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

(Incorporated in Bermuda with limited liability)

(Stock code: 371)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

- Profit attributable to shareholders of the Company increased by 20% to HK$4,471.3 million for the year ended 31 December 2018 as compared to HK$3,717.2 million for the last year. No fair value gain on derivative financial instruments was recognised during this year (2017: HK$39.6 million). Profit attributable to shareholders of the Company increased by 22% from HK$4,471.3 million for this year as compared to HK$3,677.6 for the last year which excluded the fair value gain on derivative financial instruments of HK$39.6 million.

- EBITDA amounted to HK$9,470.4 million, representing an increase of 32% as compared with that of HK$7,178.5 million in the last year.

- Basic and diluted earnings per share for the year were HK47.91 cents and HK47.13 cents respectively.

- Final cash distribution of HK8.3 cents per share is proposed for the year ended 31 December 2018. Full-year distributions are HK17.8 cents, the dividend payout ratio is 37%.

- Total daily design capacity for new projects secured for the year was 5,756,813 tons. Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 320,000 tons during the year. As such, the net increase in total daily design capacity of the year was 5,436,813 tons. As at 31 December 2018, total daily design capacity was 36,824,633 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 consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 and the consolidated statement of financial position of the Group as at 31 December 2018, with comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
REVENUE	*3*	**24,596,857**	21,192,372
Cost of sales		**(15,820,917)**	(14,727,848)
Gross profit		**8,775,940**	6,464,524
Interest income		**422,183**	280,989
Other income and gains, net		**1,253,305**	1,006,587
Administrative expenses		**(2,206,376)**	(1,753,221)
Other operating expenses, net		**(275,808)**	(343,336)
PROFIT FROM OPERATING ACTIVITIES	*4*	**7,969,244**	5,655,543
Fair value gain on derivative financial instruments		**–**	39,554
Finance costs	*5*	**(2,104,563)**	(1,457,988)
Share of profits and losses of:			
Joint ventures		**454,565**	521,629
Associates		**459,664**	556,578
PROFIT BEFORE TAX		**6,778,910**	5,315,316
Income tax expense	*6*	**(1,548,890)**	(874,772)
PROFIT FOR THE YEAR		**5,230,020**	4,440,544
ATTRIBUTABLE TO:			
Shareholders of the Company		**4,471,265**	3,717,227
Holders of perpetual capital instruments		**246,012**	240,291
Non-controlling interests		**512,743**	483,026
		5,230,020	4,440,544
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	*8*		
– Basic		**HK47.91 cents**	HK42.42 cents
– Diluted		**HK47.13 cents**	HK41.53 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	**5,230,020**	4,440,544
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items that may be reclassified to profit or loss in subsequent periods:		
– Exchange fluctuation reserve:		
Translation of foreign operations	**(2,531,013)**	2,285,123
Release upon disposal of subsidiaries	**46**	(12,478)
– Loss on revaluation of available-for-sale investments	**–**	(93,694)
	(2,530,967)	2,178,951
Items that will not be reclassified to profit or loss in subsequent periods:		
– Gain on revaluation of a building upon transfer to investment property	**–**	107,493
– Share of other comprehensive income/(loss) of a joint venture	**(7,939)**	17,403
– Changes in fair value of equity investments designated at fair value through other comprehensive income	**(257,019)**	–
	(264,958)	124,896
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	**(2,795,925)**	2,303,847
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,434,095**	6,744,391
ATTRIBUTABLE TO:		
Shareholders of the Company	**2,218,652**	5,365,065
Holders of perpetual capital instruments	**(26,170)**	614,259
Non-controlling interests	**241,613**	765,067
	2,434,095	6,744,391

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment		**4,222,798**	3,841,866
Investment properties		**1,052,492**	1,083,677
Goodwill		**3,803,072**	3,303,632
Operating concessions		**3,914,362**	4,190,771
Other intangible assets		**145,780**	101,899
Investments in joint ventures		**7,282,927**	6,468,569
Investments in associates		**4,408,675**	4,184,775
Equity investments designated at fair value through other comprehensive income		**1,362,679**	–
Financial assets at fair value through profit or loss		**97,854**	–
Available-for-sale investments		**–**	1,245,004
Amounts due from contract customers		**34,722,560**	15,059,884
Receivables under service concession arrangements	*9*	**27,612,518**	33,322,895
Trade receivables	*10*	**2,903,593**	1,731,053
Prepayments, deposits and other receivables	*11*	**2,597,895**	2,115,819
Deferred tax assets		**277,075**	272,320
Total non-current assets		**94,404,280**	76,922,164
Current assets:			
Non-current assets held for sale		**316,488**	330,052
Inventories		**225,517**	135,370
Amounts due from contract customers		**3,008,591**	875,721
Receivables under service concession arrangements	*9*	**3,252,496**	2,614,866
Trade receivables	*10*	**4,196,758**	2,852,976
Prepayments, deposits and other receivables	*11*	**7,382,082**	6,744,944
Restricted cash and pledged deposits		**656,849**	46,150
Cash and cash equivalents		**12,937,647**	9,938,829
Total current assets		**31,976,428**	23,538,908
TOTAL ASSETS		**126,380,708**	100,461,072

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital		**941,299**	879,382
Reserves		**24,548,238**	19,905,341
		25,489,537	20,784,723
Perpetual capital instruments		**6,350,900**	6,623,082
Non-controlling interests		**5,971,700**	5,633,518
		12,322,600	12,256,600
TOTAL EQUITY		**37,812,137**	33,041,323
Non-current liabilities:			
Other payables and accruals	*12*	**595,488**	570,507
Bank and other borrowings		**27,781,560**	21,443,596
Corporate bonds		**16,233,214**	10,495,364
Notes payable		**2,978,957**	3,074,932
Finance lease payables		**311,418**	395,461
Provision for major overhauls		**210,949**	207,426
Deferred income		**1,396,589**	1,435,088
Deferred tax liabilities		**2,543,849**	2,103,997
Total non-current liabilities		**52,052,024**	39,726,371
Current liabilities:			
Trade payables	*13*	**17,872,645**	11,687,517
Other payables and accruals	*12*	**8,885,441**	6,769,636
Income tax payables		**1,035,716**	693,648
Bank and other borrowings		**4,291,839**	4,689,344
Corporate bonds		**4,341,192**	3,750,484
Finance lease payables		**89,714**	102,749
Total current liabilities		**36,516,547**	27,693,378
TOTAL LIABILITIES		**88,568,571**	67,419,749
TOTAL EQUITY AND LIABILITIES		**126,380,708**	100,461,072

NOTES:

1.1. BASIS OF PRESENTATION

Despite that the Group had net current liabilities of HK$4.5 billion and capital commitments of approximately HK$18.7 billion (comprising the Group's capital commitments and the Group's share of joint ventures' own capital commitments) in aggregate as at 31 December 2018, 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 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 31 December 2018 and on the assumption that such facilities will continue to be available from the Group's principal bankers;

(b) certain of the above-mentioned total capital commitments are expected to be fulfilled by the Group after 2018 with reference to the terms of respective agreements and the current status of the projects;

(c) the completion of placement of new shares of HK$2,567.1 million before expense, in March 2019, further details of which are disclosed in note 14 to this announcement; and

(d) the Company will consider equity financing when necessary.

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

1.2. BASIS OF PREPARATION

The financial statements of the Group 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 Company Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss which have been measured at fair value. The financial statements are presented in Hong Kong dollars 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 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. 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 profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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 these financial statements.

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 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 ("ECL") 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. Total ECL provision recognised as at 31 December 2018 amounted to HK$191.4 million, in which HK$138.0 million of transition adjustment had been recognised against the applicable opening balances.

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 year ended 31 December 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 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 interest income on loans to joint ventures and an associate, gain on bargain purchase of subsidiaries, 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.

Year ended 31 December 2018

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
Segment revenue	**19,949,993**	**2,341,876**	**2,304,988**	**24,596,857**
Cost of sales	**(13,634,943)**	**(1,263,631)**	**(922,343)**	**(15,820,917)**
Gross profit	**6,315,050**	**1,078,245**	**1,382,645**	**8,775,940**
Segment results:				
The Group	**6,320,676**	**1,026,077**	**876,838**	**8,223,591**
Share of profits and losses of:				
Joint ventures	**304,336**	**150,229**	**–**	**454,565**
Associates	**6,286**	**–**	**41,204**	**47,490**
	6,631,298	**1,176,306**	**918,042**	**8,725,646**
Corporate and other unallocated income and expenses, net				**(254,347)**
Share of profits of associates				**412,174**
Finance costs				**(2,104,563)**
Profit before tax				**6,778,910**
Income tax expense				**(1,548,890)**
Profit for the year				**5,230,020**
Profit for the year attributable to shareholders of the Company:				
Operating segments	**5,151,912**	**849,288**	**772,965**	**6,774,165**
Corporate and other unallocated items				**(2,302,900)**
				4,471,265

Year ended 31 December 2017

	Sewage and reclaimed water treatment and construction services *HK$'000*	Water distribution services *HK$'000*	Technical and consultancy services and sale of machineries *HK$'000*	Total *HK$'000*
Segment revenue	18,014,084	1,839,719	1,338,569	21,192,372
Cost of sales	(13,196,154)	(1,000,125)	(531,569)	(14,727,848)
Gross profit	4,817,930	839,594	807,000	6,464,524
Segment results:				
The Group	4,767,476	760,433	572,698	6,100,607
Share of profits and losses of:				
Joint ventures	347,799	173,830	–	521,629
Associates	16,482	–	–	16,482
	5,131,757	934,263	572,698	6,638,718
Fair value gain on derivative financial instruments				39,554
Corporate and other unallocated income and expenses, net				(445,064)
Share of profits of associates				540,096
Finance costs				(1,457,988)
Profit before tax				5,315,316
Income tax expense				(874,772)
Profit for the year				4,440,544
Profit for the year attributable to shareholders of the Company:				
Operating segments	3,936,255	690,071	506,190	5,132,516
Fair value gain on derivative financial instruments				39,554
Corporate and other unallocated items				(1,454,843)
				3,717,227

Geographical information

	2018	2017
	HK$'000	*HK$'000*
Revenue from external customers:		
Mainland China	**23,113,441**	20,286,300
Elsewhere	**1,483,416**	906,072
	24,596,857	21,192,372

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

Information about major customers

During the year ended 31 December 2018, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the year.

During the year ended 31 December 2017, revenue approximately HK$2,821,366,000 was derived from the sewage and reclaimed water treatment and construction services segment to a single customer from which over 10% of the Group's total revenue for that year was derived.

3. REVENUE

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

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sewage and reclaimed water treatment services	**4,644,541**	4,031,739
Construction services	**15,305,452**	13,982,345
Water distribution services	**2,341,876**	1,839,719
Technical and consultancy services and sale of machineries	**2,304,988**	1,338,569
	24,596,857	21,192,372

Imputed interest income under service concession arrangements amounting to HK$2,339,257,000 (2017: HK$1,682,833,000) is included in the above revenue.

4. PROFIT FROM OPERATING ACTIVITIES

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

	2018	2017
	HK$'000	*HK$'000*
Cost of sewage and reclaimed water treatment services rendered	**1,968,344**	1,795,832
Cost of construction services	**11,417,351**	11,288,660
Cost of water distribution services	**1,189,887**	928,827
Cost of technical and consultancy services rendered and machineries sold	**922,343**	531,569
Depreciation	**246,408**	209,016
Amortisation of operating concessions*	**322,992**	182,960
Amortisation of other intangible assets*	**17,519**	13,211

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

5. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank and other loans	**1,302,132**	895,772
Interest on corporate bonds	**740,169**	490,758
Interest on notes payable	**175,461**	171,011
Interest on finance leases	**25,601**	8,848
Total interest expense	**2,243,363**	1,566,389
Increase in discounted amounts of provision for major overhauls arising from the passage of time	**17,054**	14,085
Total finance costs	**2,260,417**	1,580,474
Less: Interest included in cost of construction services	**(155,854)**	(122,486)
	2,104,563	1,457,988

6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the year ended 31 December 2018 as the Group did not generate any assessable profits arising in Hong Kong during the year (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 year 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.

	2018	2017
	HK$'000	*HK$'000*
Current – Mainland China	**814,691**	539,951
Current – Elsewhere	**24,789**	30,198
Under/(over) provision in prior years	**(2,026)**	1,124
Deferred	**711,436**	303,499
Total tax expense for the year	**1,548,890**	874,772

7. CASH DISTRIBUTIONS

	2018	2017
	HK$'000	*HK$'000*
Interim – HK9.5 cents (2017: HK8.0 cents) per ordinary share	**894,196**	701,899
Proposed final – HK8.3 cents (2017: HK7.5 cents) per ordinary share	**830,945**	693,390
	1,725,141	1,395,289

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

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount for the year ended 31 December 2018 is based on the profit for the year attributable to shareholders of the Company, and the weighted average number of 9,331,756,305 (2017: 8,763,115,914) ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year 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 year, 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:

	2018	2017
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	**4,471,265**	3,717,227

	2018	2017
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**9,331,756,305**	8,763,115,914
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	**135,340,424**	187,622,076
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**9,467,096,729**	8,950,737,990

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

An ageing 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 loss allowance, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**1,328,652**	1,046,677
4 to 6 months	**601,011**	512,561
7 to 12 months	**340,745**	293,350
Over 1 year	**765,192**	536,088
	3,035,600	2,388,676
Unbilled:		
Current portion	**216,896**	226,190
Non-current portion	**27,612,518**	33,322,895
	27,829,414	33,549,085
Total	**30,865,014**	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 sale 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 15.0% (2017: 5.7% to 12.98%), all other trade receivables are non-interest-bearing.

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

	2018	2017
	HK$'000	*HK$'000*
Billed:		
Within 3 months	**1,587,583**	907,522
4 to 6 months	**519,304**	346,126
7 to 12 months	**404,426**	329,964
Over 1 year	**1,708,875**	1,711,348
Balance with extended credit period	**40,483**	41,051
	4,260,671	3,336,011
Unbilled*	**2,839,680**	1,248,018
	7,100,351	4,584,029
Portion classified as current assets	**(4,196,758)**	(2,852,976)
Non-current portion	**2,903,593**	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

	2018	2017
	HK$'000	*HK$'000*
Prepayments	**276,347**	308,380
Deposits and other debtors	**3,979,283**	4,787,120
Advances to subcontractors and suppliers	**3,050,301**	1,650,612
Due from joint ventures	**2,293,324**	1,843,393
Due from associates	**88,097**	233,059
Due from related parties	**467,099**	248,203
	10,154,451	9,070,767
Impairment	**(174,474)**	(210,004)
	9,979,977	8,860,763
Portion classified as current assets	**(7,382,082)**	(6,744,944)
Non-current portion	**2,597,895**	2,115,819

12. OTHER PAYABLES AND ACCRUALS

	2018 *HK$'000*	2017 *HK$'000*
Accruals	**1,157,784**	884,420
Other liabilities	**4,057,017**	2,984,304
Receipts in advance	**633,670**	574,645
Due to subcontractors	**1,072,231**	906,429
Due to joint ventures	**1,318,709**	1,187,697
Due to associates	**432,491**	48,312
Due to other related parties	**699,339**	397,069
Other taxes payables	**109,688**	357,267
	9,480,929	7,340,143
Portion classified as current liabilities	**(8,885,441)**	(6,769,636)
Non-current portion	**595,488**	570,507

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:

	2018 *HK$'000*	2017 *HK$'000*
Within 3 months	**7,734,850**	5,375,901
4 to 6 months	**2,369,676**	1,194,027
7 months to 1 year	**3,150,924**	1,967,296
1 to 2 years	**2,569,606**	1,206,914
2 to 3 years	**916,981**	966,760
Over 3 years	**974,504**	819,153
Balance with extended credit period	**156,104**	157,466
	17,872,645	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, other amounts are normally settled on 60-day terms.

14. EVENTS AFTER THE REPORTING PERIOD

1. On 18 January 2019, the Company entered into a subscription agreement with China Yangtze Power International (Hongkong) Co., Limited (the "CYPI Subscriber"), pursuant to which, the Company agreed to allot and issue, and the CYPI Subscriber agreed to subscribe for 470,649,436 new ordinary shares of the Company at a price of HK$4.29 per share. The subscription was completed on 18 March 2019 and the Group raised a total of approximately HK$2,019.1 million, before expenses.

2. On 18 January 2019, the Company entered into a subscription agreement with Beijing Enterprises Environmental Construction Limited (the "BEECL Subscriber"), a controlling shareholder of the Company, pursuant to which, the Company agreed to allot and issue, and the BEECL Subscriber agreed to subscribe for 127,747,714 new ordinary shares of the Company at a price of HK$4.29 per share. The subscription was completed on 18 March 2019 and the Group raised a total of approximately HK$548.0 million, before expenses.

15. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 31 December 2018 amounted to HK$4,540,119,000 (2017: net current liabilities of HK$4,154,470,000) and HK$89,864,161,000 (2017: HK$72,767,694,000), respectively.

FINAL DISTRIBUTION

The Board proposed to pay final distribution of HK8.3 cents per ordinary share for the financial year ended 31 December 2018 (the "Proposed Final Distribution"). The Proposed Final Distribution is subject to shareholders' approval at the annual general meeting of the Company to be held on Friday, 31 May 2019, payable to shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 11 June 2019.

CLOSURES OF REGISTER OF MEMBERS

For Annual General Meeting

The register of members will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on Friday, 31 May 2019, 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 Monday, 27 May 2019.

For Entitlement to Proposed Final Distribution

The register of members will be closed from Thursday, 6 June 2019 to Tuesday, 11 June 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the Proposed Final 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 Wednesday, 5 June 2019. Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the Proposed Final Distribution will be paid on or around Friday, 28 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to shareholders of the Company increased by 20% to HK$4,471.3 million. Revenue increased by 16% to HK$24,596.9 million as a result of increase in revenue contribution from construction services for the water environmental renovation and water treatment services.

1. Financial highlights

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK$'M	*%*	*%*	*HK$'M*	*%*
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	4,276.1	17%	55%	1,894.0	
– Joint ventures and associates				146.3	
				2,040.3	30%
Overseas					
– Subsidiaries	368.4	2%	24%	58.7	1%
	4,644.5	19%		2,099.0	31%
Water distribution services					
China					
– Subsidiaries	1,839.3	8%	50%	590.7	9%
– Joint ventures				132.8	2%
				723.5	11%
Overseas					
– Subsidiaries	502.6	2%	33%	108.3	2%
– Joint ventures				17.5	–
				125.8	2%
	2,341.9	10%		849.3	13%
Subtotal	6,986.4	29%		2,948.3	44%

	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%§	6,606.9	27%	24%	1,293.0	19%
– Interest income	–	–	–	105.9	2%
	6,606.9	27%	24%	1,398.9	21%
Construction of BOT water projects					
– China	8,698.6	35%	25%	1,654.1	24%
Subtotal	15,305.5	62%		3,053.0	45%
3. Technical services and sale of machineries for the water environmental renovation	2,305.0	9%	60%	773.0	11%
Business results	24,596.9	100%		6,774.3	100%
Others#				(2,303.0)	
Total				4,471.3	

\# *Others included head office and other corporate expense, net, of HK$359.9 million, share of profit of associates of HK$412.2 million, equity-settled share option expense of HK$4.7 million, finance costs of HK$2,104.6 million and profit attributable to holders of perpetual capital instruments of HK$246.0 million.*

§ *Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK$113.0 million.*

The analysis of the Group's financial results during the last year 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	3,740.4	18%	55%	1,674.6	
– Joint ventures and associates				35.1	
				1,709.7	33%
Overseas					
– Subsidiaries	291.3	1%	26%	47.7	1%
	4,031.7	19%		1,757.4	34%
Water distribution services					
China					
– Subsidiaries	1,611.2	8%	48%	466.9	9%
– Joint ventures				173.8	3%
				640.7	12%
Overseas					
– Subsidiaries	228.5	1%	31%	49.3	1%
	1,839.7	9%		690.0	13%
Subtotal	5,871.4	28%		2,447.4	47%

	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%[§]	7,335.3	35%	14%	992.9	20%
– Interest income	–	–	–	52.6	1%
	7,335.3	35%	14%	1,045.5	21%
Construction of BOT water projects – China	6,647.1	31%	25%	1,133.4	22%
Subtotal	13,982.4	66%		2,178.9	43%
3. Technical services and sale of machineries for the water environmental renovation	1,338.6	6%	60%	506.2	10%
Business results	21,192.4	100%		5,132.5	100%
Fair value gain on derivative financial instruments				39.6	
Others[#]				(1,454.9)	
Total				3,717.2	

\# *Others included head office and other corporate expense, net, of HK$276.8 million, share of profit of associates of HK$540.1 million, equity-settled share option expense of HK$19.9 million, finance costs of HK$1,458.0 million and profit attributable to holders of perpetual capital instruments of HK$240.3 million.*

§ *Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK$263.4 million.*

The comparison of the Group's financial results for the year ended 31 December 2018 and 2017 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	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	**4,276.1**	3,740.4	**535.7**	**14%**	**1,894.0**	1,674.6	219.4	13%
– Joint ventures and associates					**146.3**	35.1	111.2	317%
					2,040.3	1,709.7	**330.6**	**19%**
GP ratio	*55%*	*55%*		**–**				
Overseas								
– Subsidiaries	**368.4**	291.3	**77.1**	**26%**	**58.7**	47.7	**11.0**	**23%**
GP ratio	*24%*	*26%*		**(2%)**				
	4,644.5	4,031.7	**612.8**	**15%**	**2,099.0**	1,757.4	**341.6**	**19%**
Water distribution services								
China								
– Subsidiaries	**1,839.3**	1,611.2	**228.1**	**14%**	**590.7**	466.9	**123.8**	**27%**
– Joint ventures					**132.8**	173.8	**(41.0)**	**(24%)**
					723.5	640.7	**82.8**	**13%**
GP ratio	*50%*	*48%*		**2%**				
Overseas								
– Subsidiaries	**502.6**	228.5	**274.1**	**120%**	**108.3**	49.3	**59.0**	**120%**
– Joint ventures					**17.5**	–	**17.5**	**100%**
					125.8	49.3	**76.5**	**155%**
GP ratio	*33%*	*31%*		**2%**				
	2,341.9	1,839.7	**502.2**	**27%**	**849.3**	690.0	**159.3**	**23%**
Subtotal	**6,986.4**	5,871.4	**1,115.0**	**19%**	**2,948.3**	2,447.4	**500.9**	**20%**
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	**6,606.9**	7,335.3	**(728.4)**	**(10%)**	**1,293.0**	992.9	**300.1**	**30%**
– Interest income	**–**	–	**–**	**–**	**105.9**	52.6	**53.3**	**101%**
	6,606.9	7,335.3	**(728.4)**	**(10%)**	**1,398.9**	1,045.5	**353.4**	**34%**
GP ratio	*24%*	*14%*		***10%***				
Construction of BOT water projects								
– China	**8,698.6**	6,647.1	**2,051.5**	**31%**	**1,654.1**	1,133.4	**520.7**	**46%**
GP ratio	*25%*	*25%*		**–**				
Subtotal	**15,305.5**	13,982.4	**1,323.1**	**9%**	**3,053.0**	2,178.9	**874.1**	**40%**
3. Technical services and sale of machineries for the water environmental renovation	**2,305.0**	1,338.6	**966.4**	**72%**	**773.0**	506.2	**266.8**	**53%**
GP ratio	*60%*	*60%*		**–**				
Business results	**24,596.9**	21,192.4	**3,404.5**	**16%**	**6,774.3**	5,132.5	**1,641.8**	**32%**
Fair value gain on derivative financial instruments					**–**	39.6	**(39.6)**	**(100%)**
Others					**(2,303.0)**	(1,454.9)	**(848.1)**	**58%**
Total					**4,471.3**	3,717.2	**754.1**	**20%**

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 31 December 2018, the Group entered into service concession arrangements and entrustment agreements for a total of 937 water plants including 771* sewage treatment plants, 139 water distribution plants, 25 reclaimed water treatment plants and 2 seawater desalination plants. Total daily design capacity for new projects secured for the year was 5,756,813 tons including Build-Operate-Transfer ("BOT") projects of 320,000 tons, Transfer-Operate-Transfer ("TOT") projects of 175,000 tons, Public-Private Partnership ("PPP") projects of 1,824,250 tons, entrustment operation projects of 958,656 tons, and 2,478,907 tons through mergers and acquisitions.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 320,000 tons during the year. As such, the net increase in daily design capacity of the year was 5,436,813 tons. As at 31 December 2018, total daily design capacity was 36,824,633 tons.

* *During the year, the Group entered into service concession arrangements for 48 town-size sewage treatment plants with aggregate daily capacity of 32,511 tons.*

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
(Tons)					
China					
In operation	12,031,550	809,200	6,715,600	–	19,556,350
Not yet commenced operation/Not yet transferred	8,418,341	1,065,000	5,625,094	50,000	15,158,435
Subtotal	20,449,891	1,874,200	12,340,694	50,000	34,714,785
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	20,675,889	2,250,950	13,547,794	350,000	36,824,633
(Number of water plants)					
China					
In operation	274	10	77	–	361
Not yet commenced operation/Not yet transferred	460	11	29	1	501
Subtotal	734	21	106	1	862
Overseas					
In operation	37	4	33	1	75
Not yet commenced operation/Not yet transferred	–	–	–	–	–
Subtotal	37	4	33	1	75
Total	771	25	139	2	937

	Number of plants	Design capacity *(Tons/Day)*	Actual processing volume during the year* *(Tons (M))*	Revenue *(HK$'M)*	Profit attributable to shareholders of the Company *(HK$'M)*
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	70	3,458,500	1,119.5	860.9	439.2
– Western China	59	1,823,000	543.9	866.9	471.9
– Shandong	31	1,502,000	426.0	486.7	251.1
– Eastern China	73	3,837,750	1,107.6	1,049.4	409.6
– Northern China	51	2,219,500	602.8	1,012.2	468.5
	284	12,840,750	3,799.8	4,276.1	2,040.3
Overseas	41	602,748	160.1	368.4	58.7
Subtotal	325	13,443,498	3,959.9	4,644.5	2,099.0
Water distribution services:					
Mainland China	77	6,715,600	1,441.5	1,839.3	723.5
Overseas §	34	1,507,100	103.5	502.6	125.8
Subtotal	111	8,222,700	1,545.0	2,341.9	849.3
Total	436	21,666,198	5,504.9	6,986.4	2,948.3

* *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 31 December 2018, the Group had 274 sewage treatment plants and 10 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 12,031,550 tons (31 December 2017: 11,059,750 tons) and 809,200 tons (31 December 2017: 617,200 tons) respectively. The average daily processing volume is 10,704,386 tons and average daily treatment rate is 87%. The actual average contracted tariff charge of water treatment was approximately RMB1.10 per ton (31 December 2017: RMB1.08 per ton) for water plants. The actual aggregate processing volume for the year was 3,799.8 million tons, of which 3,493.2 million tons was contributed by subsidiaries and 306.6 million tons was contributed by joint ventures. Total revenue for the year was HK$4,276.1 million. Net profit attributable to shareholders of the Company was HK$2,040.3million, of which HK$1,894.0 million was contributed by subsidiaries and HK$146.3 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 31 December 2018, there were 70 sewage treatment plants with total daily design capacity of 3,458,500 tons, representing an increase of 111,800 tons or 3% as compared with last year. The actual aggregate processing volume for the year amounted to 1,119.5 million tons. The operating revenue and profit attributable to shareholders of the Company were HK$860.9 million and HK$439.2 million respectively during the year.

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 31 December 2018, there were 59 sewage treatment plants with total daily design capacity of 1,823,000 tons, representing an increase of 68,500 tons per day or 4% as compared with last year. The actual processing volume for the year was 543.9 million tons. The operating revenue of HK$866.9 million was recorded during the year. Profit attributable to shareholders of the Company amounted to HK$471.9 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 year was 426.0 million tons contributing operating revenue of HK$486.7 million during the year. Profit attributable to shareholders of the Company was HK$251.1 million.

Eastern China

There were 73 water plants in Eastern China which were mainly located in Zhejiang, Jiangsu and Anhui Province. As at 31 December 2018, the total daily design capacity of Eastern China had increased by 475,000 tons to 3,837,750 tons or 14% as compared with last year. The actual processing volume for the year amounted to 1,107.6 million tons and operating revenue was HK$1,049.4 million during the year. Profit attributable to shareholders of the Company was HK$409.6 million.

Northern China

Currently, the Group has 51 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 468,500 tons to 2,219,500 tons or 27% as compared with last year. The projects achieved actual processing volume of 602.8 million tons for the year. The operating revenue was HK$1,012.2 million during the year. Profit attributable to shareholders of the Company was HK$468.5 million.

2.1.1b Overseas:

As at 31 December 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 year is 160.1 million tons. Total revenue for the year was HK$368.4 million. Profit attributable to shareholders of the Company was HK58.7 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 31 December 2018, the Group had 77 water distribution plants in operation. Total daily design capacity in operation was 6,715,600 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 RMB2.07 per ton (2017: RMB2.14 per ton). The aggregate actual processing volume is 1,441.5 million tons, of which 794.2 million tons was contributed by subsidiaries, which recorded revenue of HK$1,839.3 million and 647.3 million tons was contributed by joint ventures. Imputed interest income of HK$25.5 million was recognised for the receivables under service concession arrangement of Plant No. 9 in Beijing. Profit attributable to shareholders of the Company was HK$723.5 million, of which profit of HK$590.7 million was contributed by subsidiaries and a profit of HK$132.8 million in aggregate was contributed by joint ventures.

2.1.2b Overseas:

As at 31 December 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 year is 103.5 million tons of which 69.8 million tons was contributed by subsidiaries and 33.7 million tons was contributed by joint ventures. Total revenue for the year was HK$502.6 million. Profit attributable to shareholders of the Company was HK$125.8 million.

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 23 comprehensive renovation projects under construction during the year. The projects mainly located in Zhejiang Hangzhou, Zhejiang Taizhou, Chengdu Jianyang, Guangdong Heshan, Malaysia Terengganu, Inner Mongolia, Sichuan Luzhou and Beijing Liangshuihe. Last year, the Group had 18 comprehensive renovation projects under construction in Henan Luoyang, Foshan Sanshui, Yunnan Yuxi, Sichuan Suining, Inner Mongolia, Chengdu Jianyang, Yunnan Ling Qang, Malaysia Terengganu, Sichuan Luzhou and Beijing Tongzhou.

Revenue from comprehensive renovation projects decreased by HK$728.4 million from last year of HK$7,335.3 million to HK$6,606.9 million this year. Revenue decreased was mainly due to the decrease in contribution work for Inner Mongolia during the year.

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 year 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$105.9 million for this year (2017: HK$52.6 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects increased by HK$353.4 million from last year of HK$1,045.5 million to HK$1,398.9 million this year.

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 year, water plants under construction were mainly located in Shanxi, Shandong, Zhejiang, Guizhou, Hunan and Hebei provinces. Total revenue for construction of BOT water projects was HK$8,698.6 million (2017: HK$6,647.1 million) and profit attributable to shareholders of the Company was HK$1,654.1 million (2017: HK$1,133.4 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$2,305.0 million (2017: HK$1,338.6 million), representing 9% of the Group's total revenue. Profit attributable to shareholders of the Company was HK$773.0 million (2017: HK$506.2 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 year, the Group recorded revenue of HK$24,596.9 million (2017: HK$21,192.4 million). The increase was mainly due to the increase in revenue from the Group's main business water treatment services and construction services for the water environmental renovation.

3.2 Cost of sales

Cost of sales for the year amounted to HK$15,820.9 million, compared to last year of HK$14,727.8 million. The increase was mainly due to the increase in operating costs of water plants amounted to HK$573.6 million and cost of technical services rendered of HK$390.8 million. Cost of sales mainly included construction costs of HK$11,417.4 million and operating costs of water plants of HK$3,481.2 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK$859.0 million, staff costs of HK$1,002.1 million and major overhaul charges of HK$140.6 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 year, gross profit margin increased from last year of 31% to 36%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was 55% (last year: 55%). Gross margin for sewage and reclaimed water treatment services in Overseas was slightly decreased to 24% (last year: 26%).

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 50% (last year: 48%). Excluding the imputed interest income of the Plant No. 9, gross margin for water distribution services was 49% (last year: 46%). The slight increase was mainly due to the newly acquired projects which generated a relatively higher gross margin during the year. Gross margin for water distribution services in Overseas slightly increased to 33% (last year: 31%).

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects increased from last year of 14% to 24% this year. Gross margin increased as (1) the major comprehensive renovation projects for the year have a relatively higher average gross margin; and (2) the EPC projects undertook by the Group during the year in moving towards an asset-light enterprise (with the new subcontracting businesses including equipment and construction material procurement and partial construction) enjoyed higher gross margin.

Gross margin for construction of BOT water projects:

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

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 60% (last year: 60%).

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK$1,253.3 million during the year, compared to last year of HK$1,006.6 million. The amount for this year mainly included sludge treatment income of HK$138.7 million, government grants and subsidies of HK$65.1 million, pipeline installation income of HK$196.5 million, exchange gain of HK$17.2 million and VAT refund of HK$405.5 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 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 last year, 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 year increased to HK$2,206.4 million, compared to last year of HK$1,753.2 million. The increase was mainly due to the increase in staff related expenses as a result of business expansion and increase in research and development expenses during the year.

3.7 Other operating expenses, net

Other operating expenses decreased from HK$343.3 million to HK$275.8 million during the year. The decrease in current year was mainly due to the reversal of impairment.

3.8 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK$1,302.1 million (2017: HK$895.8 million) and interests on corporate bonds and notes payable of HK$915.6 million (2017: HK$661.8 million). The increase in finance costs was mainly due to the increase in bank and other borrowings of HK$5,940.5 million and corporate bond of HK$6,328.6 million during the year. Also, there was an increase in market interest rate as compared with last year.

3.9 Share of profits of associates

Share of profits of associates decreased to HK$459.7 million, compared to last year of HK$556.6 million. The decrease was mainly due to decrease in share of profits of BE Clean Energy.

3.10 Share of profits of joint ventures

Share of profits of joint ventures decreased to HK$454.6 million, compared to last year of HK$521.6 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 year.

3.11 Income tax expense

Income tax expense for the year included the current PRC income tax of HK$814.7 million. The effective tax rate for the PRC operation was about 20% 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 year, was HK$711.4 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 2017.

3.13 Property, plant and equipment

Property, plant and equipment increased by HK$380.9 million which was mainly due to the acquisition of subsidiaries in current year.

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 year. The investment property was stated at fair value. Fair value gain of HK$13.9 million was recognised in statement of profit or loss during the year.

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$75,696.6 million (2017: HK$56,457.5 million) included:

By accounting nature:

	2018			2017		
	Non-current	**Current**	**Total**	Non-current	Current	Total
	HK$'M	***HK$'M***	***HK$'M***	*HK$'M*	*HK$'M*	*HK$'M*
(i) Amounts due from contract customers	**34,722.6**	**3,008.6**	**37,731.2**	15,059.9	875.7	15,935.6
(ii) Receivables under service concession arrangements	**27,612.5**	**3,252.5**	**30,865.0**	33,322.9	2,614.9	35,937.8
(iii) Trade receivables	**2,903.6**	**4,196.8**	**7,100.4**	1,731.1	2,853.0	4,584.1
Total	**65,238.7**	**10,457.9**	**75,696.6**	50,113.9	6,343.6	56,457.5

(i) Amounts due from contract customers of HK$37,731.2 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK$21,795.6 million (non-current portion increased by HK$19,662.7 million and current portion increased by HK$2,132.9 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 year. There was no such reclassification in the last year;

(ii) Receivables under service concession arrangements of HK$30,865.0 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$5,072.8 million (non-current portion decreased by HK$5,710.4 million and current portion increased by HK$637.6 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 year; and

(iii) Trade receivables of HK$7,100.4 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$2,516.3 million (non-current portion increased by HK$1,172.5 million and current portion increased by HK$1,343.8 million).

By business nature:

	2018	2017
	HK$'M	*HK$'M*
Water treatment services by BOT and TOT projects	**53,185.9**	40,544.6
Construction services of comprehensive renovation projects	**19,817.2**	14,706.7
Technical and consultancy services and other businesses	**2,693.5**	1,206.2
Total	**75,696.6**	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$53,185.9 million (2017: HK$40,544.6 million). Total receivables for the construction service of comprehensive renovation projects were HK$19,817.2 million (2017: HK$14,706.7 million). Total receivables for technical and consultancy services and other businesses were HK$2,693.5 million (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.

3.17 Investments in joint ventures

Investments in joint ventures increased by HK$814.4 million, mainly due to the acquisition of a group of joint ventures during the year.

3.18 Investments in associates

Investments in associates increased by HK$223.9 million, mainly due to the share of profit of associates during the year.

3.19 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK$1,119.2 million (non-current portion increased by HK$482.1 million and current portion increased by HK$637.1 million), mainly due to the increase in prepayments of construction cost.

3.20 Other payables and accruals

Other payables and accruals increased by 2,140.8 million. The increase was mainly due to the increase in other liabilities of HK$1,072.7 million during the year.

3.21 Cash and cash equivalents

Cash and cash equivalents increased by HK$2,998.8 million, mainly due to the proceeds from the corporate bonds issued during the year.

3.22 Bank and other borrowings

Bank and other borrowings increased by HK$5,940.5 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$6,328.6 million which was mainly due to the issuance of corporate bonds with principal amounts of RMB6,000 million during the year.

3.24 Trade payables

The increase in trade payables by HK$6,185.1 million was mainly due to increase in trade payables to subcontractors for construction services of the water environmental renovation projects during the year.

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 and RMB. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars and RMB.

As at 31 December 2018, the Group's cash and cash equivalents amounted to HK$12,937.6 million (31 December 2017: HK$9,938.8 million).

The Group's total borrowings amounted to HK$56,027.9 million (31 December 2017: HK$43,951.8 million) comprised bank and other borrowings of HK$32,073.4 million (31 December 2017: HK$26,132.9 million), finance lease payables of HK$401.1 million (31 December 2017: HK$498.2 million), notes payable of HK$2,979.0 million (31 December 2017: HK$3,074.9 million) and corporate bonds of HK$20,574.4 million (31 December 2017: HK$14,245.8 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 90% of bank and other borrowings bear interest at floating rates.

As at 31 December 2018, the Group had banking facilities amounting to HK$47.7 billion, of which HK$24.6 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK$37,812.1 million (31 December 2017: HK$33,041.3 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.14 as at 31 December 2018 (31 December 2017: 1.03). The increase in the gearing ratio as at 31 December 2018 was mainly due to the increase in corporate bonds and bank and other borrowings during the year. The corresponding funds were mainly utilised for the acquisition and construction of various water projects in the PRC.

3.27 Capital expenditures

During the year, the Group's total capital expenditures were HK$9,932.7 million (2017: HK$10,641.4 million), of which HK$468.0 million was paid for the acquisition of property, plant and equipment and intangible assets; HK$6,912.0 million was spent on construction and acquisition of water plants, HK$2,552.7 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 2019, the Group will carry on its strategic moves to become an asset-light enterprise and the set up of the asset management and operational management platforms through integration. The assets to be acquired will be turned into light assets by financial means. With a view to shifting from high-speed development to high quality growth, campaigns will be launched in specific areas, such as market selection, resource allocation, cash flow management and operation management, to promote development quality and efficiency.

For the selection of market, investment will be made to quality projects in favourable regions and sectors that can offer high returns with low inputs and risk exposures.

With respect to resource allocation, human and capital resources will be invested in favourable regions and sectors. Each of the functional and major divisions is responsible for channelling its best organisational, cadre and human resources to quality projects, so as to nurture a top-notch team for water plants.

Regarding cash flow management, the Group will better utilise its capital and implement stringent requirements on budgeting in order to exert control throughout the cash flow cycle of investment, construction and operation. A comprehensive annual budget will be compiled, and capital arrangement will base on the principle of keeping the outflow within the limits of inflow and priorities will be given to projects with higher returns and efficiency.

In addition, the Group will look for new business models such as asset securitisation and real estate trust investment funds and additional financing means such as financial factoring and finance lease.

By staying abreast of the latest industry development and adopting comprehensive and innovative strategies, the Group strives to establish a world-class system of technological support and services with innovative technologies, business models and management, with an ultimate goal of contributing to the higher quality, greater efficiency and robust development of the water and environmental industry.

4.2 Future development

Year of 2019 marks the 70th anniversary since the establishment of new China and is going to be a critical year for the strategic development of pollution prevention and control. With favourable policy support, market and structural reform and increasing mergers and acquisitions, the environmental industry has seen another cycle of expected and sustainable growth.

In 2019, with a view to shifting from high-speed development to high quality growth, the Group will reinforce its presence and continue to expand and strengthen its two core businesses, namely urban water services and water environment comprehensive renovation, in adherence to the development strategy of setting up asset management and operational management platforms and by way of comprehensive innovation. In achieving its yearly business goals and pursuing a momentous and leapfrogging growth, the Group will be dedicated to promote the ecological value of the entire industry and the creation of a community of shared future for mankind across the world.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group employed 16,490 employees. Total staff cost for the year ended 31 December 2018 was HK$2,373,019,000 (2017: HK$2,175,852,000). 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 the then 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. 2,580,000 share options were exercised, no share option was lapsed or cancelled during the year ended 31 December 2018. As at 31 December 2018, the Company had 264,936,000 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 31 December 2018.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year ended 31 December 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 31 December 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 31 December 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 exchanges rates would impact the Group's net asset value due to currency translation in the preparation of the Group's consolidation accounts. If RMB appreciates/depreciates against Hong Kong dollar, the Group would record a(n) increase/decrease in the Group's net asset value. Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

CONTINGENT LIABILITIES

At 31 December 2018, a corporate guarantee at a maximum amount of HK$93,113,000 (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$1,099,570,000 (31 December 2017: HK$793,076,000) were outstanding and corporate guarantees of HK$3,071,511,000 were given to banks in connection with facilities granted to certain associates, joint ventures and independent third parties as at 31 December 2018.

Save as disclosed above, at 31 December 2018, the Group did not have any significant contingent liabilities.

CORPORATE GOVERNANCE

During the year ended 31 December 2018, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the "CG Code"), with deviation mentioned below.

Code Provision A.1.1 of the CG Code stipulates that the Board should hold at least four Board meetings a year. During the year, the Company held three board meetings and the Board has made resolutions by circulation of written resolutions from time to time. As there is no significant business development that needs to bring to the attention of the Board immediately, circulation of written materials to keep the Board informed throughout the year is considered to be sufficient. Such measure has been taken to ensure that there is efficient communication among the Directors.

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 directors. Having made specific enquiry of all directors of the Company, the Company confirms that during the year ended 31 December 2018, all of its directors have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive directors of the Company, namely Mr. Shea Chun Lok Quadrant (the chairman of the Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure and internal controls of the Company. The final results for the year ended 31 December 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.

SCOPE OF WORK OF THE COMPANY'S AUDITORS IN RESPECT OF THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditors on the preliminary announcement.

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 were fully utilized.

The intended use of the net proceeds from the placing were (i) approximately HK$472.0 million for repayment of loans; (ii) approximately HK$823.0 million for the construction of water plants in the PRC under BOT projects; (iii) approximately HK$250.0 million for the acquisition of concession rights of TOT water projects in the PRC; (iv) approximately HK$965.0 million for the construction of water environment comprehensive renovation projects in the PRC; and (v) approximately HK$104.7 million as general working capital of the Group mainly for the payment of interest expenses, administrative expenses and operation expenses, including salaries and office rental expenses.

The net proceeds has been applied as HK$513 million for repayment of loans, HK$352 million for the construction of water plants in the PRC under BOT projects, HK$954 million for the acquisition of concession rights of TOT water projects in the PRC, HK$695.7 million for the construction of water environment comprehensive renovation projects in the PRC; and HK$100 million for general working capital of the Group.

On 24 January 2018, the Company entered into the subscription agreement with Beijing Enterprises Environmental Construction Limited ("BEECL"), a controlling shareholder of the Company and the Company has conditionally agreed to allot and issue, and BEECL 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 BEECL 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 were fully utilized.

The intended use of the net proceeds from the subscription were (i) approximately HK$715.5 million for repayment of loans; (ii) approximately HK$105.0 million for the construction of water plants in the PRC under BOT projects; and (iii) approximately HK$179.0 million for the construction of water environment comprehensive renovation projects in the PRC.

The net proceeds has been applied as HK$743 million for repayment of loans, HK$68.5 million for the construction of water plants in the PRC under BOT projects; and HK$188 million for the construction of water environment comprehensive renovation projects in the PRC.

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.

On 18 January 2019, the Company entered into a subscription agreement with China Yangtze Power International (Hongkong) Co., Limited (the "CYPI Subscriber"), pursuant to which, the Company agreed to allot and issue, and the CYPI Subscriber agreed to subscribe for 470,649,436 new ordinary shares of the Company at a price of HK$4.29 per share. The net proceeds of the subscription were approximately HK$2,018.6 million.

On 18 January 2019, the Company entered into a subscription agreement with BEECL, a controlling shareholder of the Company, pursuant to which, the Company agreed to allot and issue, and the BEECL agreed to subscribe for 127,747,714 new ordinary shares of the Company at a price of HK$4.29 per share. The net proceeds of the subscription were approximately HK547.5 million.

In accordance with the terms and conditions of the two subscription agreements, a total of 470,649,436 new ordinary shares of the Company and 127,747,714 new ordinary shares of the Company have been successfully allotted and issued to CYPI Subscriber and BEECL respectively on 18 March 2019 pursuant to specific mandates granted in the special general meeting of the Company held on 7 March 2019.

Further details of the two subscriptions were disclosed in the announcements of the Company dated 18 January 2019, 13 February 2019 and 7 March 2019 and the circular of the Company dated 18 February 2019.

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 year ended 31 December 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

For the year ended 31 December 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.

Redemption of RMB200,000,000 4.00% Bonds Due 2019

For the year ended 31 December 2018, the Company redeemed and cancelled one year prior to the maturity date RMB190,000,000 from the outstanding principal amount of RMB200,000,000 4% bonds due 2019 ("2019 Bonds") guaranteed by a wholly-owned subsidiary of the Company and issued by a 60% owned subsidiary of the Company at the average redemption price equal to 95% of the outstanding principal amount of the 2019 Bonds, in which RMB190,000,000 plus accrued interest was paid. The remaining amount of RMB10,000,000 of 2019 Bonds is scheduled to be redeemed on the maturity date in year 2019 as the bondholders do not register for the buyback within prescribed deadline.

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 the year ended 31 December 2018.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL 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 annual report and the notice of annual general meeting will be dispatched to shareholders of the Company in April 2019 and will be published on the websites of the Company and the Stock Exchange in due course.

APPRECIATION

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

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

Hong Kong, 27 March 2019

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.