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北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 371)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

HIGHLIGHTS

- Profit attributable to shareholders of the Company increased by 7% to HK\$2,420.8 million for the six months ended 30 June 2021 as compared to HK\$2,268.4 million for the last period.
- EBITDA amounted to HK\$5,464.7 million, representing an increase of 7% as compared with that of HK\$5,087.4 million in the last period.
- Basic and diluted earnings per share for the period were HK24.01 cents and HK23.83 cents respectively.
- Interim cash dividend of HK9.0 cents per share is declared for the six months ended 30 June 2021, the dividend payout ratio is 37%.
- Total daily design capacity for new projects secured for the period was 2,055,200 tons. Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 748,605 tons during the period. As such, the net increase in total daily design capacity of the period was 1,306,595 tons. As at 30 June 2021, total daily design capacity was 43,431,331 tons (31 December 2020: 42,124,736 tons).

RESULTS

The board (the “Board”) of directors (the “Directors”) of Beijing Enterprises Water Group Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021 and the unaudited interim condensed consolidated statement of financial position of the Group as at 30 June 2021 with comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	Notes	For the six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
REVENUE	3	13,669,172	12,453,831
Cost of sales		<u>(8,626,580)</u>	<u>(7,678,767)</u>
Gross profit		5,042,592	4,775,064
Interest income		554,488	279,599
Other income and gains, net		627,114	529,028
Administrative expenses		(1,220,422)	(968,314)
Other operating expenses, net		<u>(306,934)</u>	<u>(370,681)</u>
PROFIT FROM OPERATING ACTIVITIES	4	4,696,838	4,244,696
Finance costs	5	(1,356,578)	(1,301,614)
Share of profits and losses of:			
Joint ventures		258,253	339,014
Associates		<u>164,138</u>	<u>199,235</u>
PROFIT BEFORE TAX		3,762,651	3,481,331
Income tax expense	6	<u>(676,297)</u>	<u>(709,680)</u>
PROFIT FOR THE PERIOD		<u><u>3,086,354</u></u>	<u><u>2,771,651</u></u>
ATTRIBUTABLE TO:			
Shareholders of the Company		2,420,811	2,268,438
Holders of perpetual capital instruments		125,865	114,800
Non-controlling interests		<u>539,678</u>	<u>388,413</u>
		<u><u>3,086,354</u></u>	<u><u>2,771,651</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic		<u><u>HK24.01 cents</u></u>	<u><u>HK22.64 cents</u></u>
– Diluted		<u><u>HK23.83 cents</u></u>	<u><u>HK22.40 cents</u></u>

Details of the cash dividend declared for the period are disclosed in note 7.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE PERIOD	3,086,354	2,771,651
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange fluctuation reserve:		
– Translation of foreign operations	735,961	(1,246,579)
– Release upon disposal of subsidiaries	–	3,298
– Release upon deemed disposal of partial interest in associates	–	(3,552)
	735,961	(1,246,833)
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive income/(loss) of a joint venture	1,099	(1,850)
– Changes in fair value of equity investments designated at fair value through other comprehensive income	14,431	(66,284)
	15,530	(68,134)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX	751,491	(1,314,967)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>3,837,845</u>	<u>1,456,684</u>
ATTRIBUTABLE TO:		
Shareholders of the Company	2,933,526	1,329,543
Holder of perpetual capital instruments	205,661	(22,585)
Non-controlling interests	698,658	149,726
	<u>3,837,845</u>	<u>1,456,684</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

		30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets:			
Property, plant and equipment		4,846,070	4,700,229
Right-of-use assets		1,029,021	787,019
Investment properties		865,906	855,598
Goodwill		4,198,541	4,183,392
Operating concessions		6,251,666	5,556,365
Other intangible assets		391,394	358,928
Investments in joint ventures		10,324,357	9,968,952
Investments in associates		6,339,417	6,361,473
Equity investments designated at fair value through other comprehensive income		1,379,542	1,410,899
Financial assets at fair value through profit or loss		51,639	68,036
Amounts due from contract customers		45,885,600	42,314,218
Receivables under service concession arrangements	<i>9</i>	43,425,936	41,698,277
Trade receivables	<i>10</i>	12,614,196	12,277,112
Prepayments, deposits and other receivables	<i>11</i>	2,077,855	2,148,932
Deferred tax assets		361,395	264,250
		140,042,535	132,953,680
Total non-current assets			
Current assets:			
Inventories		264,768	230,871
Amounts due from contract customers		2,909,793	3,091,651
Receivables under service concession arrangements	<i>9</i>	4,753,541	4,131,424
Trade receivables	<i>10</i>	8,359,178	8,955,073
Prepayments, deposits and other receivables	<i>11</i>	10,717,695	9,749,686
Restricted cash and pledged deposits		564,871	591,542
Cash and cash equivalents		14,941,347	14,697,194
		42,511,193	41,447,441
Total current assets			
TOTAL ASSETS		182,553,728	174,401,121

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2021

		30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital		1,002,380	1,002,160
Perpetual capital instrument		1,201,922	1,187,358
Reserves		<u>36,646,563</u>	<u>35,154,294</u>
		38,850,865	37,343,812
Perpetual capital instruments		6,702,878	6,623,082
Non-controlling interests		<u>16,395,730</u>	<u>13,157,111</u>
		23,098,608	19,780,193
TOTAL EQUITY		<u>61,949,473</u>	<u>57,124,005</u>
Non-current liabilities:			
Other payables and accruals	12	1,293,112	1,325,842
Bank and other borrowings		47,657,016	42,808,986
Corporate bonds		14,425,006	12,517,494
Notes payable		2,408,900	2,379,704
Lease liabilities		276,808	300,144
Provision for major overhauls		295,307	230,496
Deferred income		1,734,164	1,696,195
Deferred tax liabilities		<u>4,567,786</u>	<u>4,096,254</u>
Total non-current liabilities		<u>72,658,099</u>	<u>65,355,115</u>
Current liabilities:			
Trade payables	13	26,368,709	26,421,706
Other payables and accruals	12	9,012,042	9,639,580
Income tax payables		1,387,736	1,436,514
Bank and other borrowings		6,065,748	6,824,691
Corporate bonds		5,023,211	7,490,730
Lease liabilities		<u>88,710</u>	<u>108,780</u>
Total current liabilities		<u>47,946,156</u>	<u>51,922,001</u>
TOTAL LIABILITIES		<u>120,604,255</u>	<u>117,277,116</u>
TOTAL EQUITY AND LIABILITIES		<u>182,553,728</u>	<u>174,401,121</u>

NOTES:

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2021, the Group was involved in the following principal activities:

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

1.2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and compliance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020. The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the changes in accounting policies made thereafter in adopting the revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, which became effective for the first time for the current period’s interim financial information, as further detailed in note 1.3 below.

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

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

1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised HKFRSs for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and various Interbank Offered Rates as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the “economically equivalent” criterion is met.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective and shall be applied retrospectively for annual periods beginning on or after 1 April 2021 with earlier application permitted. The Group early adopted the amendment from the accounting period beginning on 1 January 2021 and the amendment did not have any impact on the financial position and performance of the Group as the Group did not get any rent concessions as a result of the covid-19 pandemic.

2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the period attributable to shareholders of the Company. The profit for the period attributable to shareholders of the Company is measured consistently with the Group’s profit attributable to shareholders of the Company, except interest income on loans to joint ventures, interest income from joint venture partners, gains on deemed disposal of associates, finance costs, share of profits and losses of certain joint ventures and associates, as well as head office and corporate income and expenses are excluded from such measurement.

For the six months ended 30 June 2021

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water distribution services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services and sales of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	10,656,822	1,462,862	1,549,488	13,669,172
Cost of sales	<u>(7,129,148)</u>	<u>(773,893)</u>	<u>(723,539)</u>	<u>(8,626,580)</u>
Gross profit	<u><u>3,527,674</u></u>	<u><u>688,969</u></u>	<u><u>825,949</u></u>	<u><u>5,042,592</u></u>
Segment results:				
The Group	3,722,042	646,510	539,038	4,907,590
Share of profits and losses of:				
Joint ventures	208,202	49,529	–	257,731
Associates	<u>9,009</u>	<u>621</u>	<u>2,695</u>	<u>12,325</u>
	<u><u>3,939,253</u></u>	<u><u>696,660</u></u>	<u><u>541,733</u></u>	<u><u>5,177,646</u></u>
Corporate and other unallocated income and expenses, net				(210,752)
Share of profits of joint ventures and associates				152,335
Finance costs				<u>(1,356,578)</u>
Profit before tax				3,762,651
Income tax expense				<u>(676,297)</u>
Profit for the period				<u><u>3,086,354</u></u>
Profit for the period attributable to shareholders of the Company:				
Operating segments	<u><u>3,041,147</u></u>	<u><u>516,329</u></u>	<u><u>444,980</u></u>	4,002,456
Corporate and other unallocated items				<u>(1,581,645)</u>
				<u><u>2,420,811</u></u>

For the six months ended 30 June 2020

	Sewage and reclaimed water treatment and construction services (Unaudited) <i>HK\$'000</i>	Water distribution services (Unaudited) <i>HK\$'000</i>	Technical and consultancy services and sale of machineries (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue	9,972,371	1,201,413	1,280,047	12,453,831
Cost of sales	<u>(6,524,374)</u>	<u>(625,601)</u>	<u>(528,792)</u>	<u>(7,678,767)</u>
Gross profit	<u>3,447,997</u>	<u>575,812</u>	<u>751,255</u>	<u>4,775,064</u>
Segment results:				
The Group	3,514,846	562,191	468,517	4,545,554
Share of profits and losses of:				
Joint ventures	276,673	62,341	–	339,014
Associates	<u>17,745</u>	<u>–</u>	<u>2,422</u>	<u>20,167</u>
	<u>3,809,264</u>	<u>624,532</u>	<u>470,939</u>	4,904,735
Corporate and other unallocated income and expenses, net				(300,858)
Share of profits of joint ventures and associates				179,068
Finance costs				<u>(1,301,614)</u>
Profit before tax				3,481,331
Income tax expense				<u>(709,680)</u>
Profit for the period				<u>2,771,651</u>
Profit for the period attributable to shareholders of the Company:				
Operating segments	<u>2,960,101</u>	<u>461,565</u>	<u>404,064</u>	3,825,730
Corporate and other unallocated items				<u>(1,557,292)</u>
				<u>2,268,438</u>

Geographical information

	For the six months ended 30 June	
	2021	2020
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue from external customers:		
Mainland China	12,964,418	11,804,357
Elsewhere	<u>704,754</u>	<u>649,474</u>
	<u>13,669,172</u>	<u>12,453,831</u>

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

Information about major customers

During the period ended 30 June 2021, the Group had no transaction with any single (six months ended 30 June 2020: Nil) external customer which contributed over 10% of the Group's total revenue for the period.

3. REVENUE

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue from contracts with customers		
Sewage and reclaimed water treatment services	3,739,315	2,751,402
Construction services	6,917,507	7,220,969
Water distribution services	1,462,862	1,201,413
Technical and consultancy services and sales of machineries	<u>1,549,488</u>	<u>1,280,047</u>
	<u>13,669,172</u>	<u>12,453,831</u>

Imputed interest income under service concession arrangements amounting to HK\$1,244,435,000 (six months ended 30 June 2020: HK\$1,231,989,000) is included in the above revenue.

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sewage and reclaimed water treatment services rendered	1,426,488	1,088,715
Cost of construction services	5,601,996	5,371,090
Cost of water distribution services	747,633	565,778
Cost of technical and consultancy services rendered and machineries sold	723,539	528,792
Depreciation of property, plant and equipment	156,906	139,060
Depreciation of right-of-use assets	39,390	26,824
Amortisation of operating concessions*	126,924	124,392
Amortisation of other intangible assets*	22,242	14,197

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

5. FINANCE COSTS

	For the six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Interest on bank and other loans	958,518	1,099,122
Interest on corporate bonds	429,539	423,236
Interest on notes payable	73,487	78,244
Interest on lease liabilities	6,739	11,708
Total interest expense	1,468,283	1,612,310
Increase in discounted amounts of provision for major overhauls arising from the passage of time	16,782	11,961
Total finance costs	1,485,065	1,624,271
Less: Interest included in cost of construction services	(128,487)	(322,657)
	1,356,578	1,301,614

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2021 (six months ended 30 June 2020: 16.5%).

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong	4,016	8,659
Current – Mainland China	334,115	263,182
Current – Elsewhere	7,391	1,792
Underprovision in prior periods	11	–
Deferred	330,764	436,047
	<u>676,297</u>	<u>709,680</u>
Total tax expense for the period	<u>676,297</u>	<u>709,680</u>

7. INTERIM DIVIDEND

On 30 August 2021, the Board declared an interim cash dividend of HK9.0 cents per share (six months ended 30 June 2020: HK8.4 cents) totalling approximately HK\$902,142,000 (six months ended 30 June 2020: HK\$841,780,000).

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the distribution related to the perpetual capital instrument, for the six months ended 30 June 2021, and the weighted average number of 10,021,778,191 (six months ended 30 June 2020: 10,021,195,871) ordinary shares in issue less the weighted average number of 38,619,378 (six months ended 30 June 2020: 26,028,802) ordinary shares held under the share award scheme of the Company during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the distribution related to the perpetual capital instrument and a dilutive effect of share options of an associate. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue less the weighted average number of shares held under the share award scheme during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	For the six months ended 30 June	
	2021	2020
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Earnings		
Profit for the period attributable to shareholders of the Company	2,420,811	2,268,438
Distribution related to the perpetual capital instrument	(23,910)	(5,838)
	<hr/>	<hr/>
Profit used in the basic earnings per share calculation	2,396,901	2,262,600
Effect of dilution on earnings in respect of share options of an associate	(1,425)	(1,645)
	<hr/>	<hr/>
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	<u>2,395,476</u>	<u>2,260,955</u>

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Number of ordinary shares		
Weighted average number of ordinary shares in issue less the weighted average number of shares held under the share award scheme during the period, used in the basic earnings per share calculation	9,983,158,813	9,995,167,069
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	69,457,807	82,681,157
– Share awards which have dilutive effect	–	15,334,543
	<hr/>	<hr/>
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	<u>10,052,616,620</u>	<u>10,093,182,769</u>

9. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

In respect of the Group's receivables under service concession arrangements, the various group companies have different credit policies, depending on the requirements of the locations in which they operate. Ageing analyses of receivables under service concession arrangements are regularly reviewed by senior management 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:

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Billed:		
Within 3 months	2,397,334	1,813,299
4 to 6 months	927,840	962,064
7 to 12 months	813,703	584,949
Over 1 year	614,664	771,112
	4,753,541	4,131,424
Unbilled:		
Non-current portion*	43,425,936	41,698,277
Total	48,179,477	45,829,701

* *The non-current portion receivables represented contract assets as the rights to considerations have yet to be unconditional.*

10. TRADE RECEIVABLES

The Group's trade receivables arise from the provision of construction services for comprehensive renovation projects, water distribution services on the Build-Own-Operate basis, technical and consultancy services and sales of machineries. The Group's trading terms with its customers are mainly on credit and each customer has a maximum credit limit. The various Group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. The credit period granted to customers is generally one month to three months, except for customers of the construction services for comprehensive renovation projects, which will settle the amounts owed to the Group in a number of specified instalments covering periods ranging from 1 year to 25 years. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Apart from the trade receivables of certain construction services for comprehensive renovation projects which bear interest at rates ranging from 4.8% to 15.0% (31 December 2020: 4.8% to 15.0%) per annum, 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:

	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Billed:		
Within 3 months	4,836,554	4,782,471
4 to 6 months	837,398	787,440
7 to 12 months	595,638	526,606
Over 1 year	2,089,588	2,858,556
Balance with extended credit period	42,726	55,757
	8,401,904	9,010,830
Unbilled*	12,571,470	12,221,355
	20,973,374	21,232,185
Portion classified as current assets	(8,359,178)	(8,955,073)
Non-current portion	12,614,196	12,277,112

* *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 service agreements entered into between the Group and the contract customers.*

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
Prepayments	467,791	453,900
Deposits and other debtors	5,480,882	5,924,010
Advances to subcontractors and suppliers	5,727,525	4,981,623
Due from joint ventures	887,597	657,200
Due from associates	18,634	78,907
Due from non-controlling equity holders	238,170	247,378
Due from other related parties	280,591	318,548
	<u>13,101,190</u>	<u>12,661,566</u>
Impairment	<u>(305,640)</u>	<u>(762,948)</u>
	<u>12,795,550</u>	<u>11,898,618</u>
Portion classified as current assets	<u>(10,717,695)</u>	<u>(9,749,686)</u>
	<u>2,077,855</u>	<u>2,148,932</u>
Non-current portion	<u>2,077,855</u>	<u>2,148,932</u>

12. OTHER PAYABLES AND ACCRUALS

	30 June 2021 (Unaudited) <i>HK\$'000</i>	31 December 2020 (Audited) <i>HK\$'000</i>
Accruals	956,867	1,492,655
Other liabilities	3,836,182	4,114,104
Contract liabilities	1,266,187	1,341,315
Due to subcontractors	734,986	918,710
Due to joint ventures	2,498,576	2,124,076
Due to associates	34,807	60,738
Due to non-controlling equity holders	–	5,832
Due to related parties	240,269	316,916
Other taxes payables	737,280	591,076
	<u>10,305,154</u>	<u>10,965,422</u>
Portion classified as current liabilities	<u>(9,012,042)</u>	<u>(9,639,580)</u>
	<u>1,293,112</u>	<u>1,325,842</u>
Non-current portion	<u>1,293,112</u>	<u>1,325,842</u>

13. TRADE PAYABLES

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

	30 June 2021 (Unaudited) HK\$'000	31 December 2020 (Audited) HK\$'000
Within 3 months	9,867,843	12,337,507
4 to 6 months	4,454,353	2,626,275
7 months to 1 year	2,482,337	3,111,790
1 to 2 years	2,922,660	4,408,766
2 to 3 years	3,263,387	1,917,398
Over 3 years	3,244,469	1,891,898
Balance with extended credit period	<u>133,660</u>	<u>128,072</u>
	<u>26,368,709</u>	<u>26,421,706</u>

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 settlements of progress billings by the relevant contract customers, the other amounts are normally settled on 60-day terms.

14. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 30 June 2021 amounted to HK\$5,434,963,000 (unaudited) (31 December 2020: HK\$10,474,560,000) and HK\$134,607,572,000 (unaudited) (31 December 2020: HK\$122,479,120,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the period attributable to shareholders of the Company increased by 7% to HK\$2,420.8 million. Revenue increased by 10% to HK\$13,669.2 million as a result of increase in revenue contribution from water treatment services.

1. Financial highlights

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	3,522.1	26%	61%	1,622.7	
– Joint ventures and associates				157.0	
				1,779.7	44%
Overseas					
– Subsidiaries	217.2	1%	24%	32.0	1%
	3,739.3	27%		1,811.7	45%
Water distribution services					
China					
– Subsidiaries	1,186.3	9%	50%	400.5	10%
– Joint ventures				40.5	1%
				441.0	11%
Overseas					
– Subsidiaries	276.6	2%	34%	65.7	2%
– Joint ventures				9.7	–
				75.4	2%
	1,462.9	11%		516.4	13%
Subtotal	5,202.2	38%		2,328.1	58%

	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% [§]	1,494.9	11%	18%	277.5	7%	
– Interest income	–	–	–	217.2	5%	
	1,494.9	11%	18%	494.7	12%	
Construction of BOT water projects	5,422.6	40%	19%	734.7	19%	
Subtotal	6,917.5	51%		1,229.4	31%	
3. Technical services and sale of machineries for the water environmental renovation	1,549.5	11%	53%	445.0	11%	
Business results	<u>13,669.2</u>	<u>100%</u>		<u>4,002.5</u>	<u>100%</u>	
Others[#]				(1,581.7)		
Total				<u>2,420.8</u>		

[#] Others included head office expense and other cost, net, of HK\$251.5 million, share of profit of joint ventures and associates of HK\$152.3 million, finance costs of HK\$1,356.6 million and profit attributable to holders of perpetual capital instruments of HK\$125.9 million. Others represented items that cannot be allocated to the operating segments.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$28.7 million.

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

	Revenue		GP ratio	Profit attributable to shareholders of the Company	
	HK\$'M	%		HK\$'M	%
1. Water treatment services					
Sewage and reclaimed water treatment services					
China					
– Subsidiaries	2,601.1	21%	60%	1,247.8	
– Joint ventures and associates				141.5	
				1,389.3	36%
Overseas					
– Subsidiaries	150.3	1%	24%	23.6	1%
	2,751.4	22%		1,412.9	37%
Water distribution services					
China					
– Subsidiaries	963.8	8%	51%	346.1	9%
– Joint ventures				45.3	1%
				391.4	10%
Overseas					
– Subsidiaries	237.6	2%	35%	53.1	1%
– Joint ventures				17.0	1%
				70.1	2%
	1,201.4	10%		461.5	12%
Subtotal	3,952.8	32%		1,874.4	49%

	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% [§]	1,676.6	13%	27%	390.4	10%	
– Interest income	–	–	–	109.5	3%	
	1,676.6	13%	27%	499.9	13%	
Construction of BOT water projects	5,544.4	45%	25%	1,047.3	27%	
Subtotal	7,221.0	58%		1,547.2	40%	
3. Technical services and sale of machineries for the water environmental renovation	1,280.0	10%	59%	404.1	11%	
Business results	<u>12,453.8</u>	<u>100%</u>		<u>3,825.7</u>	<u>100%</u>	
Others[#]				<u>(1,557.3)</u>		
Total				<u>2,268.4</u>		

[#] Others included head office expense and other cost, net, of HK\$292.8 million, share of profit of joint ventures and associates of HK\$179.1 million, share award expenses of HK\$27.2 million, finance costs of HK\$1,301.6 million and profit attributable to holders of perpetual capital instruments of HK\$114.8 million. Others represented items that cannot be allocated to the operating segments.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$93.1 million.

The comparison of the Group's financial results for the six months ended 30 June 2021 and 2020 is set out in details below:

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June		Increase/(Decrease)		For the six months ended 30 June		Increase/(Decrease)	
	2021	2020		%	2021	2020		%
	HK\$'M	HK\$'M	HK\$'M	%	HK\$'M	HK\$'M	HK\$'M	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	3,522.1	2,601.1	921.0	35%	1,622.7	1,247.8	374.9	30%
– Joint ventures and associates					157.0	141.5	15.5	11%
					1,779.7	1,389.3	390.4	28%
GP ratio	61%	60%		1%				
Overseas								
– Subsidiaries	217.2	150.3	66.9	45%	32.0	23.6	8.4	36%
GP ratio	24%	24%		–				
	3,739.3	2,751.4	987.9	36%	1,811.7	1,412.9	398.8	28%
Water distribution services								
China								
– Subsidiaries	1,186.3	963.8	222.5	23%	400.5	346.1	54.4	16%
– Joint ventures					40.5	45.3	(4.8)	(11%)
					441.0	391.4	49.6	13%
GP ratio	50%	51%		(1%)				
Overseas								
– Subsidiaries	276.6	237.6	39.0	16%	65.7	53.1	12.6	24%
– Joint ventures					9.7	17.0	(7.3)	(43%)
					75.4	70.1	5.3	8%
GP ratio	34%	35%		(1%)				
	1,462.9	1,201.4	261.5	22%	516.4	461.5	54.9	12%
Subtotal	5,202.2	3,952.8	1,249.4	32%	2,328.1	1,874.4	453.7	24%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	1,494.9	1,676.6	(181.7)	(11%)	277.5	390.4	(112.9)	(29%)
– Interest income	–	–	–	–	217.2	109.5	107.7	98%
	1,494.9	1,676.6	(181.7)	(11%)	494.7	499.9	(5.2)	(1%)
GP ratio	18%	27%		(9%)				
Construction of BOT water projects								
– China	5,422.6	5,544.4	(121.8)	(2%)	734.7	1,047.3	(312.6)	(30%)
GP ratio	19%	25%		(6%)				
Subtotal	6,917.5	7,221.0	(303.5)	(4%)	1,229.4	1,547.2	(317.8)	(21%)
3. Technical services and sale of machineries for the water environmental renovation								
GP ratio	53%	59%		(6%)				
Business results	13,669.2	12,453.8	1,215.4	10%	4,002.5	3,825.7	176.8	5%
Others					(1,581.7)	(1,557.3)	(24.4)	2%
Total					2,420.8	2,268.4	152.4	7%

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 20 provinces, 5 autonomous regions and 4 municipalities all across Mainland China.

2.1 Water treatment services

As at 30 June 2021, the Group entered into service concession arrangements and entrustment agreements for a total of 1,317 water plants and town-size sewage treatment facilities including 1,092 sewage treatment plants and town-size sewage treatment facilities, 174 water distribution plants, 49 reclaimed water treatment plants and 2 seawater desalination plants. Total daily design capacity for new projects secured for the period was 2,055,200 tons including Build-Operate-Transfer (“BOT”) projects of 754,500 tons, Transfer-Operate-Transfer (“TOT”) projects of 40,000 tons, Public-Private Partnership (“PPP”) projects of 1,050,600 tons and entrustment operation projects of 210,100 tons.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 748,605 tons during the period. As such, the net increase in daily design capacity of the period was 1,306,595 tons. As at 30 June 2021, total daily design capacity was 43,431,331 tons.

During the period, the Group entered into one service concession arrangement for town-size sewage treatment projects with aggregate daily capacity of 1,200 tons.

Analysis of projects on hand is as follows:

	Sewage treatment	Reclaimed water treatment	Water distribution	Seawater desalination	Total
<i>(Tons)</i>					
China					
In operation	15,431,795	1,299,200	9,291,665	–	26,022,660
Not yet commenced operation/Not yet transferred	<u>9,622,628</u>	<u>1,699,000</u>	<u>4,166,471</u>	<u>50,000</u>	<u>15,538,099</u>
Subtotal	<u>25,054,423</u>	<u>2,998,200</u>	<u>13,458,136</u>	<u>50,000</u>	<u>41,560,759</u>
Overseas					
In operation	229,358	267,350	1,073,864	300,000	1,870,572
Not yet commenced operation/Not yet transferred	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Subtotal	<u>229,358</u>	<u>267,350</u>	<u>1,073,864</u>	<u>300,000</u>	<u>1,870,572</u>
Total	<u>25,283,781</u>	<u>3,265,550</u>	<u>14,532,000</u>	<u>350,000</u>	<u>43,431,331</u>
<i>(Number of water plants and town-size sewage treatment facilities)</i>					
China					
In operation	781	21	114	–	916
Not yet commenced operation/Not yet transferred	<u>264</u>	<u>23</u>	<u>24</u>	<u>1</u>	<u>312</u>
Subtotal	<u>1,045</u>	<u>44</u>	<u>138</u>	<u>1</u>	<u>1,228</u>
Overseas					
In operation	47	5	36	1	89
Not yet commenced operation/Not yet transferred	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Subtotal	<u>47</u>	<u>5</u>	<u>36</u>	<u>1</u>	<u>89</u>
Total	<u>1,092</u>	<u>49</u>	<u>174</u>	<u>2</u>	<u>1,317</u>

	Number of plants and town-size sewage treatment facilities	Design capacity (Tons/Day)	Actual processing volume during the period* (Tons (M))	Revenue (HK\$'M)	Profit attributable to shareholders of the Company (HK\$'M)
Sewage and reclaimed water treatment services:					
Mainland China:					
– Southern China	319	3,978,890	594.5	749.6	379.5
– Western China	248	2,200,470	322.7	721.7	342.3
– Shandong	42	2,139,000	297.2	520.4	279.5
– Eastern China	99	4,696,976	653.6	866.3	405.3
– Northern China	94	3,715,659	479.5	664.1	373.1
	802	16,730,995	2,347.5	3,522.1	1,779.7
Overseas	52	496,708	54.9	217.2	32.0
Subtotal	854	17,227,703	2,402.4	3,739.3	1,811.7
Water distribution services:					
Mainland China	114	9,291,665	965.7	1,186.3	441.0
Overseas [§]	37	1,373,864	74.1	276.6	75.4
Subtotal	151	10,665,529	1,039.8	1,462.9	516.4
Total	1,005	27,893,232	3,442.2	5,202.2	2,328.1

* *Excluded entrustment operation contracts*

§ *Included a seawater desalination plant*

2.1.1 Sewage and reclaimed water treatment services

2.1.1a Mainland China

As at 30 June 2021, the Group had 781 sewage treatment plants and town-size sewage treatment facilities and 21 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and town-size sewage treatment facilities and reclaimed water plants reached to 15,431,795 tons (31 December 2020: 14,197,237 tons) and 1,299,200 tons (31 December 2020: 1,179,200 tons), respectively. The average daily processing volume is 13,270,724 tons* and average daily treatment rate is 83%*. The actual average contracted tariff charge of water treatment was approximately RMB1.36 per ton (31 December 2020: RMB1.28 per ton) for water plants. The actual aggregate processing volume for the period was 2,347.5 million tons, of which 2,107.0 million tons was contributed by subsidiaries and 240.5 million tons was contributed by joint ventures and associates. Total revenue for the period was HK\$3,522.1 million. Net profit attributable to shareholders of the Company was HK\$1,779.7 million, of which HK\$1,622.7 million was contributed by subsidiaries and HK\$157.0 million was contributed by joint ventures and associates. The information of sewage and reclaimed water treatment services in Mainland China is as follows:

Southern China

Plants in Southern China were mainly located in Guangdong Province, Hunan Province, Fujian Province and Shaanxi Province. As at 30 June 2021, there were 319 plants and town-size sewage treatment facilities with total daily design capacity of 3,978,890 tons, representing an increase of 278,400 tons or 8% as compared with last period. The actual aggregate processing volume for the period amounted to 594.5 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$749.6 million and HK\$379.5 million respectively during the period.

* *Excluded entrustments operation contracts*

Western China

Plants in Western China were mainly located in Yunnan Province, Guangxi Province, Sichuan Province and Guizhou Province. As at 30 June 2021, there were 248 sewage treatment plants and town-size sewage treatment facilities with total daily design capacity of 2,200,470 tons, representing an increase of 10,270 tons per day as compared with last year. The actual processing volume for the period was 322.7 million tons. The operating revenue of HK\$721.7 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$342.3 million.

Shandong

There were 42 plants and town-size sewage treatment facilities in Shandong region. The total daily design capacity of Shandong region is 2,139,000 tons, representing an increase of 260,000 tons per day or 14% as compared with last year. The actual processing volume for the period was 297.2 million tons contributing operating revenue of HK\$520.4 million during the period. Profit attributable to shareholders of the Company was HK\$279.5 million.

Eastern China

There were 99 water plants and town-size sewage treatment facilities in Eastern China which were mainly located in Zhejiang Province, Jiangsu Province, Henan Province and Anhui Province. As at 30 June 2021, the total daily design capacity of Eastern China had increased by 192,776 tons to 4,696,976 tons or 4% as compared with last year. The actual processing volume for the period amounted to 653.6 million tons and operating revenue was HK\$866.3 million during the period. Profit attributable to shareholders of the Company was HK\$405.3 million.

Northern China

Currently, the Group has 94 plants and town-size sewage treatment facilities under operation in Northern China. They are mainly located in Liaoning Province and Beijing. The daily design capacity of Northern China had increased by 613,112 tons to 3,715,659 tons or 20% as compared with last year. The projects achieved actual processing volume of 479.5 million tons for the period. The operating revenue was HK\$664.1 million during the period. Profit attributable to shareholders of the Company was HK\$373.1 million.

2.1.1b Overseas:

As at 30 June 2021, the Group had 47 sewage treatment plants and 5 reclaimed water plants in Portugal, Singapore, Australia and New Zealand. Total daily design capacity in operation was 496,708 tons. The actual processing volume for the period is 54.9 million tons. Total revenue for the period was HK\$217.2 million. Profit attributable to shareholders of the Company was HK\$32.0 million.

2.1.2 Water distribution services

2.1.2a Mainland China:

As at 30 June 2021, the Group had 114 water distribution plants in operation. Total daily design capacity in operation was 9,291,665 tons (31 December 2020: 9,276,194 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 RMB2.05 per ton (31 December 2020: RMB2.04 per ton). The aggregate actual processing volume is 965.7 million tons, of which 529.6 million tons was contributed by subsidiaries, which recorded revenue of HK\$1,186.3 million and 436.1 million tons was contributed by joint ventures. Profit attributable to shareholders of the Company was HK\$441.0 million, of which profit of HK\$400.5 million was contributed by subsidiaries and a profit of HK\$40.5 million in aggregate was contributed by joint ventures.

2.1.2b Overseas:

As at 30 June 2021, the Group had 36 water distribution plants and a sea desalination plant which supplies drinking water in Portugal and Australia. Total daily design capacity in operation was 1,373,864 tons. The actual processing volume for the period is 74.1 million tons of which 40.6 million tons was contributed by subsidiaries and 33.5 million tons was contributed by joint ventures. Total revenue for the period was HK\$276.6 million. Profit attributable to shareholders of the Company was HK\$75.4 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 period. The projects mainly located in Sichuan Luzhou, Chengdu Jianyang, Inner Mongolia, Sichuan Panzhihua and Hebei Hengshui. Last period, the Group had 26 comprehensive renovation projects under construction in Zhejiang Hangzhou, Chengdu Jianyang, Inner Mongolia, Sichuan Panzhihua and Hebei Hengshui.

Revenue from comprehensive renovation projects decreased by HK\$181.7 million from last period of HK\$1,676.6 million to HK\$1,494.9 million this period. To align with the Group's asset-light strategy, the investment approach on the comprehensive renovation projects is more conservative. As such, there was decrease in construction revenue during this period.

According to the construction contracts, the Group charges an interest on the trade receivables from the customers with reference to certain mark-up on The People's Bank of China's lending rate for the period from the completion of the construction to time of the receipt of the trade receivables. Interest income from water environmental renovation projects attributable to shareholders of the Company was HK\$217.2 million for this period (six months ended 30 June 2020: HK\$109.5 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK\$5.2 million from last period of HK\$499.9 million to HK\$494.7 million this period.

2.2.2 Construction of BOT water projects

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

During the period, water plants under construction were mainly located in Guangdong, Shandong, Zhejiang, Hunan, Sichuan and Jiangsu provinces. Total revenue for construction of BOT water projects was HK\$5,422.6 million (six months ended 30 June 2020: HK\$5,544.4 million) and profit attributable to shareholders of the Company was HK\$734.7 million (six months ended 30 June 2020: HK\$1,047.3 million). Decrease in profit attributable to shareholders of the Company was mainly due to decrease in gross margin of BOT water projects during the period.

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

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

Revenue from the provision of technical services and sales of machineries was HK\$1,549.5 million (six months ended 30 June 2020: HK\$1,280.0 million), representing 11% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$445.0 million (six months ended 30 June 2010: HK\$404.1 million).

3. Financial analysis

3.1 Revenue

During the period, the Group recorded revenue of HK\$13,669.2 million (six months ended 30 June 2020: HK\$12,453.8 million). The increase was mainly due to the increase in revenue from water treatment services.

3.2 Cost of sales

Cost of sales for the period amounted to HK\$8,626.6 million, compared to last period of HK\$7,678.8 million. The increase was mainly due to the increase in operating costs of water plants amounted to HK\$522.2 million and cost of construction services rendered of HK\$230.9 million. Cost of sales mainly included construction costs of HK\$5,602.0 million and operating costs of water plants of HK\$2,301.0 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK\$494.3 million, staff costs of HK\$693.0 million and major overhaul charges of HK\$85.3 million; while the increase in operating costs was mainly due to increase in actual water processing volume. Major overhaul charges were the estimated expenditure to be incurred for the restoration of water plants before they are handed over to the grantor at the end of service arrangements. The amount was estimated based on discounted future cash outlays on major overhauls during the service concession periods. The amount was charged to profit or loss based on amortisation method during the service concession periods.

3.3 Gross profit margin

During the period, gross profit margin slightly decreased from last period of 38% to 37%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was slightly increased to 61% (last period: 60%). Gross margin for sewage and reclaimed water treatment services in Overseas was 24% (last period: 24%).

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 50% (last period: 51%). Gross margin for water distribution services in Overseas was 34% (last period: 35%).

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects was 18% (last period: 27%). Gross margin decreased as the major comprehensive renovation projects for this period have a relatively lower average gross margin.

Gross margin for construction of BOT water projects:

Gross margin for construction of BOT water projects was 19% (last period: 25%). Gross margin decreased as the prevailing market rate of gross margin decreased. As such, new BOT water projects have a relatively lower gross margin.

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

Gross margin for the technical services and sale of machineries for the water environmental renovation was 53% (last period: 59%). Gross margin decreased was mainly due to the change in mix of revenue during this period. The proportion of revenue contribution from technical services decreased as compared with the sale of machineries for the water environmental renovation. The gross margin of technical services is comparatively higher than the sale of machineries for the water environmental renovation.

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$627.1 million during the period, compared to last period of HK\$529.0 million. The amount for this period mainly included sludge treatment income of HK\$65.9 million, pipeline installation income of HK\$180.5 million, government grant and subsidies of HK\$49.5 million and VAT refunds of HK\$120.0 million.

3.5 Administrative expenses

Administrative expenses for the period increased to HK\$1,220.4 million, compared to last period of HK\$968.3 million. The increase was mainly due to the increase in staff related expenses as result of business expansion and increase in research and development expenses during the period.

3.6 Other operating expenses, net

Other operating expenses for the period decreased to HK\$306.9 million, compared to last period of HK\$370.7 million. The decrease was mainly due to decrease in impairment losses recognised in current period.

3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$958.5 million (six months ended 30 June 2020: HK\$1,099.1 million) and interests on corporate bonds and notes payable of HK\$503.0 million (six months ended 30 June 2020: HK\$501.5 million).

3.8 Share of profits of joint ventures

Share of profits of joint ventures decreased to HK\$258.3 million, compared to last period of HK\$339.0 million. The decrease was mainly due to decrease in share of profits of the joint ventures which engaged in construction services for the comprehensive renovation projects.

3.9 Income tax expense

Income tax expense for the period included the current PRC income tax of HK\$334.1 million. The effective tax rate for the PRC operation was about 16% which was lower than the PRC standard income tax rate of 25% as some of the subsidiaries enjoyed tax concession benefit. Deferred tax charge for the period was HK\$330.8 million.

3.10 Profit attributable to holders of perpetual capital instruments

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

3.11 Investment properties

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

3.12 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\$117,948.2 million (31 December 2020: HK\$112,467.8 million) included:

By accounting nature:

	30 June 2021			31 December 2020		
	Non-current HK\$'M	Current HK\$'M	Total HK\$'M	Non-current HK\$'M	Current HK\$'M	Total HK\$'M
(i) Amounts due from contract customers	45,885.6	2,909.8	48,795.4	42,314.2	3,091.7	45,405.9
(ii) Receivables under service concession arrangements	43,425.9	4,753.5	48,179.4	41,698.3	4,131.4	45,829.7
(iii) Trade receivables	12,614.2	8,359.2	20,973.4	12,277.1	8,955.1	21,232.2
Total	101,925.7	16,022.5	117,948.2	96,289.6	16,178.2	112,467.8

- (i) Amounts due from contract customers of HK\$48,795.4 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK\$3,389.5 million (non-current portion increased by HK\$3,571.4 million and current portion decreased by HK\$181.9 million), which was mainly due to the recognition of construction revenue;

- (ii) Receivables under service concession arrangements of HK\$48,179.4 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The increase in balance by HK\$2,349.7 million (non-current portion increased by HK\$1,727.6 million and current portion increased by HK\$622.1 million) was mainly due to reclassification from amounts due from contract customers as a result of operation commencement of certain BOT projects; and
- (iii) Trade receivables of HK\$20,973.4 million mainly arose from the provision of construction services for comprehensive renovation projects, technical and consultancy services and sewage treatment equipment trading. The balance decreased by HK\$258.8 million (non-current portion increased by HK\$337.1 million and current portion decreased by HK\$595.9 million).

By business nature:

	30 June 2021 HK\$'M	31 December 2020 HK\$'M
Water treatment services by BOT and TOT projects	81,926.6	76,823.7
Construction services of comprehensive renovation projects	31,554.7	31,486.2
Technical and consultancy services and other businesses	4,466.9	4,157.9
Total	<u>117,948.2</u>	<u>112,467.8</u>

Total receivables, which relates to the BOT and TOT projects, recognised under the service concession agreements in accordance with the HK(IFRIC)-Int 12 *Service Concession Arrangements* were HK\$81,926.6 million (31 December 2020: HK\$76,823.7 million). Total receivables for the construction service of comprehensive renovation projects were HK\$31,554.7 million (31 December 2020: HK\$31,486.2 million). Total receivables for technical and consultancy services and other businesses were HK\$4,466.9 million (31 December 2020: HK\$4,157.9 million).

3.13 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. Increase was mainly due to reclassification from amounts due from contract customers as a result of operation commencement of certain BOT projects.

3.14 Investments in joint ventures

Investments in joint ventures increased by HK\$355.4 million, mainly due to share of profits during the period.

3.15 Investments in associates

Investments in associates decreased by HK\$22.1 million, mainly due to the decrease in capital reserve of associates during the period.

3.16 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$896.9 million (non-current portion decreased by HK\$71.1 million and current portion increased by HK\$968.0 million), mainly due to the increase in advances to subcontractors and suppliers for construction projects and amount due from joint ventures.

3.17 Other payables and accruals

Other payables and accruals decreased by HK\$660.3 million. The decrease was mainly due to the decrease in accruals during the period.

3.18 Perpetual capital instrument under the equity attributable to shareholders of the Company

On 12 May 2020, the Company issued perpetual capital instrument with an aggregate principal amount of RMB1,000,000,000 for the purposes of project construction and general working capital for its subsidiaries. There is no maturity of the instrument and the payments of distribution can be deferred at the discretion of the Company subject to certain conditions. The perpetual capital instrument is classified as equity instruments.

3.19 Non-controlling interests

Non-controlling interests increased by HK\$3,238.6 million. Increase was mainly due to capital contributions of RMB2,000 million into a subsidiary from Hangzhou Xiaoshan Ping An Cornerstone II Equity Investment Co., Ltd.[#] (杭州蕭山平安基石貳號股權投資有限公司).

3.20 Bank and other borrowings

Bank and other borrowings increased by HK\$4,089.1 million. Increase in bank and other borrowings was mainly from new bank loans utilised to finance for the acquisition and construction of various water projects in the PRC during the period.

3.21 Corporate bonds

Corporate bonds decreased by HK\$560.0 million mainly due to the issuance of a new corporate bond with principal amount of RMB1,500 million while corporate bonds with principal amount of RMB2,123 million were repaid during the period.

3.22 Trade payables

The decrease in trade payables by HK\$53.0 million was mainly due to decrease in trade payables to subcontractors for construction services of the water environmental renovation projects during the period.

3.23 Deferred Income

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

[#] for identification purpose only

3.24 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 30 June 2021, the Group's cash and cash equivalents amounted to HK\$14,941.3 million (31 December 2020: HK\$14,697.2 million).

The Group's total borrowings amounted to HK\$75,811.2 million (31 December 2020: HK\$72,286.3 million) comprised bank and other borrowings of HK\$53,722.8 million (31 December 2020: HK\$49,633.7 million), finance lease payables* of HK\$231.3 million (31 December 2020: HK\$264.7 million), notes payable of HK\$2,408.9 million (31 December 2020: HK\$2,379.7 million) and corporate bonds of HK\$19,448.2 million (31 December 2020: HK\$20,008.2 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 30 June 2021, the Group had banking facilities amounting to HK\$56.6 billion, of which HK\$33.2 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$61,949.5 million (31 December 2020: HK\$57,124.0 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 0.98 as at 30 June 2021 (31 December 2020: 1.01). The decrease in the gearing ratio as at 30 June 2021 was mainly due to the increase in total equity as a result of capital contributions into a subsidiary from Hangzhou Xiaoshan Ping An Cornerstone II Equity Investment Co., Ltd.# (杭州蕭山平安基石貳號股權投資有限公司).

* The balance as at 30 June 2021 and 31 December 2020 was included in lease liabilities.

for identification purpose only

3.25 Capital expenditures

During the period, the Group's total capital expenditures were HK\$6,086.8 million (six months ended 30 June 2020: HK\$5,798.8 million), of which HK\$639.6 million was paid for the acquisition of property, plant and equipment, right-of-use assets and intangible assets; HK\$5,259.7 million represented the construction and acquisition of water plants; and HK\$187.5 million represented the consideration for acquisition of equity interests in equity investments and capital injections in joint ventures and associates.

4. Future outlook

4.1 Sustainable Development

The Group is always committed to the corporate vision of “achieving business sustainability with consistent water purity”. By embodying the idea of sustainable growth in its operations and continually enhancing and perfecting operation and management, it has established a corporate development model which is sound and sustainable.

As a customer-centric enterprise, the Group is anchored in a clear understanding of customer demand and focuses on meeting customer needs. It persistently explores innovative models for corporate management, strengthens delicacy management, values research and development of innovative technology, adroitly commercialises new scientific and technological achievements, improves construction and delivery, enhances product quality with the aim of realising quality and sustainable development through continuous value creation for customers.

The Group adopts for its water plants a low-carbon operating approach that emphasises water quality and sustainability, reuse of materials, environmental friendliness, better use of energy and low-carbon operation. It presses on with refining its technology roadmap so as to put the low-carbon concept for the water service industry into action. In response to the country’s “3060 double carbon targets”, the Group has taken a proactive role in promoting the national strategy for green development. Measures taken include further enhancing the environmental management system, tightening control over discharges of pollutants, pushing for green construction and green operating model that support energy savings and lower consumption, optimising the use of resources, promoting green office practices, boosting resource efficiency and reducing energy consumption. The achievements of the Group in low-carbon operation have been widely recognised by industry players as the Group’s Chandong Sewage Treatment Plant in Luoyang was listed as one of the first exemplary low-carbon projects of urban sewage treatment by the China Association of Environmental Protection Industry. Looking forward, the Group will carry on boosting the operational efficiency of its projects, implementing the concept of low-carbon operation, leading the industry in high-quality development and working towards the country’s goals of carbon emission peak and carbon neutrality.

Based on the talent management requirements and needs for the succession planning of its asset-light strategy, the Group has adopted promotion and incentive policies in a flexible manner and implemented comprehensive remuneration management. To provide employees at all levels with room for advancement and growth and to play a guiding role as the industry leader, the Group spares no efforts in realising the potential of, and grooming, outstanding employees who can fulfil the requirements of the Group’s development.

The Group considers a sustainable supply chain as an integral part of its ecological strategy and has been actively advancing the transformation to digitailised supply chain under the digitalisation strategy. To go ecological in its supply chain management, the Group has stepped up the adoption of sustainability requirements and applied sophisticated technology to the ecological supply chain. Efforts have been made to promote profound and effective integration of resources in the environmental industry and mutual development of industry players, thereby forging a high-quality and responsible supply chain for the Group’s healthy and sustainable development.

4.2 Future Development

Under the 14th Five-year Plan, China will push ahead with supply-side structural reforms and dual circulation economic strategy, which will bring along changes and greater market demand in the industry during the five-year period. With the ultimate goal of pursuing high-quality and sustainable development, the Group is dedicated to establishing systematic restoration as well as scientific and effective management of the ecosystem, cultivating innovation and vitality, steering reforms and development, being customer-centric and setting up customer-oriented systems.

During the 14th Five-year Plan period, the Group will work closely together with China Three Gorges Corporation to create synergy and enhance and renew its strength. Being steadfast to the idea of ecological civilisation proposed by General Secretary Xi Jinping, we will strive to realise the concept that “clear waters and lush mountains are gold and silver mountains” and tread a new path that prioritises ecological conservation and boosts green development.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group employed 20,440 employees. Total staff cost for the six months ended 30 June 2021 was HK\$1,732,102,000 (six months ended 30 June 2020: HK\$1,474,835,000). 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, share options and share awards 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. The Scheme was expired on 27 June 2021. 2,200,000 share options were exercised, no share option was lapsed or cancelled during the six months ended 30 June 2021. As at 30 June 2021, the Company had 252,526,000 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 2.54% of the Company’s ordinary shares in issue as at 30 June 2021. On 26 September 2019, the Company had granted 15,374,599 awarded shares pursuant to the share award scheme. All the awarded shares were vested or lapsed during the year ended 31 December 2020. As at 30 June 2021, no awarded shares to be vested were outstanding.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the six months ended 30 June 2021, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

CHARGES ON THE GROUP'S ASSETS

The secured bank and other borrowings, the corporate bonds and the notes payable of the Group as at 30 June 2021 were secured by:

- (i) mortgages over certain sewage treatment and water distribution concession rights (comprising operating concessions and receivables under service concession arrangements) which are under the management of the Group pursuant to the relevant service concession agreements signed with the grantors;
- (ii) mortgages over certain land use rights and buildings and investment properties of the Group;
- (iii) guarantees given by the Company and/or its subsidiaries;
- (iv) pledges over the Group's equity interests in certain subsidiaries;
- (v) pledges over certain of the Group's bank balances; and/or
- (vi) pledges over certain of the Group's trade receivables and amounts due from contract customers.

Save as disclosed above, at 30 June 2021, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

As at 30 June 2021, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK\$925,100,000 (31 December 2020: HK\$1,145,819,000) were outstanding and corporate guarantees of HK\$3,817,139,000 (31 December 2020: HK\$3,992,594,000) were given to banks in connection with facilities granted to certain associates, joint ventures and independent third parties.

Save as disclosed above, at 30 June 2021, the Group did not have any significant contingent liabilities.

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

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

INTERIM DIVIDEND

The Directors of the Company have resolved to pay an interim cash dividend of HK9.0 cents per ordinary share for the six months ended 30 June 2021, payable on or before Tuesday, 19 October 2021 to shareholders of the Company whose names appear on the register of members of the Company on Thursday, 30 September 2021 for their continuous supports to the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 27 September 2021 to Thursday, 30 September 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the interim dividend, 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 at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 24 September 2021.

CORPORATE GOVERNANCE

During the six months ended 30 June 2021, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules, with deviation mentioned below.

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Having regard to the mandatory global travel restrictions in connection with the COVID-19 pandemic, the chairman of the Board did not attend the annual general meeting of the Company held on 9 June 2021. In his absence, the executive director of the Company was invited to chair the annual general meeting and the member of nomination committee of the Company was invited to attend by video/audio conferencing, and was available to answer shareholders' questions at the annual general meeting.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirms that during the six months ended 30 June 2021, all the 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 Audit Committee), Mr. Zhang Gaobo and Mr. Guo Rui. The Audit Committee is primarily responsible for reviewing and providing supervision over the financial reporting procedure, risk management and internal controls of the Company. The unaudited interim results for the six months ended 30 June 2021 have been reviewed and approved by the Audit Committee. The Audit Committee considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the Company's website (www.bewg.net) and the website of the Stock Exchange (www.hkexnews.hk). The 2021 interim report will be dispatched to shareholders of the Company and will be published on the websites of the Company and the Stock Exchange in due course.

APPRECIATION

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

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

Hong Kong, 30 August 2021

As at the date of this announcement, the Board comprises nine executive directors, namely, Mr. Li Yongcheng (chairman), Mr. Jiang Xinhao, Mr. Zhou Min (chief executive officer), Mr. Li Haifeng, Mr. Zhang Tiefu, Mr. Ke Jian, Ms. Sha Ning, Mr. Tung Woon Cheung Eric and Mr. Li Li, one non-executive director, namely, Mr. Zhao Feng and five independent non-executive directors, namely, Mr. Shea Chun Lok Quadrant, Mr. Zhang Gaobo, Mr. Guo Rui, Mr. Wang Kaijun and Mr. Chau On Ta Yuen.