

CHINA EVERBRIGHT WATER LIMITED

The board of directors of China Everbright Water Limited (the “Company”) announces the unaudited financial results of the Company and its subsidiaries (collectively, the “Group”) for the second quarter and half year ended 30 June 2018 (“2QFY2018” and “1HFY2018” respectively).

1(a) A statement of comprehensive income (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

| | Group | | | Group | | |
|--|---------------------|---------------------|------------------------------|---------------------|---------------------|------------------------------|
| | 2QFY2018 HKD'000 | 2QFY2017 HKD'000 | Increase/ (decrease) % | 1HFY2018 HKD'000 | 1HFY2017 HKD'000 | Increase/ (decrease) % |
| Revenue | 1,319,368 | 868,717 | 52% | 2,360,475 | 1,642,770 | 44% |
| Direct costs and operating expenses | (892,945) | (574,189) | 56% | (1,572,445) | (1,088,460) | 44% |
| Gross profit | 426,423 | 294,528 | 45% | 788,030 | 554,310 | 42% |
| Other income | 38,884 | 32,729 | 19% | 73,315 | 60,617 | 21% |
| Administrative and other operating expenses | (74,712) | (69,501) | 7% | (132,911) | (115,523) | 15% |
| Finance income | 2,919 | 2,499 | 17% | 9,225 | 3,670 | 151% |
| Finance costs | (71,022) | (50,431) | 41% | (135,643) | (109,140) | 24% |
| Share of (loss)/profit of an associate | (1,781) | (1,217) | 46% | (1,058) | 716 | (248%) |
| Profit before tax | 320,711 | 208,607 | 54% | 600,958 | 394,650 | 52% |
| Income tax | (111,046) | (49,978) | 122% | (200,186) | (106,011) | 89% |
| Profit for the period | 209,665 | 158,629 | 32% | 400,772 | 288,639 | 39% |
| Profit attributable to: | | | | | | |
| Shareholders of the Company | 192,618 | 140,550 | 37% | 370,737 | 255,047 | 45% |
| Non-controlling interests | 17,047 | 18,079 | (6%) | 30,035 | 33,592 | (11%) |
| | 209,665 | 158,629 | 32% | 400,772 | 288,639 | 39% |

| | Group | | Increase/ (decrease) % | Group | | Increase/ (decrease) % |
|--|---------------------|---------------------|------------------------------|---------------------|---------------------|------------------------------|
| | 2QFY2018 HKD'000 | 2QFY2017 HKD'000 | | 1HFY2018 HKD'000 | 1HFY2017 HKD'000 | |
| Profit for the period | 209,665 | 158,629 | 32% | 400,772 | 288,639 | 39% |
| Other comprehensive (loss)/income <i>Item that may be reclassified subsequently to profit or loss</i> | | | | | | |
| – Exchange differences on translation of foreign operations | (21,276) | 1,903 | (1,218%) | (7,099) | (2,225) | 219% |
| <i>Item that will not be reclassified subsequently to profit or loss</i> | | | | | | |
| – Exchange differences on the Company's financial statements into presentation currency | (184,678) | 108,196 | (271%) | 263,010 | 201,708 | 30% |
| Other comprehensive (loss)/income for the period, net of tax | (205,954) | 110,099 | (287%) | 255,911 | 199,483 | 28% |
| Total comprehensive income for the period | 3,711 | 268,728 | (99%) | 656,683 | 488,122 | 35% |
| Total comprehensive income attributable to: | | | | | | |
| Shareholders of the Company | (2,491) | 243,120 | (101%) | 609,531 | 443,476 | 37% |
| Non-controlling interests | 6,202 | 25,608 | (76%) | 47,152 | 44,646 | 6% |
| | 3,711 | 268,728 | (99%) | 656,683 | 488,122 | 35% |

Profit before tax are derived after charging the following items:

| | Group | | Increase/ (decrease) % | Group | | Increase/ (decrease) % |
|---|---------------------|---------------------|------------------------------|---------------------|---------------------|------------------------------|
| | 2QFY2018 HKD'000 | 2QFY2017 HKD'000 | | 1HFY2018 HKD'000 | 1HFY2017 HKD'000 | |
| Depreciation of property, plant and equipment | 4,044 | 3,012 | 34% | 8,807 | 7,748 | 14% |
| Amortisation of intangible assets | 14,857 | 19,984 | (26%) | 35,848 | 39,929 | (10%) |
| Interest expenses on: | | | | | | |
| – Related party bank loan | – | 337 | (100%) | – | 732 | (100%) |
| – Other bank loans and other loans, and corporate bond | 71,022 | 47,492 | 50% | 135,643 | 103,292 | 31% |
| – Amounts due to group companies | – | 2,602 | (100%) | – | 5,116 | (100%) |

1(b)(i) Statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

| | Group | | Company | |
|--|-------------------------------------|---|-------------------------------------|---|
| | 30 June 2018 HKD'000 | 31 December 2017 HKD'000 | 30 June 2018 HKD'000 | 31 December 2017 HKD'000 |
| Non-current assets | | | | |
| Property, plant and equipment | 163,561 | 152,038 | 23 | 26 |
| Intangible assets | 1,635,960 | 1,489,718 | – | – |
| Goodwill | 1,332,767 | 1,259,922 | – | – |
| Interests in subsidiaries | – | – | 11,966,026 | 11,700,251 |
| Interest in an associate | 378 | 1,445 | – | – |
| Other receivables | 90,876 | 10,515 | – | – |
| Service concession financial receivables | 11,367,921 | 10,313,724 | – | – |
| | 14,591,463 | 13,227,362 | 11,966,049 | 11,700,277 |
| Current assets | | | | |
| Inventories | 30,240 | 14,342 | – | – |
| Trade and other receivables | 1,055,913 | 805,859 | 2,532,670 | 1,834,010 |
| Service concession financial receivables | 1,431,754 | 1,200,539 | – | – |
| Fixed deposits with maturity period over three months | 549,465 | 83,125 | – | – |
| Cash and cash equivalents | 1,689,879 | 2,716,692 | 39,737 | 27,783 |
| | 4,757,251 | 4,820,557 | 2,572,407 | 1,861,793 |
| Total assets | 19,348,714 | 18,047,919 | 14,538,456 | 13,562,070 |

| | Group | | Company | |
|---|--------------------------|---------------------|--------------------------|---------------------|
| | 30 June 2018 | 31 December 2017 | 30 June 2018 | 31 December 2017 |
| | <i>HKD'000</i> | <i>HKD'000</i> | <i>HKD'000</i> | <i>HKD'000</i> |
| Equity | | | | |
| Share capital | 2,650,053 | 2,625,642 | 2,650,053 | 2,625,642 |
| Reserves | 5,763,964 | 5,231,541 | 7,737,455 | 7,346,805 |
| Equity attributable to shareholders of the Company | 8,414,017 | 7,857,183 | 10,387,508 | 9,972,447 |
| Non-controlling interests | 725,782 | 684,622 | – | – |
| Total equity | <u>9,139,799</u> | <u>8,541,805</u> | <u>10,387,508</u> | <u>9,972,447</u> |
| Non-current liabilities | | | | |
| Borrowings | 4,626,457 | 4,728,030 | 2,750,194 | 2,077,690 |
| Deferred tax liabilities | 1,417,831 | 1,270,846 | – | – |
| | 6,044,288 | 5,998,876 | 2,750,194 | 2,077,690 |
| Current liabilities | | | | |
| Trade and other payables | 1,614,474 | 1,553,565 | 112,301 | 155,531 |
| Borrowings | 2,493,812 | 1,903,722 | 1,288,453 | 1,356,402 |
| Tax payable | 56,341 | 49,951 | – | – |
| | 4,164,627 | 3,507,238 | 1,400,754 | 1,511,933 |
| Total liabilities | <u>10,208,915</u> | <u>9,506,114</u> | <u>4,150,948</u> | <u>3,589,623</u> |
| Total equity and liabilities | <u>19,348,714</u> | <u>18,047,919</u> | <u>14,538,456</u> | <u>13,562,070</u> |
| Net current assets | <u>592,624</u> | <u>1,313,319</u> | <u>1,171,653</u> | <u>349,860</u> |

1(b)(ii) Aggregate amount of group's borrowings and debt securities

(i) *Amounts payable within one year or less, or on demand*

| As at 30 June 2018 | | As at 31 December 2017 | |
|---------------------------|-----------------------|-------------------------------|-----------------------|
| Secured | Unsecured | Secured | Unsecured |
| <i>HKD'000</i> | <i>HKD'000</i> | <i>HKD'000</i> | <i>HKD'000</i> |
| 880,071 | 1,613,741 | 248,881 | 1,654,841 |

(ii) *Amounts payable after one year*

| As at 30 June 2018 | | As at 31 December 2017 | |
|---------------------------|-----------------------|-------------------------------|-----------------------|
| Secured | Unsecured | Secured | Unsecured |
| <i>HKD'000</i> | <i>HKD'000</i> | <i>HKD'000</i> | <i>HKD'000</i> |
| 1,956,089 | 2,670,368 | 2,458,680 | 2,269,350 |

Details of collateral

The secured borrowings of the Group as at 30 June 2018 and 31 December 2017 were secured by certain revenue, receivables and intangible assets in connection with the Group's service concession arrangements and bank balances of the Group.

1(c) Statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

| | 2QFY2018 <i>HKD'000</i> | 2QFY2017 <i>HKD'000</i> | 1HFY2018 <i>HKD'000</i> | 1HFY2017 <i>HKD'000</i> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Cash flows from operating activities | | | | |
| Profit before tax | 320,711 | 208,607 | 600,958 | 394,650 |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | 4,044 | 3,012 | 8,807 | 7,748 |
| Amortisation of intangible assets | 14,857 | 19,984 | 35,848 | 39,929 |
| Provision for impairment of trade receivables | 2,865 | – | 2,865 | – |
| Loss on disposals of property, plant and equipment | 346 | 21 | 346 | 32 |
| Share of loss/(profit) of an associate | 1,781 | 1,217 | 1,058 | (716) |
| Effect of foreign exchange rate changes | (3,519) | 10,940 | (13,826) | 11,086 |
| Net finance costs | 68,103 | 47,932 | 126,418 | 105,470 |
| Operating cash flows before working capital changes | 409,188 | 291,713 | 762,474 | 558,199 |
| Changes in working capital: | | | | |
| Service concession financial receivables | (662,383) | (499,726) | (987,274) | (972,233) |
| Inventories | 7,752 | 12,418 | (15,612) | (3,541) |
| Trade and other receivables | 32,630 | 123,574 | (327,877) | (115,613) |
| Trade and other payables | 271,319 | 219,279 | (77,288) | 318,219 |
| Cash generated from/(used in) operations | 58,506 | 147,258 | (645,577) | (214,969) |
| Income tax paid | (43,251) | (32,454) | (85,460) | (48,185) |
| Net cash generated from/(used in) operating activities | 15,255 | 114,804 | (731,037) | (263,154) |
| Cash flows from investing activities | | | | |
| Payment for acquisition of subsidiaries, net of cash acquired | (6,521) | – | (6,521) | – |
| Purchase of property, plant and equipment | (2,053) | (3,502) | (5,092) | (4,528) |
| Proceeds from disposals of property, plant and equipment | – | 39 | – | 39 |
| Purchase of intangible assets | (131,884) | (439) | (157,431) | (439) |
| Decrease in fixed deposits with maturity period over three months and balances in financial institutions | 49,657 | – | 183,915 | – |
| Decrease in amount due from an associate | 7,607 | – | – | – |
| Interest received | 2,919 | 2,499 | 9,225 | 3,670 |
| Net cash (used in)/generated from investing activities | (80,275) | (1,403) | 24,096 | (1,258) |

| | 2QFY2018 | 2QFY2017 | 1HFY2018 | 1HFY2017 |
|---|-------------------------|------------------|-------------------------|------------------|
| | <i>HKD'000</i> | <i>HKD'000</i> | <i>HKD'000</i> | <i>HKD'000</i> |
| Cash flows from financing activities | | | | |
| Decrease in amounts due to intermediate holding companies | (4) | (22,598) | – | (22,598) |
| (Decrease)/increase in amounts due to fellow subsidiaries | (3) | (1,655) | – | 107 |
| Proceeds from borrowings | 1,108,567 | 399,307 | 1,529,643 | 479,369 |
| Repayments of borrowings | (698,499) | (175,945) | (1,159,825) | (246,014) |
| Interest paid | (44,873) | (50,431) | (106,427) | (109,140) |
| Dividend paid to shareholders | (15,166) | (12,348) | (15,166) | (12,348) |
| Share issue expenses | (176) | (168) | (176) | (168) |
| Capital contributions from non-controlling shareholders | – | 19,535 | 192 | 97,955 |
| Dividend paid to a non-controlling shareholder | (6,184) | – | (6,184) | – |
| Net cash generated from financing activities | <u>343,662</u> | <u>155,697</u> | <u>242,057</u> | <u>187,163</u> |
| Net increase/(decrease) in cash and cash equivalents | 278,642 | 269,098 | (464,884) | (77,249) |
| Cash and cash equivalents at the beginning of the period | 1,410,530 | 1,026,123 | 2,074,414 | 1,359,401 |
| Effect of exchange rate changes on cash and cash equivalents | <u>(22,570)</u> | <u>15,504</u> | <u>57,072</u> | <u>28,573</u> |
| Cash and cash equivalents at end of the period | <u>1,666,602</u> | <u>1,310,725</u> | <u>1,666,602</u> | <u>1,310,725</u> |

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issued and distributions to shareholders, together with a comparative statement for the corresponding period of the immediate preceding financial year

| | Attributable to shareholders of the Company | | | | | | | | | |
|--|---|------------------|--------------------------------------|-------------------|-----------------------------|----------------|-------------------|------------------|---------------------------|------------------|
| | Share capital | Share premium | Foreign currency translation reserve | Statutory reserve | Contributed surplus reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity |
| | HKD'000 | HKD'000 | HKD'000 | HKD'000 | HKD'000 | HKD'000 | HKD'000 | HKD'000 | HKD'000 | HKD'000 |
| Group | | | | | | | | | | |
| At 1 January 2018 | | | | | | | | | | |
| Originally stated | 2,625,642 | 1,266,248 | (22,051) | 200,799 | 1,229,302 | (2,181) | 2,559,424 | 7,857,183 | 684,622 | 8,541,805 |
| Effect of adoption of International Financial Reporting Standard 9 | - | - | - | - | - | - | (35,669) | (35,669) | - | (35,669) |
| As restated | 2,625,642 | 1,266,248 | (22,051) | 200,799 | 1,229,302 | (2,181) | 2,523,755 | 7,821,514 | 684,622 | 8,506,136 |
| Profit for the period | - | - | - | - | - | - | 178,119 | 178,119 | 12,988 | 191,107 |
| Foreign currency translation differences | - | - | 433,903 | - | - | - | - | 433,903 | 27,962 | 461,865 |
| Capital contribution from a non-controlling shareholder | - | - | - | - | - | - | - | - | 192 | 192 |
| At 31 March 2018 | 2,625,642 | 1,266,248 | 411,852 | 200,799 | 1,229,302 | (2,181) | 2,701,874 | 8,433,536 | 725,764 | 9,159,300 |
| Profit for the period | - | - | - | - | - | - | 192,618 | 192,618 | 17,047 | 209,665 |
| Foreign currency translation differences | - | - | (195,109) | - | - | - | - | (195,109) | (10,845) | (205,954) |
| Final 2017 dividend declared | - | - | - | - | - | - | (76,920) | (76,920) | - | (76,920) |
| Issue of shares pursuant to scrip dividend scheme (Note) | 24,411 | 35,657 | - | - | - | - | - | 60,068 | - | 60,068 |
| Share issue expenses | - | (176) | - | - | - | - | - | (176) | - | (176) |
| Dividend paid to a non-controlling shareholder | - | - | - | - | - | - | - | - | (6,184) | (6,184) |
| At 30 June 2018 | <u>2,650,053</u> | <u>1,301,729</u> | <u>216,743</u> | <u>200,799</u> | <u>1,229,302</u> | <u>(2,181)</u> | <u>2,817,572</u> | <u>8,414,017</u> | <u>725,782</u> | <u>9,139,799</u> |

Note: During the half year ended 30 June 2018, the Company allotted and issued 24,411,431 new ordinary shares to shareholders who had elected to participate in the scrip dividend scheme.

Attributable to shareholders of the Company

| | Share | | Foreign | Statutory | Contributed | Other | Retained | Total | Non- | Total |
|--|------------------|------------------|------------------|----------------|------------------|----------------|------------------|------------------|----------------|------------------|
| | capital | premium | currency | | surplus | | | | | |
| | HKD'000 | HKD'000 | translation | reserve | reserve | reserves | earnings | HKD'000 | interests | HKD'000 |
| | | | reserve | HKD'000 | HKD'000 | HKD'000 | HKD'000 | | HKD'000 | HKD'000 |
| Group | | | | | | | | | | |
| At 1 January 2017 | 2,609,908 | 1,240,300 | (579,620) | 155,635 | 1,229,302 | (2,181) | 2,144,843 | 6,798,187 | 393,515 | 7,191,702 |
| Profit for the period | - | - | - | - | - | - | 114,497 | 114,497 | 15,513 | 130,010 |
| Foreign currency translation differences | - | - | 85,859 | - | - | - | - | 85,859 | 3,525 | 89,384 |
| Capital contribution from a non-controlling shareholder | - | - | - | - | - | - | - | - | 78,420 | 78,420 |
| At 31 March 2017 | 2,609,908 | 1,240,300 | (493,761) | 155,635 | 1,229,302 | (2,181) | 2,259,340 | 6,998,543 | 490,973 | 7,489,516 |
| Profit for the period | - | - | - | - | - | - | 140,550 | 140,550 | 18,079 | 158,629 |
| Foreign currency translation differences | - | - | 102,570 | - | - | - | - | 102,570 | 7,529 | 110,099 |
| Final 2016 dividend declared | - | - | - | - | - | - | (53,611) | (53,611) | - | (53,611) |
| Issue of shares pursuant to scrip dividend scheme (Note) | 15,734 | 26,116 | - | - | - | - | - | 41,850 | - | 41,850 |
| Share issue expenses | - | (168) | - | - | - | - | - | (168) | - | (168) |
| Capital contribution from non-controlling shareholders | - | - | - | - | - | - | - | - | 19,535 | 19,535 |
| At 30 June 2017 | <u>2,625,642</u> | <u>1,266,248</u> | <u>(391,191)</u> | <u>155,635</u> | <u>1,229,302</u> | <u>(2,181)</u> | <u>2,346,279</u> | <u>7,229,734</u> | <u>536,116</u> | <u>7,765,850</u> |

Note: During the half year ended 30 June 2017, the Company allotted and issued 15,733,870 new ordinary shares to shareholders who had elected to participate in the scrip dividend scheme.

| Company | Share capital <i>HKD'000</i> | Share premium <i>HKD'000</i> | Foreign currency translation reserve <i>HKD'000</i> | Contributed surplus reserve <i>HKD'000</i> | Other reserves <i>HKD'000</i> | Retained earnings <i>HKD'000</i> | Total equity <i>HKD'000</i> |
|--|--|--|---|--|---|--|---|
| At 1 January 2018 | 2,625,642 | 56,198 | (492,810) | 7,639,082 | 64,953 | 79,382 | 9,972,447 |
| Loss for the period | - | - | - | - | - | (45,363) | (45,363) |
| Foreign currency translation differences | - | - | 447,688 | - | - | - | 447,688 |
| At 31 March 2018 | 2,625,642 | 56,198 | (45,122) | 7,639,082 | 64,953 | 34,019 | 10,374,772 |
| Profit for the period | - | - | - | - | - | 214,442 | 214,442 |
| Foreign currency translation differences | - | - | (184,678) | - | - | - | (184,678) |
| Final 2017 dividend declared | - | - | - | - | - | (76,920) | (76,920) |
| Issue of shares pursuant to scrip dividend scheme | 24,411 | 35,657 | - | - | - | - | 60,068 |
| Share issue expenses | - | (176) | - | - | - | - | (176) |
| At 30 June 2018 | <u>2,650,053</u> | <u>91,679</u> | <u>(229,800)</u> | <u>7,639,082</u> | <u>64,953</u> | <u>171,541</u> | <u>10,387,508</u> |
| At 1 January 2017 | 2,609,908 | 30,250 | (1,084,703) | 7,639,082 | 64,953 | 77,524 | 9,337,014 |
| Loss for the period | - | - | - | - | - | (24,567) | (24,567) |
| Foreign currency translation differences | - | - | 93,512 | - | - | - | 93,512 |
| At 31 March 2017 | 2,609,908 | 30,250 | (991,191) | 7,639,082 | 64,953 | 52,957 | 9,405,959 |
| Profit for the period | - | - | - | - | - | 4,162 | 4,162 |
| Foreign currency translation differences | - | - | 108,196 | - | - | - | 108,196 |
| Final 2016 dividend declared | - | - | - | - | - | (53,611) | (53,611) |
| Issue of shares pursuant to scrip dividend scheme | 15,734 | 26,116 | - | - | - | - | 41,850 |
| Share issue expenses | - | (168) | - | - | - | - | (168) |
| At 30 June 2017 | <u>2,625,642</u> | <u>56,198</u> | <u>(882,995)</u> | <u>7,639,082</u> | <u>64,953</u> | <u>3,508</u> | <u>9,506,388</u> |

1(d)(ii) **Details of any changes in the Company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the immediately preceding financial year reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year**

| | No. of ordinary shares issued ('000) |
|---|--|
| At 31 December 2017 | 2,625,642 |
| Shares issued pursuant to scrip dividend scheme | <u>24,411</u> |
| At 30 June 2018 | <u><u>2,650,053</u></u> |

The Company did not have any outstanding convertibles, preference shares or treasury shares as at 30 June 2018 and 30 June 2017. The increase in the Company's share capital during the period was due to the issue of 24,411,431 shares pursuant to the scrip dividend scheme in June 2018.

1(d)(iii) **The total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding financial year**

| | 30 June 2018 | 31 December 2017 |
|---|-------------------------|-------------------------|
| Total number of issued shares excluding treasury shares ('000) | <u><u>2,650,053</u></u> | <u><u>2,625,642</u></u> |

2. **Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed by the Company's auditor.

3. **Where the figures have been audited, or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

4. **Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

Except as disclosed in note 5, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period compared with those of the audited financial statements for the financial year ended 31 December 2017.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group adopted the new and revised International Financial Reporting Standards (“IFRS”) and Interpretations of IFRS that are effective for annual periods beginning on or after 1 January 2018.

The changes in accounting policies and the effects of changes in accounting policies are summarised below:

IFRS 9 Financial Instruments

IFRS 9 brings together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as at 1 January 2018.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (“FVPL”), available for sale, held-to-maturity, loans and receivables, and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (“FVOCI”), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity’s own credit risk relating to liabilities designated at FVPL. Such movements are presented in other comprehensive income with no subsequent reclassification to profit or loss.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL. The ECL allowance is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The changes for the Group's financial assets and financial liabilities on 1 January 2018, the Group's date of initial application of IFRS 9, are summarised as follows:

| | <u>Originally stated</u> | Remeasurement upon | <u>IFRS 9</u> |
|---|------------------------------|--------------------------|-------------------|
| | Loans and receivables | application of IFRS 9 | Amortised cost |
| <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Financial assets | | | |
| Service concession financial receivables | 11,514,263 | - | 11,514,263 |
| Financial assets included in trade and other receivables | (i) 544,121 | (35,669) | 508,452 |
| Fixed deposits with maturity period over three months | 630,403 | - | 630,403 |
| Cash and cash equivalents | 2,169,414 | - | 2,169,414 |
| | <u>14,858,201</u> | <u>(35,669)</u> | <u>14,822,532</u> |

| | Originally stated | Remeasurement upon | IFRS 9 |
|---|----------------------|--------------------------|-------------------|
| | Amortised cost | application of IFRS 9 | Amortised cost |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Financial liabilities | | | |
| Financial liabilities included in trade and other payables | 1,493,486 | - | 1,493,486 |
| Borrowings | 6,631,752 | - | 6,631,752 |
| | <u>8,125,238</u> | <u>-</u> | <u>8,125,238</u> |

The impact of the Group's retained earnings due to the remeasurement of financial instruments as at 1 January 2018, the Group's date of initial application of IFRS 9, is as follows:

| | <i>Note</i> | Retained earnings <i>HK\$'000</i> |
|--|-------------|---|
| At 1 January 2018 (originally stated) | | 2,559,424 |
| Remeasurement upon initial application of IFRS 9 | (i) | <u>(35,669)</u> |
| At 1 January 2018 (restated) | | <u>2,523,755</u> |

Note:

- (i) As at 1 January 2018, the Group recorded ECLs allowance under IFRS 9 of HK\$35,669,000.

Except for the above-mentioned changes, the accounting policies and methods of computation used in the preparation for the current period are consistent with those specified in the audited financial statements of the Group for the financial year ended 31 December 2017.

6. **Earnings per share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

| Basic/diluted earnings per share | 2QFY2018 | 2QFY2017 | 1HFY2018 | 1HFY2017 |
|---|---------------------|--------------|---------------------|--------------|
| Profit attributable to shareholders of the Company (<i>HKD'000</i>) | 192,618 | 140,550 | 370,737 | 255,047 |
| Weighted average number of ordinary shares in issue (<i>'000</i>) | 2,628,056 | 2,611,464 | 2,626,856 | 2,610,690 |
| Basic/diluted earnings per share (<i>HKD</i>) | <u>0.073</u> | <u>0.054</u> | <u>0.141</u> | <u>0.098</u> |

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current financial period reported on; and (b) immediately preceding financial year.**

| | Group | | Company | |
|---|----------------------------|--------------------------------|----------------------------|--------------------------------|
| | 30 June 2018 <i>HKD</i> | 31 December 2017 <i>HKD</i> | 30 June 2018 <i>HKD</i> | 31 December 2017 <i>HKD</i> |
| Net asset value per ordinary share based on the issued share capital as at the end of the respective period | <u>3.18</u> | <u>2.99</u> | <u>3.92</u> | <u>3.80</u> |

Net asset value per ordinary share was calculated by the net asset value attributable to shareholders of the Company divided by the number of ordinary shares outstanding excluding treasury shares as at the end of the respective financial period.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

Overview

In 2QFY2018, the revenue of the Group increased by 52% to HKD1.32 billion compared with the revenue of HKD868.72 million in 2QFY2017. Gross profit of the Group increased from HKD294.53 million in 2QFY2017 to HKD426.42 million in 2QFY2018, representing an increase of 45%. The profit of the Group increased from HKD158.63 million in 2QFY2017 to HKD209.67 million in 2QFY2018, representing a rise of 32%. The profit attributable to shareholders of the Company in 2QFY2018 amounted to HKD192.62 million, which increased by 37% over 2QFY2017.

Consolidated Statement of Comprehensive Income

Revenue

Revenue increased by 52% from HKD868.72 million in 2QFY2017 to HKD1.32 billion in 2QFY2018. The increase was mainly attributable to the increase of HKD273.42 million in construction revenue, HKD110.58 million in operation revenue and HKD66.65 million in finance income. The increase in construction revenue was mainly attributable to construction of several water environment treatment projects including the sponge city construction project and the river-basin ecological restoration project, and construction of the water supply project in addition to the expansion and upgrading of several waste water treatment plants which were under construction during 2QFY2018. The increase in operation revenue was the result of (i) commencement of operation of new projects during the remaining period of FY2017 and 1HFY2018; (ii) tariff hikes for several projects effected during the remaining period of FY2017 and 1HFY2018; and (iii) one-off income of HKD20.10 million arising from retrospective tariff adjustment in relation to a waste water treatment project in 2QFY2018. The increase in finance income was due to the increase of the total investment of the projects which were under construction or in operation.

Direct costs and operating expenses

Direct costs and operating expenses increased by 56% from HKD574.19 million in 2QFY2017 to HKD892.95 million in 2QFY2018. The increase was mainly due to the increase in construction cost arising from the increased construction services, which contributed to a construction revenue of HKD798.92 million in 2QFY2018 as compared to HKD525.51 million in 2QFY2017.

Gross profit margin

Overall gross profit margin in 2QFY2018 slightly decreased to 32% (2QFY2017: 34%). It was mainly due to a slightly larger portion of construction revenue recognised in the mix of the total revenue in 2QFY2018 as compared with 2QFY2017. In general, construction services have lower gross profit margin as compared to operation services, and thus, a larger portion of construction revenue will reduce the overall gross profit margin.

Other income

Other income increased by 19% to HKD38.88 million in 2QFY2018 as compared with HKD32.73 million in 2QFY2017. Other income mainly consisted of value-added tax refund, government grants and other sundry income. The increase in other income was mainly due to the rise in value-added tax refund and government grants.

Administrative and other operating expenses

Administrative and other operating expenses mainly consisted of staff costs, rental expenses, foreign exchange differences, legal and professional fees, research and development expenses and other taxes.

Administrative and other operating expenses increased by 7% from HKD69.50 million in 2QFY2017 to HKD74.71 million in 2QFY2018. The increase was mainly attributable to increase in business development expenses and research and development expenses arising from business expansion of the Group in 2QFY2018 in addition to increase in legal and professional fees incurred in connection with the acquisition of Xuzhou Municipal Engineering Design Institute Co., Ltd (“Xuzhou Engineering Design Institute”) in Jiangsu Province.

Finance costs

Finance costs increased from HKD50.43 million in 2QFY2017 to HKD71.02 million in 2QFY2018. The increase was mainly due to the increase in both the average balance of borrowings and the average interest rate in 2QFY2018 as compared to 2QFY2017.

Income tax

Income tax in 2QFY2018 increased by 122% from HKD49.98 million in 2QFY2017 to HKD111.05 million in 2QFY2018. The increase in income tax was a combined effect of (i) increase in current income tax due to higher profit before tax in 2QFY2018, and (ii) increase in deferred tax in 2QFY2018 following the changes in tax interpretations by some local tax bureaus.

Consolidated Statement of Financial Position

Assets

The total assets of the Group increased from HKD18.05 billion as at 31 December 2017 to HKD19.35 billion as at 30 June 2018, representing a growth of 7%. The increase in total assets was mainly attributable to net effect of increase in service concession financial receivables, intangible assets and trade and other receivables, and decrease in cash and cash equivalents.

Service concession financial receivables (including both current and non-current) increased from HKD11.51 billion as at 31 December 2017 to HKD12.80 billion as at 30 June 2018, representing an increase of HKD1.29 billion, while intangible assets increased from HKD1.49 billion as at 31 December 2017 to HKD1.64 billion as at 30 June 2018, representing an increase of HKD146.24 million. The increase in service concession financial receivables and intangible assets was mainly attributable to the recognition of construction revenue for expansion and upgrading projects for several water plants, the sponge city construction project, the river-basin ecological restoration project, the water supply project and other water environment treatment projects during 1HFY2018.

Trade and other receivables (including both current and non-current) of the Group increased from HKD816.37 million as at 31 December 2017 to HKD1.15 billion as at 30 June 2018. Among them, trade receivables increased by HKD254.97 million to HKD668.74 million as at 30 June 2018, which was mainly due to the seasonal settlement pattern, as customers normally settle greater portion of trade receivables towards financial year end. Other receivables (including both current and non-current) increased by HKD75.45 million during 1HFY2018, which was mainly driven by the increase in VAT refund receivables and pending deduct VAT on purchase*.

* *Pending deduct VAT on purchase represents the excess amount of input VAT over output VAT available for future deduction in the calculation of VAT payment.*

Liabilities

Total borrowings (including both current and non-current) increased by HKD488.52 million. The increase was mainly due to the receipt of proceeds from borrowings amounting to approximately HKD1.53 billion, offset by repayments made for borrowings amounting to HKD1.16 billion in 1HFY2018 with the effect of exchange differences of borrowings.

The increase of HKD60.91 million in trade and other payables was mainly related to the remaining consideration payable for the acquisition of Xuzhou Engineering Design Institute.

The Group was in a net current asset position of HKD592.62 million as at 30 June 2018, representing a decrease of HKD720.70 million from HKD1.31 billion as at 31 December 2017. The decrease in the net current asset was primarily due to increase in borrowings under current liabilities, which were reclassified from non-current liabilities, as those borrowings became due within one year.

Equity

The Group's total equity amounted to HKD9.14 billion as at 30 June 2018 (31 December 2017: HKD8.54 billion). The increase was mainly due to the followings: (i) recognition of profit amounting to HKD400.77 million in 1HFY2018; (ii) foreign currency translation gains of HKD255.91 million recognised in 1HFY2018 arising from appreciation of RMB against HKD; (iii) the decrease of HKD17.03 million in equity due to declaration and payment of 2017 final dividend in 1HFY2018; (iv) capital contribution of HKD0.19 million by a non-controlling shareholder of a subsidiary during 1HFY2018; and (v) the decrease of HKD6.18 million in equity due to declaration and payment of dividend to a non-controlling shareholder of a subsidiary in 1HFY2018.

Consolidated Statement of Cash Flows

Cash and cash equivalents decreased from HKD2.07 billion as at 31 December 2017 to HKD1.67 billion as at 30 June 2018. Cash and cash equivalents included in the consolidated statement of cash flows is reconciled as follows:

| | 30 June 2018 HKD'000 | 31 December 2017 HKD'000 |
|--|-------------------------------------|--------------------------------|
| Cash and cash equivalents per consolidated statement of financial position | 1,689,879 | 2,716,692 |
| Less: Pledged bank deposits | – | (547,278) |
| Restricted bank balances | (23,277) | – |
| Balances in financial institutions | – | (95,000) |
| | <hr/> | <hr/> |
| Cash and cash equivalents per consolidated statement of cash flows | <u>1,666,602</u> | <u>2,074,414</u> |

Cash flows from operating activities

The Group had cash inflow of HKD409.19 million before working capital changes during 2QFY2018 (2QFY2017: HKD291.71 million). Changes in working capital and payment of income tax resulted in cash outflow of HKD350.68 million and HKD43.25 million respectively. As a result, the Group recorded a net cash inflow of HKD15.26 million from operating activities. The changes in working capital arose mainly from:

- (i) increase in service concession financial receivables by HKD662.38 million;
- (ii) decrease in inventories by HKD7.75 million;
- (iii) decrease in trade and other receivables by HKD32.63 million; and
- (iv) increase in trade and other payables by HKD271.32 million.

Cash flows from investing activities

In 2QFY2018, the Group recorded a net cash outflow of HKD80.28 million from investing activities. The cash outflow mainly arose from payment for acquisition of subsidiaries (net of cash acquired) of HKD6.52 million, payment for purchase of property, plant and equipment of HKD2.05 million, and payment for purchase of intangible assets of HKD131.88 million during the period. It was partially offset by net decrease in fixed deposits with maturity period over three months and balances in financial institutions of HKD49.66 million, decrease in amount due from an associate of HKD7.61 million, and receipt of interest of HKD2.92 million during the period.

Cash flows from financing activities

The Group recorded a net cash inflow from financing activities of HKD343.66 million in 2QFY2018. The net cash inflow was caused by:

- (i) payment of expenses of HKD0.18 million in connection with the issue of shares pursuant to scrip dividend scheme;
- (ii) receipt of net proceeds from borrowings of HKD410.07 million;
- (iii) net decrease in amounts of HKD0.01 million due to related parties;
- (iv) payment of dividend to shareholders of HKD15.17 million;
- (v) payment of interest of HKD44.87 million; and
- (vi) payment of dividend to a non-controlling shareholder of HKD6.18 million.

Subsequent events

On 20 July 2018, the Company entered into a supplementary agreement with Ji'nan Urban and Rural Water Authority of Shandong Province for the investment and construction of Ji'nan Waste Water Treatment Project (Plant 1 & 2) Expansion (the "Expansion Project"). The Expansion Project commands a total investment of approximately RMB1.043 billion, and will expand the designed daily treatment capacity of Ji'nan Waste Water Treatment Project (Plant 1 & 2) by 200,000 m³ in the aggregate. In addition, on 26 July 2018, the Company signed another agreement with Ji'nan Urban and Rural Water Authority of Shandong Province to undertake Ji'nan Sludge Treatment Project for Ji'nan Waste Water Treatment Project (Plant 1 & 2). The Ji'nan Sludge Treatment Project commands an investment of RMB64.73 million.

On 3 August 2018, the Company announced that it is proposing to seek a dual primary listing of its ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "SEHK") (the "SEHK Listing"). In conjunction with the proposed SEHK Listing, the Company intends to undertake an offer of new shares for subscription by the public in Hong Kong (the "Hong Kong Public Offering") and a conditional placing of new shares (collectively with the Hong Kong Public Offering, the "Global Offering") to non-U.S. persons in offshore transactions outside the U.S. in reliance on Regulation S, including to professional investors in Hong Kong. For detailed information in relation to the SEHK Listing and the Global Offering, please refer to the Company's announcement dated 3 August 2018.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

None.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting year and the next 12 months.

In 1HFY2018, the Group made steady progress in its market expansion and construction works. It commenced construction of several waste water treatment projects and a sub-project under Ji'nan Urban-Rural Integration Water Supply Project, and made smooth progress in the construction for water environment management projects. During 1HFY2018, the Group made substantial progress in enhancing its core technology industrial chain. It set up a joint venture with a German environmental protection company, with an aim of establishing overseas business channels and promoting core technologies globally; it jointly established Hebei Xiong'an Huashen Water Engineering Technology Limited with its partners to focus on research and development of wading and hydraulic engineering technologies, equipment, new materials, among others; and it also acquired Xuzhou Engineering Design Institute to strengthen the Group's capabilities and experience in the field of municipal engineering design.

During the first quarter of the year, the State Council of the People's Republic of China ("PRC") unveiled the institutional reform plan, in which the Ministry of Ecology and Environment was established to replace the Ministry of Environmental Protection. The new ministry has formulated an action plan to tackle the tough battle concerning pollution prevention and control. The plan covers major ecological environment areas, including air, water, soil and ecology, with an emphasis on several water environment management areas such as treatment of urban black and odorous water bodies, protection and restoration of Yangtze River, and protection of water sources. This helps to form directions and general principles for the industry's future development and further unleash the market potential.

The Group is committed to the ethos of development driven by technology and innovation. A series of technological cooperation achieved by the Group in the first half of the year is expected to provide a solid foundation for its new round of development. The Group will stay aligned with major national policies, embrace opportunities arising from market and policy, and actively innovate in the areas of business, technology, finance, and etc. In addition, the Group will improve its resources and strengths in investment, construction, operation, management, technology and branding to extend its business chain and effectively synchronise its asset-light and asset-heavy with the businesses. The Group will stay focused on the comprehensive management of water environment, comprehensive utilisation of water resources and comprehensive protection of water ecology. It will continue working hard and spare no efforts in enhancing its scale, strengths and excellence to become a leading player in the industry.

11. Dividend

(a) *Current financial period reported on*

Any dividend declared for the current financial period reported on? Yes

As part of the Directors' continuing efforts to enhance shareholder return, when they deem appropriate for the Company to do so, the Directors have declared an interim dividend of SGD0.0049 per share for 1HFY2018.

| | |
|-------------------------|--|
| Name of Dividend | 1HFY2018 Interim Dividend |
| Dividend Type | Cash/Scrip (based on shareholder's election) |
| Dividend Amount | SGD0.0049 per ordinary share |
| Tax Rate | One-Tier Tax Exempt |

China Everbright Water Limited Scrip Dividend Scheme will be applicable to the 1HFY2018 interim one-tier tax exempt dividend.

(b) *Corresponding period of the immediately preceding financial year*

Not applicable

(c) *Date payable*

The 1HFY2018 Interim Dividend will be paid on 11 October 2018, and the new ordinary shares to be allotted and issued pursuant to the Scrip Dividend Scheme are expected to be listed and credited on 12 October 2018.

(d) *Books closure date*

The Register of Transfer and Register of Members of the Company will be closed from 5.00 p.m. (Singapore time) on 27 August 2018, being the Books Closure Date, up to (and including) 28 August 2018 for the purpose of determining the entitlement of the Company's members to the 1HFY2018 Interim Dividend.

A separate announcement setting out further details on the application of China Everbright Water Limited Scrip Dividend Scheme to the 1HFY2018 Interim Dividend will be made in due course.

12. If no dividend has been declared/recommended, a statement to that effect.

Not applicable

13. If the group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group obtained a general mandate (“IPT Mandate”) from shareholders for interested person transactions (“IPTs”) during its annual general meeting held on 25 April 2018 pursuant to Rule 920 of the SGX-ST Listing Rules. The aggregate value of the IPTs in excess of SGD100,000 during 2QFY2018 and 1HFY2018 are set out as follows:

2QFY2018:

| Name of interested person | Aggregate value of all IPTs during 2QFY2018 (excluding transactions less than SGD100,000 and transactions conducted under the IPT Mandate) | Aggregate value of all IPTs conducted under the IPT Mandate (excluding transactions less than SGD100,000) |
|--|---|--|
| China Everbright International Limited | HKD456,889 (equivalent to SGD78,649) | HKD66,668,482 (equivalent to SGD11,476,263) |

1HFY2018:

| Name of interested person | Aggregate value of all IPTs during 1HFY2018 (excluding transactions less than SGD100,000 and transactions conducted under the IPT Mandate) | Aggregate value of all IPTs conducted under the IPT Mandate (excluding transactions less than SGD100,000) |
|--|---|--|
| China Everbright International Limited | HKD70,705,275 (equivalent to SGD12,171,154) | HKD66,668,482 (equivalent to SGD11,476,263) |

14. Status on the use of net proceeds raised from share placement and issue of MTN.

Not applicable

15. Confirmation that the issuer has undertakings from all its directors and executive officers under Rule 720(1).

Pursuant to Rule 720(1) of the SGX Listing Manual, the Company has procured undertakings from all its directors and executive officers.

CONFIRMATION BY THE BOARD

PURSUANT TO THE RULE 705(5) OF THE LISTING MANUAL

I, An Xuesong, do hereby confirm on behalf of the Board of Directors of China Everbright Water Limited (the “Company”), that to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited financial results for the second quarter and half year ended 30 June 2018 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

An Xuesong

Executive Director and Chief Executive Officer

7 August 2018