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

(Incorporated in Bermuda with limited liability)

(Stock code: 371)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

- Profit attributable to shareholders of the Company increased by 24% to HK$2,366.1 million for the six months ended 30 June 2018 as compared to HK$1,914.1 million for the last period. No fair value gain on derivative financial instruments was recognised during this period (six months ended 30 June 2017: HK$39.6 million). Profit attributable to shareholders of the Company increased by 26% from HK$2,366.1 million for this period as compared to HK$1,874.5 for the last period which excluded the fair value gain on derivative financial instruments of HK$39.6 million.

- EBITDA amounted to HK$4,450.0 million, representing an increase of 26% as compared with that of HK$3,540.0 million in the last period.

- Basic and diluted earnings per share for the period were HK25.58 cents and HK25.18 cents respectively.

- Interim cash distribution of HK9.5 cents per share is declared for the six months ended 30 June 2018, the dividend payout ratio is 37%.

- Total daily design capacity for new projects secured for the period was 2,872,598 tons. Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 225,000 tons during the period. As such, the net increase in total daily design capacity of the period was 2,647,598 tons. As at 30 June 2018, total daily design capacity was 34,035,418 tons (31 December 2017: 31,387,820 tons).

RESULTS

The board (the "Board") of directors (the "Directors") of Beijing Enterprises Water Group Limited (the "Company") is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2018 with comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**10,008,753**	9,126,016
Cost of sales		**(6,175,252)**	(6,068,949)
Gross profit		**3,833,501**	3,057,067
Interest income		**213,753**	121,766
Other income and gains, net		**723,566**	433,514
Administrative expenses		**(883,924)**	(754,752)
Other operating expenses, net		**(82,769)**	(162,474)
PROFIT FROM OPERATING ACTIVITIES	*4*	**3,804,127**	2,695,121
Fair value gain on derivative financial instruments		**–**	39,555
Finance costs	*5*	**(835,929)**	(697,633)
Share of profits and losses of:			
Joint ventures		**148,261**	404,839
Associates		**262,983**	210,443
PROFIT BEFORE TAX		**3,379,442**	2,652,325
Income tax expense	*6*	**(609,200)**	(498,985)
PROFIT FOR THE PERIOD		**2,770,242**	2,153,340
ATTRIBUTABLE TO:			
Shareholders of the Company		**2,366,116**	1,914,125
Holders of perpetual capital instruments		**126,507**	116,444
Non-controlling interests		**277,619**	122,771
		2,770,242	2,153,340
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*8*		
– Basic		**HK25.58 cents**	HK21.88 cents
– Diluted		**HK25.18 cents**	HK21.42 cents

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT FOR THE PERIOD	**2,770,242**	2,153,340
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items to be reclassified to profit or loss in subsequent periods:		
– Exchange differences on translation of foreign operations	**(332,646)**	879,054
– Share of other comprehensive income of an associate	**–**	9,521
– Loss on revaluation of investments	**(749)**	(86,757)
	(333,395)	801,818
Item not to be reclassified to profit or loss in subsequent periods:		
– Share of other comprehensive income/(loss) of a joint venture	**9,240**	(7,054)
– Loss on revaluation of investments	**(18,909)**	–
	(9,669)	(7,054)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX	**(343,064)**	794,764
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2,427,178**	2,948,104
ATTRIBUTABLE TO:		
Shareholders of the Company	**2,037,666**	2,465,474
Holders of perpetual capital instruments	**121,989**	262,725
Non-controlling interests	**267,523**	219,905
	2,427,178	2,948,104

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	**30 June 2018 (Unaudited) *HK$'000***	31 December 2017 (Audited) *HK$'000*
ASSETS			
Non-current assets:			
Property, plant and equipment		**4,197,607**	3,841,866
Investment properties		**1,092,744**	1,083,677
Goodwill		**3,679,045**	3,303,632
Operating concessions		**4,781,032**	4,190,771
Other intangible assets		**123,232**	101,899
Investments in joint ventures		**6,223,959**	6,468,569
Investments in associates		**4,341,980**	4,184,775
Financial assets at fair value through other comprehensive income		**1,225,531**	–
Available-for-sale investments		**–**	1,245,004
Amounts due from contract customers		**31,120,457**	15,059,884
Receivables under service concession arrangements	*9*	**24,301,547**	33,322,895
Trade receivables	*10*	**1,330,858**	1,731,053
Prepayments, deposits and other receivables	*11*	**2,426,509**	2,115,819
Deferred tax assets		**301,389**	272,320
Total non-current assets		**85,145,890**	76,922,164
Current assets:			
Non-current assets held for sale		**330,052**	330,052
Inventories		**244,500**	135,370
Amounts due from contract customers		**2,145,822**	875,721
Receivables under service concession arrangements	*9*	**2,864,976**	2,614,866
Trade receivables	*10*	**4,018,725**	2,852,976
Prepayments, deposits and other receivables	*11*	**7,048,320**	6,744,944
Restricted cash and pledged deposits		**598,129**	46,150
Cash and cash equivalents		**12,984,771**	9,938,829
Total current assets		**30,235,295**	23,538,908
TOTAL ASSETS		**115,381,185**	100,461,072

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2018

	Notes	30 June 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital		**941,259**	879,382
Reserves		**24,826,837**	19,905,341
		25,768,096	20,784,723
Perpetual capital instruments		**6,745,071**	6,623,082
Non-controlling interests		**5,964,271**	5,633,518
		12,709,342	12,256,600
TOTAL EQUITY		**38,477,438**	33,041,323
Non-current liabilities:			
Other payables and accruals	*12*	**1,471,879**	570,507
Bank and other borrowings		**23,061,615**	21,443,596
Corporate bonds		**15,345,487**	10,495,364
Notes payable		**3,075,792**	3,074,932
Finance lease payables		**344,472**	395,461
Provision for major overhauls		**230,659**	207,426
Deferred income		**1,437,076**	1,435,088
Deferred tax liabilities		**2,345,359**	2,103,997
Total non-current liabilities		**47,312,339**	39,726,371
Current liabilities:			
Trade payables	*13*	**13,433,330**	11,687,517
Other payables and accruals	*12*	**7,732,848**	6,769,636
Income tax payables		**876,274**	693,648
Bank and other borrowings		**4,841,844**	4,689,344
Corporate bonds		**2,610,476**	3,750,484
Finance lease payables		**96,636**	102,749
Total current liabilities		**29,591,408**	27,693,378
TOTAL LIABILITIES		**76,903,747**	67,419,749
TOTAL EQUITY AND LIABILITIES		**115,381,185**	100,461,072

NOTES:

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2018, the Group was involved in the following principal activities:

- construction of sewage and reclaimed water treatment and seawater desalination plants, and provision of construction services for comprehensive renovation projects in mainland ("Mainland China") of the People's Republic of China (the "PRC"), Malaysia and Australia;
- provision of sewage and reclaimed water treatment services in Mainland China, the Republic of Singapore ("Singapore"), the Portuguese Republic ("Portugal"), Australia and New Zealand;
- distribution and sale of piped water in Mainland China, Portugal and Australia;
- provision of technical and consultancy services and sale of machineries related to sewage treatment and construction services for comprehensive renovation projects in Mainland China and Australia; and
- licensing of technical know-how related to sewage treatment in Mainland China.

1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2018 is prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and compliance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The interim financial information does not include all the information and disclosures in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017. The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial information are the same as those adopted in the annual financial statements for the year ended 31 December 2017, 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 interim financial information, as further detailed in note 1.3 below.

In preparing the unaudited interim condensed consolidated financial information, the Directors of the Company have given careful consideration to the future liquidity of the Group. Taking into account the Group's internal financial resources, available banking facilities and new banking facilities currently under negotiation, the Directors of the Company considered that the Group will be able to continue as a going concern. Accordingly, the unaudited interim condensed consolidated financial information have been prepared on a going concern basis.

The interim condensed consolidated financial information has not been audited, but has been reviewed by audit committee of the Company.

1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and Amendments to HKFRS 15, the adoption of the above revised standards has had no significant financial effect on the interim financial information.

The nature and the impact of the changes are described below:

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(i) Classification and measurement

Except for certain debtors, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets is as follows:

– Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

– Financial assets at fair value through profit or loss include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

– Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity instruments were classified as available-for-sale ("AFS") financial assets.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and applied to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

The adoption of HKFRS 9 has had no significant impact on the Group's interim financial information on classification and measurement of its financial assets.

(ii) Impairment

HKFRS 9 requires an impairment on trades receivables, receivables under service concession arrangements, amounts due from contract customers, deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied general approach and recorded twelve month expected losses on its trade receivables, receivables under service concession arrangements, amounts due from contract customers, deposits and other receivables. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

For the six months ended 30 June 2018, except for the reclassification of contract assets from receivables under service concession arrangements to amounts due from contract customers, the Group has concluded that the adoption of HKFRS 15 did not have a material impact on the timing of revenue recognition.

The Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 2 for the disclosure on disaggregated revenue.

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

2. OPERATING SEGMENT INFORMATION

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

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

For the six months ended 30 June 2018

	Sewage and reclaimed water treatment and construction services (Unaudited) *HK$'000*	Water distribution services (Unaudited) *HK$'000*	Technical and consultancy services and sale of machineries (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Segment revenue	**7,815,454**	**1,014,790**	**1,178,509**	**10,008,753**
Cost of sales	**(5,193,035)**	**(549,100)**	**(433,117)**	**(6,175,252)**
Gross profit	**2,622,419**	**465,690**	**745,392**	**3,833,501**
Segment results:				
The Group	**2,934,497**	**415,964**	**370,662**	**3,721,123**
Share of profits and losses of:				
Joint ventures	**115,560**	**32,701**	**–**	**148,261**
Associates	**30,344**	**–**	**30,772**	**61,116**
	3,080,401	**448,665**	**401,434**	**3,930,500**
Corporate and other unallocated income and expenses, net				**83,004**
Share of profits of associates				**201,867**
Finance costs				**(835,929)**
Profit before tax				**3,379,442**
Income tax expense				**(609,200)**
Profit for the period				**2,770,242**
Profit for the period attributable to shareholders of the Company:				
Operating segments	**2,394,396**	**298,835**	**348,495**	**3,041,726**
Corporate and other unallocated items				**(675,610)**
				2,366,116

For the six months ended 30 June 2017

	Sewage and reclaimed water treatment and construction services (Unaudited) *HK$'000*	Water distribution services (Unaudited) *HK$'000*	Technical and consultancy services and sale of machineries (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Segment revenue	7,664,857	839,312	621,847	9,126,016
Cost of sales	(5,423,558)	(424,835)	(220,556)	(6,068,949)
Gross profit	2,241,299	414,477	401,291	3,057,067
Segment results:				
The Group	2,205,506	331,476	194,465	2,731,447
Share of profits and losses of:				
Joint ventures	338,909	65,930	–	404,839
Associates	14,601	–	–	14,601
	2,559,016	397,406	194,465	3,150,887
Fair value gain on derivative financial instruments				39,555
Corporate and other unallocated income and expenses, net				(36,326)
Share of profit of an associate				195,842
Finance costs				(697,633)
Profit before tax				2,652,325
Income tax expense				(498,985)
Profit for the period				2,153,340
Profit for the period attributable to shareholders of the Company:				
Operating segments	2,105,375	295,790	160,098	2,561,263
Fair value gain on derivative financial instruments				39,555
Corporate and other unallocated items				(686,693)
				1,914,125

Geographical information

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue from external customers:		
Mainland China	**9,371,376**	8,805,715
Elsewhere	**637,377**	320,301
	10,008,753	9,126,016

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

Information about major customers

During the period ended 30 June 2018, the Group had no transaction with any single (six months ended 30 June 2017: 1,949,604,000) external customer which contributed over 10% of the Group's total revenue for the period.

3. REVENUE

Revenue represents: (1) revenue attributable to construction contracts and service contracts relating to sewage and reclaimed water treatment, net of value-added tax and government surcharges; (2) revenue attributable to other construction contracts, net of value-added tax and government surcharges; (3) the aggregate of the invoiced value of water sold and the estimated value of unbilled water distributed based on the consumption recorded by water meter readings, net of value-added tax and government surcharges; (4) revenue attributable to technical and consultancy services contracts and sales of machineries, net of value-added tax and government surcharges; and (5) the imputed interest income under service concession arrangements.

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sewage and reclaimed water treatment services	**2,063,633**	1,974,518
Construction services	**5,751,821**	5,690,339
Water distribution services	**1,014,790**	839,312
Technical and consultancy services and sales of machineries	**1,178,509**	621,847
	10,008,753	9,126,016

Imputed interest income under service concession arrangements amounting to HK$823,497,000 (six months ended 30 June 2017: HK$788,187,000) is included in the above revenue.

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of sewage and reclaimed water treatment services rendered	**844,357**	797,111
Cost of construction services	**4,287,494**	4,562,830
Cost of water distribution services	**503,982**	407,158
Cost of technical and consultancy services rendered and machineries sold	**433,117**	220,556
Depreciation	**121,466**	104,673
Amortisation of operating concessions*	**106,302**	81,294
Amortisation of other intangible assets*	**6,881**	4,121

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank and other loans	**554,639**	423,528
Interest on corporate bonds	**262,614**	222,808
Interest on notes payable	**89,718**	83,611
Interest on finance leases	**9,995**	4,534
Total interest expense	**916,966**	734,481
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**9,183**	6,631
Total finance costs	**926,149**	741,112
Less: Interest included in cost of construction services	**(90,220)**	(43,479)
	835,929	697,633

6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2018 as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2017: Nil).

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Mainland China	**330,433**	260,820
Current – Elsewhere	**16,598**	11,558
Overprovision in prior periods	**(2,579)**	(9,460)
Deferred	**264,748**	236,067
Total tax expense for the period	**609,200**	498,985

7. INTERIM DISTRIBUTION

On 29 August 2018, the Board declared an interim cash distribution of HK9.5 cents per share (six months ended 30 June 2017: HK8.0 cents) totalling approximately HK$894,196,000 (six months ended 30 June 2017: HK$701,899,000).

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the six months ended 30 June 2018 is based on the profit for the period attributable to shareholders of the Company, and the weighted average number of 9,249,400,700 (six months ended 30 June 2017: 8,746,481,439) ordinary shares in issue during the period.

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

The calculations of the basic and diluted earnings per share amounts are based on the following data:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings		
Profit for the period attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	**2,366,116**	1,914,125

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	**9,249,400,700**	8,746,481,439
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	**146,161,491**	190,693,745
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**9,395,562,191**	8,937,175,184

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

An aging 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 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Billed:		
Within 3 months	**970,360**	1,046,677
4 to 6 months	**477,480**	512,561
7 to 12 months	**570,396**	293,350
Over 1 year	**620,550**	536,088
	2,638,786	2,388,676
Unbilled:		
Current portion	**226,190**	226,190
Non-current portion	**24,301,547**	33,322,895
	24,527,737	33,549,085
Total	**27,166,523**	35,937,761

10. TRADE RECEIVABLES

The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sales of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 5.7% to 12.98% (31 December 2017: 5.7% to 12.98%), all other trade receivables are non-interest-bearing.

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

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Billed:		
Within 3 months	**965,368**	907,522
4 to 6 months	**277,908**	346,126
7 to 12 months	**369,164**	329,964
Over 1 year	**1,549,747**	1,711,348
Balance with extended credit period	**45,659**	41,051
	3,207,846	3,336,011
Unbilled*	**2,141,737**	1,248,018
	5,349,583	4,584,029
Portion classified as current assets	**(4,018,725)**	(2,852,976)
Non-current portion	**1,330,858**	1,731,053

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

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Prepayments	**1,555,437**	308,380
Deposits and other debtors	**4,407,715**	4,787,120
Advances to subcontractors and suppliers	**1,564,987**	1,650,612
Due from joint ventures	**1,419,257**	1,843,393
Due from associates	**160,755**	233,059
Due from other related parties	**462,561**	248,203
	9,570,712	9,070,767
Impairment	**(95,883)**	(210,004)
	9,474,829	8,860,763
Portion classified as current assets	**(7,048,320)**	(6,744,944)
Non-current portion	**2,426,509**	2,115,819

12. OTHER PAYABLES AND ACCRUALS

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Accruals	**784,890**	884,420
Other liabilities	**4,355,128**	2,984,304
Receipts in advance	**494,308**	574,645
Due to subcontractors	**289,300**	906,429
Due to joint ventures	**1,619,096**	1,187,697
Due to associates	**333,902**	48,312
Due to other related parties	**749,747**	397,069
Other taxes payables	**578,356**	357,267
	9,204,727	7,340,143
Portion classified as current liabilities	**(7,732,848)**	(6,769,636)
Non-current portion	**1,471,879**	570,507

13. TRADE PAYABLES

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

	30 June 2018 (Unaudited) ***HK$'000***	31 December 2017 (Audited) *HK$'000*
Within 3 months	**5,719,960**	5,375,901
4 to 6 months	**2,341,204**	1,194,027
7 months to 1 year	**2,318,894**	1,967,296
1 to 2 years	**1,327,837**	1,206,914
2 to 3 years	**885,898**	966,760
Over 3 years	**745,761**	819,153
Balance with extended credit period	**93,776**	157,466
	13,433,330	11,687,517

The trade payables are non-interest bearing and apart from certain trade payables relating to construction services for comprehensive renovation projects which are due for payments upon settlement of progress billings by the relevant contract customers, the other amounts are normally settled on 60-day terms.

14. OTHER FINANCIAL INFORMATION

The net current assets and total assets less current liabilities of the Group as at 30 June 2018 amounted to HK$643,887,000 (unaudited) (31 December 2017: net current liabilities of HK$4,154,470,000) and HK$85,789,777,000 (unaudited) (31 December 2017: HK$72,767,694,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the period attributable to shareholders of the Company increased by 24% to HK$2,366.1 million. Revenue increased by 10% to HK$10,008.8 million as a result of increase in revenue contribution from water treatment services and technical services and sales of machineries for the water environmental renovation.

1. Financial highlights

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	1,753.1			849.4	
– Subsidiaries (with ABN arrangement*)	148.5			22.9	
– Joint ventures and associates	–			85.3	
	1,901.6	19%	58%	957.6	31%
Overseas					
– Subsidiaries	162.0	2%	28%	30.5	1%
	2,063.6	21%		988.1	32%
Water distribution services					
China					
– Subsidiaries	826.5	8%	50%	233.1	8%
– Joint ventures				32.7	1%
				265.8	9%
Overseas					
– Subsidiaries	188.3	2%	30%	33.0	1%
	1,014.8	10%		298.8	10%
Subtotal	3,078.4	31%		1,286.9	42%

* *These subsidiaries partially disposed their receivables under service concession arrangements for the issuance of an asset-backed note ("ABN arrangement") during last year.*

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
2. Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10%[§]	2,463.2	25%	26%	721.7	24%
– Interest income	–	–	–	91.2	3%
	2,463.2	25%	26%	812.9	27%
Construction of BOT water projects					
– China	3,288.7	33%	25%	593.4	20%
– Overseas	–	–	–	–	–
	3,288.7	33%	25%	593.4	20%
Subtotal	5,751.9	58%		1,406.3	47%
3. Technical services and sale of machineries for the water environmental renovation	1,178.5	11%	63%	348.5	11%
Business results	10,008.8	100%		3,041.7	100%
Others[#]				(675.6)	
Total				2,366.1	

[#] *Others included head office and other corporate expense, net, of HK$39.3 million, share of profit of associates of HK$201.9 million, equity-settled share option expense of HK$2.3 million and finance costs of HK$835.9 million.*

[§] *Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK$50.7 million.*

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

		Revenue		GP ratio	Profit attributable to shareholders of the Company	
		HK$'M	*%*	*%*	*HK$'M*	*%*
1.	**Water treatment services**					
	Sewage and reclaimed water treatment services					
	China					
	– Subsidiaries	1,840.1	20%	59%	868.0	34%
	– Joint ventures and associates				21.9	1%
					889.9	35%
	Overseas					
	– Subsidiaries	134.5	1%	28%	24.5	1%
		1,974.6	21%		914.4	36%
	Water distribution services					
	China					
	– Subsidiaries	735.5	8%	52%	208.9	8%
	– Joint ventures				65.9	3%
					274.8	11%
	Overseas					
	– Subsidiaries	103.8	1%	30%	21.0	1%
		839.3	9%		295.8	12%
	Subtotal	2,813.9	30%		1,210.2	48%

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
2. Construction services for the water environmental renovation					
Construction services for comprehensive renovation projects					
– Projects with completion rate more than 10% §	2,888.6	32%	15%	651.9	25%
– Interest income	–	–	–	31.2	1%
	2,888.6	32%	15%	683.1	26%
Construction of BOT water projects					
– China	2,801.7	31%	24%	507.9	20%
– Overseas	–	–	–	–	–
	2,801.7	31%	24%	507.9	20%
Subtotal	5,690.3	63%		1,191.0	46%
3. Technical services and sale of machineries for the water environmental renovation	621.8	7%	65%	160.1	6%
Business results	9,126.0	100%		2,561.3	100%
Fair value gain on derivative financial instruments				39.6	
Others#				(686.8)	
Total				1,914.1	

\# *Others included head office and other corporate expense, net, of HK$175.0 million, share of profit of an associate of HK$195.8 million, equity-settled share option expense of HK$10.0 million, finance costs of HK$697.6 million.*

§ *Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK$302.4 million.*

The comparison of the Group's financial results for the six months ended 30 June 2018 and 2017 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June				For the six months ended 30 June			
	2018	2017	Increase/(Decrease)		**2018**	2017	Increase/(Decrease)	
	HK$'M	*HK$'M*	*HK$'M*	*%*	***HK$'M***	*HK$'M*	*HK$'M*	*%*
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	**1,753.1**	1,635.2	117.9	7%	**849.4**	762.0	87.4	11%
– Subsidiaries (with ABN arrangement)	**148.5**	204.9	(56.4)	(28%)	**22.9**	106.0	(83.1)	(78%)
– Joint ventures and associates	**–**	–	–	–	**85.3**	21.9	63.4	289%
	1,901.6	1,840.1	61.5	3%	**957.6**	889.9	67.7	8%
GP ratio	***58%***	*59%*		(1%)				
Overseas								
– Subsidiaries	**162.0**	134.5	27.5	20%	**30.5**	24.5	6.0	24%
GP ratio	***28%***	*28%*		–				
	2,063.6	1,974.6	89.0	5%	**988.1**	914.4	73.7	8%
Water distribution services								
China								
– Subsidiaries	**826.5**	735.5	91.0	12%	**233.1**	208.9	24.2	12%
– Joint ventures					**32.7**	65.9	(33.2)	(50%)
					265.8	274.8	(9.0)	(3%)
GP ratio	***50%***	*52%*		(2%)				
Overseas								
– Subsidiaries	**188.3**	103.8	84.5	81%	**33.0**	21.0	12.0	57%
GP ratio	***30%***	*30%*		–				
	1,014.8	839.3	175.5	21%	**298.8**	295.8	3.0	1%
Subtotal	**3,078.4**	2,813.9	264.5	9%	**1,286.9**	1,210.2	76.7	6%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	**2,463.2**	2,888.6	(425.4)	(15%)	**721.7**	651.9	69.8	11%
– Interest income	**–**	–	–	–	**91.2**	31.2	60.0	192%
	2,463.2	2,888.6	(425.4)	(15%)	**812.9**	683.1	129.8	19%
GP ratio	***26%***	*15%*		11%				
Construction of BOT water projects								
– China	**3,288.7**	2,801.7	487.0	17%	**593.4**	507.9	85.5	17%
– Overseas	**–**	–	**–**	–	**–**	–	–	–
	3,288.7	2,801.7	487.0	17%	**593.4**	507.9	85.5	17%
GP ratio	***25%***	*24%*		1%				
Subtotal	**5,751.9**	5,690.3	61.6	1%	**1,406.3**	1,191.0	215.3	18%
3. Technical services and sale of machineries for the water environmental renovation	**1,178.5**	621.8	556.7	90%	**348.5**	160.1	188.4	118%
GP ratio	***63%***	*65%*		(2%)				
Business results	**10,008.8**	9,126.0	882.8	10%	**3,041.7**	2,561.3	480.4	19%
Fair value gain on derivative financial instruments					**–**	39.6	(39.6)	(100%)
Others					**(675.6)**	(686.8)	11.2	(2%)
Total					**2,366.1**	1,914.1	452.0	24%

2. Business review

The principal businesses of the Group include operations in water treatment business, construction and technical services for the water environmental renovation. The coverage of the Group's water plants has extended to 21 provinces, 5 autonomous regions and 2 municipalities all across Mainland China.

2.1 Water treatment services

As at 30 June 2018, the Group entered into service concession arrangements and entrustment agreements for a total of 860 water plants including 704* sewage treatment plants, 133 water distribution plants, 21 reclaimed water treatment plants and 2 seawater desalination plants. Total daily design capacity for new projects secured for the period was 2,872,598 tons including Build-Operate-Transfer ("BOT") projects of 100,000 tons, Transfer-Operate-Transfer ("TOT") projects of 60,000 tons, Public-Private Partnership ("PPP") projects of 1,019,950 tons, entrustment operation projects of 46,000 tons, and 1,646,648 tons through mergers and acquisitions.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 225,000 tons during the period. As such, the net increase in daily design capacity of the period was 2,647,598 tons. As at 30 June 2018, total daily design capacity was 34,035,418 tons.

* *Water plants with daily capacity of 2,000 tons or lower were classified as town-size water plants. During the period, the Group entered into service concession arrangements for 29 town-size sewage treatment plants with aggregate daily capacity of 11,950 tons.*

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
(Tons)					
China					
In operation	11,242,350	707,200	6,543,700	–	18,493,250
Not yet commenced operation/Not yet transferred	7,145,326	959,000	5,277,994	50,000	13,432,320
Subtotal	18,387,676	1,666,200	11,821,694	50,000	31,925,570
Overseas					
In operation	225,998	376,750	1,207,100	300,000	2,109,848
Not yet commenced operation/Not yet transferred	–	–	–	–	–
Subtotal	225,998	376,750	1,207,100	300,000	2,109,848
Total	18,613,674	2,042,950	13,028,794	350,000	34,035,418
(Number of water plants)					
China					
In operation	249	8	73	–	330
Not yet commenced operation/Not yet transferred	418	9	27	1	455
Subtotal	667	17	100	1	785
Overseas					
In operation	37	4	33	1	75
Not yet commenced operation/Not yet transferred	–	–	–	–	–
Subtotal	37	4	33	1	75
Total	704	21	133	2	860

	Number of plants	Design capacity *(Tons/Day)*	Actual processing volume during the period* *(Tons (M))*	Revenue *(HK$'M)*	Profit attributable to shareholders of the Company *(HK$'M)*
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	63	3,405,300	535.4	451.3	229.2
– Western China	55	1,808,500	263.1	355.8	166.7
– Shandong	31	1,502,000	208.6	233.9	115.2
– Eastern China	65	3,467,750	515.4	482.5	257.1
– Northern China	43	1,766,000	282.0	378.1	189.4
	257	11,949,550	1,804.5	1,901.6	957.6
Overseas	41	602,748	68.6	162.0	30.5
Subtotal	298	12,552,298	1,873.1	2,063.6	988.1
Water distribution services:					
Mainland China	73	6,543,700	694.1	826.5	265.8
Overseas §	34	1,507,100	29.6	188.3	33.0
Subtotal	107	8,050,800	723.7	1,014.8	298.8
Total	405	20,603,098	2,596.8	3,078.4	1,286.9

* *Excluded entrustment operation contracts*

§ *Included a seawater desalination plant*

2.1.1 Sewage and reclaimed water treatment services

2.1.1a Mainland China

As at 30 June 2018, the Group had 249 sewage treatment plants and 8 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 11,242,350 tons (31 December 2017: 11,059,750 tons) and 707,200 tons (31 December 2017: 617,200 tons) respectively. The average daily processing volume is 10,046,542 tons and average daily treatment rate is 87%. The actual average contracted tariff charge of water treatment was approximately RMB1.09 per ton (31 December 2017: RMB1.08 per ton) for water plants. The actual aggregate processing volume for the period was 1,804.5 million tons, of which 1,657.3 million tons was contributed by subsidiaries and 147.2 million tons was contributed by joint ventures. Total revenue for the period was HK$1,901.6 million. Net profit attributable to shareholders of the Company was HK$957.6 million, of which HK$872.3 million was contributed by subsidiaries and HK$85.3 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

<u>Southern China</u>

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 30 June 2018, there were 63 sewage treatment plants with total daily design capacity of 3,405,300 tons, representing an increase of 58,600 tons or 2% as compared with last year. The actual aggregate processing volume for the period amounted to 535.4 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$451.3 million and HK$229.2 million respectively during the period.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2018, there were 55 sewage treatment plants with total daily design capacity of 1,808,500 tons, representing an increase of 54,000 tons per day or 3% as compared with last year. The actual processing volume for the period was 263.1 million tons. The operating revenue of HK$355.8 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK$166.7 million.

Shandong

There were 31 plants in Shandong region. The total daily design capacity of Shandong region is 1,502,000 tons, representing an increase of 40,000 tons per day or 3% as compared with last year. The actual processing volume for the period was 208.6 million tons contributing operating revenue of HK$233.9 million during the period. Profit attributable to shareholders of the Company was HK$115.2 million.

Eastern China

There were 65 water plants in Eastern China which were mainly located in Zhejiang Province, Jiangsu Province and Anhui Province. As at 30 June 2018, the total daily design capacity of Eastern China had increased by 105,000 tons to 3,467,750 tons or 3% as compared with last year. The actual processing volume for the period amounted to 515.4 million tons and operating revenue was HK$482.5 million during the period. Profit attributable to shareholders of the Company was HK$257.1 million.

Northern China

Currently, the Group has 43 plants under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 15,000 tons to 1,766,000 tons or 1% as compared with last year. The projects achieved actual processing volume of 282.0 million tons for the period. The operating revenue was HK$378.1 million during the period. Profit attributable to shareholders of the Company was HK$189.4 million.

2.1.1b Overseas:

As at 30 June 2018, the Group had 37 sewage treatment plants and 4 reclaimed water plants in Portugal, Macau, Singapore, Australia and New Zealand. Total daily design sewage treatment capacity in operation was 602,748 tons. The actual processing volume for the period is 68.6 million tons, of which 37.1 million tons was contributed by subsidiaries and 31.5 million tons was contributed by a joint venture. Total revenue for the period was HK$162.0 million. Profit attributable to shareholders of the Company was HK30.5 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 30 June 2018, the Group had 73 water distribution plants in operation. Total daily design capacity in operation was 6,543,700 tons (31 December 2017: 6,555,600 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province, Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB2.09 per ton (31 December 2017: RMB2.14 per ton). The aggregate actual processing volume is 694.1 million tons, of which 384.5 million tons was contributed by subsidiaries, which recorded revenue of HK$826.5 million and 309.6 million tons was contributed by joint ventures. Imputed interest income of HK$13.2 million was recognised for the receivables under service concession arrangement of Plant No. 9 in Beijing. Profit attributable to shareholders of the Company was HK$265.8 million, of which profit of HK$233.1 million was contributed by subsidiaries and a profit of HK$32.7 million in aggregate was contributed by joint ventures.

2.1.2b Overseas:

As at 30 June 2018, the Group had 33 water distribution plants and a sea desalination plant which supplies drinking water in Portugal and Australia. Total daily design capacity in operation was 1,507,100 tons. The actual processing volume for the period is 29.6 million tons of which 24.5 million tons was contributed by subsidiaries and 5.1 million tons was contributed by joint ventures. Total revenue for the period was HK$188.3 million. Profit attributable to shareholders of the Company was HK$33.0 million.

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 18 comprehensive renovation projects under construction during the period. The projects mainly located in Foshan Sanshui, Sichuan Suining, Inner Mongolia, Chengdu Jianyang, Guangdong Heshan, Yunnan Ling Cang, Malaysia Terengganu, Sichuan Luzhou and Beijing Tongzhou. Last period, the Group had 15 comprehensive renovation projects under construction in Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia, Chengdu Jianyang, Yunnan Ling Cang and Malaysia Terengganu.

Revenue from comprehensive renovation projects decreased by HK$425.4 million from last period of HK$2,888.6 million to HK$2,463.2 million this period. Revenue decreased was mainly due to the decrease in contribution work for Inner Mongolia during the period.

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to time of the receipt of the trade receivables. Interest income from water environmental renovation projects attributable to shareholders of the Company was HK$91.2 million for this period (six months ended 30 June 2017: HK$31.2 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK$129.8 million from last period of HK$683.1 million to HK$812.9 million this period.

2.2.2 Construction of BOT water projects

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

During the period, water plants under construction were mainly located in Shanxi, Shandong, Zhejiang, Guizhou provinces and Ningxia autonomous region. Total revenue for construction of BOT water projects was HK$3,288.7 million (six months ended 30 June 2017: HK$2,801.7 million) and profit attributable to shareholders of the Company was HK$593.4 million (six months ended 30 June 2017: HK$507.9 million).

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

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

Revenue from the provision of technical services and sales of machineries was HK$1,178.5 million (six months ended 30 June 2017: HK$621.8 million), representing 11% of the Group's total revenue. Profit attributable to shareholders of the Company was HK$348.5 million (six months ended 30 June 2017: HK$160.1 million).

Increase in revenue was mainly due to the increase in contribution from provision of technical services.

3. Financial analysis

3.1 Revenue

During the period, the Group recorded revenue of HK$10,008.8 million (six months ended 30 June 2017: HK$9,126.0 million). The increase was mainly due to the increase in revenue from water treatment services and technical services and sales of machineries for the water environmental renovation.

3.2 Cost of sales

Cost of sales for the period amounted to HK$6,175.3 million, compared to last period of HK$6,068.9 million. The increase was mainly due to the increase in operating costs of water plants amounted to HK$169.1 million. Cost of sales mainly included construction costs of HK$4,287.5 million and operating costs of water plants of HK$1,454.6 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK$394.5 million, staff costs of HK$416.7 million and major overhaul charges of HK$42.6 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the period, gross profit margin increased from last period of 33% to 38%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China slightly decreased to 58% (last period: 59%). The decrease was mainly due to the decrease in imputed interest income from certain water plants as a result of the partially disposal of the receivables under service concession arrangements of these water plants for the issuance of an asset-backed note with a principal amount of RMB2.1 billion during the last year. Gross margin for sewage and reclaimed water treatment services in Overseas was 28% (last period: 28%).

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 50% (last period: 52%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services decreased to 49% (last period: 51%). The slight decrease was mainly due to the newly acquired projects which generated a relatively lower gross margin during the period. Gross margin for water distribution services in Overseas was 30% (last period: 30%).

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects increased from last period of 15% to 26% this period. Gross margin increased as (1) the major comprehensive renovation projects for the period have a relatively higher average gross margin; and (2) the Group started to involve directly in procurement of equipments and construction materials for certain projects to reduce the construction cost during the period.

Gross margin for construction of BOT water projects:

Gross margin for construction of BOT water projects in China was 25% (last period: 24%).

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

Gross margin for the technical services and sales of machineries for the water environmental renovation was 63% (last period: 65%).

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK$723.6 million during the period, compared to last period of HK$433.5 million. The amount for this period mainly included sludge treatment income of HK$77.3 million, government grants and subsidies of HK$61.0 million, pipeline installation income of HK$88.4 million, exchange gain of HK$57.9 million and VAT refund of HK$138.1 million.

3.5 *Fair value gain on derivative financial instruments*

On 9 December 2014, the Group entered into a subscription agreement with Beijing Enterprises Clean Energy Group Limited (the "BE Clean Energy"). The Group shall subscribe 17,721,519,000 shares at subscription price of HK$0.079. The total consideration is approximately HK$1.4 billion, which shall be paid in five tranche within two years. After the completion of all the subscriptions and upon conversion of the preference shares into ordinary shares of BE Clean Energy, the Group shall hold equity interest of 34.95% in BE Clean Energy. The first tranche and second tranche of subscriptions with aggregate number of shares of 8,860,759,500 was completed during the year 2015. The third and fourth tranche of subscription with total number of shares of 7,088,607,600 was completed during the year 2016. The final tranche of subscription with total number of shares of 1,772,151,900 was completed during last year.

According to the accounting policy, the potential subscription shares shall be treated as forward contracts to subscribe the shares of BE Clean Energy. The Group shall recognise the forward contracts as derivative financial instruments with net changes recognised in the consolidated statement of profit or loss of the Group. During the last period, the Group recognised a fair value gain of HK$39.6 million on the forward contracts.

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

3.6 *Administrative expenses*

Administrative expenses for the period increased to HK$883.9 million, compared to last period of HK$754.8 million. The increase was mainly due to the increase in staff related expenses as a result of business expansion during the period.

3.7 *Other operating expenses, net*

Other operating expenses decreased from HK$162.5 million to HK$82.8 million during the period. The decrease in current period was mainly due to the decrease in foreign exchange loss.

3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK$554.6 million (six months ended 30 June 2017: HK$423.5 million) and interests on corporate bonds and notes payable of HK$352.3 million (six months ended 30 June 2017: HK$306.4 million). The increase in finance costs was mainly due to the increase in bank and other borrowings of HK$1,770.5 million during the period. Also, there was an increase in market interest rate as compared with last period.

3.9 Share of profits of associates

Share of profits of associates increased to HK$263.0 million, compared to last period of HK$210.4 million. The increase was mainly due to increase in share of profits of BE Clean Energy and an associate specialised in technical services.

3.10 Share of profits of joint ventures

Share of profits of joint ventures decreased to HK$148.3 million, compared to last period of HK$404.8 million. The decrease was mainly due to the conversion of joint ventures to subsidiaries as a result of the acquisition of additional interest in joint ventures during the period.

3.11 Income tax expense

Income tax expense for the period included the current PRC income tax of HK$330.4 million. The effective tax rate for the PRC operation was about 16% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the period, was HK$264.7 million.

3.12 Profit attributable to holders of perpetual capital instruments

Amount represented the coupon payments of perpetual bonds. Perpetual bonds with an aggregate principal amount of RMB5,600 million were issued in 2016.

3.13 Property, plant and equipment

Property, plant and equipment increased by HK$355.7 million which was mainly due to the acquisition of subsidiaries in current period.

3.14 *Investment property*

Investment property represented a portion of a building located in Beijing which the Group held to earn rental income during the period. The investment property was stated at fair value. Fair value gain of HK$9.4 million was recognised in the statement of profit or loss during the period.

3.15 *Amounts due from contract customers, receivable under service concession arrangements and trade receivables*

The Group's total amounts due from contract customers, receivable under service concession arrangements and trade receivables of HK$65,782.4 million (31 December 2017: HK$56,457.5 million) included:

By accounting nature:

	30 June 2018			31 December 2017		
	Non-current *HK$'M*	**Current** *HK$'M*	**Total** *HK$'M*	Non-current *HK$'M*	Current *HK$'M*	Total *HK$'M*
(i) Amounts due from contract customers	**31,120.5**	**2,145.8**	**33,266.3**	15,059.9	875.7	15,935.6
(ii) Receivables under service concession arrangements	**24,301.5**	**2,865.0**	**27,166.5**	33,322.9	2,614.9	35,937.8
(iii) Trade receivables	**1,330.9**	**4,018.7**	**5,349.6**	1,731.1	2,853.0	4,584.1
Total	**56,752.9**	**9,029.5**	**65,782.4**	50,113.9	6,343.6	56,457.5

(i) Amounts due from contract customers of HK$33,266.3 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK$17,330.7 million (non-current portion increased by HK$16,060.6 million and current portion increased by HK$1,270.1 million), which was mainly due to the (1) recognition of construction revenue; (2) conversion of joint ventures to subsidiaries as a result of the acquisition of additional interest in joint ventures; and (3) reclassification from receivables under service concession arrangements in accordance with the newly effective HKFRS 15 during the period. There was no such reclassification in the last period;

(ii) Receivables under service concession arrangements of HK$27,166.5 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The decrease in balance by HK$8,771.3 million (non-current portion decreased by HK$9,021.4 million and current portion increased by HK$250.1 million) was mainly due to the reclassification to amounts due from contract customers in accordance with the newly effective HKFRS 15. There was no such reclassification in the last period; and

(iii) Trade receivables of HK$5,349.6 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance increased by HK$765.5 million (non-current portion decreased by HK$400.2 million and current portion increased by HK$1,165.7 million).

By business nature:

	30 June 2018 *HK$'M*	31 December 2017 *HK$'M*
Water treatment services by BOT and TOT projects	**46,651.5**	40,544.6
Construction services of comprehensive renovation projects	**17,639.1**	14,706.7
Technical and consultancy services and other businesses	**1,491.8**	1,206.2
Total	**65,782.4**	56,457.5

Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 *Service Concession Arrangements* were HK$46,651.5 million (31 December 2017: HK$40,544.6 million). Total receivables for the construction service of comprehensive renovation projects were HK$17,639.1 million (31 December 2017: HK$14,706.7 million). Total receivables for technical and consultancy services and other businesses were HK$1,491.8 million (31 December 2017: HK$1,206.2 million).

3.16 Operating concessions

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

3.17 Investments in joint ventures

Investments in joint ventures decreased by HK$244.6 million, mainly due to the conversion of joint ventures to subsidiaries as a result of the acquisition of additional interest in joint ventures during the period.

3.18 Investments in associates

Investments in associates increased by HK$157.2 million, mainly due to the share of profit of associates during the period.

3.19 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK$614.1 million (non-current portion increased by HK$310.7 million and current portion increased by HK$303.4 million), mainly due to the increase in prepayments of consideration of TOT projects.

3.20 Other payables and accruals

Other payables and accruals increased by 1,864.6 million. The increase was mainly due to the increase in other liabilities of HK$1,370.8 million during the period.

3.21 Cash and cash equivalents

Cash and cash equivalents increased by HK$3,045.9 million, mainly due to the proceeds from the corporate bond issued during the period.

3.22 Bank and other borrowings

Bank and other borrowings increased by HK$1,770.5 million. Increase in bank and other borrowings was mainly utilised to finance for the acquisition and construction of various water project in the PRC.

3.23 Corporate bonds

Corporate bonds increased by HK$3,710.1 million which was mainly due to the issuance of corporate bonds with principal amounts of RMB3,000 million during the period.

3.24 Trade payables

The increase in trade payables by HK$1,745.8 million was mainly due to increase in trade payables to subcontractors for construction services of the water environmental renovation projects during the period.

3.25 Deferred Income

Deferred income mainly represents the recognition of deferred sewage water treatment income in relation to the issuance of an asset-backed note in last year.

3.26 Liquidity and financial resources

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

As at 30 June 2018, the Group's cash and cash equivalents amounted to HK$12,984.8 million (31 December 2017: HK$9,938.8 million).

The Group's total borrowings amounted to HK$49,376.4 million (31 December 2017: HK$43,951.8 million) comprised bank and other borrowings of HK$27,903.5 million (31 December 2017: HK$26,132.9 million), finance lease payables of HK$441.1 million (31 December 2017: HK$498.2 million), notes payable of HK$3,075.8 million (31 December 2017: HK$3,074.9 million) and corporate bonds of HK$17,956.0 million (31 December 2017: HK$14,245.8 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 80% of bank and other borrowings bear interest at floating rates.

As at 30 June 2018, the Group had banking facilities amounting to HK$36.2 billion, of which HK$18.1 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK$38,477.4 million (31 December 2017: HK$33,041.3 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, note payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 0.95 as at 30 June 2018 (31 December 2017: 1.03). The decrease in gearing ratio as at 30 June 2018 was mainly due to the increase in equity of HK$3,655 million as a result of private placement and share subscription during the period.

3.27 Capital expenditures

During the period, the Group's total capital expenditures were HK$4,255.1 million (six months ended 30 June 2017: HK$3,841.5 million), of which HK$241.4 million was paid for the acquisition of property, plant and equipment and intangible assets; HK$2,536.1 million was spent on construction and acquisition of water plants, HK$1,477.6 million represented the consideration for acquisition of equity interests in subsidiaries and capital injections in joint ventures and an associate.

4. Future outlook

4.1 Sustainable Development

In the second half of 2018, the Group will enhance to integrate internal and external resources in strictly adherence to the dual-platform strategy and by leverage its strategic position as a leading professional integrated water environmental service provider, so as to fuel the development of both the core and emerging businesses.

The Group has strengthened its cash flow and financial management by way of improving accounts receivable collection. Increasing number of fund channels can improve an efficiency of the utilization of fund in all. Technological services have been intensified to meet the needs of business development. A comprehensive technological system has been set up to facilitate conversion of technologies and launch of channels. The management system for construction projects has been perfected to tighten safety and quality monitoring and inspections of the construction projects. The Group also pursued operational excellence and carried out smart water services construction. With the goal of establishing a lean operational and management system and boosting operational capacity, it has strived for an enterprise with operational excellence. The negative list has been piloted and better managed and the technological aspect of the end-to-end process has been improved on a trial basis in an endeavour to enhance informatisation management.

The Group is fully aware of the importance of its staff, customers and joint venture partners to its sustainable and stable growth. The Group strives in concert with its staff and works closely with its joint venture partners in order to deliver quality services to its customers, with an ultimate aim to enabling a sustainable development of the Group.

4.2 Future Development

At the National Conference on Ecological and Environmental Protection convened in May 2018, the importance of the development of the ecological civilization was reiterated as the "fundamental plan" of national sustainable development. Officials have called for higher standards of environmental renovation with the use of market-driven approaches. This will open up ample opportunities for the industry, and the water environment renovation sector will reap the benefits in the second half of the year and for years to come.

In the second half of 2018, the Group will continue to position our strategic goal on its two core businesses, namely urban water services and water environment comprehensive renovation in terms of both scale and strength, and head towards a digitalised and smart enterprise in adherence to the development strategy of setting up asset management and operational management platforms. It will also be dedicated to exploring innovative business models, as well as strengthening internal control and enhancing management capabilities so as to achieve yearly business goals, with the ultimate goals of attaining a momentous and leapfrogging growth as well as taking on the responsibility of carrying out environmental improvement.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group employed 15,917 employees. Total staff cost for the six months ended 30 June 2018 was HK$1,218,941,000 (six months ended 30 June 2017: HK$987,195,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted an independent non-executive director of the Company 2,000,000 share options at an exercise price of HK$5.18 per share under the Scheme. 2,180,000 share options were exercised, no share option was lapsed or cancelled during the six months ended 30 June 2018. As at 30 June 2018, the Company had 265,336,000 share options outstanding which were granted on 24 April 2013 and 2,000,000 share options outstanding which were granted on 28 March 2014. The total outstanding share options represented approximately 2.84% of the Company's ordinary shares in issue as at 30 June 2018.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the six months ended 30 June 2018, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 30 June 2018 are secured by:

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

(ii) mortgages over certain land use rights and buildings of the Group;

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

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

(v) pledges over certain of the Group's bank balances.

Save as disclosed above, at 30 June 2018, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

At 30 June 2018, a corporate guarantee at a maximum amount of HK$95,454,000 (MYR49,162,000) (31 December 2017: HK$89,382,000 (MYR49,162,000)) was given by a subsidiary of the Group to the government of Malaysia in respect of the specific performance of the duties by the Group under an arrangement on the design, construction and operation of an underground sewage water plant located in Malaysia (the "Malaysia Project"). The corporate guarantee remains in force and effective until 29 June 2019. Further details of the Malaysia Project are set out in the Company's announcements dated 4 July 2011 and 3 November 2011. In addition, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK$965,471,000 (31 December 2017: HK$793,076,000) were outstanding and corporate guarantees of HK$3,078,823,000 (31 December 2017: HK$2,064,409,000) were given to banks in connection with facilities granted to certain associates, joint ventures and independent third parties as at 30 June 2018.

Save as disclosed above, at 30 June 2018, the Group did not have any significant contingent liabilities.

EQUITY FUNDS RAISING BY PRIVATE PLACEMENT AND SHARES SUBSCRIPTION

On 24 January 2018, the Company entered into the placing agreement with placing agents namely China International Capital Corporation Hong Kong Securities Limited, Daiwa Capital Markets Hong Kong Limited, Deutsche Bank AG, Hong Kong Branch, Haitong International Securities Company Limited and UBS AG, Hong Kong Branch respectively in relation to the placing of 450,000,000 new ordinary shares of HK$0.10 each with aggregate nominal value of HK$45,000,000 at a placing price of HK$5.90 per ordinary share, representing a discount of approximately 5.8% to the closing price of HK$6.26 per ordinary share as quoted on the Stock Exchange on 24 January 2018, being the date of the placing agreement. Pursuant to the placing agreement, the placing agents have conditionally agreed with the Company to place, through the placing agents, on a fully underwritten basis, 450,000,000 new ordinary shares to not less than six placees who were professional, institutional and other investors independent of and not connected with the Company, the Directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates.

In accordance with the terms and conditions of the placing agreement, a total of 450,000,000 new ordinary shares have been successfully placed to the placees on 1 February 2018 pursuant to general mandate approved in the annual general meeting of the Company held on 1 June 2017.

The gross proceeds and net proceeds from the placing were HK$2,655 million and approximately HK$2,614.7 million (equivalent to a net placing price of approximately HK$5.81 per ordinary share) respectively. The net proceeds has been applied as HK$156 million for repayment of loans, HK$352 million for the construction of water plants in the PRC under “Build-Operate-Transfer (BOT)” projects, HK$954 million for the acquisition of concession rights of “Transfer-Operate-Transfer (TOT)” water projects in the PRC, HK$75 million was for the construction of water environment comprehensive renovation projects in the PRC, HK$100 million for general working capital of the Group and HK$977.7 million being maintained at bank and used as intended.

On 24 January 2018, the Company entered into the subscription agreement with Beijing Enterprises Environmental Construction Limited (“BE Environmental”), a controlling shareholder of the Company and the Company has conditionally agreed to allot and issue, and BE Environmental has conditionally agreed to subscribe for 169,491,525 new ordinary shares of HK$0.10 each with aggregate nominal value of HK$16,949,152.50 at a subscription price of HK$5.90 per ordinary share, representing a discount of approximately 5.8% to the closing price of HK$6.26 per ordinary share as quoted on the Stock Exchange on 24 January 2018, being the date of the subscription agreement.

In accordance with the terms and conditions of the subscription agreement, a total of 169,491,525 new ordinary shares have been successfully allotted and issued to BE Environmental on 4 April 2018 pursuant to specific mandate approved in the special general meeting of the Company held on 29 March 2018.

The gross proceeds and net proceeds from the subscription were approximately HK$1,000 million and approximately HK$999.5 million (equivalent to a net subscription price of approximately HK$5.90 per ordinary share) respectively. The net proceeds has been applied as HK$743 million for repayment of loans and HK$256.5 million, being maintained at bank and used as intended.

The Directors consider that the placing and the subscription would accelerate the Company's growth by strengthening the capital base and financial position of the Company and laying down a more solid foundation for the future business development, mergers and acquisitions. The placing would also increase the public float of the Company, which would in turn broaden the shareholder base of the Company and improve the liquidity of the shares.

Further details of the placing and subscription were disclosed in the announcements of the Company dated 24 January 2018, 1 February 2018 and 29 March 2018 and the circular of the Company dated 6 March 2018.

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

The Company repurchased a total of 2,900,000 ordinary shares of the Company on the Stock Exchange for the six months ended 30 June 2018 at an aggregate consideration of HK$12,465,820 (before expense). All the repurchased shares were subsequently cancelled by the Company. Details of repurchase of such ordinary shares were as follows:

Month/year	**Number of ordinary shares repurchased**	**Price per share**		**Aggregate consideration paid**
		Highest	*Lowest*	*(HK$)*
April 2018	2,900,000	4.50	4.23	12,465,820

Redemption of USD500,000,000 4.625% Bonds Due 2018

During the six months ended 30 June 2018, the Company redeemed all the outstanding principal amount of USD500,000,000 4.625% bonds due 2018 ("2018 Bonds") on the maturity date of the 2018 Bonds at the redemption price equal to 101% of the outstanding principal amount of the 2018 Bonds, which was USD480,000,000 plus accrued interest.

Save as the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during six months ended 30 June 2018.

INTERIM DISTRIBUTION

The Directors of the Company have resolved to pay interim cash distribution of HK9.5 cents per ordinary share out of the contributed surplus of the Company, payable on or before 19 October 2018 to shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 3 October 2018 for their continuous supports to the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 28 September 2018 to Wednesday, 3 October 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim cash distribution, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 27 September 2018.

CORPORATE GOVERNANCE

During the six months ended 30 June 2018, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors of the Company, the Company confirms that during the six months ended 30 June 2018, all the Directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by Directors.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive Directors of the Company, namely Mr. Shea Chun Lok Quadrant (the chairman of the Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure, risk management and internal control systems of the Group. The unaudited interim results for the six months ended 30 June 2018 have been reviewed and approved by the Audit Committee. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the Company's website (www.bewg.net) and the website of the Stock Exchange (www.hkexnews.hk). The 2018 interim report will be dispatched to shareholders in September 2018 and will be published on the websites of the Company and the Stock Exchange in due course.

APPRECIATION

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

By Order of the Board
Beijing Enterprises Water Group Limited
Li Yongcheng
Chairman

Hong Kong, 29 August 2018

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