

BEIJING ENTERPRISES WATER GROUP LIMITED

Interim Report 2020

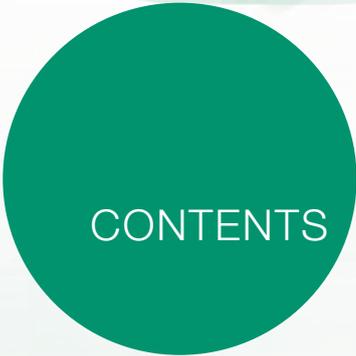


北控水務集團有限公司

BEIJING ENTERPRISES WATER GROUP LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 371)



CONTENTS

Corporate Information	2
Group Structure	3
Chairman's Statement	4
Management Discussion and Analysis	9
Condensed Consolidated Statement of Profit or Loss	31
Condensed Consolidated Statement of Comprehensive Income	32
Condensed Consolidated Statement of Financial Position	33
Condensed Consolidated Statement of Changes in Equity	35
Condensed Consolidated Statement of Cash Flows	37
Notes to Condensed Consolidated Financial Information	39
Discloseable Information	63
Corporate Governance	77



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Yongcheng (*Chairman*)
Mr. Jiang Xinhao
Mr. Zhou Min (*Chief Executive Officer*)
Mr. Li Haifeng
Mr. Zhang Tiefu
Mr. Ke Jian
Ms. Sha Ning
Mr. Tung Woon Cheung Eric
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

COMPANY SECRETARY

Mr. Tung Woon Cheung Eric

AUDITORS

Ernst & Young

STOCK CODE

371

WEBSITE

www.bewg.net

REGISTERED OFFICE

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31 Victoria Street
Hamilton HM 10
Bermuda

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PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

MUFG Fund Services (Bermuda) Limited
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

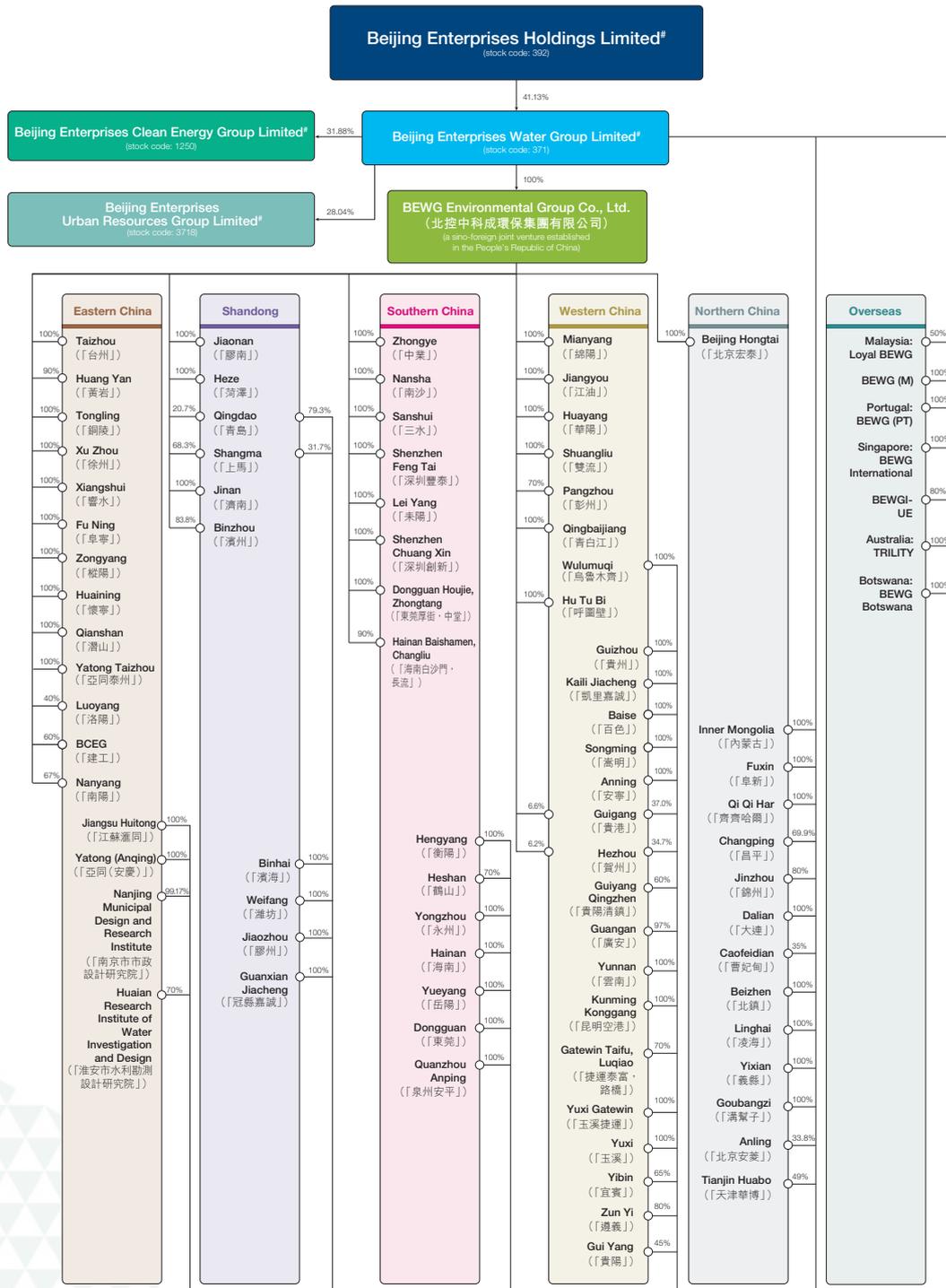
PRINCIPAL BANKERS

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
Mizuho Bank, Ltd.

In Mainland China:
Agricultural Bank of 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
Industrial Bank Company Limited
The Export-Import Bank of China

GROUP STRUCTURE

30 June 2020



* 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 2020, the COVID-19 pandemic dealt a severe blow to the globe by plunging the whole world into chaos and extreme uncertainties. Beijing Enterprises Water Group Limited (the “Company”, together with its subsidiaries, collectively referred to as the “Group” or “BEWG”) made concerted efforts to safeguard the source of life and create a green environment, ensured the smooth operation of all its facilities, and co-operated closely with local governments in order to defeat the pandemic. At the same time, BEWG also delivered satisfactory and stable operating results by reinforcing its strategic focus on its core businesses, namely urban water services and water environment comprehensive renovation, and exploring new sources of profit around these sectors in which it has an edge in terms of resources.

PERFORMANCE REVIEW

For the six months ended 30 June 2020, the Group recorded a net increase in daily design capacity of 827,600 tons, bringing the total daily design capacity to 40,216,482 tons. Revenue was HK\$12,453.8 million, which decreased by 3% as compared with last period. Total profit attributable to shareholders of the Company amounted to HK\$2,268.4 million, which decreased by 18% as compared with last period. Basic earnings per share for the period was HK22.64 cents. In recognition of the continuous support of the shareholders to the Company, the board of directors of the Company (the “Board”) resolved to make an interim cash distribution of HK8.4 cents per share to the shareholders.

With the staunch support of the controlling shareholder, BEWG is realising tremendous synergies with its fellow subsidiaries, thereby fortifying the “Beijing Enterprises” brand as a brand of quality and underpinning the Group’s market expansion.

To carry on its professional role in the national strategy for the integration in the Yangtze River Delta Region, the Group deepened its co-operation with China Three Gorges Corporation and took the lead in setting up a joint venture, which won the bid for the public-private-partnership (“PPP”) project of all rural sewage treatment facilities in Liuhe District, Nanjing City. The bid for the second phase of the PPP project to integrate the sewage treatment plants and networks in Liuyang City is also expected to be successful.

Under the guidance of its new innovation strategy, the Group continued to build up its core operational strengths. Based on the “1+N” multi-business integrated innovation model, the Group applied intelligent technology to its management, accelerated its transformation into a service platform through intensification, and developed several smart water service solutions, such as multi-model collective water plant development, plant-network integration, urban-rural integration and flood prevention of pipe network, in five key areas with the help of its smart water service applications and smart water service portfolio during the first half of the year. Such efforts have realised an early stage of production data integration. BETHink1.0, an online smart virtual-reality management system, was developed as the first proprietary sewage treatment process simulation software in China. Since its launch in water plants in various locations such as Taziba and Dalingshan, this system has saved a significant amount of energy and expenses.

CHAIRMAN'S STATEMENT

PERFORMANCE REVIEW *(Continued)*

The overseas operations of the Group remained stable as a whole. The Group witnessed successful expansion in the African market by winning project after project in the Republic of Botswana. On the domestic front, BEWG's project in Yixing is currently the largest PPP agricultural sewage treatment project that takes advantage of the strategy to vitalise rural economy and the policy to tackle rural pollution in China. BEWG actively participates in the construction of this civil infrastructure in a role as a provider of social capital. The project in Minning that applies the asset-light PM model is another noteworthy project of the Group. As the Group actively executes the theory that "clear waters and green mountains are gold mountains and silver mountains" (i.e. the "two mountains" theory), our restoration and renovation of rural environment has begun to yield concrete results.

The clean energy business was developing steadily. In particular, the photovoltaic power, wind power and clean heat supply businesses remained stable.

One of the group companies, Beijing Enterprises Urban Resources Group Limited (stock code: 3718.HK), successfully ventured into the international capital market in Hong Kong by being listed on the main board of The Stock Exchange of Hong Kong Limited on 15 January 2020. As a result, the hazardous waste treatment service and environmental hygiene service businesses experienced exponential growth.

GreenTech Environmental Co., Ltd (Stock code: 688466.SH), an investee of the Group, was also listed on the STAR Market of the Shanghai Stock Exchange on 8 May 2020.

CORPORATE MANAGEMENT AND CONTROL

The Group continued to strictly comply with the law, improved its corporate governance and standardised the management functions of the Board. To comprehensively improve its internal risk management capabilities, the Group has developed a group-level systemic risk prevention and control framework based on its basic business units. To safeguard its investments, it has also improved the decision-making mechanism of key nodes such as project initiation, bidding and review.

The Group exports premium environmental protection asset operation know-how and expertise across the whole industry chain, ranging from investment, research and development, design, construction, operation to back-office support, with a view to supporting external environmental protection enterprises while innovating its own platform.

To build up its core strength in the operation of trillion water service assets under its management, the Group rolled out a star rating system for its business units during the year by upgrading their targets, standards and assessments. It aims to optimise resource allocation among business units, extend the coverage of major elements of management and promote the normalisation of the conservation work. As its operating standard improves day by day, BEWG's professional brand image is increasingly well received by the people and governments.

CHAIRMAN'S STATEMENT

CORPORATE MANAGEMENT AND CONTROL *(Continued)*

To strengthen financial security, a project re-analysis mechanism and the “financial risk map” were established. The Group attaches great importance to the management of cash flow and improvement in capital efficiency. It strengthened its centralised fund management with the aim of attaining holistic fund allocation across the Group. Capital efficiency is incorporated into its target performance assessment of each business unit. The recovery of trade receivables is also considered in its performance assessment and appraisal of each business unit. Stringent fund and budget management is strictly enforced to ensure sound liquidity position whereby expenditure is determined by revenue. The Group also keeps on expanding its financing channels and exploring new financial instruments.

The Group has upgraded its centralised procurement to a strategic procurement model. Through the introduction of the united material coding system, a transparent e-commerce material supply platform and industry-wide joint procurement, it strived for the long-term mutual benefit among enterprises on the supply chain. This strategic procurement model has not only increased the bargaining power of the Group in its procurement, but also ensured the quality of the products procured as well as the reliability of the supply chain system.

To safeguard the brand, public opinion management measures and public relations crisis management mechanisms were comprehensively implemented. The Group has also strengthened its operational and construction safety, improved its anti-corruption policies and training, and promoted sustainable management.

To actively promote a talent-oriented development strategy and organise training of strategic talents in the field of ecology, the Group has established the BEWG educational institute. Based on its cutting edge in the industry and abundant experience in education and school management, it carried out several activities across upstream and downstream in the industry, such as the training of environmental protection talents, university-enterprise co-operation and the China Ecological Environment Industry and Education Alliance. A teaching supervisory committee was established in respect of 4 professional disciplines, namely smart water services, smart environment and hygiene, comprehensive treatment and disposal of solid waste, and ecological and environmental innovation and startup.

SUSTAINABLE DEVELOPMENT

The Group always keeps its original aspiration in mind when pursuing sustainable development. It follows the path to cleanness, the path to good governance and the path to mutual aid. In that spirit, it pays close attention to the expectations and requirements of stakeholders and supports the 17 sustainable development goals of the United Nations with its own business development.

The Group actively promoted business standardisation, and made definite its investment direction and enhanced investment risk management with revised policies and standardised management. It put forward new operation management models, carried out spot checks on ongoing projects, rolled out project star ratings, and improved its emergency response capability. It encouraged technological innovation, accelerated the upgrade of smart water services and initiated a “quality construction year” to ensure sustainable development.

CHAIRMAN'S STATEMENT

SUSTAINABLE DEVELOPMENT *(Continued)*

By staying abreast of market trends and seizing the opportunities brought by the internet revolution, the Group reinforced its strategic focus on environmental protection and developed a strategic model which is based on an asset-light model and comprises dual platforms for development. It further enhanced BEWG's core competitiveness by strengthening investment capability, innovating and optimising technology, applying intelligent technology, improving asset quality and efficiency, and recruiting high calibre talent.

High-quality talents are the key to sustainable development. The BEWG educational institute established by the Group has entered into agreements with 5 institutes in China to set up the Engineer School of BEWG and prepared 5 educational materials in the field of smart water services so as to better align institutional training with industrial needs and increase the supply of talents with practical knowledge to the industry. By taking the lead to form the China Ecological Environment Industry and Education Alliance, the Group has allied with 142 environmental protection entities, including 72 enterprises and 70 higher education institutes in the environmental protection field. A series of brand-building activities, such as the third convention of the Alliance, the third Integration of Industry and Education Summit Forum, the third "Internet Plus" Ecological Environment Innovation and Entrepreneurship Competition, the second Beautiful China – Environmental Protection Industry Graduate Jobs Fair, the second graduate vocational skill competition, the first corporate microlecture competition of the Alliance and the first environmental protection industry human resource summit forum, were held during the year to facilitate the reform and development of university-enterprise innovation and startup education, create a multi-dimensional talent value chain encompassing industry, education, research, application and innovation, promote the comprehensive alignment of the key requirements of both the supply side and demand side of talent development in the environmental protection industry, and nurture high-calibre talents that are fit for the sustainable development of the environmental industry in China.

The Group has always been committed to energy savings and emission reduction. In moving towards ecological and environmental sustainability, it actively responds to climate change and minimises its environmental impact by enhancing water resources management and protecting biodiversity.

As a people-oriented enterprise, the Group aims to protect the legitimate rights and interests of its employees, ensure their health and safety, improve its staff training system and uphold the principle of equal employment.

The Group works and grows with various sectors. As it develops, it gives back and thus contributes to a sustainable society.

CHAIRMAN'S STATEMENT

FUTURE DEVELOPMENT

Winning the battle against the pandemic and resuming life and production are the challenges facing the world in the second half of 2020. The Group is committed to the mission of “safeguarding the source of life and creating a green environment” and will strive to alleviate water scarcity. It will take action to practise its objective of eco-environment protection, secure the stable operation of the enterprise with norms and continuously improve service quality.

To achieve its future goals and plans to achieve exponential growth, the Group will reinforce its strategic direction by focusing on product and service upgrade, and will bring together its advantages by accumulating intellectual capital, with the aim of creating new drivers for further growth of the enterprise in a knowledge-based era. With a view to offering a solid digital support to its asset-light transformation and high-quality development, the Group has embarked on its major annual projects to commence management digitalisation planning, which comprises the top-level planning of management digitalisation and systematic formulation of the blueprint of management digitalisation planning.

The Group will fully execute President Xi Jinping's thought on ecological civilisation, seize the opportunities that may arise in the industry, participate in the three critical battles and further implement the Action Plan for Prevention and Control of Water Pollution (《水污染防治行動計劃》), so as to make a contribution to the country's pursuit of green and ecological development. Against the backdrop of ensuring “six priorities” and stability in six areas for steady economic momentum, the Group will secure new water environment comprehensive renovation projects with an asset-light model and further improve its cash flow, with an aim to promote the Group's high-quality development.

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

28 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the period attributable to shareholders of the Company decreased by 18% to HK\$2,268.4 million. Revenue decreased by 3% to HK\$12,453.8 million as a result of decrease in revenue contribution from construction services for the comprehensive renovation projects.

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	2,601.1	21%	60%	1,247.8		
– Joint ventures and associates				141.5		
				1,389.3	36%	
Overseas						
– Subsidiaries	150.3	1%	24%	23.6	1%	
	2,751.4	22%		1,412.9	37%	
Water distribution services						
China						
– Subsidiaries	963.8	8%	51%	346.1	9%	
– Joint ventures				45.3	1%	
				391.4	10%	
Overseas						
– Subsidiaries	237.6	2%	35%	53.1	1%	
– Joint ventures				17.0	1%	
				70.1	2%	
	1,201.4	10%		461.5	12%	
Subtotal	3,952.8	32%		1,874.4	49%	

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

[#] Others included head office expense and other cost, net, of HK\$407.6 million, share of profit of associates of HK\$179.1 million, share award expenses of HK\$27.2 million and finance costs of HK\$1,301.6 million. Others represented items that cannot be allocated to the operating segments.

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

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	2,331.4	18%	58%	1,094.8	
– Joint ventures and associates				104.0	
				1,198.8	31%
Overseas					
– Subsidiaries	181.8	1%	26%	32.0	1%
	2,513.2	19%		1,230.8	32%
Water distribution services					
China					
– Subsidiaries	881.6	7%	53%	299.2	8%
– Joint ventures				79.8	2%
				379.0	10%
Overseas					
– Subsidiaries	291.7	2%	31%	61.3	2%
– Joint ventures				16.0	0%
				77.3	2%
	1,173.3	9%		456.3	12%
Subtotal	3,686.5	28%		1,687.1	44%

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% [§]	3,221.2	25%	27%	845.5	22%
– Interest income	–	–	–	63.0	2%
	3,221.2	25%	27%	908.5	24%
Construction of BOT water projects	4,718.5	37%	25%	861.9	23%
Subtotal	7,939.7	62%		1,770.4	47%
3. Technical services and sale of machineries for the water environmental renovation					
	1,202.9	10%	60%	356.8	9%
Business results	12,829.1	100%		3,814.3	100%
Others[#]				(1,044.4)	
Total				2,769.9	

[#] Others included head office expense and other cost, net, of HK\$82.7 million, share of profit of associates of HK\$231.4 million and finance costs of HK\$1,193.1 million. Others represented items that cannot be allocated to the operating segments.

[§] Profit attributable to shareholders of the Company included share of profits of joint ventures and associates of HK\$132.9 million.

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the six months ended 30 June 2020 and 2019 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)	
	2020 HK\$'M	2019 HK\$'M	HK\$'M	%	2020 HK\$'M	2019 HK\$'M	HK\$'M	%
1. Water treatment services								
Sewage and reclaimed water treatment services								
China								
– Subsidiaries	2,601.1	2,331.4	269.7	12%	1,247.8	1,094.8	153.0	14%
– Joint ventures and associates					141.5	104.0	37.5	36%
					1,389.3	1,198.8	190.5	16%
<i>GP ratio</i>	60%	58%		2%				
Overseas								
– Subsidiaries	150.3	181.8	(31.5)	(17%)	23.6	32.0	(8.4)	(26%)
<i>GP ratio</i>	24%	26%		(2%)				
	2,751.4	2,513.2	238.2	9%	1,412.9	1,230.8	182.1	15%
Water distribution services								
China								
– Subsidiaries	963.8	881.6	82.2	9%	346.1	299.2	46.9	16%
– Joint ventures					45.3	79.8	(34.5)	(43%)
					391.4	379.0	12.4	3%
<i>GP ratio</i>	51%	53%		(2%)				
Overseas								
– Subsidiaries	237.6	291.7	(54.1)	(19%)	53.1	61.3	(8.2)	(13%)
– Joint ventures					17.0	16.0	1.0	6%
					70.1	77.3	(7.2)	(9%)
<i>GP ratio</i>	35%	31%		4%				
	1,201.4	1,173.3	28.1	2%	461.5	456.3	5.2	1%
Subtotal	3,952.8	3,686.5	266.3	7%	1,874.4	1,687.1	187.3	11%

MANAGEMENT DISCUSSION AND ANALYSIS

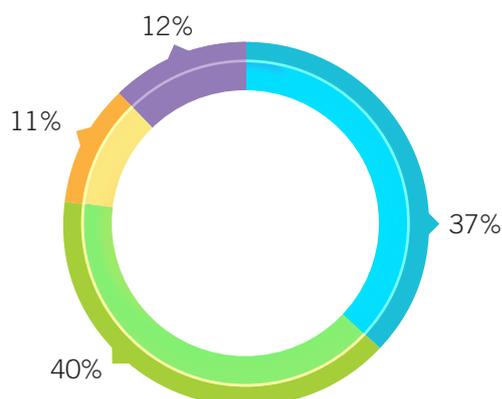
1. FINANCIAL HIGHLIGHTS *(Continued)*

The comparison of the Group's financial results for the six months ended 30 June 2020 and 2019 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)	
	2020 HK\$'M	2019 HK\$'M	HK\$'M	%	2020 HK\$'M	2019 HK\$'M	HK\$'M	%
2. Construction services for the water environmental renovation								
Construction services for comprehensive renovation projects								
– Projects with completion rate more than 10%	1,676.6	3,221.2	(1,544.6)	(48%)	390.4	845.5	(455.1)	(54%)
– Interest income	–	–	–	–	109.5	63.0	46.5	74%
<i>GP ratio</i>	1,676.6 27%	3,221.2 27%	(1,544.6)	(48%)	499.9	908.5	(408.6)	(45%)
Construction of BOT water projects								
– China	5,544.4	4,718.5	825.9	18%	1,047.3	861.9	185.4	22%
<i>GP ratio</i>	25%	25%	–	–	–	–	–	–
Subtotal	7,221.0	7,939.7	(718.7)	(9%)	1,547.2	1,770.4	(223.2)	(13%)
3. Technical services and sale of machineries for the water environmental renovation								
<i>GP ratio</i>	1,280.0 59%	1,202.9 60%	77.1	6% (1%)	404.1	356.8	47.3	13%
Business results	12,453.8	12,829.1	(375.3)	(3%)	3,825.7	3,814.3	11.4	–
Others					(1,557.3)	(1,044.4)	(512.9)	49%
Total					2,268.4	2,769.9	(501.5)	(18%)

MANAGEMENT DISCUSSION AND ANALYSIS

1. FINANCIAL HIGHLIGHTS *(Continued)*



Profit attributable to shareholders of the Company
(Six months ended 30 June 2020)

- 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 20 provinces, 5 autonomous regions and 3 municipalities all across Mainland China.

2.1 Water treatment services

As at 30 June 2020, the Group entered into service concession arrangements and entrustment agreements for a total of 1,289 water plants including 1,087* sewage treatment plants, 166 water distribution plants, 34 reclaimed water treatment plants and 2 seawater desalination plants. Total daily design capacity for new projects secured for the period was 1,127,700 tons including Build-Operate-Transfer ("BOT") projects of 213,000 tons, Public-Private Partnership ("PPP") projects of 542,000 tons, entrustment operation projects of 372,700 tons.

Due to different reasons such as expiration of projects, the Group exited projects with aggregate daily design capacity of 300,100 tons during the period. As such, the net increase in daily design capacity of the period was 827,600 tons. As at 30 June 2020, total daily design capacity was 40,216,482 tons.

* During the period, the Group entered into services concession arrangements for 4 town-size sewage treatment plants with aggregate daily capacity of 11,000 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	13,652,487	1,109,200	8,547,194	–	23,308,881
Not yet commenced operation/ Not yet transferred	9,504,229	1,187,000	4,342,800	50,000	15,084,029
Subtotal	23,156,716	2,296,200	12,889,994	50,000	38,392,910
Overseas					
In operation	182,358	267,350	1,073,864	300,000	1,823,572
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	182,358	267,350	1,073,864	300,000	1,823,572
Total	23,339,074	2,563,550	13,963,858	350,000	40,216,482
<i>(Number of water plants)</i>					
China					
In operation	552	17	109	–	678
Not yet commenced operation/ Not yet transferred	489	12	21	1	523
Subtotal	1,041	29	130	1	1,201
Overseas					
In operation	46	5	36	1	88
Not yet commenced operation/ Not yet transferred	–	–	–	–	–
Subtotal	46	5	36	1	88
Total	1,087	34	166	2	1,289

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	219	3,772,340	577.9	601.4	381.5
– Western China	153	2,022,100	280.3	518.2	237.7
– Shandong	38	1,859,000	246.3	302.5	152.5
– Eastern China	76	4,085,700	630.4	677.9	287.6
– Northern China	83	3,022,547	435.4	501.1	330.0
	569	14,761,687	2,170.3	2,601.1	1,389.3
Overseas	51	449,708	49.8	150.3	23.6
Subtotal	620	15,211,395	2,220.1	2,751.4	1,412.9
Water distribution services:					
Mainland China	109	8,547,194	871.6	963.8	391.4
Overseas [§]	37	1,373,864	107.5	237.6	70.1
Subtotal	146	9,921,058	979.1	1,201.4	461.5
Total	766	25,132,453	3,199.2	3,952.8	1,874.4

* 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 2020, the Group had 552 sewage treatment plants and 17 reclaimed water plants in operation in Mainland China. Total daily design capacity in operation of sewage treatment plants and reclaimed water plants reached to 13,652,487 tons (31 December 2019: 13,352,487 tons) and 1,109,200 tons (31 December 2019: 896,700 tons) respectively. The average daily processing volume is 12,144,859 tons and average daily treatment rate is 85%. The actual average contracted tariff charge of water treatment was approximately RMB1.23 per ton (31 December 2019: RMB1.17 per ton) for water plants. The actual aggregate processing volume for the period was 2,170.3 million tons, of which 1,943.9 million tons was contributed by subsidiaries and 226.4 million tons was contributed by joint ventures and associates. Total revenue for the period was HK\$2,601.1 million. Net profit attributable to shareholders of the Company was HK\$1,389.3 million, of which HK\$1,247.8 million was contributed by subsidiaries and HK\$141.5 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 2020, there were 219 plants with total daily design capacity of 3,772,340 tons, representing an increase of 135,200 tons or 4% as compared with last year. The actual aggregate processing volume for the period amounted to 577.9 million tons. The operating revenue and profit attributable to shareholders of the Company were HK\$601.4 million and HK\$381.5 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 2020, there were 153 sewage treatment plants with total daily design capacity of 2,022,100 tons, representing an increase of 77,100 tons per day or 4% as compared with last year. The actual processing volume for the period was 280.3 million tons. The operating revenue of HK\$518.2 million was recorded during the period. Profit attributable to shareholders of the Company amounted to HK\$237.7 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 38 plants in Shandong region. The total daily design capacity of Shandong region is 1,859,000 tons, representing an increase of 70,000 tons per day or 4% as compared with last year. The actual processing volume for the period was 246.3 million tons contributing operating revenue of HK\$302.5 million during the period. Profit attributable to shareholders of the Company was HK\$152.5 million.

Eastern China

There were 76 water plants in Eastern China which were mainly located in Zhejiang Province, Jiangsu Province and Anhui Province. As at 30 June 2020, the total daily design capacity of Eastern China had decreased by 49,800 tons to 4,085,700 tons or 1% as compared with last year. The actual processing volume for the period amounted to 630.4 million tons and operating revenue was HK\$677.9 million during the period. Profit attributable to shareholders of the Company was HK\$287.6 million.

Northern China

Currently, the Group has 83 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 280,000 tons to 3,022,547 tons or 10% as compared with last year. The projects achieved actual processing volume of 435.4 million tons for the period. The operating revenue was HK\$501.1 million during the period. Profit attributable to shareholders of the Company was HK\$330.0 million.

2.1.1b Overseas:

As at 30 June 2020, the Group had 46 sewage treatment plants and 5 reclaimed water plants in Portugal, Singapore and Australia. Total daily design capacity in operation was 449,708 tons. The actual processing volume for the period is 49.8 million tons. Total revenue for the period was HK\$150.3 million. Profit attributable to shareholders of the Company was HK\$23.6 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 2020, the Group had 109 water distribution plants in operation. Total daily design capacity in operation was 8,547,194 tons (31 December 2019: 7,865,194 tons). The plants were located in Guizhou Province, Fujian Province, Guangdong Province, Hunan Province, Hebei Province, Shandong Province, Henan Province, Guangxi Province and Inner Mongolia Autonomous Region. The actual average contracted tariff charge of water distribution is approximately RMB2.08 per ton (31 December 2019: RMB2.09 per ton). The aggregate actual processing volume is 871.6 million tons, of which 473.4 million tons was contributed by subsidiaries, which recorded revenue of HK\$963.8 million and 398.2 million tons was contributed by joint ventures. Profit attributable to shareholders of the Company was HK\$391.4 million, of which profit of HK\$346.1 million was contributed by subsidiaries and a profit of HK\$45.3 million in aggregate was contributed by joint ventures.

2.1.2b Overseas:

As at 30 June 2020, the Group had 36 water distribution plants and a sea desalination plant which supplies drinking water in Portugal and Australia. Total daily design capacity in operation was 1,373,864 tons. The actual processing volume for the period is 107.5 million tons of which 44.0 million tons was contributed by subsidiaries and 63.5 million tons was contributed by joint ventures. Total revenue for the period was HK\$237.6 million. Profit attributable to shareholders of the Company was HK\$70.1 million.

2.2 Construction services for the water environmental renovation

2.2.1 Construction services for comprehensive renovation projects

The Group had 26 comprehensive renovation projects under construction during the period. The projects mainly located in Zhejiang Hangzhou, Chengdu Jianyang, Inner Mongolia, Sichuan Panzhihua and Hebei Hengshui. Last period, the Group had 20 comprehensive renovation projects under construction in Zhejiang Hangzhou, Zhejiang Taizhou, Chengdu Jianyang, Malaysia Terengganu, Inner Mongolia, Sichuan Luzhou, Beijing Daxing and Hebei Hengshui.

Revenue from comprehensive renovation projects decreased by HK\$1,544.6 million from last period of HK\$3,221.2 million to HK\$1,676.6 million this period. Due to the outbreak of Novel Coronavirus ("COVID-19"), construction works in several construction sites in China could only maintain limited operation or are forced to suspend in the first quarter of Year 2020. Additionally, to align with the Group's asset-light strategy, the investment approach on the comprehensive renovation projects is more conservative. As such, there was decrease in construction revenue during this period.

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\$109.5 million for this period (six months ended 30 June 2019: HK\$63.0 million).

Profit attributable to shareholders of the Company for the comprehensive renovation projects decreased by HK\$408.6 million from last period of HK\$908.5 million to HK\$499.9 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 Shandong, Henan, Zhejiang, Hunan, Sichuan and Ningxia provinces. Total revenue for construction of BOT water projects was HK\$5,544.4 million (six months ended 30 June 2019: HK\$4,718.5 million) and profit attributable to shareholders of the Company was HK\$1,047.3 million (six months ended 30 June 2019: HK\$861.9 million).

2.3 Technical services and sale 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.

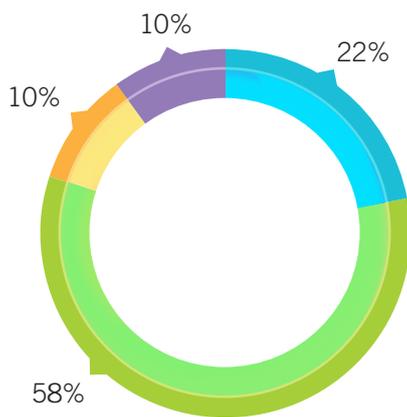
Revenue from the provision of technical services and sale of machineries was HK\$1,280.0 million (six months ended 30 June 2019: HK\$1,202.9 million), representing 10% of the Group's total revenue. Profit attributable to shareholders of the Company was HK\$404.1 million (six months ended 30 June 2019: HK\$356.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS

3.1 Revenue

During the period, the Group recorded revenue of HK\$12,453.8 million (six months ended 30 June 2019: HK\$12,829.1 million). The decrease was mainly due to the decrease in revenue from construction services for the comprehensive renovation projects.



Revenue
(Six months ended 30 June 2020)

- 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\$7,678.8 million, compared to last period of HK\$8,056.9 million. The decrease was mainly due to the decrease in cost of construction services of HK\$471.3 million. Cost of sales mainly included construction costs of HK\$5,371.1 million and operating costs of water plants of HK\$1,778.9 million. The construction costs mainly consisted of subcontracting charges. The operating costs of water plants, mainly included electricity charges of HK\$488.3 million, staff costs of HK\$477.5 million and major overhaul charges of HK\$67.6 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 slightly increased from last period of 37% to 38%.

Gross margin for sewage and reclaimed water treatment services:

Gross margin for sewage and reclaimed water treatment services in Mainland China was slightly increased to 60% (last period: 58%). Gross margin for sewage and reclaimed water treatment services in Overseas was slightly decreased to 24% (last period: 26%).

Gross margin for water distribution services:

Gross margin for water distribution services in Mainland China was 51% (last period: 53%). Gross margin for water distribution services in Overseas slightly increased to 35% (last period: 31%) as a result of cost saving.

Gross margin for construction services for comprehensive renovation projects:

Gross margin for construction services for comprehensive renovation projects was 27% (last period: 27%).

Gross margin for construction of BOT water projects:

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

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

Gross margin for the technical services and sale of machineries for the water environmental renovation was 59% (last period: 60%).

3.4 Other income and gains, net

The Group recorded other income and gains, net of HK\$529.0 million during the period, compared to last period of HK\$646.1 million. The amount for this period mainly included sludge treatment income of HK\$58.1 million, pipeline installation income of HK\$95.4 million and VAT refund of HK\$163.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.5 Administrative expenses

Administrative expenses for the period increased to HK\$968.3 million, compared to last period of HK\$957.6 million.

3.6 Other operating expenses, net

Other operating expenses increased from HK\$158.3 million to HK\$370.7 million during the period. The increase was mainly due to the exchange loss and impairment loss recognised and increase in cost of sludge treatment in current period.

3.7 Finance costs

Finance costs mainly represented interests on bank and other borrowings of HK\$1,099.1 million (six months ended 30 June 2019: HK\$742.3 million) and interests on corporate bonds and notes payable of HK\$501.5 million (six months ended 30 June 2019: HK\$544.1 million). The increase in finance costs was mainly due to the increase in bank and other borrowings during the period.

3.8 Share of profits of associates

Share of profits of associates decreased to HK\$199.2 million, compared to last period of HK\$251.8 million. The decrease was mainly due to decrease in share of profits of Beijing Enterprises Clean Energy Group Limited.

3.9 Share of profits of joint ventures

Share of profits of joint ventures decreased to HK\$339.0 million, compared to last period of HK\$394.6 million. The decrease was mainly due to decrease in share of profits of the joint ventures which engaged in construction services for the comprehensive renovation projects.

3.10 Income tax expense

Income tax expense for the period included the current PRC income tax of HK\$263.2 million. The effective tax rate for the PRC operation was about 17% 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\$436.0 million.

3.11 Profit attributable to holders of perpetual capital instruments

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.12 Investment properties

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

3.13 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\$98,216.0 million (31 December 2019: HK\$96,446.9 million) included:

By accounting nature:

	30 June 2020			31 December 2019		
	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	49,579.1	1,817.7	51,396.8	46,646.9	2,988.4	49,635.3
(ii) Receivables under service concession arrangements	31,488.4	3,721.2	35,209.6	32,033.3	3,815.4	35,848.7
(iii) Trade receivables	5,147.3	6,462.3	11,609.6	4,638.4	6,324.5	10,962.9
Total	86,214.8	12,001.2	98,216.0	83,318.6	13,128.3	96,446.9

(i) Amounts due from contract customers of HK\$51,396.8 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\$1,761.5 million (non-current portion increased by HK\$2,932.2 million and current portion decreased by HK\$1,170.7 million), which was mainly due to the recognition of construction revenue;

(ii) Receivables under service concession arrangements of HK\$35,209.6 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\$639.1 million (non-current portion decreased by HK\$544.9 million and current portion decreased by HK\$94.2 million) was mainly due to the conversion of a subsidiary to a joint venture as a result of the disposal of partial interest in a subsidiary; and

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

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

By accounting nature: *(Continued)*

- (iii) Trade receivables of HK\$11,609.6 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\$646.7 million (non-current portion increased by HK\$508.9 million and current portion increased by HK\$137.8 million). Increase in trade receivables was mainly due to reclassification from amounts due from contract customers to trade receivables as a result of completion of certain comprehensive renovation projects.

By business nature:

	30 June 2020 HK\$'M	31 December 2019 HK\$'M
Water treatment services by BOT and TOT projects	68,405.4	66,091.6
Construction services of comprehensive renovation projects	26,496.6	27,120.7
Technical and consultancy services and other businesses	3,314.0	3,234.6
Total	98,216.0	96,446.9

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\$68,405.4 million (31 December 2019: HK\$66,091.6 million). Total receivables for the construction service of comprehensive renovation projects were HK\$26,496.6 million (31 December 2019: HK\$27,120.7 million). Total receivables for technical and consultancy services and other businesses were HK\$3,314.0 million (31 December 2019: HK\$3,234.6 million).

3.14 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.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.15 Investments in joint ventures

Investments in joint ventures increased by HK\$731.7 million, mainly due to the conversion of a subsidiary to a joint venture and share of profits during the period.

3.16 Investments in associates

Investments in associates increased by HK\$301.6 million, mainly due to the share of profits during the period.

3.17 Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased by HK\$1,137.3 million (non-current portion increased by HK\$898.0 million and current portion increased by HK\$239.3 million), mainly due to the increase in deposits for acquisition of new projects and land use right.

3.18 Other payables and accruals

Other payables and accruals decreased by HK\$629.7 million. The decrease was mainly due to the decrease in accruals and due to subcontractors during the period.

3.19 Cash and cash equivalents

Cash and cash equivalents decreased by HK\$1,354.8 million, mainly due to the payments for acquisition and construction of various water projects in PRC.

3.20 Bank and other borrowings

Bank and other borrowings increased by HK\$2,720.5 million. Increase in bank and other borrowings was mainly utilised to finance for the acquisition and construction of various water projects in the PRC.

3.21 Corporate bonds

Corporate bonds increased mainly due to the issuance of corporate bond with principal amount of RMB2,000 million during the period.

3.22 Trade payables

The decrease in trade payables by HK\$2,516.7 million was mainly due to decrease in trade payables to subcontractors for construction services of the water environmental renovation projects during the period.

3.23 Deferred Income

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

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.24 Liquidity and financial resources

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

As at 30 June 2020, the Group's cash and cash equivalents amounted to HK\$10,805.1 million (31 December 2019: HK\$12,159.9 million).

The Group's total borrowings amounted to HK\$65,036.6 million (31 December 2019: HK\$61,265.2 million) comprised bank and other borrowings of HK\$42,096.7 million (31 December 2019: HK\$39,376.2 million), finance lease payables* of HK\$333.1 million (31 December 2019: HK\$379.3 million), notes payable of HK\$2,196.2 million (31 December 2019: HK\$2,944.8 million) and corporate bonds of HK\$20,410.6 million (31 December 2019: HK\$18,564.9 million). All the corporate bonds and notes payable bear interest at fixed rates. Over 90% of bank and other borrowings bear interest at floating rates.

As at 30 June 2020, the Group had banking facilities amounting to HK\$45.5 billion, of which HK\$25.4 billion have not been utilised. The banking facilities are of 1 to 10 years term.

The Group's total equity amounted to HK\$47,867.0 million (31 December 2019: HK\$46,531.2 million).

The gearing ratio as defined as sum of bank and other borrowings, finance lease payables, notes payable and corporate bonds, net of cash and cash equivalents, divided by the total equity was 1.13 as at 30 June 2020 (31 December 2019: 1.06). The increase in the gearing ratio as at 30 June 2020 was mainly due to the increase in bank and other borrowings and corporate bonds during the period.

* The balance as at 30 June 2020 was included in lease liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

3. FINANCIAL ANALYSIS *(Continued)*

3.25 Capital expenditures

During the period, the Group's total capital expenditures were HK\$5,798.8 million (six months ended 30 June 2019: HK\$5,479.1 million), of which HK\$466.0 million represented the acquisition of property, plant and equipment and intangible assets; HK\$4,960.3 million represented the construction and acquisition of water plants, HK\$372.5 million represented the consideration for acquisition of equity interests in subsidiaries and equity investments and capital injections in joint ventures and associates.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group employed 19,715 employees. Total staff cost for the six months ended 30 June 2020 was HK\$1,474,835,000 (six months ended 30 June 2019: HK\$1,392,355,000). The Group's remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Discretionary bonuses, share options and share awards are awarded to certain employees according to the assessment of individual performance. On 24 April 2013, the Company had granted 400,000,000 share options at an exercise price of HK\$2.244 per share under a share option scheme adopted on 28 June 2011 for the Group's directors and employees (the "Scheme"). On 28 March 2014, the Company had granted the then independent non-executive director of the Company 2,000,000 share options at an exercise price of HK\$5.18 per share under the Scheme. No share options were exercised, lapsed or cancelled during the six months ended 30 June 2020. As at 30 June 2020, the Company had 255,126,000 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 2.57% of the Company's ordinary shares in issue as at 30 June 2020. On 26 September 2019, the Company had granted 15,374,599 awarded shares to the eligible persons pursuant to the share award scheme. During the six months ended 30 June 2020, 146,094 awarded shares were lapsed. As at 30 June 2020, the Company had 15,228,505 awarded shares outstanding which represented approximately 0.15% of the Company's ordinary shares in issue.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the six months ended 30 June 2020, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2020 are secured by:

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

Save as disclosed above, at 30 June 2020, the Group did not have any charges on the Group's assets.

FOREIGN EXCHANGE EXPOSURE

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

		For the six months ended 30 June	
	Notes	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
REVENUE	3	12,453,831	12,829,115
Cost of sales		(7,678,767)	(8,056,933)
Gross profit		4,775,064	4,772,182
Interest income		279,599	308,972
Other income and gains, net		529,028	646,105
Administrative expenses		(968,314)	(957,616)
Other operating expenses, net		(370,681)	(158,323)
PROFIT FROM OPERATING ACTIVITIES	4	4,244,696	4,611,320
Finance costs	5	(1,301,614)	(1,193,123)
Share of profits and losses of:			
Joint ventures		339,014	394,618
Associates		199,235	251,838
PROFIT BEFORE TAX		3,481,331	4,064,653
Income tax expense	6	(709,680)	(771,153)
PROFIT FOR THE PERIOD		2,771,651	3,293,500
ATTRIBUTABLE TO:			
Shareholders of the Company		2,268,438	2,769,856
Holders of perpetual capital instruments		114,800	120,146
Non-controlling interests		388,413	403,498
		2,771,651	3,293,500
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	8		
– Basic		HK22.64 cents	HK28.68 cents
– Diluted		HK22.40 cents	HK28.25 cents

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	2,771,651	3,293,500
OTHER COMPREHENSIVE LOSS		
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange fluctuation reserve:		
– Translation of foreign operations	(1,246,579)	(438,532)
– Release upon disposal of subsidiaries	3,298	5
– Release upon deemed disposal of partial interest in associates	(3,552)	–
	(1,246,833)	(438,527)
<i>Items that will not to be reclassified to profit or loss in subsequent periods:</i>		
– Share of other comprehensive loss of a joint venture	(1,850)	(3,878)
– Changes in fair value of equity investments designated at fair value through other comprehensive income	(66,284)	31,679
	(68,134)	27,801
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF INCOME TAX	(1,314,967)	(410,726)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,456,684	2,882,774
ATTRIBUTABLE TO:		
Shareholders of the Company	1,329,543	2,427,507
Holders of perpetual capital instruments	(22,585)	91,279
Non-controlling interests	149,726	363,988
	1,456,684	2,882,774

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	<i>Notes</i>	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	9	4,194,810	4,166,073
Right-of-use assets		719,302	754,286
Investment properties		789,054	806,785
Goodwill		3,975,054	4,032,698
Operating concessions		4,634,698	4,862,357
Other intangible assets		206,688	247,513
Investments in joint ventures		8,707,947	7,976,242
Investments in associates		5,563,867	5,262,302
Equity investments designated at fair value through other comprehensive income		1,429,542	1,404,379
Financial assets at fair value through profit or loss		57,526	80,258
Amounts due from contract customers		49,579,065	46,646,874
Receivables under service concession arrangements	10	31,488,383	32,033,313
Trade receivables	11	5,147,315	4,638,425
Prepayments, deposits and other receivables	12	3,548,321	2,650,265
Deferred tax assets		271,578	347,683
Total non-current assets		120,313,150	115,909,453
Current assets:			
Non-current assets held for sale		–	328,517
Inventories		280,616	243,074
Amounts due from contract customers		1,817,743	2,988,428
Receivables under service concession arrangements	10	3,721,251	3,815,388
Trade receivables	11	6,462,263	6,324,510
Prepayments, deposits and other receivables	12	9,418,092	9,178,814
Restricted cash and pledged deposits		380,832	212,827
Cash and cash equivalents		10,805,076	12,159,915
Total current assets		32,885,873	35,251,473
TOTAL ASSETS		153,199,023	151,160,926

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	<i>Notes</i>	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Issued capital	13	1,002,120	1,002,120
Reserves		31,276,613	29,546,330
		32,278,733	30,548,450
Perpetual capital instruments		6,113,614	6,250,999
Non-controlling interests		9,474,688	9,731,727
		15,588,302	15,982,726
TOTAL EQUITY		47,867,035	46,531,176
Non-current liabilities:			
Other payables and accruals	14	1,121,418	1,040,162
Bank and other borrowings		33,611,613	30,353,035
Corporate bonds		16,298,214	16,598,747
Notes payable		2,196,163	2,245,023
Lease liabilities		367,637	394,435
Provision for major overhauls		223,030	242,562
Deferred income		1,284,632	1,297,695
Deferred tax liabilities		3,675,047	3,480,180
Total non-current liabilities		58,777,754	55,651,839
Current liabilities:			
Trade payables	15	24,376,256	26,892,990
Other payables and accruals	14	8,262,003	8,972,912
Income tax payables		1,218,563	1,294,006
Bank and other borrowings		8,485,107	9,023,192
Corporate bonds		4,112,421	1,966,157
Notes payable		–	699,746
Lease liabilities		99,884	128,908
Total current liabilities		46,554,234	48,977,911
TOTAL LIABILITIES		105,331,988	104,629,750
TOTAL EQUITY AND LIABILITIES		153,199,023	151,160,926

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to shareholders of the Company																Total equity (unaudited) HK\$'000																
	Issued capital (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Share held under the share award scheme (unaudited) HK\$'000	Share option and share award reserve (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Property revaluation reserve (unaudited) HK\$'000	Fair value through other comprehensive income (unaudited) HK\$'000	Defined benefit plan reserve (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	PRC reserve funds (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Perpetual capital instrument (unaudited) HK\$'000	Total (unaudited) HK\$'000	Perpetual capital instruments (unaudited) HK\$'000	Non-controlling interests (unaudited) HK\$'000																	
																		Attributable to shareholders of the Company															
																		Attributable to shareholders of the Company															
Attributable to shareholders of the Company																																	
At 1 January 2020	1,002,120	2,537,183	6,510,858	(110,014)	276,299	115,491	122,482	89,836	(58,464)	(3,873,027)	2,126,163	21,809,523	-	30,548,450	6,250,999	9,731,727	46,531,176																
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	2,262,600	5,638	2,268,438	114,800	388,413	2,771,651																
Other comprehensive income/(loss) for the period:																																	
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(870,507)	-	-	-	-	(870,507)	(137,365)	(238,687)	(1,246,579)																
Release upon disposal of subsidiaries	-	-	-	-	-	-	-	-	3,298	-	-	-	-	3,298	-	-	3,298																
Release upon deemed disposal of partial interest in associates	-	-	-	-	-	-	-	-	(3,552)	-	-	-	-	(3,552)	-	-	(3,552)																
Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	-	-	(1,850)	-	-	-	-	(1,850)	-	-	(1,850)																
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	-	-	(66,284)	-	-	-	-	-	-	(66,284)	-	-	(66,284)																
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(66,284)	(1,650)	(870,761)	-	2,262,600	5,638	1,329,543	(22,565)	149,726	1,456,684																	
Issuance of a perpetual capital instrument	-	-	-	-	-	-	-	-	-	-	-	1,098,172	1,098,172	-	-	1,098,172																	
Equity-settled share award arrangements	-	-	-	-	27,244	-	-	-	-	-	-	-	-	27,244	-	-	27,244																
Shares purchased for the share award scheme	-	-	-	(8,832)	-	-	-	-	-	-	-	-	-	(8,832)	-	-	(8,832)																
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16,709	16,709																
Acquisition of non-controlling interests	-	-	-	-	-	43,894	-	-	-	-	-	-	-	43,894	-	(126,114)	(82,220)																
Share of reserves of associates	-	-	-	-	11,907	15,846	-	-	-	-	-	-	-	27,753	-	-	27,753																
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(471,100)	(471,100)																
Dividends distributed to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(121,048)	(121,048)																
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	294,788	294,788																
Distributions declared to holders of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	(5,638)	(5,638)	(114,800)	-	(120,638)																
Final 2019 cash distributions paid	-	-	(781,653)	-	-	-	-	-	-	-	-	-	-	(781,653)	-	-	(781,653)																
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	147,837	(147,837)	-	-	-	-	-																
At 30 June 2020	1,002,120	2,537,183	5,729,205	(118,846)	315,450	175,231	122,482	23,552	(60,314)	(4,743,788)	2,274,000	23,924,286	1,098,172	32,278,733	6,113,614	9,474,688	47,867,035																

* These reserve accounts comprise the consolidated reserves of HK\$31,276,613,000 (unaudited) (31 December 2019: HK\$29,546,330,000) in the condensed consolidated statement of financial position as at 30 June 2020.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

Attributable to shareholders of the Company																
	Issued capital (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Share held under the share award scheme (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Share option reserve (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Property revaluation reserve (unaudited) HK\$'000	Fair value reserve of financial assets at fair value through other comprehensive income (unaudited) HK\$'000	Defined benefit plan reserve (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	PRC reserve funds (unaudited) HK\$'000	Retained profits (unaudited) HK\$'000	Total (unaudited) HK\$'000	Perpetual capital instruments (unaudited) HK\$'000	Non-controlling interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
At 1 January 2019	941,299	-	-	8,413,729	254,178	(90,564)	122,482	87,456	(54,678)	(3,194,333)	1,597,788	17,412,180	25,489,537	6,350,900	5,971,700	37,812,137
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	2,769,856	2,769,856	120,146	403,498	3,293,500
Other comprehensive income/(loss) for the period:																
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	-	(370,155)	-	-	(370,155)	(28,867)	(39,510)	(438,532)
Release upon disposal of subsidiaries	-	-	-	-	-	-	-	-	-	5	-	-	5	-	-	5
Share of other comprehensive loss of a joint venture	-	-	-	-	-	-	-	-	(3,878)	-	-	-	(3,878)	-	-	(3,878)
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	-	-	-	31,679	-	-	-	-	31,679	-	-	31,679
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	31,679	(3,878)	(370,150)	-	2,769,856	2,427,507	91,279	363,988	2,882,774
Issue of shares	59,840	2,507,284	-	-	-	-	-	-	-	-	-	-	2,567,124	-	-	2,567,124
Shares purchased for the share award scheme	-	-	(101,700)	-	-	-	-	-	-	-	-	-	(101,700)	-	-	(101,700)
Exercise of share options	403	12,263	-	-	(3,640)	-	-	-	-	-	-	-	9,046	-	-	9,046
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	85,298	85,298
Acquisition of non-controlling interests	-	-	-	-	-	(20,898)	-	-	-	-	-	-	(20,898)	-	44	(20,854)
Share of reserves of an associate	-	-	-	-	3,746	3,395	-	-	-	-	-	-	7,141	-	-	7,141
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,263)	(4,263)
Capital contributions from non-controlling equity holders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	243,789	243,789
Distributions paid to holders of perpetual capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	(120,146)	-	(120,146)
Final 2018 cash distributions paid	-	-	-	(830,945)	-	-	-	-	-	-	-	-	(830,945)	-	-	(830,945)
Transfer to reserves	-	-	-	-	-	-	-	-	-	-	19,597	(19,597)	-	-	-	-
Deemed disposal of partial interest in a subsidiary	-	-	-	-	-	244,308	-	-	-	-	-	-	244,308	-	918,483	1,162,791
At 30 June 2019	1,001,542	2,519,567	(101,700)	7,582,784	254,284	136,241	122,482	119,135	(58,556)	(3,564,483)	1,617,385	20,162,439	29,791,120	6,322,033	7,579,039	43,692,192

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(3,876,713)	(4,992,512)
Hong Kong profits tax paid	(11,061)	–
Mainland China corporate income tax paid	(312,428)	(402,079)
Overseas taxes paid	(1,503)	(8,605)
Net cash flows used in operating activities	(4,201,705)	(5,403,196)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(92,877)	(80,578)
Deposit paid for an acquisition of land use rights	(252,500)	–
Acquisition of subsidiaries	(12,620)	(117,425)
Settlement of acquisition consideration payable	(41,099)	(272,522)
Purchases of equity investments designated at fair value through other comprehensive income	(110,440)	(17,894)
Acquisition of/increase in investments in joint ventures	(177,074)	(850,090)
Proceeds from disposal of subsidiaries	–	1,639
An advance to a joint venture partner	(125,522)	–
Decrease in time deposits with maturity of more than three months when acquired	65,983	31,223
Decrease/(increase) in restricted cash and pledged deposits	(168,005)	146,094
Other investing cash flows, net	(236,800)	17,967
Net cash flows used in investing activities	(1,150,954)	(1,141,586)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	–	2,567,124
Proceeds from exercise of share options	–	9,046
Proceed from deemed disposal of partial interest in a subsidiary	–	1,162,791
Shares purchased for the share award scheme	(8,832)	(101,700)
Issue of corporate bonds	2,222,222	2,248,012
Issue of a perpetual capital instrument	1,098,172	–
Repayment of corporate bonds	–	(1,984,772)
Repayment of note payables	(700,000)	–
Principal portion of lease payments/finance lease rental payments	(51,412)	(62,441)
New loans	7,816,153	5,340,951
Repayment of loans	(4,242,608)	(3,794,244)
Interest paid	(1,266,542)	(1,232,295)
Distributions paid	(781,653)	(830,945)
Other financing cash flows, net	238,341	209,145
Net cash flows from financing activities	4,323,841	3,530,672
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	12,093,074	12,608,335
Effect of foreign exchange rate changes, net	(260,038)	111,567
CASH AND CASH EQUIVALENTS AT END OF PERIOD	10,804,218	9,705,792
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	10,805,076	10,003,881
Less: Time deposits with maturity of more than three months when acquired	(858)	(298,089)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	10,804,218	9,705,792

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

1.1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. During the six months ended 30 June 2020, the Group was involved in the following principal activities:

- construction of sewage and reclaimed water treatment plants and seawater desalination plants, and provision of construction services for comprehensive renovation projects in the mainland (“Mainland China”) of the People’s Republic of China (the “PRC”), Malaysia, Australia and the Republic of Botswana;
- provision of sewage and reclaimed water treatment services in Mainland China, the Republic of Singapore (“Singapore”), and the Portuguese Republic (“Portugal”) and Australia;
- 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 2020 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 2019. The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, 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 2020

1.3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

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

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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

- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendment did not have any impact on the financial position and performance of the Group as the Group did not get any reduction or waiver of monthly lease payments for any leased assets from the lessors as a result of covid-19 pandemic.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit for the period attributable to shareholders of the Company. The profit for the period attributable to shareholders of the Company is measured consistently with the Group's profit attributable to shareholders of the Company except that interest income on loans to joint ventures and an associate, interest income from joint venture partners, gains on deemed disposal of partial interest in associates, 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 2020

2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2020

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

2. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2019

	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 <i>(note 3)</i>	10,452,904	1,173,320	1,202,891	12,829,115
Cost of sales	(6,965,530)	(613,333)	(478,070)	(8,056,933)
Gross profit	3,487,374	559,987	724,821	4,772,182
Segment results:				
The Group	3,568,447	595,859	420,398	4,584,704
Share of profits and losses of:				
Joint ventures	298,816	95,802	–	394,618
Associates	1,365	–	19,041	20,406
	3,868,628	691,661	439,439	4,999,728
Corporate and other unallocated income and expenses, net				26,616
Share of profits of associates				231,432
Finance costs				(1,193,123)
Profit before tax				4,064,653
Income tax expense				(771,153)
Profit for the period				3,293,500
Profit for the period attributable to shareholders of the Company:				
Operating segments	3,001,098	456,290	356,848	3,814,236
Corporate and other unallocated items				(1,044,380)
				2,769,856

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

2. OPERATING SEGMENT INFORMATION *(Continued)*

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

30 June 2020

	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 assets:				
Operating segments	105,937,367	19,260,684	7,725,602	132,923,653
Corporate and other unallocated items				20,275,370
				153,199,023

31 December 2019

	Sewage and reclaimed water treatment and construction services (Audited) HK\$'000	Water distribution services (Audited) HK\$'000	Technical and consultancy services and sale of machineries (Audited) HK\$'000	Total (Audited) HK\$'000
Segment assets:				
Operating segments	102,677,309	20,088,572	8,731,972	131,497,853
Corporate and other unallocated items				19,663,073
				151,160,926

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

2. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue from external customers:		
Mainland China	11,804,357	12,149,327
Elsewhere	649,474	679,788
	12,453,831	12,829,115

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

Information about major customers

During the six months ended 30 June 2020 and 2019, the Group had no transaction with any single external customer which contributed over 10% of the Group's total revenue for the period.

3. REVENUE

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

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue from contracts with customers		
Sewage and reclaimed water treatment services	2,751,402	2,513,214
Construction services	7,220,969	7,939,690
Water distribution services	1,201,413	1,173,320
Technical and consultancy services and sale of machineries	1,280,047	1,202,891
	12,453,831	12,829,115

Imputed interest income under service concession arrangements amounting to HK\$1,231,989,000 (six months ended 30 June 2019: HK\$1,374,629,000) is included in the above revenue.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

3. REVENUE *(Continued)*

Revenue from contracts with customers

Disaggregated revenue information

Revenue of sewage and reclaimed water treatment services, construction services and technical and consultancy services are recognised over time. For revenue of water distribution services and sale of machineries are recognised point in time.

Please refer to note 2 to the financial information for the disclosure on disaggregated revenue for details.

4. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of sewage and reclaimed water treatment services rendered	1,088,715	1,076,217
Cost of construction services	5,371,090	5,842,409
Cost of water distribution services	565,778	529,618
Cost of technical and consultancy services rendered and machineries sold	528,792	478,070
Depreciation of property, plant and equipment	139,060	119,588
Depreciation of right-of-use assets	26,824	27,139
Amortisation of operating concessions*	124,392	130,619
Amortisation of other intangible assets*	14,197	10,920

* 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 2020

5. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank and other loans	1,099,122	742,345
Interest on corporate bonds	423,236	458,758
Interest on notes payable	78,244	85,309
Interest on lease liabilities	11,708	12,834
Total interest expense	1,612,310	1,299,246
Increase in discounted amounts of provision for major overhauls arising from the passage of time	11,961	11,069
Total finance costs	1,624,271	1,310,315
Less: Interest included in cost of construction services	(322,657)	(117,192)
	1,301,614	1,193,123

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2020. No provision for Hong Kong profits tax had been made in respect of the six months ended 30 June 2019 as the Group did not generate any assessable profits arising in Hong Kong during that period.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

6. INCOME TAX EXPENSE *(Continued)*

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current – Hong Kong	8,659	–
Current – Mainland China	263,182	426,211
Current – Elsewhere	1,792	12,021
Overprovision in prior periods	–	(38,008)
Deferred	436,047	370,929
Total tax expense for the period	709,680	771,153

7. INTERIM DISTRIBUTION

On 28 August 2020, the Board declared an interim cash distribution of HK8.4 cents per share (six months ended 30 June 2019: HK10.7 cents) totalling approximately HK\$841,780,000 (six months ended 30 June 2019: HK\$1,071,926,000).

8. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the period attributable to shareholders of the Company, adjusted to reflect the distribution related to the perpetual capital instrument, for the six months ended 30 June 2020, and the weighted average number of 10,021,195,871 (six months ended 30 June 2019: 9,679,003,580) ordinary shares in issue less the weighted average number of 26,028,802 (six months ended 30 June 2019: 20,037,514) ordinary shares held under the share award scheme of the Company during the period.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Earnings		
Profit for the period attributable to shareholders of the Company	2,268,438	2,769,856
Distribution related to the perpetual capital instrument	(5,838)	–
Profit used in the basic earnings per share calculation	2,262,600	2,769,856
Effect of dilution on earnings in respect of share options of an associate	(1,645)	(3,723)
Profit for the period attributable to shareholders of the Company, used in the diluted earnings per share calculation	2,260,955	2,766,133

	For the six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)

Number of ordinary shares

Weighted average number of ordinary shares in issue less the weighted average number of shares held under the share award scheme, during the period, used in the basic earnings per share calculation	9,995,167,069	9,658,966,066
Effect of dilution on weighted average number of ordinary shares		
– Share options which have dilutive effect	82,681,157	134,280,176
– Share awards which have dilutive effect	15,334,543	–
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	10,093,182,769	9,793,246,242

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group's additions of property, plant and equipment amounted to HK\$270,054,000 (six months ended 30 June 2019: HK\$80,578,000). There were disposals of property, plant and equipment with an aggregate carrying amount of HK\$17,367,000 (six months ended 30 June 2019: HK\$93,000) during the six months ended 30 June 2020.

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. Ageing analyses of receivables under service concession arrangements are regularly reviewed by senior management in order to minimise any credit risk arising from the receivables.

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Billed:		
Within 3 months	1,707,317	1,651,915
4 to 6 months	718,479	785,944
7 to 12 months	485,907	579,737
Over 1 year	809,548	797,792
	3,721,251	3,815,388
Unbilled:		
Non-current portion	31,488,383	32,033,313
Total	35,209,634	35,848,701

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

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 4.8% to 15.0% (31 December 2019: 4.8% to 15.0%) per annum, all other trade receivables are non-interest-bearing.

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Billed:		
Within 3 months	3,132,404	2,518,632
4 to 6 months	506,843	657,255
7 to 12 months	475,559	442,774
Over 1 year	2,347,457	2,705,849
Balance with extended credit period	38,970	39,846
	6,501,233	6,364,356
Unbilled*	5,108,345	4,598,579
	11,609,578	10,962,935
Portion classified as current assets	(6,462,263)	(6,324,510)
Non-current portion	5,147,315	4,638,425

* 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 2020

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Prepayments	487,077	472,022
Deposits and other debtors	6,545,778	5,280,769
Advances to subcontractors and suppliers	5,328,730	5,553,654
Due from joint ventures	308,383	192,069
Due from associates	61,321	46,523
Due from related parties	472,707	526,295
	13,203,996	12,071,332
Impairment	(237,583)	(242,253)
	12,966,413	11,829,079
Portion classified as current assets	(9,418,092)	(9,178,814)
	3,548,321	2,650,265

13. SHARE CAPITAL

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
<i>Issued and fully paid:</i>		
10,021,195,871 (31 December 2019: 10,021,195,871) ordinary shares of HK\$0.10 each	1,002,120	1,002,120

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

13. SHARE CAPITAL *(Continued)*

A summary of the movements in the Company's issued share capital during the six months ended 30 June 2020 is as follows:

	Number of ordinary shares in issue (Unaudited)	Issued capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 January 2020 and 30 June 2020	10,021,195,871	1,002,120	2,537,183	3,539,303

14. OTHER PAYABLES AND ACCRUALS

	30 June 2020 (Unaudited) <i>HK\$'000</i>	31 December 2019 (Audited) <i>HK\$'000</i>
Accruals	881,843	1,276,167
Other liabilities	3,809,368	3,786,316
Contract liabilities	1,137,447	1,095,259
Due to subcontractors	644,371	933,742
Due to joint ventures	1,579,684	1,610,261
Due to associates	134,960	62,000
Due to related parties	676,709	583,974
Other taxes payables	519,039	665,355
	9,383,421	10,013,074
Portion classified as current liabilities	(8,262,003)	(8,972,912)
Non-current portion	1,121,418	1,040,162

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

15. TRADE PAYABLES

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 3 months	13,591,674	12,528,591
4 to 6 months	1,886,888	3,251,065
7 months to 1 year	3,020,047	3,568,579
1 to 2 years	2,997,789	3,970,541
2 to 3 years	1,679,862	2,046,778
Over 3 years	1,131,569	1,401,058
Balance with extended credit period	68,427	126,378
	24,376,256	26,892,990

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

16. CONTINGENT LIABILITIES

As at 30 June 2020, bank guarantees in favour of employers in lieu of deposits for project bidding and project performance of HK\$836,169,000 (31 December 2019: HK\$669,696,000) were outstanding and corporate guarantees of HK\$3,959,036,000 (31 December 2019: HK\$3,085,661,000) were given to banks in connection with facilities granted to certain associates, joint ventures and independent third parties.

Save as disclosed above, at 30 June 2020, the Group did not have any significant contingent liabilities.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

17. LEASE

The Group as a lessor

The Group leases its investment properties consisting of certain floors and portion of its office building and a commercial building in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within one year	18,432	12,616
In the second to fifth years, inclusive	10,239	13,666
	28,671	26,282

18. CAPITAL COMMITMENTS

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Contracted, but not provided for		
New service concession arrangements on:		
TOT basis	1,391,905	520,585
BOT basis	11,229,032	8,953,092
Build-Own-Operate basis	129,977	215,471
Capital contribution to joint ventures	10,436,399	10,670,925
	23,187,313	20,360,073

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

18. CAPITAL COMMITMENTS *(Continued)*

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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Contracted, but not provided for	2,435,228	1,037,868

Save as disclosed above, at 30 June 2020, the Group did not have any significant commitments.

19. RELATED PARTY DISCLOSURES

(a) The Group had the following material transactions during the six months ended 30 June 2020 and outstanding balances with related parties as at 30 June 2020:

- (i) Included in the amounts due from joint ventures of the Group as at 30 June 2020 was an advance to a joint venture of US\$26,390,000 (equivalent to HK\$205,306,000) (31 December 2019: US\$26,390,000 (equivalent to HK\$206,341,000)). The amount is unsecured, bears interest at a floating rate of 3-month London Inter-bank Offered Rate plus 2.8% per annum, and is repayable on demand. Interest income of HK\$4,622,000 (six months ended 30 June 2019: HK\$5,672,000) was recognised in profit or loss during the six months ended 30 June 2020.
- (ii) Included in the amounts due from joint ventures of the Group as at 30 June 2019 were loans to joint ventures in an aggregate amount of RMB29,190,000 (equivalent to HK\$33,170,000). The amounts were unsecured, bore fixed interest ranging from 4.35% to 8% per annum and were fully settled in 2019. Interest income of HK\$2,246,000 was recognised in profit or loss during the six months ended 30 June 2019.
- (iii) In February 2013, the Group acquired from Beijing Enterprises Holdings Limited ("BEHL", a substantial beneficial shareholder of the Company) 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 ended 31 December 2018. Imputed interest income of HK\$2,120,000, 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 six months ended 30 June 2019. Further details of the transaction are set out in the Company's circular and announcement dated 30 November 2012 and 5 February 2013, respectively. The balance was fully settled in 2019.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

19. RELATED PARTY DISCLOSURES *(Continued)*

- (a) The Group had the following material transactions during the six months ended 30 June 2020 and outstanding balances with related parties as at 30 June 2020: *(Continued)*
- (iv) Included in the trade receivables of the Group as at 30 June 2020 were (i) an aggregate amount of HK\$2,629,000 (31 December 2019: HK\$2,688,000) 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\$2,051,000 (31 December 2019: HK\$2,097,000) 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.
- (v) Included in the trade payables of the Group as at 30 June 2020 was an amount of SGD588,000 (equivalent to HK\$3,270,000) (31 December 2019: SGD588,000 (equivalent to HK\$3,405,000)) 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. No construction service was provided and no amount was charged during the current and prior periods.
- (vi) During the six months ended 30 June 2020, the Group had engaged a related company of the Group to provide water treatment engineering services for a water supply plant located in Malaysia at service fees of MYR13,515,000 (equivalent to HK\$24,621,000) (six months ended 30 June 2019: MYR7,107,000 (equivalent to HK\$13,523,000)), which were charged at the published prices and conditions offered by the related company to its major customers.
- (vii) Included in the amounts due to related parties of the Group as at 30 June 2020 was an advance from a related party of SGD12,715,000 (equivalent to HK\$70,693,000) (31 December 2019: SGD12,715,000 (equivalent to HK\$73,618,000)). The amount is unsecured, bears interest at a fixed rate of 2.5% per annum and is repayable by quarterly instalments. Interest expense of HK\$879,000 (six months ended 30 June 2019: HK\$1,285,000) was recognised in profit or loss during the six months ended 30 June 2020.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

19. RELATED PARTY DISCLOSURES *(Continued)*

- (a) The Group had the following material transactions during the six months ended 30 June 2020 and outstanding balances with related parties as at 30 June 2020: *(Continued)*
- (viii) The Group had leased certain office premises to associates of the Group for RMB3,577,000 (equivalent to HK\$3,974,000) (six months ended 30 June 2019: RMB5,663,000 (equivalent to HK\$6,585,000)) which were charged based on terms mutually agreed between the Group and the associates.
 - (ix) The Group had provided construction services for comprehensive renovation projects located in Beijing and Xi'an City in the PRC to joint ventures of the Group for an aggregate amount of RMB149,140,000 (equivalent to HK\$173,419,000) during the six months ended 30 June 2019 and the fees were charged based on terms mutually agreed between the Group and the joint ventures during the six months ended 30 June 2019.
 - (x) Pursuant to a deposit services master agreement (the "Deposit Agreement") and a supplemental agreement to the deposit services master 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", a substantial shareholder of the Company) 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

19. RELATED PARTY DISCLOSURES *(Continued)*

(a) The Group had the following material transactions during the six months ended 30 June 2020 and outstanding balances with related parties as at 30 June 2020: *(Continued)*

(x) *(Continued)*

The terms of the Deposit Agreement and the Supplemental Agreement commenced on the date of the Deposit Agreement and continued 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 terms 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 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\$2,609,326,000 (31 December 2019: HK\$2,756,679,000). 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\$1,952,021,000 (31 December 2019: HK\$1,089,858,000) and bear interest at floating rates ranging from 4.41% to 5.05% per annum (31 December 2019: from 4.66% to 5.15% 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 2020

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 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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	12,758	11,862
Equity-settled share award expenses	8,933	–
Pension scheme contributions	112	18
Total compensation paid to key management personnel	21,803	11,880

Save as disclosed above, at 30 June 2020, the Group had no other material transactions and outstanding balances with related parties.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

20. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximation of their respective fair values 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 HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
At 30 June 2020 (Unaudited)				
Investment properties	–	–	789,054	789,054
Financial assets at fair value through profit or loss	–	–	57,526	57,526
Equity investments designated at fair value through other comprehensive income	923,234	62,279	444,029	1,429,542
Total	923,234	62,279	1,290,609	2,276,122
At 31 December 2019 (Audited)				
Investment properties	–	–	806,785	806,785
Financial assets at fair value through profit or loss	–	–	80,258	80,258
Equity investments designated at fair value through other comprehensive income	921,048	62,279	421,052	1,404,379
Total	921,048	62,279	1,308,095	2,291,422

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 fair value measurement (31 December 2019: Nil).

For other non-current financial assets and liabilities, in the opinion of the directors of the Company, 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 2020

21. EVENT AFTER THE REPORTING PERIOD

On 18 August 2020, Beijing Enterprises Water Group (China) Investment Limited* (北控水務(中國)投資有限公司, a wholly-owned subsidiary of the Company), Nanjing Municipal Design and Research Institute Co., Ltd.* (南京市市政設計研究院有限責任公司, a non-wholly owned subsidiary of the Company), Yangtze Ecology and Environment Co., Ltd.* (長江生態環保集團有限公司), China National Chemical Engineering No. 14 Construction Co., Ltd.* (中國化學工程第十四建設有限公司), Sinohydro Bureau 8 Co., Ltd. (中國水利水電第八工程局有限公司) (collectively referred to as the “Private Partners”) and Nanjing Luhe Water Bureau* (南京市六合區水務局) entered into a Public-Private-Partnership (“PPP”) contract (the “PPP Contract”) in relation to a PPP project in Luhe district of Nanjing city (the “PPP Project”).

On the same day, the Private Partners and Luhe Sheng Tang Water Services Co., Ltd.* (南京六合盛棠水務有限公司) entered into a joint venture agreement (the “JV Agreement”) in relation to establishment of a joint venture company (the “Joint Venture”) for the operation of the PPP Project. According to the PPP Contract, the estimated total investment amount of the PPP Project is approximately RMB2,067,002,000 (equivalent to approximately HK\$2,309,758,000), subject to the need of the PPP Project. The PPP Contract also stated that the current and future registered capital of the Joint Venture shall be 20% of the total investment amount of the PPP Project. Pursuant to the JV Agreement, the current registered capital of the Joint Venture shall be RMB100,000,000 (equivalent to approximately HK\$111,744,000).

22. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 30 June 2020 amounted to HK\$13,668,361,000 (unaudited) (31 December 2019: HK\$13,726,438,000) and HK\$106,644,789,000 (unaudited) (31 December 2019: HK\$102,183,015,000), respectively.

23. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

These condensed consolidated financial information were approved and authorised for issue by the board of directors on 28 August 2020.

* For identification purpose only

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS

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

As at 30 June 2020, 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 Directors	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	3.0742%
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 Directors	Number of ordinary shares				Total	Approximate percentage of the associated corporation's issued share capital
		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% (Note 5)
	Mr. Li Haifeng	-	-	1,127,175,080 (Note 4)	-	1,127,175,080	1.7744% (Note 5)
Beijing Enterprises Urban Resources Group Limited ("BEURG")	Mr. Zhou Min	-	-	104,820,000 (Note 6)	-	104,820,000	2.9117% (Note 8)
	Mr. Li Haifeng	-	-	48,960,000 (Note 7)	-	48,960,000	1.3600% (Note 8)

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 2020 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 2020 of 10,021,195,871 Shares.
3. This represented the number of ordinary shares of BECEG of HK\$0.001 each ("BECEG Ordinary Shares") as at 30 June 2020 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 as at 30 June 2020 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 2020 of 63,525,397,057 shares.
6. This represented the number of ordinary shares of BEURG of HK\$0.1 each ("BEURG Ordinary Shares") as at 30 June 2020 held by Star Colour Investments Limited which is wholly and beneficially owned by Mr. Zhou Min, the chief executive officer and an executive director of the Company.
7. This represented the number of BEURG Ordinary Shares as at 30 June 2020 held by Maolin Investments Limited which is wholly and beneficially owned by Mr. Li Haifeng, an executive director of the Company.
8. The percentage represented the number of BEURG Ordinary Shares over the total issued shares of BEURG as at 30 June 2020 of 3,600,000,000 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.

(iv) Long positions in awarded shares of the Company

The interests of the Directors in the awarded Shares of the Company are separately disclosed in the section "Share Award Scheme" below.

Save as disclosed above, as at 30 June 2020, 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.

DISCLOSEABLE INFORMATION

DISCLOSURE OF INTERESTS *(Continued)*

Directors' Right to Acquire Shares

Save as disclosed under the heading "Directors' Interests in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations", "Share Option Scheme" and "Share Award Scheme", 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.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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 2020, 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 7)</i>
		Beneficially owned	Through controlled corporations	Total	
Beijing Enterprises Environmental Construction Limited ("BE Environmental")		4,121,607,070	–	4,121,607,070	41.13%
Beijing Enterprises Holdings Limited ("BEHL")	(1)	–	4,121,607,070	4,121,607,070	41.13%
Modern Orient Limited ("MOL")	(2)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Investments Limited ("BEIL")	(2)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Group (BVI) Company Limited ("BE Group (BVI)")	(3)	–	4,121,607,070	4,121,607,070	41.13%
Beijing Enterprises Group Company Limited ("BEGCL")	(4)	–	4,134,687,070	4,134,687,070	41.26%
Yangtze Ecology and Environment (HK) Investment Limited ("YEE HK")	(5)	528,881,436	–	528,881,436	5.28%
Yangtze Ecology and Environment Co., Ltd. ("YEE")	(5)	–	528,881,436	528,881,436	5.28%
China Three Gorges Corporation ("CTG")	(6)	–	1,103,453,436	1,103,453,436	11.01%

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 4,121,607,070 Shares (representing approximately 41.13% 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 and 13,080,000 Shares owned by Beijing Holdings Limited ("BHL"). Both BE Group (BVI) and BHL are wholly-owned subsidiaries of the BEGCL. Accordingly, BEGCL is deemed to be interested in the Shares indirectly owned by BE Group (BVI) and the Shares directly owned by BHL.
- (5) The interest disclosed comprises the Shares owned by YEE HK. YEE HK beneficially holds 528,881,436 Shares (representing approximately 5.28% in the share capital of the Company). YEE HK is a wholly-owned subsidiary of YEE. Accordingly, YEE is deemed to be interested in the Shares owned by YEE HK.
- (6) The interest disclosed comprises (i) 374,150,000 Shares owned by Three Gorges Capital Holdings (HK) Co., Limited, a direct wholly-owned subsidiary of Three Gorges Capital Holding Co., Ltd* (三峡资本控股有限責任公司) which is in turn directly held as to 70% by CTG and 10% by China Yangtze Power Co., Ltd. ("CYP"). CYP is directly held as to 57.92% by CTG and 4% by China Three Gorges Projects Developments Co., Ltd., a direct wholly-owned subsidiary of CTG; (ii) 200,422,000 Shares owned by China Yangtze Power International (Hongkong) Co., Ltd. ("CYPI"), a direct wholly-owned subsidiary of CYP; and (iii) 528,881,436 Shares owned by YEE HK, a direct wholly-owned subsidiary of YEE, which is in turn directly held as to 100% by CTG.
- (7) The percentage represented the number of Shares over the total issued Share of the Company as at 30 June 2020 of 10,021,195,871 Shares.

* For identification purposes only

Save as disclosed above, as at 30 June 2020, 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.

DISCLOSEABLE INFORMATION

SHARE OPTION SCHEME

On 28 June 2011, a new share option scheme (the “Scheme”) is 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 548,349,469 Shares, representing approximately 5.47% of the ordinary Shares of the Company in issue as at 30 June 2020. 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.

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 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 ordinary Shares of the Company 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 ten 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 ordinary Shares of the Company on the Stock Exchange on the date of grant of the share options; (ii) the average closing price of the ordinary Shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the ordinary Shares of the Company. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the share capital of the Company.

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 will lapse upon when expiry 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 2020, no options were 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 2020	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2020	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	2,600,000	-	-	-	-	2,600,000	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	-
	20,000,000	-	-	-	-	20,000,000				
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				
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 2020	Grant Date	Exercisable Period	Exercise Price HK\$	Weighted Average Closing price per Share HK\$
	As at 1 January 2020	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	100,900,000	-	-	-	-	100,900,000				
Eligible Participants including Employees										
In aggregate	7,796,000 (Note)	-	-	-	-	7,796,000	24/4/2013	24/4/2014 – 23/4/2023	2.244	-
	19,004,000 (Note)	-	-	-	-	19,004,000	24/4/2013	24/4/2015 – 23/4/2023	2.244	-
	28,266,000 (Note)	-	-	-	-	28,266,000	24/4/2013	24/4/2016 – 23/4/2023	2.244	-
	48,660,000 (Note)	-	-	-	-	48,660,000	24/4/2013	24/4/2017 – 23/4/2023	2.244	-
	50,500,000 (Note)	-	-	-	-	50,500,000	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	156,226,000	-	-	-	-	156,226,000				
Total	257,126,000	-	-	-	-	257,126,000				

Notes:

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 2020.

As at 30 June 2020, the Company had 257,126,000 share options outstanding under the Scheme, representing approximately 2.57% of the ordinary Shares of the Company 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 2019 annual report of the Company (the “Annual Report 2019”).

SHARE AWARD SCHEME

The Company has adopted a share award scheme (the “Share Award Scheme”) on 17 December 2018. The purpose of the Share Award Scheme is to recognise the contributions by certain employees, directors and consultants of the Group and encourage them for the continual operation and development of the Group, and attract excellent talent for further development of the Group.

The Share Award Scheme shall be valid and effective for a term of five years commencing on the adoption date and ending on the expiry of the trust period which may be extended by the Board at its absolute discretion.

Pursuant to the Share Award Scheme, the Company shall cause to pay the trustee the sum for the purchase of the existing awarded shares and the related expenses. The trustee shall purchase the existing Shares from the market and shall hold such Shares until they are vested in accordance with the scheme rules. Subject to the terms and conditions of the Share Award Scheme and the fulfillment of all vesting conditions to the vesting of the awarded shares, the awarded shares shall be held by the trustee on behalf of the selected participants until the end of the vesting period. The awarded shares will be transferred by the trustee to the selected participants.

DISCLOSEABLE INFORMATION

SHARE AWARD SCHEME *(Continued)*

On 26 September 2019, the Company has granted 15,374,599 awarded shares to the selected participants pursuant to the Share Award Scheme. Further details of the Share Award Scheme are set out in the announcement of the Company dated 17 December 2018 and 26 September 2019.

During the six months ended 30 June 2020, 146,094 awarded shares were lapsed under the Share Award Scheme. The movement in the awarded shares of the Company during the period are set out below:

Category of Participants/Name	Number of awarded Shares				As at 30 June 2020
	As at 1 January 2020	Granted	Vested	Lapsed	
Directors					
Zhou Min	3,114,768	–	–	–	3,114,768
Li Haifeng	270,544	–	–	–	270,544
Zhang Tiefu	270,544	–	–	–	270,544
Tung Woon Cheung Eric	144,290	–	–	–	144,290
Li Li	1,241,088	–	–	–	1,241,088
Sub-total	5,041,234	–	–	–	5,041,234
Eligible Participants					
In aggregate	10,333,365	–	–	(146,094)	10,187,271
Total	15,374,599	–	–	(146,094)	15,228,505

DISCLOSEABLE INFORMATION

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

Since the date of the Annual Report 2019 of the Company and up to the date of this interim report, there has been no change in the board of directors, 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.

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>
27 November 2015	Term loan facility with a bank	HK\$3,000	November 2020	<i>Note 2</i>
28 December 2015	Term loan facilities with three banks	HK\$1,760	December 2020	<i>Note 2</i>
18 December 2017	Term loan facility with a bank	HK\$4,000	December 2022	<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>
14 December 2018	Term loan facilities with various banks	AU\$210	Dec 2023	<i>Note 3</i>
11 January 2019	Issuance of medium-term notes	RMB1,000	Jan 2026 <i>Note 4</i>	<i>Note 1</i>

DISCLOSEABLE INFORMATION

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER *(Continued)*

Date of the Agreement(s)/ Issuance of Notes	Nature of the Agreement(s)/Notes	Aggregate amount <i>(million)</i>	Final Maturity	Specific performance obligations
11 January 2019	Issuance of medium-term notes	RMB1,000	Jan 2029	<i>Note 1</i>
12 May 2020	Issuance of medium-term notes	RMB1,000	5 + N years <i>Note 5</i>	<i>Note 1</i>

Notes:

- (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.
- (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 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").
- (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; (iii) 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 and (iv) BEGCL is effectively wholly-owned, supervised and controlled by Beijing SASAC.
- 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.
- The reset date of each coupon rate is the redemption date. The Company has the right to choose to redeem the medium-term notes at the face value plus accrued interest on the first reset date of the coupon rate of the medium-term note and every subsequent interest payment date. The end of the fifth interest-bearing year is the first reset date of coupon rate. From the sixth interest bearing year, the coupon rate is reset every 5 years. The reset date of coupon rate is the corresponding day of every 5 years from the first reset date of coupon rate.

* *For identification purposes only*

According to the respective terms and conditions of the Agreements, breach of the above specific performance obligations will constitute events of default. If an event of default occurs, (a) the bank or syndicate of banks may declare any commitment under the Agreements to be cancelled and/or declare all outstanding amounts together with interest accrued thereon and all others sums to be immediately due and payable or payable on demand; or (b) holders of the bonds or notes will have right at their options to require the Company to redeem all but not some only of that holders' bonds or notes at 101% of their respective principal amounts together with accrued interest; or (c) holders of medium-term notes may have the option to sell back the medium-term notes to the Company.

DISCLOSEABLE INFORMATION

EQUITY FUNDS RAISING BY THE SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE

Subscription of new Shares under specific mandate by China Yangtze Power International (Hongkong) Co., Limited

On 18 January 2019, the Company entered into a subscription agreement with China Yangtze Power International (Hongkong) Co., Limited (“CYPI”) and the Company conditionally agreed to allot and issue, and CYPI conditionally agreed to subscribe for 470,649,436 new ordinary Shares of HK\$0.10 each with aggregate nominal value of HK\$47,064,943.60 at a subscription price of HK\$4.29 per ordinary Share, representing the equivalence to the closing price of HK\$4.29 per ordinary Share as quoted on the Stock Exchange on 18 January 2019, being the date of the subscription agreement (“CYPI Subscription Agreement”).

In accordance with the terms and conditions of the CYPI Subscription Agreement, a total of 470,649,436 new ordinary Shares were successfully allotted and issued to CYPI on 18 March 2019 under specific mandate granted by shareholders in the special general meeting of the Company held on 7 March 2019.

The gross proceeds and net proceeds from the subscription by CYPI were approximately HK\$2,019.1 million and approximately HK\$2,018.6 million (equivalent to a net subscription price of HK\$4.29 per ordinary Share) respectively. Details of the intended use, actual use and balance of the net proceeds were as follows:

Net proceeds raised (approximately)	Intended use of proceeds (approximately)	Actual use of proceeds up to 30 June 2020 (approximately)	Balance of the proceeds up to 30 June 2020 (approximately)
HK\$2,018.6 million	(i) HK\$1,518.6 million for the investment in traditional water projects including “Build-Operate-Transfer” (“BOT”) and “Transfer-Operate-Transfer” (“TOT”) projects; and	(i) HK\$505.0 million for the investment in traditional water projects including BOT and TOT projects; and	(i) HK\$1,013.6 million being maintained at bank and used as intended.
	(ii) HK\$500.0 million for the construction of water environment comprehensive renovation projects	(ii) HK\$500.0 million for the construction of water environment comprehensive renovation projects	(ii) Nil

As at 30 June 2020, except for item (i) in the above table, the proceeds have been fully utilized in accordance with the intended use.

As set out in the above table (i.e. item (i)), approximately HK\$1,013.6 million of the proceeds has not been utilized. As at the date of this report, all unutilized proceeds are intended to be used for the same specific purposes as disclosed. The actual timing of utilization is subject to the market environment and the pace of our business development. The Company has been closely monitoring the market conditions and its business development and is expected to make use of the unutilized amount at or before the end of 2020.

DISCLOSEABLE INFORMATION

EQUITY FUNDS RAISING BY THE SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE *(Continued)*

Subscription of new Shares under specific mandate by Beijing Enterprises Environmental Construction Limited

On 18 January 2019, the Company entered into a subscription agreement with BE Environmental, a controlling shareholder of the Company, and the Company conditionally agreed to allot and issue, and BE Environmental conditionally agreed to subscribe for 127,747,714 new ordinary Shares of HK\$0.10 each with aggregate nominal value of HK\$12,774,771.40 at the subscription price of HK\$4.29 per ordinary Share, representing the equivalence to the closing price of HK\$4.29 per ordinary Share as quoted on the Stock Exchange on 18 January 2019, being the date of the subscription agreement (“BE Environmental Subscription Agreement”).

In accordance with the terms and conditions of the BE Environmental Subscription Agreement, a total of 127,747,714 new ordinary Shares were successfully allotted and issued to BE Environmental on 18 March 2019 under specific mandate granted by independent shareholders in the special general meeting of the Company held on 7 March 2019.

The gross proceeds and net proceeds from the subscription by BE Environmental were approximately HK\$548.0 million and approximately HK\$547.5 million (equivalent to a net subscription price of HK\$4.29 per ordinary Share) respectively. Details of the intended use, actual use and balance of the net proceeds were as follows:

Net proceeds raised (approximately)	Intended use of proceeds (approximately)	Actual use of proceeds up to 30 June 2020 (approximately)	Balance of the proceeds up to 30 June 2020 (approximately)
HK\$547.5 million	HK\$547.5 million for repayment of debts	HK\$547.5 million for repayment of debts	Nil

As at 30 June 2020, the proceeds have been fully utilized in accordance with the intended use.

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

DISCLOSEABLE INFORMATION

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

Redemption of HK\$700,000,000 3.9% Notes Due 2020

During the six months ended 30 June 2020, the Group redeemed the HK\$700,000,000 3.9% notes due 2020 issued by a wholly-owned subsidiary of the Company and guaranteed by the Company at the redemption amount of HK\$700,000,000 plus accrued interest upon its maturity date in May 2020.

Save as the above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2020.

INTERIM DISTRIBUTION

The Directors of the Company have resolved to pay interim cash distribution of HK8.4 cents per ordinary share out of the contributed surplus of the Company, payable on or before Monday, 19 October 2020 to shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 30 September 2020 for their continuous supports to the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 25 September 2020 to Wednesday, 30 September 2020 (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 at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 24 September 2020.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

During the six months ended 30 June 2020, in the opinion of the Board, the Company complied with all code provisions set out in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Listing Rules, with deviation mentioned below.

Code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting of the Company. Having regard to the mandatory global travel restrictions in connection with the COVID-19 pandemic, the chairman of the Board did not attend the annual general meeting of the Company held on 9 June 2020. In his absence, the executive director of the Company was invited to chair the annual general meeting and the member of nomination committee of the Company was invited to attend by video/audio conferencing, and was available to answer shareholders’ questions at the annual general meeting.

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 of the Company. Having made specific enquiry of all the directors of the Company, the Company confirms that during the six months ended 30 June 2020, 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 2020 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 its shareholders 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 management functional division and audit center in place. The risk management functional division has organized and 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. The recommendations and remedial measures from risk management functional division and audit center 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 2020. No significant areas of concern that may affect the financial, operational and compliance control functions of the Group have been identified.