and certain of the above-mentioned capital commitments are expected to be fulfilled by the Group after 2012. Accordingly, the Group expects to have adequate sources of funding to finance the Group and manage its liquidity position. Further details of which are set out in note 2.1 to the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period based on the contractual undiscounted payments, is as follows:

	On demand	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2011								
Bank borrowings	—	1,221,512	1,684,090	450,111	401,583	2,578,897	661,012	6,997,205
Other borrowings	6,173	65,290	22,766	25,847	17,737	17,910	64,549	220,272
Corporate bonds	—	94,662	94,662	1,791,818	29,802	610,948	—	2,621,892
Trade payables	—	2,049,236	—	—	—	—	—	2,049,236
Other liabilities	—	2,977,450	255,756	24,153	—	—	—	3,257,359
Due to related parties	115,406	—	—	—	—	—	—	115,406
	<u>121,579</u>	<u>6,408,150</u>	<u>2,057,274</u>	<u>2,291,929</u>	<u>449,122</u>	<u>3,207,755</u>	<u>725,561</u>	<u>15,261,370</u>
31 December 2010								
Bank borrowings	1,827,710	3,596,545	792,230	1,496,174	274,635	252,270	556,184	8,795,748
Other borrowings	—	52,267	23,900	26,694	25,421	17,398	82,626	228,306
Trade payables	—	2,637,650	—	—	—	—	—	2,637,650
Other liabilities	—	382,482	22,644	—	—	—	—	405,126
Finance lease payable	—	4,913	—	—	—	—	—	4,913
Due to related parties	56,255	—	—	—	—	—	—	56,255
	<u>1,883,965</u>	<u>6,673,857</u>	<u>838,774</u>	<u>1,522,868</u>	<u>300,056</u>	<u>269,668</u>	<u>638,810</u>	<u>12,127,998</u>

Fair values

The following table sets out a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values. The fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates:

	Carrying amount		Fair value	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets:				
Non-current receivables under service concession arrangements	5,003,117	2,736,583	5,003,117	2,736,583
Non-current trade and bills receivables	261,850	120,905	261,850	120,905
Non-current deposits and other receivables	<u>1,542,014</u>	<u>1,408,510</u>	<u>1,542,014</u>	<u>1,391,355</u>
Financial liabilities:				
Non-current bank and other borrowings:				
Floating rate borrowings	5,364,905	3,217,324	5,364,905	3,217,324
Fixed rate borrowings	—	14,118	—	8,927
Corporate bonds	<u>2,325,633</u>	<u>—</u>	<u>2,325,633</u>	<u>—</u>

Note: The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made. In addition, as disclosed in note 21 to the financial statements, the available-for-sale investments of the Group are not stated at fair value but at cost less any accumulated impairment losses because the fair value of which cannot be reasonably assessed and therefore no disclosure of the fair value of this financial instrument is made.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital or sell assets to reduce debt.

The Group monitors capital using the gearing ratio. This ratio is calculated based on net debt and total equity. Net debt is calculated as total interest-bearing bank and other borrowings and corporate bonds (as shown in the statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2011 and 2010 were as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Net debt	<u>6,798,799</u>	<u>6,558,755</u>
Total equity	<u>9,710,881</u>	<u>5,067,954</u>
Gearing ratio	<u>70%</u>	<u>129%</u>

48. FINANCIAL INSTRUMENTS BY CATEGORY

Other than the unlisted equity investments being classified as available-for-sale investments as disclosed in note 21 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2011 and 2010 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

49. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 26a(iii) in relation to the completion of the acquisition of a 40% equity interest in Luoyang Water in January 2012, the following significant events occurred subsequent to the reporting period:

- (i) On 1 March 2012, the Company entered into a term loan facility agreement (the “Facility Agreement”) with a bank in the PRC for a 3-year term loan facility (the “Term Loan Facility”) in the amount of RMB950,000,000 (equivalent to HK\$1,170,970,000) commencing from 27 March 2012. Pursuant to the Facility Agreement, it shall be an event of default (unless remedied by the Company or waived by the bank) if BEHL does not or ceases to own, directly or indirectly, at least 35% of the issued share capital of the Company;
- (ii) On 23 March 2012, as approved by the shareholders of the Company at a special general meeting held on 22 March 2012, the then total amount of the Company’s share premium account of HK\$5,809,534,000 was reduced to nil, with the credit arising therefrom being applied towards the then entire amount of the accumulated losses of the Company and the remaining balance being credited to the contributed surplus account of the Company. Further details of the aforesaid reduction in the share premium account of the Company are set out in the Company’s circular dated 24 February 2012; and

- (iii) On 29 March 2012, the directors of the Company recommended distributions of HK3 cents per ordinary share in cash for an estimated total amount of HK\$207,275,000 to shareholders of the Company on the register of members of the Company on 18 June 2012. The proposed distributions are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

50. COMPARATIVE AMOUNTS

As further explained in note 4 to the financial statements, due to the reorganisation of the business operations of the jointly-controlled entities into reportable operating segments, the respective comparative amounts in note 4 to the financial statements have been reclassified and restated to conform to the current year's presentation.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2012."

C. UNAUDITED INTERIM FINANCIAL STATEMENTS

The following is an extract of unaudited consolidated financial statements of the Group for the six months ended 30 June 2012 together with the notes thereto from the Company's interim report for the six months ended 30 June 2012:

“CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	1,401,506	900,458
Cost of sales		<u>(755,490)</u>	<u>(435,483)</u>
Gross profit		646,016	464,975
Interest income		179,055	150,433
Other income and gains, net		15,659	53,344
Administrative expenses		(148,762)	(149,550)
Other operating expenses, net		<u>(28,321)</u>	<u>(16,667)</u>
PROFIT FROM OPERATING ACTIVITIES	4	663,647	502,535
Finance costs	5	(227,065)	(124,589)
Share of profits and losses of jointly-controlled entities		<u>29,695</u>	<u>22,484</u>
PROFIT BEFORE TAX		466,277	400,430
Income tax	6	<u>(69,274)</u>	<u>(66,282)</u>
PROFIT FOR THE PERIOD		<u>397,003</u>	<u>334,148</u>
ATTRIBUTABLE TO:			
Shareholders of the Company		386,593	309,670
Non-controlling interests		<u>10,410</u>	<u>24,478</u>
		<u>397,003</u>	<u>334,148</u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
— Basic and diluted		<u>HK5.60 cents</u>	<u>HK4.73 cents</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****For the six months ended 30 June 2012**

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	397,003	334,148
OTHER COMPREHENSIVE INCOME/(LOSS)		
— Exchange differences on translation of foreign operations	(148,452)	211,007
— Share of other comprehensive loss of a jointly-controlled entity	<u>(3,776)</u>	<u>—</u>
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX OF NIL	<u>(152,228)</u>	<u>211,007</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>244,775</u>	<u>545,155</u>
ATTRIBUTABLE TO:		
Shareholders of the Company	262,517	458,019
Non-controlling interests	<u>(17,742)</u>	<u>87,136</u>
	<u>244,775</u>	<u>545,155</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION****30 June 2012**

		30 June 2012	31 December 2011
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets:			
Property, plant and equipment		237,457	233,276
Goodwill		1,675,672	1,643,719
Operating concessions		734,426	763,381
Other intangible assets		6,312	6,455
Investments in jointly-controlled entities		2,536,883	1,973,493
Investment in an associate		36,587	37,038
Available-for-sale investments		2,928	2,964
Amounts due from contract customers		2,029,474	1,599,285
Receivables under service concession arrangements	9	5,131,842	5,003,117
Trade and bills receivables	10	258,772	261,850
Prepayments, deposits and other receivables	11	1,338,300	1,542,014
Deferred tax assets		29,373	28,874
Total non-current assets		<u>14,018,026</u>	<u>13,095,466</u>
Current assets:			
Land held for sale		987,435	999,626
Inventories		22,193	13,422
Amounts due from contract customers		108,074	87,865
Receivables under service concession arrangements	9	365,950	253,105
Trade and bills receivables	10	2,889,759	3,676,549
Prepayments, deposits and other receivables	11	6,311,374	4,583,574
Restricted cash and pledged deposits		45,606	92,367
Cash and cash equivalents		<u>1,853,655</u>	<u>1,947,768</u>
Total current assets		<u>12,584,046</u>	<u>11,654,276</u>
TOTAL ASSETS		<u><u>26,602,072</u></u>	<u><u>24,749,742</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

		30 June 2012	31 December 2011
		(Unaudited)	(Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	12	690,917	690,917
Reserves		<u>7,446,314</u>	<u>7,391,072</u>
		8,137,231	8,081,989
Non-controlling interests		<u>1,623,864</u>	<u>1,628,892</u>
TOTAL EQUITY		<u><u>9,761,095</u></u>	<u><u>9,710,881</u></u>
Non-current liabilities:			
Other payables and accruals	14	240,715	279,909
Bank and other borrowings		6,022,815	5,364,905
Corporate bonds		2,364,061	2,325,633
Provision for major overhauls		190,964	167,296
Deferred income		24,856	25,163
Deferred tax liabilities		<u>214,939</u>	<u>205,179</u>
Total non-current liabilities		<u><u>9,058,350</u></u>	<u><u>8,368,085</u></u>
Current liabilities:			
Trade payables	13	1,990,903	2,049,236
Other payables and accruals	14	3,985,387	3,406,346
Income tax payables		150,379	145,585
Bank and other borrowings		<u>1,655,958</u>	<u>1,069,609</u>
Total current liabilities		<u><u>7,782,627</u></u>	<u><u>6,670,776</u></u>
TOTAL LIABILITIES		<u><u>16,840,977</u></u>	<u><u>15,038,861</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>26,602,072</u></u>	<u><u>24,749,742</u></u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to shareholders of the Company											Total equity
	Issued capital	Share premium account	Contributed surplus	Capital reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Distributions declared	Total	Non-controlling interests	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2012	690,917	5,809,534	(400)	(256,351)	(7,370)	487,447	191,874	1,166,338	—	8,081,989	1,628,892	9,710,881
Profit for the period	—	—	—	—	—	—	—	386,593	—	386,593	10,410	397,003
Other comprehensive loss for the period:												
— Exchange differences on translation of foreign operations	—	—	—	—	—	(120,300)	—	—	—	(120,300)	(28,152)	(148,452)
— Share of other comprehensive loss of a jointly-controlled entity	—	—	—	—	(3,776)	—	—	—	—	(3,776)	—	(3,776)
Total comprehensive income/(loss) for the period	—	—	—	—	(3,776)	(120,300)	—	386,593	—	262,517	(17,742)	244,775
Capital contributions from non-controlling equity holders	—	—	—	—	—	—	—	—	—	—	31,233	31,233
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	—	(18,519)	(18,519)
Final 2011 distributions	—	—	(207,275)	—	—	—	—	—	—	(207,275)	—	(207,275)
Interim 2012 distributions declared	—	—	(138,183)	—	—	—	—	—	138,183	—	—	—
Transfer between reserves	—	(5,809,534)	5,570,203	—	—	—	3,711	235,620	—	—	—	—
At 30 June 2012	<u>690,917</u>	<u>—*</u>	<u>5,224,345*</u>	<u>(256,351)*</u>	<u>(11,146)*</u>	<u>367,147*</u>	<u>195,585*</u>	<u>1,788,551*</u>	<u>138,183*</u>	<u>8,137,231</u>	<u>1,623,864</u>	<u>9,761,095</u>

* These reserve accounts comprise the consolidated reserves of HK\$7,446,314,000 (unaudited) (31 December 2011: HK\$7,391,072,000) in the condensed consolidated statement of financial position as at 30 June 2012.

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

	Attributable to shareholders of the Company									
	Issued capital	Share premium account	Contributed surplus	Capital reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits	Total	Non-controlling interests	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	456,676	2,532,431	(400)	7,448	139,229	101,366	656,110	3,892,860	1,175,094	5,067,954
Profit for the period	—	—	—	—	—	—	309,670	309,670	24,478	334,148
Other comprehensive income for the period:										
— Exchange differences on translation of foreign operations	—	—	—	—	148,349	—	—	148,349	62,658	211,007
Total comprehensive income for the period	—	—	—	—	148,349	—	309,670	458,019	87,136	545,155
Issue of new shares upon completion of an open offer	228,338	3,157,024	—	—	—	—	—	3,385,362	—	3,385,362
Capital contributions from non-controlling equity holders	—	—	—	—	—	—	—	—	447,148	447,148
Acquisition of non-controlling interests	—	—	—	(38,066)	—	—	—	(38,066)	(56,502)	(94,568)
Dividend paid to non-controlling equity holders	—	—	—	—	—	—	—	—	(3,810)	(3,810)
Transfer to reserves	—	—	—	—	—	2,155	(2,155)	—	—	—
At 30 June 2011	<u>685,014</u>	<u>5,689,455</u>	<u>(400)</u>	<u>(30,618)</u>	<u>287,578</u>	<u>103,521</u>	<u>963,625</u>	<u>7,698,175</u>	<u>1,649,066</u>	<u>9,347,241</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash flows used in operating activities	(259,986)	(407,207)
Net cash flows used in investing activities	(812,164)	(1,022,962)
Net cash flows from financing activities	<u>943,453</u>	<u>3,383,436</u>
Net increase/(decrease) in cash and cash equivalents	(128,697)	1,953,267
Cash and cash equivalents at beginning of period	1,947,768	1,961,828
Effect of foreign exchange rate changes, net	<u>(38,713)</u>	<u>46,558</u>
Cash and cash equivalents at end of period	<u><u>1,780,358</u></u>	<u><u>3,961,653</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,704,013	1,722,299
Time deposits	195,248	2,346,491
Less: Restricted cash and pledged deposits	<u>(45,606)</u>	<u>(107,137)</u>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	1,853,655	3,961,653
Less: Time deposits with maturity of more than three months when acquired	<u>(73,297)</u>	<u>—</u>
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<u><u>1,780,358</u></u>	<u><u>3,961,653</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the six months ended 30 June 2012****1.1. CORPORATE INFORMATION**

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2012, 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 the People's Republic of China (the "PRC") and Malaysia
- provision of sewage treatment services in Mainland China
- provision of reclaimed water treatment services, and distribution and sale of piped water in Mainland China
- provision of technical and consultancy services that are related to sewage treatment and construction of 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 statements for the six months ended 30 June 2012 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), 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 condensed consolidated financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2011 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.

These interim condensed consolidated financial statements have not been audited, but have 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 interim period:

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

The adoption of these new and revised HKFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements.

2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the 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 loans to jointly-controlled entities and related companies, interest income from non-controlling equity holders of a non-wholly owned subsidiary, gain on bargain purchase of a jointly-controlled entity, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

During the six months ended 30 June 2012, business operations of the jointly-controlled entities are organised into reportable operating segments according to the nature of their operations and the products and services they provide. Accordingly, share of profits and losses of jointly-controlled entities is allocated to the relevant reportable operating segments. The corresponding comparative amounts of the segment information have been revised to reflect the above change and to conform to the current period's presentation.

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****For the six months ended 30 June 2012**

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000	Water supply services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue	1,160,933	53,539	187,034	1,401,506
Cost of sales	<u>(698,781)</u>	<u>(30,257)</u>	<u>(26,452)</u>	<u>(755,490)</u>
Gross profit	<u>462,152</u>	<u>23,282</u>	<u>160,582</u>	<u>646,016</u>
Segment results				
— The Group	495,627	11,823	153,539	660,989
— Share of profits and losses of jointly-controlled entities	<u>31,810</u>	<u>(2,115)</u>	<u>—</u>	<u>29,695</u>
	<u>527,437</u>	<u>9,708</u>	<u>153,539</u>	690,684
Corporate and other unallocated income and expenses, net				2,658
Finance costs				<u>(227,065)</u>
Profit before tax				466,277
Income tax				<u>(69,274)</u>
Profit for the period				<u>397,003</u>
Profit/(loss) for the period attributable to shareholders of the Company:				
— Operating segments	<u>477,278</u>	<u>8,777</u>	<u>128,552</u>	614,607
— Corporate and other unallocated items				<u>(228,014)</u>
				<u>386,593</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****For the six months ended 30 June 2011**

	Sewage and reclaimed water treatment and construction services (Unaudited) HK\$'000 (Restated)	Water supply services (Unaudited) HK\$'000	Technical and consultancy services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000 (Restated)
Segment revenue	700,030	35,669	164,759	900,458
Cost of sales	<u>(404,793)</u>	<u>(20,804)</u>	<u>(9,886)</u>	<u>(435,483)</u>
Gross profit	<u>295,237</u>	<u>14,865</u>	<u>154,873</u>	<u>464,975</u>
Segment results				
— The Group	353,620	6,851	149,254	509,725
— Share of profits and losses of jointly-controlled entities	<u>22,484</u>	<u>—</u>	<u>—</u>	<u>22,484</u>
	<u>376,104</u>	<u>6,851</u>	<u>149,254</u>	532,209
Corporate and other unallocated income and expenses, net				(7,190)
Finance costs				<u>(124,589)</u>
Profit before tax				400,430
Income tax				<u>(66,282)</u>
Profit for the period				<u>334,148</u>
Profit/(loss) for the period attributable to shareholders of the Company:				
— Operating segments	<u>293,494</u>	<u>9,621</u>	<u>127,440</u>	430,555
— Corporate and other unallocated items				<u>(120,885)</u>
				<u>309,670</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

The following is an analysis of the Group's assets by operating segments:

30 June 2012

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water supply services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment assets	<u>20,813,252</u>	<u>1,842,986</u>	<u>813,148</u>	23,469,386
Corporate and other unallocated items				<u>3,132,686</u>
Total assets				<u>26,602,072</u>

31 December 2011

	Sewage and reclaimed water treatment and construction services (Audited) <i>HK\$'000</i>	Water supply services (Audited) <i>HK\$'000</i>	Technical and consultancy services (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets	<u>20,008,637</u>	<u>1,172,910</u>	<u>776,161</u>	21,957,708
Corporate and other unallocated items				<u>2,792,034</u>
Total assets				<u>24,749,742</u>

Geographical information

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

Information about major customers

During the six months ended 30 June 2012 and 2011, none of the Group's individual customers contributed 10% or more of the Group's revenue.

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 business 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, business tax and government surcharges; (4) an appropriate proportion of contract revenue of consultancy services contracts, net of business tax and government surcharges; (5) the value of licence fees, net of business tax and government surcharges; and (6) 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	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sewage and reclaimed water treatment services*	624,245	420,750
Construction services*	536,688	279,280
Sale of water	53,539	35,669
Consultancy services	143,848	138,854
Licence fees	<u>43,186</u>	<u>25,905</u>
	<u><u>1,401,506</u></u>	<u><u>900,458</u></u>

* Imputed interest income under service concession arrangements amounting to HK\$205,195,000 (Six months ended 30 June 2011: HK\$120,210,000) are included in the revenue derived from "Sewage and reclaimed water treatment services" and "Construction services" above.

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of sewage and reclaimed water treatment services rendered	215,587	140,840
Cost of construction services	471,023	250,477
Cost of water sold	21,272	13,304
Cost of consultancy services rendered	25,703	9,276
Cost of licensing	749	610
Depreciation	10,420	4,956
Amortisation of operating concessions*	21,156	20,976
Amortisation of other intangible assets*	524	602

* 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 income statement, respectively.

5. FINANCE COSTS

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and other loans wholly repayable within five years	177,274	125,283
Interest on other loans	1,744	1,708
Interest on corporate bonds	51,943	—
Interest on a finance lease	—	121
Total interest expenses	230,961	127,112
Increase in discounted amounts of provision for major overhauls arising from the passage of time	2,502	1,833
Total finance costs	233,463	128,945
Less: Interest included in cost of construction contracts	(6,398)	(4,356)
	<u>227,065</u>	<u>124,589</u>

6. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2012 as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2011: Nil).

The income tax provision in respect of operations in Mainland China and Malaysia are calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof. In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries enjoy income tax exemptions and reductions, by reason that these companies are engaged in the operations of sewage and reclaimed water treatment.

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current — Hong Kong	—	—
Current — Mainland China		
Charge for the period	66,028	64,892
Overprovision in prior periods	(8,332)	(2,716)
Current — Malaysia		
Charge for the period	843	—
Overprovision in prior periods	(1,056)	—
Deferred	<u>11,791</u>	<u>4,106</u>
Total tax expense for the period	<u>69,274</u>	<u>66,282</u>

7. INTERIM DISTRIBUTIONS

On 30 August 2012, the Board declared interim cash distributions of HK2.0 cents per share (Six months ended 30 June 2011: Nil) totalling approximately HK\$138,183,000 (Six months ended 30 June 2011: Nil).

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 2012 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 6,909,170,486 ordinary shares in issue during the period. The calculation of basic earnings per share amount presented for the six months ended 30 June 2011 was based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 6,548,727,678 ordinary shares in issue during the period, as adjusted to reflect the issuance of 2,283,378,231 new ordinary shares of the Company at an offer price of HK\$1.485 per ordinary share under an open offer of the Company completed on 15 March 2011.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2012 and 2011.

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Billed:		
Within 3 months	232,951	159,900
4 to 6 months	35,722	23,509
7 to 12 months	55,609	22,330
Over 1 year	<u>41,668</u>	<u>47,366</u>
	365,950	253,105
Unbilled	<u>5,131,842</u>	<u>5,003,117</u>
	5,497,792	5,256,222
Portion classified as current assets	<u>(365,950)</u>	<u>(253,105)</u>
Non-current portion	<u><u>5,131,842</u></u>	<u><u>5,003,117</u></u>

10. TRADE AND BILLS RECEIVABLES

The Group's trade and bills receivables arise from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which would settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade and bills receivables of the construction services for comprehensive renovation projects which bear interest at rates ranging from 5.85% to 6.65%, 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 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Billed:		
Within 3 months	303,975	234,442
4 to 6 months	18,759	42,522
7 to 12 months	146,351	11,220
Over 1 year	157,073	146,671
Balance with extended credit period	<u>177,824</u>	<u>181,111</u>
	803,982	615,966
Unbilled*	<u>2,344,549</u>	<u>3,322,433</u>
	3,148,531	3,938,399
Portion classified as current assets	<u>(2,889,759)</u>	<u>(3,676,549)</u>
Non-current portion	<u><u>258,772</u></u>	<u><u>261,850</u></u>

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

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Prepayments	27,900	24,415
Deposits and other debtors	2,569,286	2,035,215
Advances to suppliers	2,742,695	2,213,520
Due from jointly-controlled entities	664,850	470,480
Due from related parties	<u>1,648,641</u>	<u>1,387,489</u>
	7,653,372	6,131,119
Impairment	<u>(3,698)</u>	<u>(5,531)</u>
	7,649,674	6,125,588
Portion classified as current assets	<u>(6,311,374)</u>	<u>(4,583,574)</u>
	1,338,300	1,542,014
Non-current portion	<u>1,338,300</u>	<u>1,542,014</u>

12. SHARE CAPITAL

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
<i>Authorised:</i>		
15,000,000,000 ordinary shares of HK\$0.10 each	<u>1,500,000</u>	<u>1,500,000</u>
<i>Issued and fully paid:</i>		
6,909,170,486 ordinary shares of HK\$0.10 each	<u>690,917</u>	<u>690,917</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:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Within 3 months	366,852	196,621
4 to 6 months	30,733	8,744
7 months to 1 year	109,551	31,203
1 to 2 years	1,365,441	1,666,311
2 to 3 years	114,185	142,164
Over 3 years	<u>4,141</u>	<u>4,193</u>
	<u>1,990,903</u>	<u>2,049,236</u>

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

14. OTHER PAYABLES AND ACCRUALS

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Accruals	70,737	118,952
Other liabilities	3,518,954	3,257,359
Other taxes payables	15,501	33,817
Distributions payable to shareholders	207,275	—
Due to jointly-controlled entities	293,749	160,721
Due to related parties	<u>119,886</u>	<u>115,406</u>
	4,226,102	3,686,255
Portion classified as current liabilities	<u>(3,985,387)</u>	<u>(3,406,346)</u>
Non-current portion	<u>240,715</u>	<u>279,909</u>

15. CONTINGENT LIABILITIES

During the year ended 31 December 2011, a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK\$120,403,000) was given by a subsidiary of the Group to the

government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the “Malaysia Project”). The corporate guarantee remains in force and effect until 27 January 2019. Further details of the Malaysia Project are set out in the Company’s announcements dated 4 July 2011 and 3 November 2011.

Save as disclosed above, at 30 June 2012, the Group did not have any significant contingent liabilities.

16. CAPITAL COMMITMENTS

The Group had the following capital commitments as at the end of the reporting period:

	30 June 2012 (Unaudited) <i>HK\$’000</i>	31 December 2011 (Audited) <i>HK\$’000</i>
New service concession arrangements on a TOT basis:		
Authorised, but not contracted for	228,012	230,827
Contracted, but not provided for	<u>450,825</u>	<u>396,699</u>
	<u>678,837</u>	<u>627,526</u>
New service concession arrangements on a BOT basis:		
Authorised, but not contracted for	197,673	339,440
Contracted, but not provided for	<u>2,858,716</u>	<u>2,369,592</u>
	<u>3,056,389</u>	<u>2,709,032</u>
New service concession arrangements on a Build-Own-Operate basis:		
Contracted, but not provided for	<u>974,362</u>	<u>—</u>
Capital contribution to jointly-controlled entities:		
Contracted, but not provided for	<u>50,027</u>	<u>235,706</u>
Acquisition of subsidiaries:		
Contracted, but not provided for	<u>457,352</u>	<u>145,679</u>
Total capital commitments	<u><u>5,216,967</u></u>	<u><u>3,717,943</u></u>

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are not included in the above, is as follows:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Authorised, but not contracted for	709,301	707,596
Contracted, but not provided for	<u>482,818</u>	<u>502,969</u>
	<u><u>1,192,119</u></u>	<u><u>1,210,565</u></u>

17. EVENTS AFTER THE REPORTING PERIOD

- (a) On 18 July 2012, the Company and Beijing Enterprises Holdings Limited ("BEHL"), a substantial shareholder of the Company entered into a framework agreement (the "Framework Agreement"), pursuant to which, among other things, the following revisions were made on certain terms of the exclusivity agreement entered into between the Company and BEHL on 21 December 2010 in relation to the proposed injection of assets and operation currently owned by BEHL and/or its subsidiaries to the Company (the "Proposed Injection"):
- (i) the scope of the Proposed Injection was revised and comprised certain sewage treatment and water supply operations (the "Revised Subject Assets"); and
 - (ii) pursuant to the exclusivity agreement, the consideration in respect of the acquisition of the Revised Subject Assets shall be satisfied by way of the issuance of the ordinary shares of the Company at approximately HK\$1.9788 per share (the "Consideration Shares Price"). Upon signing of the framework agreement, the Consideration Shares Price was fixed at HK\$1.62 per share.

Further details of the Framework Agreement are set out in the Company's announcement dated 18 July 2012.

- (b) On 1 August 2012, the Company entered into a note purchase agreement with, amongst others, an institutional investor in Hong Kong independent to the Group, pursuant to which, the Company issued a note (the "Note") in the principal amount of RMB1,200,000,000 (equivalent to HK\$1,463,415,000) to be due on 7 August 2021 and it shall be an event of default if:
- (i) BEHL does not or ceases to beneficially own, directly or indirectly, at least 35% of the voting rights of the issued share capital of the Company;

- (ii) BEHL does not or ceases to supervise the Company;
- (iii) BEHL is not or ceases to be, directly or indirectly, the single largest shareholder of the Company; and/or
- (iv) the nominees of BEHL cease to comprise the majority of the members of the Company's Board.

Further details of the Note are set out in the Company's announcement dated 1 August 2012.

18. RELATED PARTY DISCLOSURES

- (a) The Group entered into the following material transactions with related parties during the period:

Name of the related party	Nature of transaction	Notes	For the six months ended 30 June	
			2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Jointly-controlled entity				
Aqualyng-BEWG China Desalination Company Limited	Technical service income	(i)	—	30,793
Non-controlling equity holders of the Group				
Meishi International Investment Group Limited	Interest income	(ii)	24,586	11,920
Yunnan Water Industry Investment Co., Limited* (雲南省水務產業投資有限公司)	Interest income	(iii)	—	3,253
Mr. So King Yuk and Mr. Liang Jianhua	Interest income	(iv)	23,224	—

- (i) The price for the technical service income was determined at a rate mutually agreed between the Group and the jointly-controlled entity.
- (ii) The interest income was charged at the rates of the PRC 1-3 year bank loan rate and the PRC 5-year or above bank loan rate per annum.
- (iii) The interest income was charged at the rate of 4.77% per annum.
- (iv) The interest income was charged at the PRC 1-3 year bank loan rate per annum.

* for identification purpose only

(b) Transactions with other state-owned entities in Mainland China

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively “Other SOEs”). During the period, the Group has transactions with Other SOEs including, but not limited to, the sale of piped water, provision of sewage treatment and construction services, bank deposits and borrowings, and utilities consumptions. The Directors consider that the transactions with the Other SOEs are activities in the ordinary course of the Group’s business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the Other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies are not carried out on a non-market terms and do not depend on whether or not the customers are the Other SOEs. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$’000</i>	<i>HK\$’000</i>
Short term employee benefits	7,991	1,856
Pension scheme contributions	<u>79</u>	<u>18</u>
Total compensation paid to key management personnel	<u><u>8,070</u></u>	<u><u>1,874</u></u>

19. COMPARATIVE AMOUNTS

As explained in note 2 to these unaudited interim condensed consolidated financial statements, due to the reorganisation of the business operation of the jointly-controlled entities into reportable operating segments, the respective comparative amounts in note 2 to these unaudited interim condensed consolidated financial statements have been reclassified and restated to conform to the current period’s presentation.

20. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2012 amounted to HK\$4,801,419,000 (unaudited) (31 December 2011: HK\$4,983,500,000) and HK\$18,819,445,000 (unaudited) (31 December 2011: HK\$18,078,966,000), respectively.

D. INDEBTEDNESS STATEMENT**Borrowings**

At the close of business on 31 August 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had secured bank loans of HK\$3,413,087,000, unsecured bank loans of HK\$4,828,656,000, unsecured other loans of HK\$260,883,000, corporate bonds of HK\$2,365,244,000, a note payable of HK\$1,457,241,000 and a finance lease payable of HK\$21,057,000.

The secured bank loans and finance lease payable of the Group as at 31 August 2012 are secured by:

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising property, plant and equipment, operating concessions and receivables under service concession arrangements) which are under the management or ownership, as appropriate, of the Group pursuant to the relevant service concession agreements signed with the grantors;
- (ii) mortgages over a building and the water fee collection right of a water distribution operation;
- (iii) guarantees given by the Company and/or its subsidiaries;
- (iv) pledges over certain of the Group's equity interests in subsidiaries; and/or
- (v) pledges over certain of the Group's bank balances.

Contingent Liabilities

At the close of business on 31 August 2012, the Group had the following contingent liabilities:

- (i) a corporate guarantee at a maximum amount of RM49,162,000 (equivalent to HK\$121,966,000) 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, which remains in force and effect until 27 January 2019; and
- (ii) a corporate guarantee at a maximum amount of RMB5,000,000 (equivalent to HK\$6,098,000) given by a subsidiary of the Group to the government of Hainan province, the PRC, in respect of the specific performance of the duties by the Group under certain entrusted management arrangements of the sewage treatment operations in Hainan province, the PRC, which remains in force and effect until 21 March 2015.

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 31 August 2012, any other outstanding liabilities or any debt securities, or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance (other than normal trade bills) or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

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30 November 2012

Board of the Directors**Beijing Enterprises Water Group Limited**

66th Floor, Central Plaza,
18 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

RE: Fair Value of Future Income in the Coming Six Financial Years Commencing from 1 January 2013 until 2018 in Relation to the Phase 1 of No. 9 Water Treatment Plant, Beijing, the PRC

We refer to the instruction from Beijing Enterprises Water Group Limited (the “Company” or “BEWG”) to provide opinion of the fair value of the water purification fee in the coming six financial years commencing from 1 January 2013 until 2018 in relation to the Phase 1 of No. 9 water treatment plant (the “Beijing Water Plant”) after deducting the state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant (the “Future Income”), referring to the document regarding the equity transactions and annual revenue transfer agreement 《股權買賣和年度收入轉讓總協議》 dated on 26 September 2012 and signed between the Company and Beijing Enterprises Holdings Limited (“BEHL”) (collectively known as the “Master Agreement”).

This valuation report is for the Company’s publication purpose and will be attached to publications made by the Company to its shareholders. We confirm that we have made relevant investigations, enquiry and obtained such further information, as we consider necessary for the purpose of providing our opinion. The valuation date is 1 August 2012 (the “Valuation Date”).

BASIS OF VALUATION

We have observed and followed the standards laid down by “The HKIS Valuation Standards on Trade-Related Business Assets and Business Enterprises (First Edition 2004)”, Business Valuation Standards (2005) of The Hong Kong Business Valuation Forum and International Valuation Standards (the “IVS”).

Our valuation is conducted on a fair value basis. Fair value is defined as “the estimated amount for which an asset should be exchanged on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

DESCRIPTION OF THE FUTURE INCOME

According to a service concession agreement dated 13 July 1998 entered into BEHL and Beijing Municipal Water Group Co., Ltd. (“Beijing Municipal Water”) regarding the purchase of an operating concession right to operate the Beijing Water Plant (the “Service Concession”), Beijing Municipal Water granted an operation concession to BEHL for a concession fee of RMB1,500 million to operate water purification business at the Beijing Water Plant for a term of 20 years expiring in 2018.

The Beijing Water Plant is situated in the northern district of Beijing Municipality. The Beijing Water Plant is one of the largest water purification plants in Beijing Municipality in terms of production capacity and one of water purification plants that use surface water as their source of raw water. Beijing Municipal Water is obliged to pay BEHL for the water purification fee under the terms of the Service Concession. In accordance with the Master Agreement, BEHL is responsible for paying any amount so received as water purification fee under the Service Concession to the Company after deducting all state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant in the coming six financial years commencing from 1 January 2013 until 2018.

In the course of this valuation, the Future Income to be received by the Company is defined as the water purification fee in the coming six financial years commencing from 1 January 2013 until 2018 after deducting the state and local taxes in the PRC and operating cost in respect of the operation of the Beijing Water Plant.

Based on the Master Agreement and as advised and confirmed by the Directors of the BEHL, the Company is entitled to receive the Future Income.

We have taken into consideration the documents and agreements provided by the Company as follows:

1. Raw water supply and water purification acquisition agreement 《原水供應及淨化水收購協議》 regarding the concession agreement of Phase 1 of No. 9 water treatment plant in Beijing (“Beijing Water Plant”) and authorized to operate water supply processing and direct marketing business agreement 《關於授權經營自來水加工及定向銷售業務的協議》 were signed between BEHL and Beijing Municipal Water dated on 13 July 1998;
2. Beijing Water Plant regarding the application report for operational subsidy from 2008 to 2010 《北京市第九水廠一期2008年 - 2010年度運營補助資金申請報告》 was reviewed by Beijing Municipal Commission of Development & Reform (北京市發展和改革委員會) dated on 8 April 2010;
3. Meeting minutes among Beijing Municipal Government, Beijing Water Plant and BEHL regarding the concession right to the BEHL dated 29 June 2010 (the “Meeting Minutes”).

On the basis of the legally binding decisions listed in the meeting minutes (the “Meeting Decisions”), BEHL would be entitled under the Concession Agreement to a non-guaranteed annual net income (that is water purification fee less operating costs) after tax amount of RMB190 million (reduced from RMB210 million). In accordance with the terms of the Meeting Decisions, the Future Income shall be RMB190 million annually in the coming six financial years until 2018; and

4. Commissioned operational maintenance agreement 《委托運營維護協議》 and Supplementary agreement on raw water supply and water purification acquisition agreement 《原水供應及淨化水收購協議》 were signed between BEHL and Beijing Municipal Water dated on 8 April 2011.

The above documents have stipulated the historical operation record including net income of the Beijing Water Plant from 2008 to 2010 and the discussion of Beijing Municipal officials regarding investment return of the Beijing Water Plant. Based on the information, the amount of the Future Income is expected to be RMB190,000,000 per year in the coming six financial years from 1 January 2013 until 2018.

INDUSTRY OVERVIEW

It is well recognized that China is facing the severe problem of water shortage due to the large population, underdeveloped infrastructure and the pollution level. According to the report of the World Bank, the renewable internal freshwater resources per capita of China in 2009 are 2,112.8 cubic meters, compared to the global average of 6,266.1 cubic meters. The per capital water availability in Beijing has declined from 1,000 cubic meters in 1949 to less than 230 cubic meters in 2007, nearly 1/8 of average of China per capita. In 2010, the total population of Beijing has reached nearly 20 million; while the total water use is around 3.6 billion cubic meters.

Water shortage already becomes a significant threat to China’s future economic development. Developing China’s water industry is a priority for the China Government.

Water industry in China

The water industry in China has long been dominated by the government. China starts its water privatisation journey in the early 1990s, and the milestone is 2002 when the PRC Government officially opened up water services to the market. The water industry could be divided into the following five categories:

Fresh water resource:	Management of lakes, reservoirs and other resources
Raw water distribution:	Transporting water natural resources to tap water treatment facilities
Tap water supply:	Responsible for the treatment and distribution of tap water to end users
Waste-water treatment:	Responsible for sewage treatment
Water reuse:	Recycling waste water for further use

For the companies in the water industry of China, the business mainly focuses on tap water supply, wastewater treatment and water reuse through water plants. There might have now more than 3,000 water and sewage treatment plants in China, however, the industry remains very fragmented. Due to the low level of concentration, and capital intense nature of this industry, there will be more M&A activities in the future.

BOT & TOT Mode

The common business model is to operate water and sewage treatment plants projects for local governments under a BOT/TOT model (BOT: build-operate-transfer, TOT: transfer-operate-transfer).

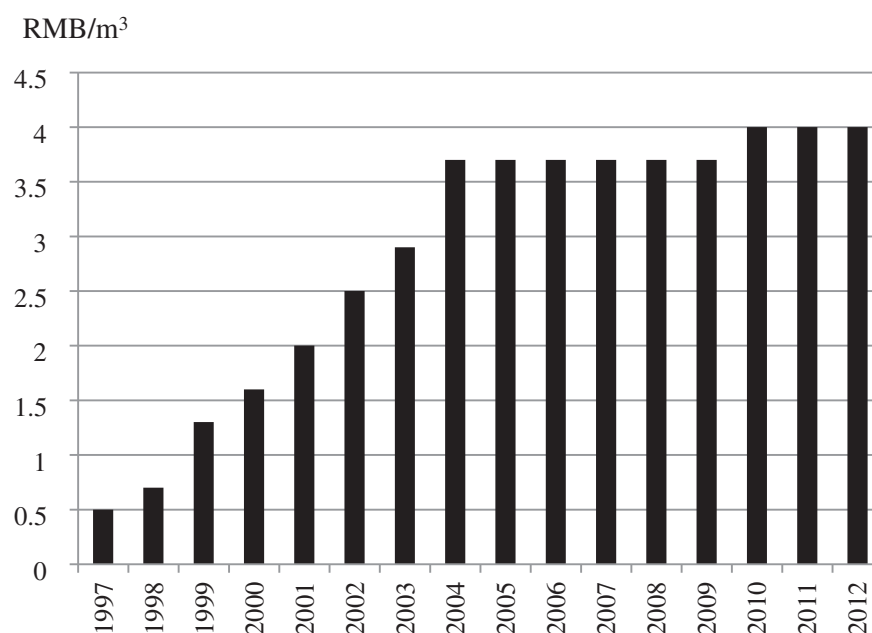
In a TOT project, the owner of the project (normally the government) transfer the property right and operating power of a built project to some investor with charges, and then the investor will operate and manage within a stipulated period. When the contract expires, the investors will transfer the project back to the project owner. While in a BOT project, the investor also needs to build the project. Therefore, the main income of a BOT project includes both construction income and operation income. The normal contract period is normally 20-30 years for both BOT and TOT projects.

For a typical TOT project, one of the major risks is the political risk, which includes the creditworthiness, and the financial capability of local government. Since the water tariff in China is regulated by the government, it also brings additional risks to TOT projects.

Water Tariff in China

The integrated tap-water tariff is made up of three components: raw water resources charge, tap-water supply tariff, and wastewater treatment tariff, which is collected all together by the tap-water supply operators. Raw water distributors and wastewater treatment operators are paid by the local governments accordingly.

Water tariffs are currently set and approved by local governments based on a local hearing mechanism based on the National Guidelines on Water Tariff published in 1998, which set out the principle that the water tariff should cover fully the operation and maintenance costs, depreciation and financing costs of the water supply operators. It has led to an upward trend of water tariff in the past decade. It is believed that the water tariffs will continue rising, which will boost the profit level of water treatment companies and stimulate more TOT/BOT projects and M&A activities.

Fig. 1 Beijing: Residential Water Tariffs (RMB/m³)

ASSESSMENT METHODOLOGIES

Description of Valuation Methods

In determining the fair value of the Future Income, we have considered three generally accepted valuation approaches in the valuation, namely Market Approach, Income Approach and Asset Approach.

Market Approach

The market approach provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available.

Under this approach the first step is to consider the prices for transactions of identical or similar assets that have occurred recently in the market. If few recent transactions have occurred, it may also be appropriate to consider the prices of identical or similar assets that are listed or offered for sale provided the relevance of this information is clearly established and critically analysed. It may be necessary to adjust the price information from other transactions to reflect any differences in the terms of the actual transaction and the basis of value and any assumptions to be adopted in the valuation being undertaken. There may also be differences in the legal, economic or physical characteristics of the assets in other transactions and the asset being valued.

Income Approach

The income approach provides an indication of value by converting future economic benefits to a single current capital value.

This approach considers the income that an asset will generate over its useful life and indicates value through a capitalization process. Capitalisation involves the conversion of income into a capital sum through the application of an appropriate discount rate. The income stream may be derived under a contract or contracts, or be non-contractual, e.g. the anticipated profit generated from either the use of or holding of the asset.

Methods that fall under the *income approach* include:

- Income capitalization, where an all-risks or overall capitalization rate is applied to a representative single period income,
- Discounted cash flow where a discount rate is applied to a series of cash flow for future periods to discount them to a present value,
- Various option pricing models.

The *income approach* can be applied to liabilities by considering the cash flows required to service a liability until it is discharged.

Cost Approach

The cost approach provides an indication of value using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction.

This approach is based on the principle that the price that a buyer in the market would pay for the asset being valued would, unless undue time, inconvenience, risk or other factors are involved, be not more than the cost to purchase or construct an equivalent asset. Often the asset being valued will be less attractive than the alternative that could be purchased or constructed because of age or obsolescence. Where this is the case, adjustments may need to be made to the cost of the alternative asset depending on the required basis of value.

Selection of Valuation Methods

Given the unique characteristics of the Future Income, market approach is inappropriate since it relies heavily on data from market transactions of comparable assets and we have not identified any comparable market transactions. The asset approach is also considered inappropriate since the cost to reproduce or replace cannot be reliably measured.

The income approach is appropriate for the valuation as it captures the expected future benefits. We have adopted the discounted cash flow method for the valuation of the fair value of the Future Income. Using this method, the fair value is determined by applying an appropriate discount rate to the Future Income of each period. The present value of the expected cash flows is calculated as follows:

$$PVCF = CF_1/(1+r)^1 + CF_2/(1+r)^2 + \dots + CF_n/(1+r)^n$$

In which:

PVCF = Present value of the expected cash flows;

CF = Expected cash flow;

r = Discount rate;

n = Number of years

DISCUSSION OF ADOPTED VALUATION PARAMETERS

Discount Rate

Discount rate reflects the risk of operating a business. In determining the discount rate of a cash flow, we have to consider the risk of operating the business that generates the cash flow.

We have examined the risk factors of the cash flow associated to the Future Income, such as operation risk of the Beijing Water Plant, industry risk in water treatment industry, economic risk of China and other general social/political risk. By nature, these factors are similar to operating a Transfer-Operate-Transfer (“TOT”) project. We concluded that in substance, the Future Income represents the reward of investing in a TOT project, and its discount rate can be determined with reference to discount rates of TOT projects.

Internal rate of return (“IRR”) are commonly used to evaluate the desirability of project investments. Under IRR analysis, an investment is considered acceptable if its IRR meets or exceeds the cost of capital. IRR is often adopted as discount rate for projects similar in nature. Thus, it is appropriate to use IRR of TOT projects observed in the market as the discount rate for the Future Income.

We have made reference to the Company’s project investments management requirement which regulates the IRR of the Company’s investment projects. We have also reviewed the IRRs of all water plant investments, 52 projects, of the Company undertaken recently during the sampling period from January 2010 to September 2012. The above sampling period was chosen, since 1) the sample size during the period was over 50, which is considered adequate to develop a reliable valuation study, 2) the IRRs of all the projects were within a reasonably narrow range, and 3) the economic situations remained stable during the period with no material changes which might materially affect the operations of the water purification business.

All the projects indicated that the IRRs were relatively stable with the median and mean IRR of 11.1% and 11.7% respectively. Since the water treatment capacity, reflecting the scale of the operation, could be one of the key factors to consider when determining the IRR, we have made use of the daily water treatment capacity as the selection criteria for choosing the comparables. Out of a total of 52 recent projects, there were 10 projects (as listed in Table 1) with capacities of 80,000 tonnes or above per day, which is considered large scaled plants and of similar scale to the Beijing Water Plant. The IRRs of the selected 10 projects range from approximately 10.5% to 13.9% with the median and mean of 11.1% and 11.5% respectively.

To further verify the reasonableness of the IRR, we have made further reference to our internal database. Having been engaged in a significant amount of infrastructure valuation assignments involving BOT/ TOT projects, with underlying ranging from toll road, toll bridge, sewage water plant, water purification plant, power plant, waste heat power generation plant, and garbage incineration-power generation plant, we have compiled a comprehensive database of infrastructure project IRRs. In accordance to our database, we have selected 7 recent projects in the water treatment industry in mainland China with similar business model to Beijing Water Plant for the period since 2006. They are all TOT projects and being selected. The IRRs of these comparables range from approximately 10% to 12% with the median and mean of 11.2% and 11.1% respectively.

All the medians and the means of the comparables above show narrow bands, in this regard, we are of the opinion that 11.0% is an appropriate discount rate for the Future Income.

Table 1: The list of selected 10 comparable water plant projects

	Project location	Operation type	Concession start date	Remaining useful life of concession (include 2012)	Water treatment capacity (tonnes per day)
1	Fujian, the PRC	BOT	2010	25 years	100,000
2	Hunan, the PRC	BOT	2010	25 years	100,000
3	Beijing, the PRC	BOT	2012	30 years	80,000
4	Guizhou, the PRC	BOT	2010	30 years	100,000
5	Guizhou, the PRC	TOT	2010	29 years	975,000
6	Zhejiang, the PRC	TOT	2011	29 years	80,000
7	Hunan, the PRC	TOT	2011	23 years	80,000
8	Liaoning, the PRC	BOT	2011	30 years	100,000
9	Sichuan, the PRC	BOT	2011	30 years	100,000
10	Hunan, the PRC	BOT	2012	28 years	100,000

Note: The IRRs of the above 10 projects range from approximately 10.5% to 13.9% with the median and mean of 11.1% and 11.5% respectively.

OUR INVESTIGATION AND PROCEDURE

Our investigation covers the discussion with the management representative of the Company, collecting the information of the Company, operations and prospects of the Beijing Water Plant and attending the management interview. We also take the industry trend and relevant law requirements into consideration. We requested detailed information about the Company's position in order to conduct a detailed review and make an impartial and independent valuation on the Future Income. We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Company or its management team are prepared in reasonable care and diligence.

The factors considered in this valuation included, but were not limited to, the following:

- The terms and conditions of the Service Concession;
- The economic condition and the industry outlook in general;
- Market-derived investment returns of entities engaged in similar lines of business;
- The financial and business risks of the Company including the continuity of income and the projected future results;
- Identification and recognition of the valuation scope;
- The transferability of the Future Income;
- The nature and prospect of the water plant business in PRC;
- The economic outlook and national policies that may affect the business;
- Past performance of other similar companies in PRC;
- The potential risks related to the water plant business.

We used reasonable effort in investigating the source of information and basis of estimation regarding the Future Income. We gathered and obtained information from the Company and sought for other publicly available evidence. But we are unable to accept any responsibility as for the reasonableness, accuracy or validity of the Future Income.

Management of the water plant is assumed to be competent, and the ownership to be in responsible hands, unless otherwise noted in this report. The quality of the management can have a direct effect on the value of the subject.

Our conclusion assumes continuation of prudent management policies over whatever period of time is reasonable and necessary to maintain the character and integrity of the asset appraised.

Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject because of future country, provincial or local legislations/regulations, including any environmental or ecological matters or interpretations thereof.

All facts and data set forth in our report are true and accurate to the best of our knowledge and belief. No investigation of legal fees or title of the subject has been made, and the owner's claim to the interests to the Services Concession has been assumed valid. No consideration has been given to liens or encumbrances that may be against the business.

During the course of the valuation, we have considered information provided by the Company. We believe we have been provided with sufficient information, of which the sources are reliable, but no further responsibility is assumed for their accuracy. We have had verbal discussions with the Company concerning the past, present, and prospective operating results of the subject. We assume that there are no hidden or unexpected conditions associated with the businesses that might adversely affect the reported value.

VALUATION ASSUMPTIONS

Due to the changing environment in which the Company is operating, a number of commercial assumptions have been prepared by the Directors of the Company in order to sufficiently support our concluded opinion of the Fair Value. We have discussed the assumptions with the management, and are satisfied that the assumptions have been properly made with due care and consideration in compliance with Notes to Takeover Code Rule 10.2 and Rule 11.2(a). The assumptions are listed as follows:

- BEHL will continue to manage and operate the water purification business at the Beijing Water Plant and fulfill all legal and regulatory requirements for the continuation of the water purification business.
- There will be no material changes in politics, laws, rules or regulations, or financial or economic or market conditions where Beijing Water Plant currently operates which may materially and adversely affect the operations of the water purification business.
- There will not be any adverse events beyond the management's control, including natural disasters, catastrophes, fire, explosion, flooding, acts of terrorism and epidemics that may adversely affect the operation of Beijing Water Plant.
- The Future Income in relation to the Beijing Water Plant shall remain constant based on the Meeting Decisions, which according to the Company's PRC legal adviser, Haiwen & Partners, are legally binding on Beijing Municipal Water under the current PRC legal regime. The assumption of the Future Income remaining constant is based on a "net" basis after the deductions of all state and local taxes in the PRC and operating costs in respect of the operation of the Beijing Water Plant. In these regards, the forecast of the amount of RMB190 million in respect of the Future Income for the six financial years until 2018 on an annual basis is net of the deductions, irrespective of whether the operating costs are variable or remaining constant.

- There will be no major changes in the current taxation law in the PRC where Beijing Water Plant currently operates which will materially affect the profits, that the rates of tax payable remain unchanged and that all applicable laws and regulations in relation to taxation in the PRC will be complied with.
- The Company will receive the Future Income on time based on the confirmation from BEHL.

GENERAL SERVICE CONDITIONS

The service(s) provided by CBRE HK Limited will be performed in accordance with The HKIS Valuation Standards on Trade-Related Business Assets and Business Enterprises (First Edition 2004), Business Valuation Standards (2005) of The Hong Kong Business Valuation Forum and the IVS. Our compensation is not contingent in any way upon our conclusions of value.

This report and valuation shall be used only in its entirety and no part shall be used without making reference to the whole report. Our report is to be used only for the specific purpose stated herein.

No opinion is intended to be expressed for matters which require legal or other specialized expertise or knowledge, beyond that customarily employed by appraisers. Any decision to purchase, sell or transfer any interest in the subject asset shall be the owners'/ investors' sole responsibility, as well as the structure to be utilized and the price to be accepted.

The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

In all matters that may be potentially challenged by a Court or others, we do not take any responsibility for the degree of reasonableness of contrary positions that others may choose to take, nor for the costs or fees that may be incurred in the defense of our recommendations against such challenge(s). We will, however, retain our supporting work papers for your matter(s), and will be available to assist in active defense of our professional positions taken, at our then current rates, plus direct actual expenses and according to our then standard professional agreement.

The valuation may not be used in conjunction with any other valuation or study. The value conclusion(s) stated in this valuation is based on the program of utilization described in the report, and may not be separated into parts. No change of any item in any of the valuation shall be made by anyone other than CBRE and we shall have no responsibility for any such unauthorized change.

Unless otherwise stated in this report, the valuation of the subject has not considered or incorporated the potential economic gain or loss resulting from contingent assets, liabilities or events existing as of the Valuation Date.

CONCLUSION

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company or CBRE HK Limited.

Based on the valuation methodology adopted, we are of the opinion that the fair value of the water purification fee in the coming six financial years commencing from 1 January 2013 until 2018 in relation to the Beijing Water Plant after deducting the state and local taxes in the PRC and operating cost in respect of the operation of the Beijing Water Plant, as at 1 August 2012, was in the sum of **RMB804,000,000 (RENMINBI EIGHT HUNDRED AND FOUR MILLION ONLY)**.

We are of the opinion that the valuation result as at the current date would not be materially different from the valuation result as at the Valuation Date.

We hereby certify that we have neither present nor prospective interests in the Company or the value reported.

For and on behalf of
CBRE HK Limited

Alex PW Leung
Registered Business Valuer of Hong Kong
Business Valuation Forum
MRICS MHKIS RPS(GP)
Senior Director
Business and Financial Instruments
Valuation & Advisory Services
Greater China

Notes: Mr Alex PW Leung, MRICS, MHKIS, RPS(GP), is a registered business valuer of Hong Kong Business Valuation Forum. He possesses of over 8 years experience in the business and financial instruments valuation.



22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

30 November 2012

The Directors
Beijing Enterprises Water Group Limited
66/F., Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We have performed the work described below, in respect of the arithmetical accuracy of the calculations of the discounted cash flow forecast (hereinafter referred to as the “Underlying Forecast”) underlying the valuation dated 30 November 2012 prepared by CBRE HK Limited in respect of the estimated future net cash income (after deducting all state and local taxes in the People’s Republic of China and operating costs) generated from the operation of Phase 1 of No. 9 water treatment plant in Beijing, which is currently operated by Beijing Enterprises Holdings Limited group under an operating concession arrangement, for the six years ending 31 December 2018 (the “Future Income”) for inclusion in the shareholder’s circular of Beijing Enterprises Water Group Limited (the “Company”) dated 30 November 2012. The Underlying Forecast is regarded by The Stock Exchange of Hong Kong Limited and the Securities and Futures Commission as a profit forecast under rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and rule 11.1(a) of the Code on Takeovers and Mergers (the “Takeovers Code”), respectively.

Respective Responsibilities of Directors of the Company and the Company’s Auditors

It is solely the responsibility of the directors (the “Directors”) of the Company to prepare the Underlying Forecast. The Underlying Forecast has been prepared using a set of assumptions (the “Assumptions”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors.

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to present our conclusion solely to you, as a body, for the purpose of reporting under rule 14.62(2) of the Listing Rules and rule 10 of the Takeovers Code and for no other purpose. We are not reporting on the appropriateness and validity of the bases and the Assumptions on which the Underlying Forecast are based and our work does not constitute any valuation of the Future Income. The Underlying Forecast does not involve the adoption of accounting policies. The Assumptions used in the preparation of the Underlying Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. We have not reviewed, considered or conducted any work

on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than that for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

Basis of Conclusion

We conducted our work in accordance with Hong Kong Standards on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Underlying Forecast prepared based on the Assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the Future Income.

Conclusion

Based on our work described above, nothing has come to our attention that causes us to believe that the Underlying Forecast, so far as the arithmetical accuracy of the calculations of the Underlying Forecast is concerned, has not been properly compiled on the basis of the Assumptions made by the Directors.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The Mizuho logo, consisting of the word "MIZUHO" in a bold, sans-serif font, with a stylized wave graphic underneath the letters "UHO".

Mizuho Securities Asia Limited

12th Floor, Chater House,
8 Connaught Road Central, Hong Kong
Tel: 2685-2000 Fax: 2685-2400

30 November 2012

The Directors

Beijing Enterprises Water Group Limited

66th Floor, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

Dear Sirs,

We refer to the valuation report dated 30 November 2012 (“**Valuation Report**”) prepared by CBRE HK Limited (the “**Valuer**”) in relation to the valuation (“**Valuation**”) of the Future Income. Unless the context requires otherwise, terms used in this letter have the same meanings as defined in the circular of Beijing Enterprises Water Group Limited dated 30 November 2012.

According to the Valuation Report, the Valuation has been arrived at using discounted cash flow methodology based on the forecast of the Future Income prepared by the Directors. The forecast of the Future Income is regarded as a profit forecast under Rule 11.1(a) of the Takeovers Code and is required to be reported on (as set out below) by us pursuant to Rule 10 of the Takeovers Code. The forecast of the Future Income has been compiled by and is the responsibility of the Directors solely.

Furthermore, our report on the qualifications and experience of the Valuer to prepare the Valuation Report is required under Rule 11.1(b) of the Takeovers Code and this letter also constitutes such report from us.

We have reviewed the Valuation Report and discussed with the Directors and the Valuer regarding the Valuation Report, including, in particular, the valuation approach, and bases and assumptions set out therein. We have also considered the letter dated 30 November 2012 addressed to yourselves from Ernst & Young regarding the arithmetical accuracy of the calculations and compilation of the discounted cash flow forecast underlying the Valuation, and noted that nothing has come to the attention of Ernst & Young that causes it to believe that the forecast of the Future Income, so far as the arithmetical accuracy of the calculations of the forecast of the Future Income is concerned, has not been properly compiled on the basis of the assumptions made by the Directors.

With regard to the qualifications and experience of the Valuer, based on our reasonable checks to assess the relevant qualification, experience and expertise of the Valuer, including review and discussions with the Valuer of the qualifications and relevant track records of the Valuer, we are satisfied that the Valuer has the qualifications and experience to compile the Valuation Report.

The assessment and review carried out by us as described in this letter are primarily based on the financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter. In arriving at our views, we have relied on information and materials supplied to us by or on behalf of third parties including the Group and the Valuer, and the opinions expressed by, and the representations of, the employees and/or the management of the Group and the Valuer, which we have assumed to be true, accurate, complete and not misleading and remain so as of the date of this letter, and that no material fact or information has been omitted therefrom. Circumstances could have developed or could develop in the future that, if known to us at the time of the issue of this letter, may alter our assessment and review. Our work does not constitute any forecast on or valuation of the Future Income.

Our role in the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver is independent financial adviser to the Independent Board Committee and Independent Shareholders. We and our respective directors and affiliates will not, whether jointly or severally, be responsible to anyone other than the Independent Board Committee and the Independent Shareholders for providing advice (strictly pursuant to the Listing Rules and the Takeovers Code) in connection with the transactions, nor will we, our respective directors and affiliates, whether jointly and severally, owe any responsibility to other parties.

On the basis of the foregoing, and the information comprising the Valuation Report, we are of the opinion that the bases and assumptions set out therein, for which the Directors are solely responsible, have been made with due care, consideration and objectivity, and on a reasonable basis.

Yours faithfully,
For and on behalf of
Mizuho Securities Asia Limited
Kelvin S. K. Lau
Managing Director
Equity Capital Markets & Corporate Finance

Listing Division
The Stock Exchange of Hong Kong Limited
12/F., One International Finance Centre,
1 Harbour View Street, Central,
Hong Kong

30 November 2012

Dear Sirs,

Re: Discloseable and connected transactions involving a proposed issue of consideration shares

We refer to the report on valuation of the Future Income dated 30 November 2012 (“**Valuation Report**”) prepared by CBRE HK Limited (“**CBRE**”), as the discount cash flow forecast approach was adopted in the valuation of the Future Income (the purpose of the valuation being to evaluate the fair value of the Future Income) as at 1 August 2012 carried out by CBRE, pursuant to Rule 14.61 of the Listing Rules, any valuation of assets (other than land and buildings) or businesses acquired by a listed issuer based on discounted cash flows or projects of profits, earnings or cash flows and where it is possible to derive a forecast or profits from such valuations, will normally be regarded as a profit forecast. Accordingly, such valuation of Future Income will be regarded as profit forecast, and therefore, the Company is required to comply with Rules 14.60A, 14.62 and 14A.56(8) of the Listing Rules. Unless otherwise indicated, capitalised terms used in this letter shall have the same meanings as those defined in the circular of the Company dated 30 November 2012.

We have discussed with CBRE about different aspects including the bases and assumption based upon which the valuation of the Future Income has been prepared, and reviewed the valuation for which CBRE is responsible. We have also considered the report from Ernst & Young, dated 30 November 2012 regarding their checking of the arithmetical accuracy of the calculations and the compilation in respect to the discounted cash flow forecast underlying the valuation prepared by CBRE on the basis of the assumptions prepared by the directors of the Company and endorsed by CBRE without reference to any particular accounting policy.

On the basis of the foregoing, we are of the opinion that the valuation of the Future Income prepared by CBRE has been made after due and careful enquiry.

Yours faithfully,
By Order of the Board
Beijing Enterprises Water Group Limited
Hu Xiaoyong
Executive Director & Chief Executive Officer

1. RESPONSIBILITY STATEMENT

All the Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. CORPORATE INFORMATION

Principal place of business in Hong Kong	66/F., Central Plaza 18 Harbour Road Wanchai Hong Kong
Company secretary	Mr. Tung Woon Cheung Eric
Authorised representatives	Ms. Qi Xiaohong Mr. Tsang Ngai Man
Auditors	Ernst & Young <i>Certified Public Accountants</i> 22/F., CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Principal share registrar and transfer agent of the Company	Butterfield Fulcrum Group (Bermuda) Limited 26 Burnaby Street Hamilton HM11 Bermuda
Hong Kong branch share registrar of the Company	Tricor Tengis Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

Principal bankers*In Hong Kong:*

Agricultural Bank of China Ltd., Hong Kong Branch
25/F., Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

China Development Bank Corporation, Hong Kong Branch
33/F., One International Finance Centre
1 Harbour View Street
Central
Hong Kong

DBS Bank Ltd., Hong Kong Branch
G/F., The Center
99 Queen's Road Central
Central
Hong Kong

Mizuho Corporate Bank Ltd., Hong Kong Branch
17/F., Two Pacific Place
88 Queensway
Hong Kong

Standard Chartered Bank (Hong Kong) Ltd
13/F., Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

In the PRC:

Bank of Beijing
No. 17C Financial Street
Xicheng District
Beijing, 100140
the PRC

Bank of China
1 Fuxingmen Nei Street
Beijing, 100818
the PRC

Bank of Communications
No.188 Lujiazui Yincheng Middle Road
Podong District
Shanghai, 200120
the PRC

The Industrial and Commercial Bank of China
No. 55 FuXingMenNei Street
Xicheng District
Beijing, 100140
the PRC

	China Construction Bank 1-1, Naoshikou Street Xicheng District Beijing, 100033 the PRC
Qualified accountant	Mr. Tung Woon Cheung Eric
BE Environmental	66/F., Central Plaza 18 Harbour Road Wanchai Hong Kong
Independent Financial Adviser	12th Floor, Chater House 8 Connaught Road Central Hong Kong
Hong Kong legal advisers to the Company	DLA Piper Hong Kong 17/F., Edinburgh Tower Landmark No. 15 Queen's Road Central Hong Kong

3. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised share capital

<i>Shares</i>	<i>HK\$</i>
15,000,000,000 (as at the Latest Practicable Date)	1,500,000,000

Issued and fully paid up or credited as fully paid

<i>Shares</i>	<i>HK\$</i>
6,909,170,486 (as at the Latest Practicable Date)	690,917,048
658,357,748 (number of the Consideration Shares to be issued for the Proposed Asset Injection)	65,835,775
118,453,090 (number of the Consideration Shares to be issued for the Proposed BE Water (Hainan) Transfer)	11,845,309
7,685,981,324 Total	768,598,132

All the issued Shares are fully paid up and rank pari passu in all respects including all rights as to dividends, voting and capital. The holders of the Consideration Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Consideration Shares. The Consideration Shares to be issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

Since 31 December 2011 (being the date to which the latest published audited accounts of the Group were prepared) and up to the Latest Practicable Date, no new Shares has been issued by the Company.

There were no outstanding warrants, options, conversion rights affecting the Shares, or securities convertible into Shares as at the Latest Practicable Date. The issued Shares are listed and traded on the main board of the Stock Exchange. No part of the issued share capital of the Company is listed on any other stock exchanges.

All the Shares in issue and the Consideration Shares to be issued will (when allotted and fully paid) rank pari passu in all respects with each other including as regards to dividends, voting rights and return of capital.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding between BE Environmental and any person that the Consideration Shares to be issued to BE Environmental in pursuance of the Proposed Asset Injection or the Proposed BE Water (Hainan) Transfer under the Master Agreement would be transferred, charged, or pledged to that persons.

4. DISCLOSURE OF INTERESTS

(a) Directors' Interests in the Shares, Underlying Shares or Debentures of the Company and its Associated Corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the

SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”), to be notified to the Company and the Stock Exchange were as follows:

(i) *Long positions in the Shares and/or underlying Shares*

Name of Directors	Personal interest	Family interest	Corporate interest	Other interest	Total	Approximate percentage of the Company’s issued share capital (Note 2)
Mr. Hu Xiaoyong	100,000	—	684,789,919 (Note 1)	—	684,889,919	9.9128%
Mr. Zhou Min	300,000	—	684,789,919 (Note 1)	—	685,089,919	9.9157%
Mr. Li Haifeng	400,000	—	—	—	400,000	0.0058%
Mr. Hou Feng	40,000	—	—	—	40,000	0.0006%

Notes:

- Messrs. Hu Xiaoyong, Zhou Min and Hou Feng, all being executive Directors, are interested in Tenson Investment Limited (“Tenson”) as to 52.62%, 44.93% and 2.45%, respectively. Tenson holds 684,789,919 shares of the Company. The Company noted from the website of the Stock Exchange that on 29 May 2012, BEHL and Tenson entered into a share mortgage whereby Tenson agreed to charge mortgaged shares of 400,000,000 ordinary shares of the Company (“Mortgaged Shares”) beneficially owned by Tenson in favour of BEHL as security for the provision of the guarantee entered into by BEHL on 29 May 2012 in favour of DBS Bank Ltd., Hong Kong Branch (“DBS”) in respect of a loan facility granted to Tenson by DBS (“Guarantee”).
- The percentage represented the number of shares over the total issued share capital of the Company as at the Latest Practicable Date of 6,909,170,486 shares.

Save as disclosed in this section of Appendix VI of this circular headed “4. Disclosure of Interests (a) Directors’ interests in Shares, underlying Shares or debentures of the Company and its associated corporations”, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors nor any of their spouse or minor children was granted any options to subscribe for shares in the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

(b) Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company under Section 336 of the SFO, the following persons and companies (other than the Directors or chief executive of the Company) had, or were deemed or taken to have interests in the Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in the shares and/or underlying shares of the Company

Name of Shareholders	Capacity in which shares were held	Long position in the shares	Approximate percentage of the Company's issued share capital (Note 5)
Beijing Enterprises Group Company Limited (Notes 1, 2 & 3)	Interest of controlled corporation	3,047,556,993	44.11%
	Security interest	400,000,000	5.79%
BEHL (Notes 1, 2 & 3)	Interest of controlled corporation	3,047,556,993	44.11%
	Security interest	400,000,000	5.79%
Tenson (Notes 2 & 4)	Beneficial owner	684,789,919	9.91%

Notes:

- Beijing Enterprises Group Company Limited is deemed to be interested in 3,047,556,993 shares as a result of its indirect holding of such shares through the following entities including its wholly-owned subsidiaries:

Name	Long position in shares
BE Environmental	3,047,556,993
BEHL	3,047,556,993
Beijing Enterprises Group (BVI) Company Limited	3,047,556,993
Beijing Enterprises Group Company Limited	3,047,556,993

BE Environmental beneficially holds 3,047,556,993 shares of the Company. BE Environmental is a wholly-owned subsidiary of BEHL, which is in turn directly held as to approximately 36.15% by Beijing Enterprises Group (BVI) Company Limited, and which is in turn held as to 100% by Beijing Enterprises Group Company Limited.

2. The Company noted from the website of the Stock Exchange that on 29 May 2012, BEHL and Tenson entered into a share mortgage whereby Tenson agreed to charge the Mortgaged Shares beneficially owned by Tenson in favour of BEHL as security for the provision of the Guarantee.
3. The long positions held by Beijing Enterprises Group Company Limited and BEHL include: (i) the 3,047,556,993 Shares as described in Note 1 above; and (ii) 400,000,000 Mortgaged Shares as described in Note 2 above. Beijing Enterprises Group Company Limited is deemed to be interested in 400,000,000 Mortgaged Shares as its indirect holding of shares of BEHL as described in Note 1 above.
4. The share capital of Tenson is beneficially owned as to approximately 52.62% by Mr. Hu Xiaoyong, as to approximately 44.93% by Mr. Zhou Min, and as to approximately 2.45% by Mr. Hou Feng, all being executive Directors.
5. The percentage represented the number of shares over the total issued share capital of the Company as at the Latest Practicable Date of 6,909,170,486 shares.

Save as disclosed in this section of Appendix VI of this circular headed “4. Disclosure of Interests (b) Substantial Shareholders”, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed in this section of Appendix VI of this circular headed “4. Disclosure of Interests (b) Substantial Shareholders”, none of the Directors or proposed Director is a director or employee of a company which has an interest in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by the members of the Group after the date of two years immediately preceding the date of the Announcement, and up to the Latest Practicable Date, and are or may be material:

- i. the Master Agreement;
- ii. the Framework Agreement;

- iii. the underwriting agreement dated 21 December 2010 as amended by a supplemental deed dated 25 January 2011 between the Company and BE Environmental in relation to the underwriting and other arrangements in respect of the Open Offer pursuant to which BE Environmental, being the underwriter of the Open Offer, has agreed to subscribe or procure the subscription for 1,284,876,231 Shares at the subscription price of HK\$1.485 per Share for no underwriting commission; and
- iv. the exclusivity agreement entered into between the Company and BEHL dated 21 December 2010 as amended by a supplemental deed dated 25 January 2011 between the Company and BEHL setting out the exclusivity provision and other basic understanding between the parties thereto in connection with the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer.

6. SHAREHOLDINGS AND DEALINGS

- i. The shareholding of BE Environmental in the Company immediately before and after Completion of each of the Proposed Asset Injection and the Proposed BE Water (Hainan) Transfer is set out in the section headed “Changes in the Shareholdings Structure of the Company” in the “Letter from the Board” in this circular. As at the Latest Practicable Date, neither the Company nor the Directors are interested in any shares, convertible securities, warrants, options or derivatives in respect of the shares of BE Environmental, nor had the Company or the Directors dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the shares of BE Environmental during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date.
- ii. As at the Latest Practicable Date, none of the directors of BE Environmental was interested in any Shares, convertible securities, warrants, options or derivatives in respect of the Shares; nor had any such directors dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the Shares during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date.
- iii. As at the Latest Practicable Date, save as disclosed under paragraph 4(a) of this Appendix above, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives in respect of the Shares. None of such persons have dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Shares or any shares, convertible securities, warrants, options or derivatives of the shares of BE Environmental during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date. None of the Directors is interested in any shares, convertible securities, warrants, options or derivatives in respect of the shares of BE Environmental.

- iv. Save for the Shares held by BE Environmental and parties acting in concert with it as disclosed in section headed “Changes in the Shareholdings Structure of the Company” in the “Letter from the Board” in this circular and in this section of appendix VI of this circular headed “4. Disclosure of Interests (b) Substantial Shareholders”, as at the Latest Practicable Date, none of BE Environmental and parties acting in concert with it owned or controlled any other Shares, convertible securities, warrants, options or derivatives in respect of the Shares; nor had any such persons dealt for value in any Shares, convertible securities, warrants, options or derivatives in respect of the Shares during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date.
- v. As at the Latest Practicable Date, there is no person who, prior to the posting of this circular, has irrevocably committed himself/herself to vote for or against the resolutions on the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and/or the Whitewash Waiver. The Directors, namely, Mr. Hu Xiaoyang, Mr. Zhou Min, Mr. Li Haifeng, and Mr. Hou Feng, who are eligible to vote at the SGM in respect of the ordinary resolutions to approve the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver, intend, in respect of their own beneficial shareholdings, to vote in favour of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Whitewash Waiver at the SGM.
- vi. As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with (i) BE Environmental or any parties acting in concert with it; or (ii) the Company or any person who was an associate of the Company by virtue of class (1), (2), (3) or (4) of the definition of “associate” as defined under the Takeovers Code.
- vii. As at the Latest Practicable Date, neither any pension fund of the Group nor a subsidiary of the Company nor any adviser of the Company as specified in class (2) of the definition of associate in the Takeovers Code, owned or controlled any Shares, convertible securities, warrants, options, or derivatives of the Shares and none of them had dealt in any shares, options, warrants, derivatives or securities convertible into shares of the Company and/or BE Environmental or BEHL during the Relevant Period.
- viii. No Shares were managed on a discretionary basis by nor were there any dealings in any shares, options, warrants, derivatives or securities convertible into shares of the Company and/or BE Environmental or BEHL during the Relevant Period by any fund managers connected with the Company.
- ix. As at the Latest Practicable Date, no Shares, convertible securities, warrants, options or derivatives in respect of the Shares have been borrowed or lent by the Company and/or the Directors.

7. MARKET PRICE

- (a) The table below sets out the closing prices of the Shares quoted on the Stock Exchange on the (i) last Business Day of each of the calendar month during the period between March 2012 to September 2012, being six months preceding the date of the Announcement and ending on the Latest Practicable Date, (ii) the Last Trading Day; and (iii) the Latest Practicable Date, respectively:

Month	Closing price per Share (HK\$)
30/03/2012	1.77
30/04/2012	1.77
31/05/2012	1.61
29/06/2012	1.45
31/07/2012	1.45
31/08/2012	1.55
26/09/2012 (being the Last Trading Day)	1.82
28/09/2012	1.85
31/10/2012	1.78
Latest Practicable Date	1.83

- (b) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months preceding the date of the Announcement, and ending on the Latest Practicable Date were HK\$1.94 on 26 March 2012 and 27 March 2012 and HK\$1.35 on 18 July 2012, respectively.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have any interests in businesses which competed or were likely to compete, enter directly or indirectly, with the business of the Group other than those business to which the Directors were appointed as directors to represent the interests of the Company and/or the Group.

9. SERVICE CONTRACTS

As at the Latest Practicable Date:

- i. none of the Directors had entered or was proposing to enter into any service contract with the Company, or any member of the Group, which is not terminable by the Group within one year without payment of compensation (other than statutory compensation);
- ii. there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which (including both continuous and fixed term contracts) had been entered into or amended within six months before the date of the Announcement;

- iii. there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which are continuous contracts with a notice period of 12 months or more; and
- iv. there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which are fixed terms contracts with more than 12 months to run irrespective of the notice period.

10. OTHER INTERESTS

As at the Latest Practicable Date:

- i. none of the Directors or the chief executive of the Company had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up;
- ii. none of the Directors was given any benefit as compensation for loss of office or otherwise in connection with the Proposed Asset Injection, Proposed BE Water (Hainan) Transfer and/or the Whitewash Waiver;
- iii. none of the Directors had entered into any agreement or arrangement with any other person which is conditional on or dependent upon the outcome of the Proposed Asset Injection, Proposed BE Water (Hainan) Transfer and/or the Whitewash Waiver or otherwise connected with the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and/or the Whitewash Waiver;
- iv. there was no material contract entered into by BE Environmental and parties acting in concert with it in which a Director had a material personal interest;
- v. none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group; and
- vi. none of BE Environmental or any parties acting in concert with it had entered into any agreement, arrangement or understanding (including any compensation arrangement) with any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and/or the Whitewash Waiver.

11. NO MATERIAL CHANGES

The Board confirms that there have been no material changes in the financial or trading position or outlook of the Group since 31 December 2011, being the date to which the latest audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

12. CONSENTS AND QUALIFICATIONS

The followings are the names and the qualifications of the professional advisers who have given opinion or advice which are contained or referred to in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
Mizuho Securities Asia Limited	A licensed corporation for types 1 (dealing in securities), 2 (dealing in futures contracts), 4 (advising on securities), 5 (advising on futures contracts), 6 (advising on corporate finance) and 9 (asset management) regulated activities under the SFO and the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders
CBRE HK Limited	an independent valuer
Haiwen & Partners	legal adviser to the Company as to PRC laws

As at the Latest Practicable Date, none of Ernst & Young, CBRE HK Limited, Haiwen & Partners nor the Independent Financial Adviser had any direct or indirect shareholding in the share capital of any member of the Group nor did they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group or have any interest, either directly or indirectly, in any assets which have been, since 31 December 2011, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of Ernst & Young, CBRE HK Limited, Haiwen & Partners and the Independent Financial Adviser has given and has not withdrawn their respective written letters of consent to the issue of this circular with the inclusion of their reports, letters, opinion and advice and all references to their names in the form and context in which they are included.

The letter and advice given by the Independent Financial Adviser is given as of the date of this circular for incorporation herein.

The valuation report given by CBRE HK Limited and the Letter from Ernst & Young, as set out on Appendices II and III of this circular respectively, are given as of the date of this circular for incorporation herein.

The advice given by Haiwen & Partners is given as of the date of this circular for incorporation herein.

13. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, claim or arbitration which is material and there was no litigation, claim or arbitration pending or threatened by or against any member of the Group which is material.

14. GENERAL

- i. The principal members of BE Environmental's concert group comprise BE Environmental and BEHL. The business address of BEHL is 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- ii. The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- iii. The head office and principal place of business of the Company is at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- iv. The company secretary and the qualified accountant of the Company is Mr. Tung Woon Cheung Eric, a Certified Public Accountant of both the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants.
- v. This circular has been printed in English and Chinese, in the event of inconsistency, the English version shall prevail.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any weekday (except public holidays) at the principal place of business of the Company in Hong Kong at 66/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and will also be available on the websites of the Company at <http://www.bewg.com.hk> and the SFC at www.sfc.hk from the date of this circular up to and including the date of the SGM:

- i. the memorandum of association and bye-laws of the Company;
- ii. the memorandum of association and articles of association of BE Environmental;
- iii. the annual reports of the Group for the two years ended 31 December 2011;
- iv. the interim report of the Group for the six months ended 30 June 2012;
- v. each of the letters of consent referred to under the paragraph headed "Consents and Qualifications" in this appendix;

- vi. a copy of each material contract referred to in the paragraph headed “Material Contracts” in this appendix;
- vii. this circular;
- viii. the letter from the Board the text of which is set out on pages 8 to 29 of this circular;
- ix. the letter of confirmation from the Board the text of which is set out on page V-1 of this circular;
- x. the letter from the Independent Board Committee the text of which is set out on page 30 of this circular;
- xi. the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 31 to 51 of this circular;
- xii. the comfort letter from Mizuho Securities Asia Limited, the text of which is set out on pages IV-1 to IV-2 of this circular;
- xiii. the valuation report prepared by CBRE;
- xiv. the letter from Ernst & Young; and
- xv. the Concession Agreement dated 13 July 1998 as amended by supplemental agreements dated 8 April 2011.

NOTICE OF SGM



北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 371)

NOTICE IS HEREBY GIVEN THAT a special general meeting (“SGM”) of Beijing Enterprises Water Group Limited (the “Company”) will be held at 66th Floor, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong on Tuesday, 18 December 2012 at 3:00 p.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions as ordinary resolutions of the Company. Unless otherwise indicated, capitalised terms used in this notice and the following ordinary resolutions shall have the same meanings as those defined in the circular of the Company dated 30 November 2012.

ORDINARY RESOLUTIONS

To consider and if thought fit, pass the following resolutions as Ordinary Resolutions:

1. “**THAT** subject to resolution numbered 2 below being passed:-

- (a) the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the transactions contemplated under the Master Agreement (a copy of which has been tabled at the meeting marked “A” and signed by the chairman of the SGM for the purpose of identification), including the allotment and issue of the 776,810,838 new Consideration Shares at an issue price of HK\$1.62 per Consideration Share, be and are hereby approved, confirmed and ratified;
- (b) the Directors be and are hereby authorised to issue up to 776,810,838 new Consideration Shares at an issue price of HK\$1.62 per Consideration Share and on the terms and conditions as set out in the Master Agreement and that the Directors be and are hereby authorised to do all such things and acts and sign all such documents which they consider desirable or expedient to implement and/or give effect to any matters in relation thereto or in connection therewith; and
- (c) any one Director be and is hereby authorised for and on behalf of the Company to do all such further acts and things and execute all such further documents and take all steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and all transactions contemplated under the Master Agreement including the allotment and issue of the Consideration Shares and to approve any changes and amendments thereto as such Director may consider necessary, desirable or expedient.”

NOTICE OF SGM

2. “**THAT** the application for a waiver to the Executive for waiving the obligation of BE Environmental and parties acting in concert with it to extend a general offer to acquire all the issued Shares (excluding the Shares which are owned or agreed to be acquired by any of them) under Rule 26 of the Takeovers Code as a result of the Proposed Asset Injection, the Proposed BE Water (Hainan) Transfer and the Master Agreement be and is hereby approved and that the Directors be and are hereby authorised to do all things and acts and sign all documents which they consider desirable or expedient to implement and/or give full effect to any matters relating to or in connection with the Whitewash Waiver.”

Yours faithfully

For and on behalf of the Board

Beijing Enterprises Water Group Limited

Hu Xiaoyong

Executive Director & Chief Executive Officer

Hong Kong, 30 November 2012

Notes:

1. A member entitled to attend and vote at the SGM is entitled to appoint not more than two proxies to attend and vote instead of him/her. In the case of a recognised clearing house, it may authorise such person(s) as it thinks fit to act as its representative(s) at the SGM and vote in its stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the SGM or any adjournment thereof.
3. Completion and return of the proxy form in respect of the proposed ordinary resolutions for the SGM will not preclude a member from attending and voting in person at the SGM (or any adjournment thereof) should he/she so wishes and in such event, the proxy form for the SGM will be deemed to have been revoked.
4. All proposed ordinary resolutions set out in this notice will be voted by independent shareholders of the Company and by way of a poll.
5. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.
6. As at the date hereof, the board of Directors comprises eleven executive Directors, namely, Mr. Zhang Honghai (Chairman), Mr. E Meng, Mr. Jiang Xinhao, Mr. Hu Xiaoyong (Chief Executive Officer), Mr. Zhou Min, Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Hou Feng, Ms. Qi Xiaohong, Mr. Ke Jian and Mr. Tung Woon Cheung Eric and five independent non-executive directors, namely, Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Ms. Hang Shijun and Mr. Wang Kaijun.