

BEIJING ENTERPRISES WATER GROUP LIMITED

2018 Interim Report



北控水務集團有限公司
BEIJING ENTERPRISES WATER GROUP LIMITED
Stock Code: 371

CONTENTS

Corporate Information	2
Group Structure	3
Chairman’s Statement	4
Management Discussion and Analysis	7
Condensed Consolidated Statement of Profit or Loss	30
Condensed Consolidated Statement of Comprehensive Income	31
Condensed Consolidated Statement of Financial Position	32
Condensed Consolidated Statement of Changes in Equity	34
Condensed Consolidated Statement of Cash Flows	36
Notes to Condensed Consolidated Financial Information	38
Discloseable Information	65
Corporate Governance	77

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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
Mr. Li Li

Independent Non-executive Directors

Mr. Shea Chun Lok Quadrant
Mr. Zhang Gaobo
Mr. Guo Rui
Mr. Wang Kaijun
Dr. Lee Man Chun Raymond

AUDIT COMMITTEE

Mr. Shea Chun Lok Quadrant (*Chairman*)
Mr. Zhang Gaobo
Mr. Guo Rui

NOMINATION COMMITTEE

Mr. Li Yongcheng (*Chairman*)
Mr. Zhang Gaobo
Mr. Guo Rui

REMUNERATION COMMITTEE

Mr. Zhang Gaobo (*Chairman*)
Mr. Guo Rui
Ms. Qi Xiaohong

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

AUDITORS

Ernst & Young

STOCK CODE

371

WEBSITE

www.bewg.net

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 6706-07, 67th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2105 0800
Fax: (852) 2796 9972

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

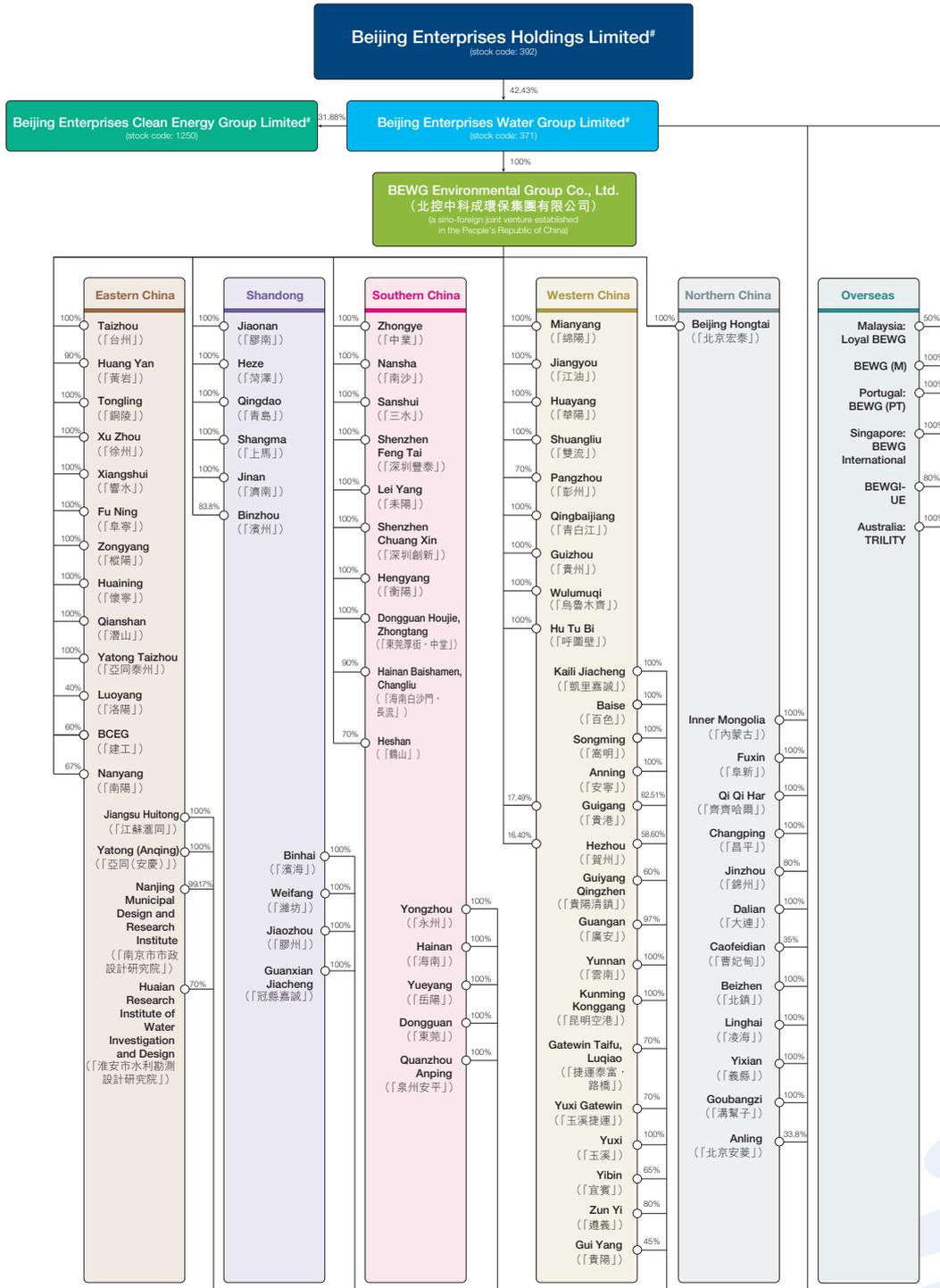
PRINCIPAL BANKERS

In Hong Kong:
Bank of China (Hong Kong) Limited
Bank of Communications Co., Limited
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited

In Mainland China:
Agricultural Development Bank of China
Bank of Beijing Co., Limited
Bank of China Limited
China Construction Bank Corporation
China Development Bank
Industrial and Commercial Bank of China Limited
The Export-Import Bank of China

GROUP STRUCTURE

30 June 2018



[#] Listed on the Main Board of The Stock Exchange of Hong Kong Limited

Note: The above group chart only lists out major subsidiaries, associates and joint ventures

CHAIRMAN'S STATEMENT

Dear shareholders,

In the first half of 2018, the world economy showed a weaker performance as compared to 2017. In China, the overall economy maintained a positive and steady development, and the supply-side reform, measures of which include ensuring leverage stability, has been making firm progress. Under such background, Beijing Enterprises Water Group Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group" or "BEWG") pursued its yearly business goals and carried out its work tasks. Its endeavours to drive the growth of both core businesses and emerging businesses, and has delivered a satisfactory growth in operating results.

PERFORMANCE REVIEW

For the six months ended 30 June 2018, the Group recorded revenue of HK\$10,008.8 million, which grew by 10% as compared with the last period. Profit attributable to shareholders of the Company amounted to HK\$2,366.1 million, which increased by 24% as compared with the last period. Basic earnings per share for the period was HK25.58 cents. In recognition of the continuous support of the shareholders, the board of directors of the Company (the "Board") resolved to make an interim cash distribution of HK9.50 cents per share to the shareholders.

With a view to improving the quality of the national ecological environment, the central government has carried out inspections focusing on specific areas of concern in specific regions and industries in the first half of 2018. The continuous efforts in environmental protection and ecological conservation, particularly the treatment of black-and-malodorous water, as well as the convening of the National Conference on Ecological and Environmental Protection, which is the largest of such events at the highest level in history, have created ample room for the development of the ecological treatment sector. BEWG continued its approach of expanding and strengthening two core businesses, namely urban water services and water environment comprehensive renovation. The business of urban water services maintained a rapid growth. As at 30 June 2018, the Group's total daily design capacity was 34,035,418 tons with a net increase in daily treatment capacity of 2,647,598 tons. The water environment comprehensive renovation business has focused on certain major cities and promoted the ecological co-operation in depth. It has tapped the Hangzhou market with the successful tender for the water environment comprehensive renovation public-private-partnership (PPP) project along the Yuhangtang River. The construction work of Phase I of the urban water project in Urumqi has commenced. The successful acquisition of the sewage and sludge treatment PPP project in Qinhuangdao also marked a major step in the implementation of the coordinated development strategy of the Beijing-Tianjin-Hebei region as the project is currently the largest PPP investment in existing drainage facilities in the country.

As to the emerging businesses, the strategic integration of the operations of hazardous waste treatment and environmental and hygiene services under the urban resource business has been completed and various lines of businesses have been making a stable progress. The expansion of the new energy business has been well underway with steady growth in project at hand. Following the completion of the acquisition of Trility Group Pty Ltd, an Australian water utility service provider, the business coverage has been further extended to Australia and New Zealand.

CHAIRMAN'S STATEMENT

PERFORMANCE REVIEW *(Continued)*

While maintaining the business growth at a rapid pace, the Group also positively coped with the challenges in the industry in the first half of 2018. The introduction of PPP-related policies or documents and financing policies this year has led to greater difficulties in obtaining market capital, higher financing cost, an extensive delay in PPP projects and more intensive competition for quality projects. As such, BEWG has strengthened its cash flow management so as to better utilise its funds, actively adjusted the investment direction of its projects and explored the market with an innovative asset-light model in order to obtain stable cash flow with efficient management, operation and maintenance.

CORPORATE MANAGEMENT AND CONTROL

In the first half of the year, the Group strengthened corporate control as it furthered the efforts to standardise the organisation. The adjustment of the organisational structure of the Group's headquarters has been completed with designated names for different organisational divisions under each unit with a clear description of duties and responsibilities. In addition, the Group has enhanced the standardisation of management of process and set up an end-to-end management of process system in order to boost the standardisation of process. To speed up the improvement of processes, it has ensured that adequate staff are deployed in such processes.

SUSTAINABLE DEVELOPMENT

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

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

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

CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT

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

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

Lastly, I would like to extend my sincere gratitude to all shareholders, customers, staff and joint venture partners for their continual and tremendous support for the Group.

Li Yongcheng

Chairman

29 August 2018

MANAGEMENT DISCUSSION AND ANALYSIS

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

1. FINANCIAL HIGHLIGHTS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	Revenue				Profit attributable to shareholders of the Company			
	For the six months ended 30 June		Increase/(Decrease)		For the six months ended 30 June		Increase/(Decrease)	
	2018 HK\$'M	2017 HK\$'M	HK\$'M	%	2018 HK\$'M	2017 HK\$'M	HK\$'M	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	1,753.1	1,635.2	117.9	7%	849.4	762.0	87.4	11%
– Subsidiaries (with ABN arrangement)	148.5	204.9	(56.4)	(28%)	22.9	106.0	(83.1)	(78%)
– Joint ventures and associates	–	–	–	–	85.3	21.9	63.4	289%
	1,901.6	1,840.1	61.5	3%	957.6	889.9	67.7	8%
<i>GP ratio</i>	58%	59%		(1%)				
Overseas								
– Subsidiaries	162.0	134.5	27.5	20%	30.5	24.5	6.0	24%
<i>GP ratio</i>	28%	28%		–				
	2,063.6	1,974.6	89.0	5%	988.1	914.4	73.7	8%
Water distribution services								
China								
– Subsidiaries	826.5	735.5	91.0	12%	233.1	208.9	24.2	12%
– Joint ventures	32.7				32.7	65.9	(33.2)	(50%)
	265.8	274.8	(9.0)	(3%)				
<i>GP ratio</i>	50%	52%		(2%)				
Overseas								
– Subsidiaries	188.3	103.8	84.5	81%	33.0	21.0	12.0	57%
<i>GP ratio</i>	30%	30%		–				
	1,014.8	839.3	175.5	21%	298.8	295.8	3.0	1%
Subtotal	3,078.4	2,813.9	264.5	9%	1,286.9	1,210.2	76.7	6%

MANAGEMENT DISCUSSION AND ANALYSIS

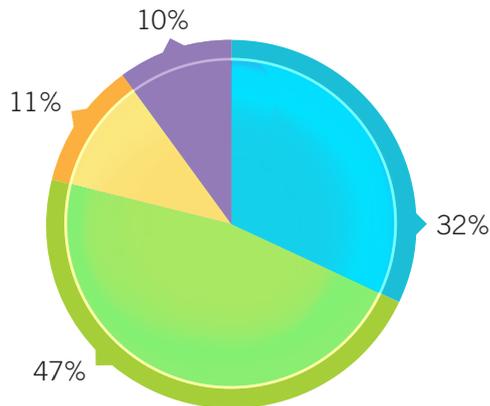
1. FINANCIAL HIGHLIGHTS *(Continued)*

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

	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)	
	2018 HK\$'M	2017 HK\$'M	HK\$'M	%	2018 HK\$'M	2017 HK\$'M	HK\$'M	%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	2,463.2	2,888.6	(425.4)	(15%)	721.7	651.9	69.8	11%
– Interest income	–	–	–	–	91.2	31.2	60.0	192%
<i>GP ratio</i>	26%	15%		11%				
Construction of BOT water projects								
– China	3,288.7	2,801.7	487.0	17%	593.4	507.9	85.5	17%
– Overseas	–	–	–	–	–	–	–	–
<i>GP ratio</i>	25%	24%		1%				
Subtotal	5,751.9	5,690.3	61.6	1%	1,406.3	1,191.0	215.3	18%
3. Technical services and sale of machineries for the water environmental renovation								
<i>GP ratio</i>	63%	65%		(2%)				
Business results	10,008.8	9,126.0	882.8	10%	3,041.7	2,561.3	480.4	19%
Fair value gain on derivative financial instruments					–	39.6	(39.6)	(100%)
Others					(675.6)	(686.8)	11.2	(2%)
Total					2,366.1	1,914.1	452.0	24%

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*



**Profit attributable to shareholders of the Company
(Six months ended 30 June 2018)**

- Sewage and reclaimed water treatment services
- Construction services for the water environmental renovation
- Technical services and sale of machineries for the water environmental renovation
- Water distribution services

2. BUSINESS REVIEW

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

2.1 Water treatment services

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

Analysis of projects on hand is as follows:

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

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

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

* Excluded entrustment operation contracts

§ Included a seawater desalination plant

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services

2.1.1a Mainland China

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

Southern China

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

Western China

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

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.1 Sewage and reclaimed water treatment services *(Continued)*

2.1.1a Mainland China *(Continued)*

Shandong

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

Eastern China

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

Northern China

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

2.1.1b Overseas:

As at 30 June 2018, the Group had 37 sewage treatment plants and 4 reclaimed water plants in Portugal, Macau, Singapore, Australia and New Zealand. Total daily design sewage treatment capacity in operation was 602,748 tons. The actual processing volume for the period is 68.6 million tons, of which 37.1 million tons was contributed by subsidiaries and 31.5 million tons was contributed by a joint venture. Total revenue for the period was HK\$162.0 million. Profit attributable to shareholders of the Company was HK\$30.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.1 Water treatment services *(Continued)*

2.1.2 Water distribution services

2.1.2a Mainland China:

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

2.1.2b Overseas:

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

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

2. BUSINESS REVIEW *(Continued)*

2.2 Construction services for the water environmental renovation *(Continued)*

2.2.1 Construction services for comprehensive renovation projects *(Continued)*

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

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

2.2.2 Construction of BOT water projects

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

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

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

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

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

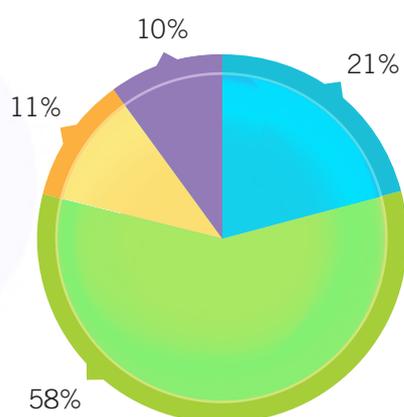
Increase in revenue was mainly due to the increase in contribution from provision of technical services.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS

3.1 Revenue

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



Revenue
(Six months ended 30 June 2018)

- Sewage and reclaimed water treatment services
- Construction services for the water environmental renovation
- Technical services and sale of machineries for the water environmental renovation
- Water distribution services

3.2 Cost of sales

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.3 Gross profit margin

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

Gross margin for sewage and reclaimed water treatment services:

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

Gross margin for water distribution services:

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

Gross margin for construction services for comprehensive renovation projects:

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

Gross margin for construction of BOT water projects:

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

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

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

3.4 Other income and gains, net

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.5 Fair value gain on derivative financial instruments

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

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

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

3.6 Administrative expenses

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

3.7 Other operating expenses, net

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

3.8 Finance costs

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.9 Share of profits of associates

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

3.10 Share of profits of joint ventures

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

3.11 Income tax expense

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

3.12 Profit attributable to holders of perpetual capital instruments

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

3.13 Property, plant and equipment

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

3.14 Investment property

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

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

By accounting nature:

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

- (i) Amounts due from contract customers of HK\$33,266.3 million represent the balances of accumulated construction costs incurred to date plus recognised accumulated gross profits exceeding progress billings arising from BOT projects and comprehensive renovation projects during the phase of construction. Total balance increased by HK\$17,330.7 million (non-current portion increased by HK\$16,060.6 million and current portion increased by HK\$1,270.1 million), which was mainly due to the (1) recognition of construction revenue; (2) conversion of joint ventures to subsidiaries as a result of the acquisition of additional interest in joint ventures; and (3) reclassification from receivables under service concession arrangements in accordance with the newly effective HKFRS 15 during the period. There was no such reclassification in the last period;
- (ii) Receivables under service concession arrangements of HK\$27,166.5 million represent the fair value of the specified amount that the grantor contractually guarantees to pay under service concession contracts arising from BOT and TOT projects. The decrease in balance by HK\$8,771.3 million (non-current portion decreased by HK\$9,021.4 million and current portion increased by HK\$250.1 million) was mainly due to the reclassification to amounts due from contract customers in accordance with the newly effective HKFRS 15. There was no such reclassification in the last period; and

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

By accounting nature: *(Continued)*

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

By business nature:

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

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

3.16 Operating concessions

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

3.17 Investments in joint ventures

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.18 Investments in associates

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

3.19 Prepayments, deposits and other receivables

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

3.20 Other payables and accruals

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

3.21 Cash and cash equivalents

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

3.22 Bank and other borrowings

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

3.23 Corporate bonds

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

3.24 Trade payables

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

3.25 Deferred Income

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.26 Liquidity and financial resources

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

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

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

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

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

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

3.27 Capital expenditures

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

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

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

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

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

CHARGES ON THE GROUP'S ASSETS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	<i>Notes</i>	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	13	941,259	879,382
Reserves		24,826,837	19,905,341
		25,768,096	20,784,723
Perpetual capital instruments		6,745,071	6,623,082
Non-controlling interests		5,964,271	5,633,518
		12,709,342	12,256,600
TOTAL EQUITY		38,477,438	33,041,323
Non-current liabilities:			
Other payables and accruals	14	1,471,879	570,507
Bank and other borrowings		23,061,615	21,443,596
Corporate bonds		15,345,487	10,495,364
Notes payable		3,075,792	3,074,932
Finance lease payables		344,472	395,461
Provision for major overhauls		230,659	207,426
Deferred income		1,437,076	1,435,088
Deferred tax liabilities		2,345,359	2,103,997
Total non-current liabilities		47,312,339	39,726,371
Current liabilities:			
Trade payables	15	13,433,330	11,687,517
Other payables and accruals	14	7,732,848	6,769,636
Income tax payables		876,274	693,648
Bank and other borrowings		4,841,844	4,689,344
Corporate bonds		2,610,476	3,750,484
Finance lease payables		96,636	102,749
Total current liabilities		29,591,408	27,693,378
TOTAL LIABILITIES		76,903,747	67,419,749
TOTAL EQUITY AND LIABILITIES		115,381,185	100,461,072

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to shareholders of the Company														
	Issued capital	Share premium account	Contributed surplus	Share option reserve	Capital reserve	Property revaluation reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PRC reserve funds	Financial assets at fair value through other comprehensive income/ Available-for-sale investment revaluation reserve	Retained profits	Total	Perpetual capital instruments	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	879,382	5,068,783	1,396,556	244,199	(210,395)	122,482	(46,739)	(1,206,678)	1,257,915	(93,694)	13,372,912	20,784,723	6,623,082	5,633,516	33,041,323
Profit for the period	-	-	-	-	-	-	-	-	-	-	2,366,116	2,366,116	126,507	277,619	2,770,242
Other comprehensive income/(loss) for the period:															
Exchange differences related to foreign operations	-	-	-	-	-	-	-	(318,032)	-	-	-	(318,032)	(4,518)	(10,096)	(332,646)
Share of other comprehensive income of a joint venture	-	-	-	-	-	-	9,240	-	-	-	-	9,240	-	-	9,240
Loss on revaluation of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	(18,909)	-	(18,909)	-	-	(18,909)
Loss on revaluation of investments	-	-	-	-	-	-	-	-	-	(749)	-	(749)	-	-	(749)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	9,240	(318,032)	-	(19,658)	2,366,116	2,037,666	121,989	267,523	2,427,178
Equity-settled share option arrangements	-	-	-	2,343	-	-	-	-	-	-	-	2,343	-	-	2,343
Issue of shares (note 13)	61,949	3,588,946	-	-	-	-	-	-	-	-	-	3,650,895	-	-	3,650,895
Shares repurchased and cancelled (note 13)	(290)	(12,220)	-	-	-	-	-	-	-	-	-	(12,510)	-	-	(12,510)
Exercise of share options (note 13)	218	6,558	-	(1,885)	-	-	-	-	-	-	-	4,891	-	-	4,891
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(10,633)	(10,633)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	(15)	(15)
Share of reserves of an associate	-	-	-	3,745	2,287	-	-	-	-	-	-	6,032	-	-	6,032
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,886)	(14,886)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	88,764	88,764
Final 2017 cash distributions paid	-	-	(705,944)	-	-	-	-	-	-	-	-	(705,944)	-	-	(705,944)
Transfer to reserves	-	-	-	-	-	-	-	-	376	-	(376)	-	-	-	-
At 30 June 2018	941,259	8,652,067*	690,612*	248,402*	(208,106)*	122,482*	(37,499)*	(1,524,710)*	1,258,291*	(113,352)*	15,738,652*	25,768,096	6,745,071	5,964,271	38,477,438

* These reserve accounts comprise the consolidated reserves of HK\$24,826,837,000 (unaudited) (31 December 2017: HK\$19,905,341,000) in the condensed consolidated statement of financial position as at 30 June 2018.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

Attributable to shareholders of the Company

	Issued capital	Share premium account	Contributed surplus	Share option reserve	Capital reserve	Property revaluation reserve	Defined benefit plan reserve	Exchange fluctuation reserve	PPC reserve funds	Available-for-sale investment revaluation reserve	Retained profits	Total	Perpetual capital instruments	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	873,787	4,900,042	2,623,662	271,022	(208,704)	14,989	(64,142)	(2,823,314)	996,671	-	9,916,929	16,501,142	6,305,025	3,961,173	26,767,340
Profit for the period	-	-	-	-	-	-	-	-	-	-	1,914,125	1,914,125	116,444	122,771	2,153,340
Other comprehensive income/(loss) for the period:															
Exchange differences related to foreign operations	-	-	-	-	-	-	-	635,639	-	-	-	635,639	146,281	97,134	879,054
Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	(7,054)	-	-	-	-	(7,054)	-	-	(7,054)
Share of other comprehensive income of an associate	-	-	-	-	-	-	-	-	-	9,521	-	9,521	-	-	9,521
Revaluation of available-for-sale investments	-	-	-	-	-	-	-	-	-	(86,757)	-	(86,757)	-	-	(86,757)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(7,054)	635,639	-	(77,236)	1,914,125	2,465,474	262,725	219,905	2,948,104
Equity-settled share option arrangements	-	-	-	9,951	-	-	-	-	-	-	-	9,951	-	-	9,951
Exercise of share options	1,946	57,879	-	(16,157)	-	-	-	-	-	-	-	43,668	-	-	43,668
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	115,445	115,445
Disposal of subsidiaries	-	-	-	-	-	-	-	(3,009)	-	-	-	(3,009)	-	(2,436)	(5,445)
Share of reserves of an associate	-	-	-	-	2,157	-	-	-	-	-	-	2,157	-	-	2,157
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,665)	(1,665)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	202,594	202,594
Final 2016 cash distributions paid	-	-	(525,407)	-	-	-	-	-	-	-	-	(525,407)	-	-	(525,407)
Transfer to reserves	-	-	-	-	-	-	-	-	89,436	-	(89,436)	-	-	-	-
At 30 June 2017	875,733	4,957,921*	2,098,455*	264,816*	(206,547)*	14,989*	(71,196)*	(2,190,684)*	1,086,107*	(77,236)*	11,741,618*	18,490,976	6,567,750	4,495,016	29,556,742

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(1,423,921)	(2,944,008)
Mainland China corporate income tax paid	(181,861)	(359,773)
Overseas taxes paid	(684)	(11,115)
Net cash flows used in operating activities	(1,606,466)	(3,314,896)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(227,483)	(230,141)
Acquisition of subsidiaries	(1,053,664)	(138,701)
Acquisition of associates	–	(140,000)
Acquisition of available-for-sale investments	–	(515,307)
Increase in investments in joint ventures	(123,177)	(573,091)
Proceeds from disposal of subsidiaries	40,649	1,225,676
Other investing cash flows, net	(24,214)	158,122
Net cash flows used in investing activities	(1,387,889)	(213,442)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	3,650,895	–
Proceeds from exercise of share options	4,891	43,668
Shares repurchased	(12,510)	–
Issue of corporate bonds	7,444,147	–
Repayment of corporate bonds	(3,762,048)	–
New finance lease	11,905	170,497
New loans	3,632,800	3,509,940
Repayment of loans	(2,416,658)	(2,780,102)
Interest paid	(898,110)	(724,648)
Distributions paid	(705,944)	(525,407)
Other financing cash flows, net	600,000	189,183
Net cash flows from/(used in) financing activities	7,549,368	(116,869)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,555,013	(3,645,207)
Cash and cash equivalents at beginning of period	8,595,856	10,912,243
Effect of foreign exchange rate changes, net	(225,580)	232,401
CASH AND CASH EQUIVALENTS AT END OF PERIOD	12,925,289	7,499,437
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	12,984,771	7,536,954
Less: Time deposits with maturity of more than three months when acquired	(59,482)	(37,517)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	12,925,289	7,499,437

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

1.1. CORPORATE INFORMATION

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

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

1.2. BASIS OF PREPARATION

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

HKFRS 9 Financial Instruments

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

(i) *Classification and measurement*

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

(i) Classification and measurement (Continued)

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

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.
- Financial assets at fair value through profit or loss include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unquoted equity instruments were classified as available-for-sale ("AFS") financial assets.

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

(ii) Impairment

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

HKFRS 15 Revenue from Contracts with Customers

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

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 3 for the disclosure on disaggregated revenue.

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

2. OPERATING SEGMENT INFORMATION

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2018

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2017

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

2. OPERATING SEGMENT INFORMATION *(Continued)*

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

30 June 2018

	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 assets:				
Operating segments	72,632,395	18,052,406	6,049,399	96,734,200
Corporate and other unallocated items				18,646,985
				115,381,185

31 December 2017

	Sewage and reclaimed water treatment and construction services (Audited) <i>HK\$'000</i>	Water distribution services (Audited) <i>HK\$'000</i>	Technical and consultancy services and sale of machineries (Audited) <i>HK\$'000</i>	Total (Audited) <i>HK\$'000</i>
Segment assets:				
Operating segments	66,510,287	16,132,292	4,252,341	86,894,920
Corporate and other unallocated items				13,566,152
				100,461,072

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

2. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

Information about major customers

During the six months ended 30 June 2018, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the period.

During the six months ended 30 June 2017, revenue of approximately HK\$1,949,604,000 was derived from sewage and reclaimed water treatment and construction services segment to a single customer from which over 10% of the Group's total revenue for the period was derived.

3. REVENUE

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

3. REVENUE *(Continued)*

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

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

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

4. PROFIT FROM OPERATING ACTIVITIES

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

6. INCOME TAX EXPENSE *(Continued)*

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

7. INTERIM DISTRIBUTION

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

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(Continued)

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit for the period attributable to shareholders of the Company, used in the basic and diluted earnings per share calculations	2,366,116	1,914,125
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	9,249,400,700	8,746,481,439
Effect of dilution on weighted average number of ordinary shares – Share options which have dilutive effect	146,161,491	190,693,745
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	9,395,562,191	8,937,175,184

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's additions of property, plant and equipment amounted to HK\$227,483,000 (six months ended 30 June 2017: HK\$230,141,000). There were disposals and/or write-off of property, plant and equipment with an aggregate carrying amount of HK\$15,000 (six months ended 30 June 2017: HK\$106,000) during the six months ended 30 June 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

10. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

11. 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 12.98% (31 December 2017: 5.7% to 12.98%), all other trade receivables are non-interest-bearing.

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

13. SHARE CAPITAL

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
<i>Issued and fully paid:</i>		
9,412,588,721 (31 December 2017: 8,793,817,196 ordinary shares of HK\$0.10 each	941,259	879,382

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

13. SHARE CAPITAL *(Continued)*

A summary of the movements in the Company's issued share capital during the six months ended 30 June 2018 is as follows:

		Number of ordinary shares in issue (Unaudited)	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
	<i>Notes</i>				
At 1 January 2018		8,793,817,196	879,382	5,068,783	5,948,165
Exercise of share options	<i>(a)</i>	2,180,000	218	6,558	6,776
Shares repurchased and cancelled	<i>(b)</i>	(2,900,000)	(290)	(12,220)	(12,510)
Issue of shares	<i>(c)</i>	619,491,525	61,949	3,588,946	3,650,895
At 30 June 2018		9,412,588,721	941,259	8,652,067	9,593,326

Notes:

- (a) During the period, the subscription rights attaching to 2,180,000 share options were exercised at the subscription price of HK\$2.244 per share, resulting in the issue of 2,180,000 shares of HK\$0.1 each for a total consideration, before expenses, of HK\$4,891,000. An amount of HK\$1,885,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.
- (b) During the period, the Company purchased 2,900,000 ordinary shares on the Stock Exchange for a total consideration of HK\$12,510,000. The purchased shares were cancelled during that period and the issued share capital of the Company was reduced by the par value of approximately HK\$290,000. The premium and expenses paid on the repurchase of the shares of HK\$12,220,000 were charged to the share premium of the Company.
- (c) On 24 January 2018, the Company entered into a placing agreement with 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 (collectively as the "Placing Agents"), pursuant to which, the Placing Agents agreed to procure not less than six places to subscribe an aggregate of 450,000,000 new ordinary shares of the Company at a placing price of HK\$5.9 per share. The placing was completed on 1 February 2018 and the Group raised a total of approximately HK\$2,655 million, before expenses.

On 24 January 2018, the Company entered into a subscription agreement with Beijing Enterprises Environmental Construction Limited (the "Subscriber"), a controlling shareholder of the Company, pursuant to which, the Company agreed to allot and issue, and the Subscriber agreed to subscribe for 169,491,525 new ordinary shares of the Company at a price of HK\$5.9 per share. The Group raised a total of approximately HK\$1,000 million, before expenses. The subscription has been completed on 4 April 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

14. OTHER PAYABLES AND ACCRUALS

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

15. TRADE PAYABLES

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

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

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

16. CONTINGENT LIABILITIES

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

17. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a portion of its office building, a commercial building and certain buildings for which the Group was granted the rights to use pursuant to service concession arrangements under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years (31 December 2017: from 1 to 15 years). The terms of the leases generally also require the tenants to pay security deposits and to provide for periodic rent adjustments.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within one year	31,623	30,602
In the second to fifth years, inclusive	43,339	38,535
After five years	1,970	192
	76,932	69,329

(b) As lessee

The Group leases a piece of land and certain office properties under operating lease arrangements with leases negotiated for terms ranging from 3 months to 50 years (31 December 2017: from 3 months to 50 years).

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Within one year	41,167	25,118
In the second to fifth years, inclusive	73,070	38,645
After five years	120,472	111,941
	234,709	175,704

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

18. CAPITAL COMMITMENTS

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

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Contracted, but not provided for		
New service concession arrangements on:		
TOT basis	600,147	359,008
BOT basis	6,446,201	4,712,366
Build-Own-Operate basis	127,381	4,185
Capital contribution to joint ventures	11,227,548	11,264,214
Acquisition of subsidiaries	–	1,152,570
	18,401,277	17,492,343

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Contracted, but not provided for	722,714	770,972

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

19. RELATED PARTY DISCLOSURES

- (a) The Group had the following material transactions during the six months ended 30 June 2018 and outstanding balances with related parties as at 30 June 2018:
- (i) Included in the amounts due from joint ventures of the Group as at 30 June 2018 was an advance to a joint venture of US\$26,390,000 (equivalent to HK\$207,061,000) (31 December 2017: US\$26,390,000 (equivalent to HK\$206,288,000)). The amount is unsecured, bearing floating interest rate at LIBOR plus 2.8% per annum, and repayable on demand. Interest income of HK\$4,953,000 (six months ended 30 June 2017: HK\$3,961,000) was recognised in profit or loss during the six months ended 30 June 2018;
 - (ii) Included in the receivables under service concession arrangements of the Group as at 30 June 2018 was an amount due from Beijing Enterprises Holdings Limited (“BEHL”), a substantial beneficial shareholder of the Company, of HK\$437,459,000 (31 December 2017: HK\$424,708,000). In February 2013, the Group acquired from BEHL the estimated future net cash income (after deducting all state and local taxes in Mainland China and operating costs) generated from the service concession arrangement on the water purification and treatment operation of the Phase 1 of No. 9 water treatment plant in Beijing for the six years ending 31 December 2018 (the “Future Income”). Imputed interest income of HK\$13,223,000 (six months ended 30 June 2017: HK\$22,148,000), which was measured at amortised cost using the effective interest rate method, was recognised in “Revenue” on the face of the condensed consolidated statement of profit or loss during the period. Further details of the transaction are set out in the Company’s circular and announcement dated 30 November 2012 and 5 February 2013, respectively;
 - (iii) Included in the trade receivables of the Group as at 30 June 2018 were (i) an aggregate amount of HK\$5,732,000 (31 December 2017: HK\$5,732,000) due from 北京北控環保工程技術有限公司, a wholly-owned subsidiary of BEHL which is a substantial beneficial shareholder of the Company, arising from the sewage treatment equipment trading carried out in the ordinary course of business of the Group; and (ii) an amount of HK\$2,221,000 (31 December 2017: HK\$2,221,000) due from a joint venture of the Group, arising from the provision of technical services carried out in the ordinary course of business of the Group. The balances with these companies are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

19. RELATED PARTY DISCLOSURES *(Continued)*

- (a) The Group had the following material transactions during the six months ended 30 June 2018 and outstanding balances with related parties as at 30 June 2018: *(Continued)*
- (iv) The Group's trade payables as at 30 June 2018 included, inter alia, the following:
- (1) an amount of HK\$12,648,000 (31 December 2017: HK\$31,598,000) due to a joint venture of the Group, arising from the trading of construction materials and equipment carried out in the ordinary course of business of the Group. There were no purchase costs of the aforementioned balance charged to profit or loss during the current and prior periods.
 - (2) an amount of HK\$14,582,000 (31 December 2017: HK\$30,676,000) due to an associate of the Group, arising from the construction of certain sewage treatment facilities carried out in the ordinary course of business of the Group. There were no construction costs charged to profit or loss during the current and prior periods.
- (v) During the six months ended 30 June 2018, the Group had engaged a related company of the Group to provide sewage treatment engineering services for the Malaysia Project at service fees of HK\$338,050,000 (MYR169,852,000) (six months ended 30 June 2017: HK\$17,529,000 (MYR9,618,000)), which were charged at the published prices and conditions offered by the related company to their major customers.
- (vi) Included in the amounts due to related party of the Group as at 30 June 2018 was an advance from a related party of SGD30,051,000 (equivalent to HK\$172,978,000) (31 December 2017: SGD30,155,000 (equivalent to HK\$176,114,000)). The amount is unsecured, bearing fixed interest rate at 2.5% per annum and repayable by quarterly instalments. Interest expense of HK\$2,208,000 (Six months ended 30 June 2017: HK\$1,928,000) was recognised in profit or loss during the six months ended 30 June 2018.
- (vii) During the six months ended 30 June 2018, the Group had provided management services to joint ventures of the Group for HK\$27,778,000 (RMB22,500,000) (six months ended 30 June 2017: Nil) which was charged based on terms mutually agreed between the Group and the joint ventures.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

19. RELATED PARTY DISCLOSURES *(Continued)*

- (a) The Group had the following material transactions during the six months ended 30 June 2018 and outstanding balances with related parties as at 30 June 2018: *(Continued)*
- (viii) Pursuant to a deposit services master agreement (the “Deposit Agreement”) and a supplemental agreement to Deposit Agreement (the “Supplemental Agreement”) entered into between the Company and Beijing Enterprises Group Finance Co., Ltd. (“BG Finance”) on 31 March 2015 and 22 December 2015, respectively, the Group may, in its ordinary and usual course of business, place and maintain deposits with BG Finance on normal commercial terms from time to time. BG Finance is a non-wholly-owned subsidiary of Beijing Enterprises Group Company Limited (“BEGCL”) and an associate of BEHL and acts as a platform for members of BEGCL and BEHL for the provision of intra-group facilities through financial products including deposit-taking, money-lending and custodian services.

The terms of the Deposit Agreement and the Supplemental Agreement shall commence on the date of the Deposit Agreement and continue up to and including 31 December 2017. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the term of the Deposit Agreement and the Supplemental Agreement shall not exceed HK\$2,350,000,000.

On 30 October 2017, the Company and BG Finance further entered into a 2018 deposit services master agreement (the “2018 Deposit Agreement”) whereby the Company and BG Finance would continue to carry out the transactions of similar natures from time to time under the 2018 Deposit Agreement for three years from 1 January 2018 to 31 December 2020, with the terms and conditions substantially the same as those under the Deposit Agreement together with the Supplemental Agreement. The daily aggregate of deposits placed by the Group with BG Finance (including any interest accrued thereon) during the terms of the 2018 Deposit Agreement shall not exceed HK\$2,900,000,000.

The deposits placed by the Group with BG Finance as at the end of the reporting period amounted to HK\$1,870,216,000 (31 December 2017: HK\$2,235,610,000). The related interest income recognised in profit or loss during the period was not significant to the Group.

The above related party transaction also constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules.

Loans borrowed from BG Finance by the Group as at the end of the reporting period amounted to HK\$232,381,000 (31 December 2017: HK\$827,619,000) and bear interest at floating rates ranging from 4.66% to 4.75% per annum (31 December 2017: 4.13% to 4.90% per annum). The related interest expenses recognised in profit or loss during the period were not significant to the Group.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

19. RELATED PARTY DISCLOSURES *(Continued)*

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

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

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Short term employee benefits	12,265	9,937
Equity-settled share option expenses	775	2,860
Pension scheme contributions	18	18
Total compensation paid to key management personnel	13,058	12,815

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

20. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of other financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values largely due to the short term maturities of these instruments, and accordingly, no disclosure of the fair values of these financial instruments is made.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total <i>HK\$'000</i>
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Significant unobservable inputs (Level 3) <i>HK\$'000</i>	
At 30 June 2018 (Unaudited)				
Investment properties	–	–	1,092,744	1,092,744
Financial assets at fair value through other comprehensive income	787,053	–	438,478	1,225,531
Total	787,053	–	1,531,222	2,318,275
At 31 December 2017 (Audited)				
Investment properties	–	–	1,083,677	1,083,677
Available-for-sale investments: Listed equity investments, at fair value	800,641	–	–	800,641
Total	800,641	–	1,083,677	1,884,318

During the period, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurements (31 December 2017: Nil).

For other non-current financial assets and liabilities, in the opinion of the directors, since their carrying amounts are not significantly different from their respective fair values, no disclosure of the fair values of these financial instruments is made.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

21. OTHER FINANCIAL INFORMATION

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

22. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

These condensed consolidated financial information were approved and authorised for issue by the Board on 29 August 2018.

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS

Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations

As at 30 June 2018, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"), were as follows:

(i) Long positions in the shares and/or underlying shares of the Company

Name of Director	Number of ordinary shares				Total	Approximate percentage of the Company's issued share capital (Note 2)
	Personal interests	Family interests	Corporate interests	Other interests		
Mr. Zhou Min	400,000	-	307,676,110 (Note 1)	-	308,076,110	3.2730%
Mr. Li Haifeng	80,000	-	-	-	80,000	0.0008%
Mr. Li Li	10,000	-	-	-	10,000	0.0001%

(ii) Long positions in the shares and/or underlying shares of the associated corporation

Associated Corporation	Name of Director	Number of ordinary shares				Total	Approximate percentage of the associated corporation's issued share capital (Note 5)
		Personal interests	Family interests	Corporate interests	Other interests		
Beijing Enterprises Clean Energy Group Limited ("BECEG")	Mr. Zhou Min	-	-	1,824,086,800 (Note 3)	-	1,824,086,800	2.8714%
	Mr. Li Haifeng	-	-	1,127,175,080 (Note 4)	-	1,127,175,080	1.7744%

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS *(Continued)*

Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations

(Continued)

Notes:

1. 307,676,110 ordinary shares of HK\$0.10 each in the share capital of the Company ("Shares") as at 30 June 2018 are held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
2. The percentage represented the number of Shares over the total issued Shares of the Company as at 30 June 2018 of 9,412,588,721 Shares.
3. This represented the number of ordinary shares of BECEG of HK\$0.001 each ("BECEG Ordinary Shares") held by Tenson Investment Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
4. This represented the number of BECEG Ordinary Shares held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
5. The percentage represented the number of BECEG Ordinary Shares over the total issued shares of BECEG as at 30 June 2018 of 63,525,397,057 shares.

(iii) Long positions in share options of the Company

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

Save as disclosed above, as at 30 June 2018, there were no interest or short position of the directors or chief executives of the Company in the Shares, the underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), that are required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code or the SFO.

Directors' Rights to Acquire Shares

Save as disclosed under the heading "Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations", at no time during the period were rights to acquire benefits by means of the acquisition of the Shares in or debenture of the Company granted to any director or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS *(Continued)*

Directors' Interests in Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance to which the Company or any of its holding companies, subsidiaries and fellow subsidiaries was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly subsisted during the period under review.

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2018, so far as was known to the directors or chief executives of the Company, the following persons (not being a director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in the Shares and/or underlying Shares of the Company

Name	Notes	Number of ordinary shares held, capacity and nature of interest			Percentage of the Company's total number of issued shares <i>(Note 5)</i>
		Beneficially owned	Through controlled corporation	Total	
Beijing Enterprises Environmental Construction Limited ("BE Environmental")		3,993,859,356	–	3,993,859,356	42.43%
Beijing Enterprises Holdings Limited ("BEHL")	(1)	–	3,993,859,356	3,993,859,356	42.43%
Modern Orient Limited ("MOL")	(2)	–	3,993,859,356	3,993,859,356	42.43%
Beijing Enterprises Investments Limited ("BEIL")	(2)	–	3,993,859,356	3,993,859,356	42.43%
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	(3)	–	3,993,859,356	3,993,859,356	42.43%
Beijing Enterprises Group Company Limited ("BEGCL")	(4)	–	3,993,859,356	3,993,859,356	42.43%

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS *(Continued)*

Substantial Shareholders' Interests in Shares and Underlying Shares *(Continued)*

Long positions in the Shares and/or underlying Shares of the Company (Continued)

Notes:

- (1) The interest disclosed comprises the Shares owned by BE Environmental. BE Environmental beneficially holds 3,993,859,356 Shares (representing approximately 42.43% in the share capital of the Company). BE Environmental is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the Shares owned by BE Environmental.
- (2) The interest disclosed comprises the Shares owned by BEHL (through BE Environmental). MOL and BEIL are the immediate shareholders of BEHL and collectively hold approximately 20.90% of the issued share capital of BEHL. Accordingly, each of MOL and BEIL is deemed to be interested in the Shares owned by BEHL (through BE Environmental).
- (3) The interest disclosed comprises the Shares owned by BEIL and MOL (through BEHL and BE Environmental). BEHL is held directly as to approximately 41.06% by BE Group (BVI). MOL is a wholly owned subsidiary of BEIL, which is in turn directly held as to approximately 72.72% by BE Group (BVI). Accordingly, BE Group (BVI) is deemed to be interested in the Shares indirectly owned by BEIL and MOL (through BEHL and BE Environmental).
- (4) The interest disclosed comprises the Shares owned by BE Group (BVI) as detailed in note (3) above. BE Group (BVI) is a wholly-owned subsidiary of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI).
- (5) The percentage represented the number of Shares over the total issued Shares of the Company as at 30 June 2018 of 9,412,588,721 Shares.

Save as disclosed above, as at 30 June 2018, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

On 28 June 2011, a new share option scheme (the "Scheme") was adopted by the shareholders at the special general meeting of the Company and terminated the old share option scheme adopted by the Company on 20 March 2002. The purpose of the Scheme is to provide incentives to the eligible participants to use their best endeavours in assisting the growth and the development of the Group and continue to attract human resources that are valuable to the growth and the development of the Group as a whole. The Scheme became effective on 28 June 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of Shares available for issue under the Scheme is 558,559,469 Shares, representing approximately 5.93% of the Company's ordinary Shares in issue as at 30 June 2018. The maximum number of ordinary Shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to any substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the ordinary Shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's ordinary Shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The Scheme does not specify a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised. However, the directors of the Company may, at their discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and/or any other conditions (including the subscription price) that must be fulfilled before any option can be exercised.

The exercise period of the share options commences after a vesting period of one to five years and ends on a date which is not later than 10 years from the date of grant of the share options. The subscription price payable on exercise of share options is determinable by the directors of the Company, but may not be less than the highest of (i) the closing price of the Company's ordinary Shares on the Stock Exchange on the date of grant of the share options; (ii) the average closing price of the Company's ordinary Share on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's ordinary Shares. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

Share options granted must be taken up within 28 days from the date of offer. An aggregate of HK\$1 is payable by each eligible grantee on acceptance of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting. The share options are non-transferable and lapsed when expired or the grantee ceased to be an employee of the Group pursuant to the terms of the Scheme.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME (Continued)

During the six months ended 30 June 2018, no option was granted under the Scheme, the movements in the share options of the Company during the period are set out as follows:

Category of Participants/ Name	Number of Share Options					As at 30 June 2018	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing Price per Share HK\$
	As at 1 January 2018	Granted	Exercised	Lapsed	Cancelled					
Directors										
Zhou Min	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	11,200,000	-	-	-	-	11,200,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	56,000,000	-	-	-	-	56,000,000				
Li Haifeng	5,200,000	-	-	-	-	5,200,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	5,800,000	-	-	-	-	5,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	22,600,000	-	-	-	-	22,600,000				
Tung Woon Cheung Eric	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	1,800,000	-	-	-	-	1,800,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	9,000,000	-	-	-	-	9,000,000				
Li Li	1,180,000	-	-	-	-	1,180,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	3,840,000	-	-	-	-	3,840,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	12,700,000	-	-	-	-	12,700,000				
Shea Chun Lok Quadrant	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000				
Zhang Gaobo	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	800,000	-	-	-	-	800,000				

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME (Continued)

Category of Participants/ Name	Number of Share Options					As at 30 June 2018	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing Price per Share HK\$
	As at 1 January 2018	Granted	Exercised	Lapsed	Cancelled					
Guo Rui	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000				
Wang Kaijun	400,000	-	-	-	-	400,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	400,000	-	-	-	-	400,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	2,000,000	-	-	-	-	2,000,000				
Sub-total	103,900,000	-	-	-	-	103,900,000				
Eligible Participants including Employees										
In aggregate	8,326,000 (Note 3)	-	(100,000)	-	-	8,226,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	4.600 (Note 1)
	19,534,000 (Note 3)	-	(100,000)	-	-	19,434,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	4.600 (Note 1)
	29,396,000 (Note 3)	-	(700,000)	-	-	28,696,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	5.566 (Note 2)
	52,450,000 (Note 3)	-	(1,280,000)	-	-	51,170,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	5.745 (Note 2)
	53,910,000 (Note 3)	-	-	-	-	53,910,000	24/4/2013	24/4/2018 – 23/4/2023	2.244	-
	2,000,000	-	-	-	-	2,000,000	28/3/2014	1/6/2016 – 27/3/2024	5.180	-
Sub-total	165,616,000	-	(2,180,000)	-	-	163,436,000				
Total	269,516,000	-	(2,180,000)	-	-	267,336,000				

Notes:

- These represented the closing price of the Shares immediately before the date of the share options exercised by an eligible participant during the period.
- These represented the weighted average closing price per Share immediately before the dates of the share options exercised by eligible participants during the period.
- Each participant was vested on 24 April 2014, 24 April 2015, 24 April 2016, 24 April 2017 and 24 April 2018 each for 20% of the share options granted.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME *(Continued)*

Save as disclosed above, no share options were granted, exercised, lapsed or cancelled under the Scheme during the six months ended 30 June 2018.

As at 30 June 2018, there were total 267,336,000 share options outstanding under the Scheme, representing approximately 2.84% of the Company's ordinary Shares in issue.

The Company recognised the fair value of the share options, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. Upon the exercise of share options, the resulting Shares issued are recorded by the Company as additional share capital at the nominal value of the Shares, and the excess of the exercise price per Share over the nominal value of the Shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account. When the share options are forfeited/lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves. For further details, please refer to the "Summary of Significant Accounting Policies" in the 2017 annual report of the Company (the "Annual Report 2017").

BOARD CHANGES AND CHANGES IN INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF THE LISTING RULES

Changes in information of directors since the date of the Annual Report 2017 up to the date of this report, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

- Mr. Zhang Gaobo, an independent non-executive director of the Company, was appointed as the chairman of OP Financial Limited on 29 June 2018.

Directors' updated biographies are available on the Company's website.

Save as disclosed above, since the issue date of the Annual Report 2017, there has been no change in the Board, and there has been no change in directors' information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSEABLE INFORMATION

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER

As at the date of this report, details of the agreements (the “Agreement(s)”) with covenants relating to specific performance of the controlling shareholder which constituted disclosure obligation pursuant to Rules 13.18 and 13.21 of the Listing Rules are as follows:

Date of the Agreement(s)/ Issuance of Notes	Nature of the Agreement(s)/Notes	Aggregate amount <i>(million)</i>	Final Maturity	Specific performance obligations
8 November 2013	Note purchase agreement with an institutional investor	RMB2,000	November 2022	<i>Note 1</i>
29 April 2015 and 5 July 2017	Term loan facility with a bank	HK\$1,172	April 2020	<i>Note 1</i>
8 May 2015	Note purchase agreement with an institutional investor	HK\$700	May 2020	<i>Note 1</i>
27 November 2015	Term loan facility with a bank	HK\$3,000	November 2020	<i>Note 3</i>
28 December 2015	Term loan facilities with three banks	HK\$1,760	December 2020	<i>Note 3</i>
18 December 2017	Term loan facility with a bank	HK\$4,000	December 2022	<i>Note 3</i>
18 April 2018	Term loan facility with a bank	AU\$210	April 2019	<i>Note 2</i>
24 April 2018	Subscription agreement for issuance of bonds	US\$500	May 2023	<i>Note 1</i>
25 May 2018	Issuance of medium-term notes	RMB2,000	May 2023 <i>Note 4</i>	<i>Note 1</i>
		RMB1,000	May 2025 <i>Note 4</i>	<i>Note 1</i>
20 July 2018	Issuance of medium-term notes	RMB1,000	July 2023 <i>Note 4</i>	<i>Note 1</i>
		RMB2,000	July 2025 <i>Note 4</i>	<i>Note 1</i>

DISCLOSEABLE INFORMATION

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

Notes:

1. (i) BEHL owns or controls at least/more than 35% of the voting rights of the issued share capital of the Company, whether directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; and/or (iv) the nominees of BEHL comprise the majority of the members of the Board.
2. (i) BEHL owns, directly or indirectly, more than 35% of the issued share capital of the Company; (ii) BEHL is the single largest shareholder of the Company; and (iii) BEGCL is effectively wholly-owned, supervised and controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality* (北京市人民政府國有資產監督管理委員會) ("Beijing SASAC").
3. (i) BEHL owns, directly or indirectly, at least 35% of the beneficial shareholding carrying at least 35% of voting rights in the Company, free from any security; (ii) BEHL supervises the Company and/or have management control over the Company; (iii) BEHL is directly or indirectly the single largest shareholder of the Company; (iv) BEGCL owns, directly or indirectly, at least 40% of the beneficial shareholding carrying at least 40% of the voting rights in BEHL, free from any security; (v) BEGCL is directly or indirectly the single largest shareholder of BEHL or supervises BEHL; and (vi) BEGCL is effectively wholly-owned, supervised and controlled by Beijing SASAC.
4. Two years prior to the maturity pursuant to the terms and conditions in the medium-term notes, the Company shall be entitled to adjust the coupon rate of the medium-term notes and the note holders shall be entitled to sell back the medium-term notes to the Company.

* For identification purposes only

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.

DISCLOSEABLE INFORMATION

EQUITY FUNDS RAISING BY PRIVATE PLACEMENT AND SHARES SUBSCRIPTION

(Continued)

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

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

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

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

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

The directors of the Company 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.

DISCLOSEABLE INFORMATION

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

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

Month/year	Number of ordinary Shares repurchased	Price per Share		Aggregate Consideration paid (HK\$)
		Highest	Lowest	
April 2018	2,900,000	4.50	4.23	12,465,820

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

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

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

INTERIM DISTRIBUTION

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

CLOSURE OF REGISTER OF MEMBERS

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

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all the directors of the Company, the Company confirms that during the six months ended 30 June 2018, all the directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding securities transactions by the directors of the Company.

AUDIT COMMITTEE

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

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that may be exposed to the Group and ensuring that the Group maintains sound and effective risk management and internal control systems in order to safeguard the interest of shareholding and the Group’s assets. The Board had delegated such responsibility to the Audit Committee which shall oversee management in designing, implementing and monitoring the risk management and internal control systems.

The Audit Committee, on behalf of the Board, reviews and monitors the effectiveness of the Group’s risk management and internal control systems in accordance with the Company’s policies and practices and receives reports on the effectiveness of these systems periodically.

CORPORATE GOVERNANCE

RISK MANAGEMENT AND INTERNAL CONTROLS *(Continued)*

The Group has a risk control center and audit center in place. The risk control center has set up a risk management mechanism regarding corporate objectives so as to identify, control, acknowledge and manage the risks faced by the Group. In particular, the Group applies strict guidelines and procedures that monitor and control each investing unit for its investment, with the aim to mitigate risk exposure and external impacts and ensure that the risk management process is in line with the relevant objective. On the other hand, audit center carries out an independent review of key business processes and controls in accordance with its normal procedures. Its recommendations and remedial measures will be taken to rectify the deficiencies accordingly. The Group from time to time handles inside information in accordance with the procedures and guidelines, updates the internal control system when there are changes to business environment or regulatory guidelines; and follows up with various departments and business segments to ensure the timely implementation of the recommendations.

The Board believes that there is an adequacy of resources in terms of staff qualifications and experience, training programmes and budget of the Group's internal audit function.

The Board considers that the Group's enhanced risk management and internal control systems were effective and adequate for the six months ended 30 June 2018. No significant areas of concern that may affect the financial, operational and compliance control functions of the Group have been identified.