北京控股環境集團有限公司
BEIJING ENTERPRISES ENVIRONMENT GROUP LIMITED
(Stock Code 154)

2017
ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors:
Mr. E Meng *(Chairman)*
Mr. Ke Jian *(Vice Chairman and Chief Executive Officer)*
Ms. Sha Ning *(Vice President)*
Ms. Qin Xuemin *(Vice President)*
Mr. Ng Kong Fat, Brian

Independent non-executive directors:
Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping
Prof. Nie Yongfeng
Mr. Cheung Ming

AUDIT COMMITTEE

Dr. Huan Guocang *(Chairman)*
Dr. Jin Lizuo
Dr. Wang Jianping

REMUNERATION COMMITTEE

Dr. Jin Lizuo *(Chairman)*
Mr. E Meng
Dr. Huan Guocang
Dr. Wang Jianping

NOMINATION COMMITTEE

Mr. E Meng *(Chairman)*
Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping

COMPANY SECRETARY

Mr. Wong Kwok Wai, Robin

AUTHORISED REPRESENTATIVES

Mr. Ng Kong Fat, Brian
Mr. Wong Kwok Wai, Robin

REGISTERED OFFICE

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18 Harbour Road
Wanchai
Hong Kong

WEBSITE

http://www.beegl.com.hk

STOCK CODE

154

SHARE REGISTRARS

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

AUDITORS

Ernst & Young

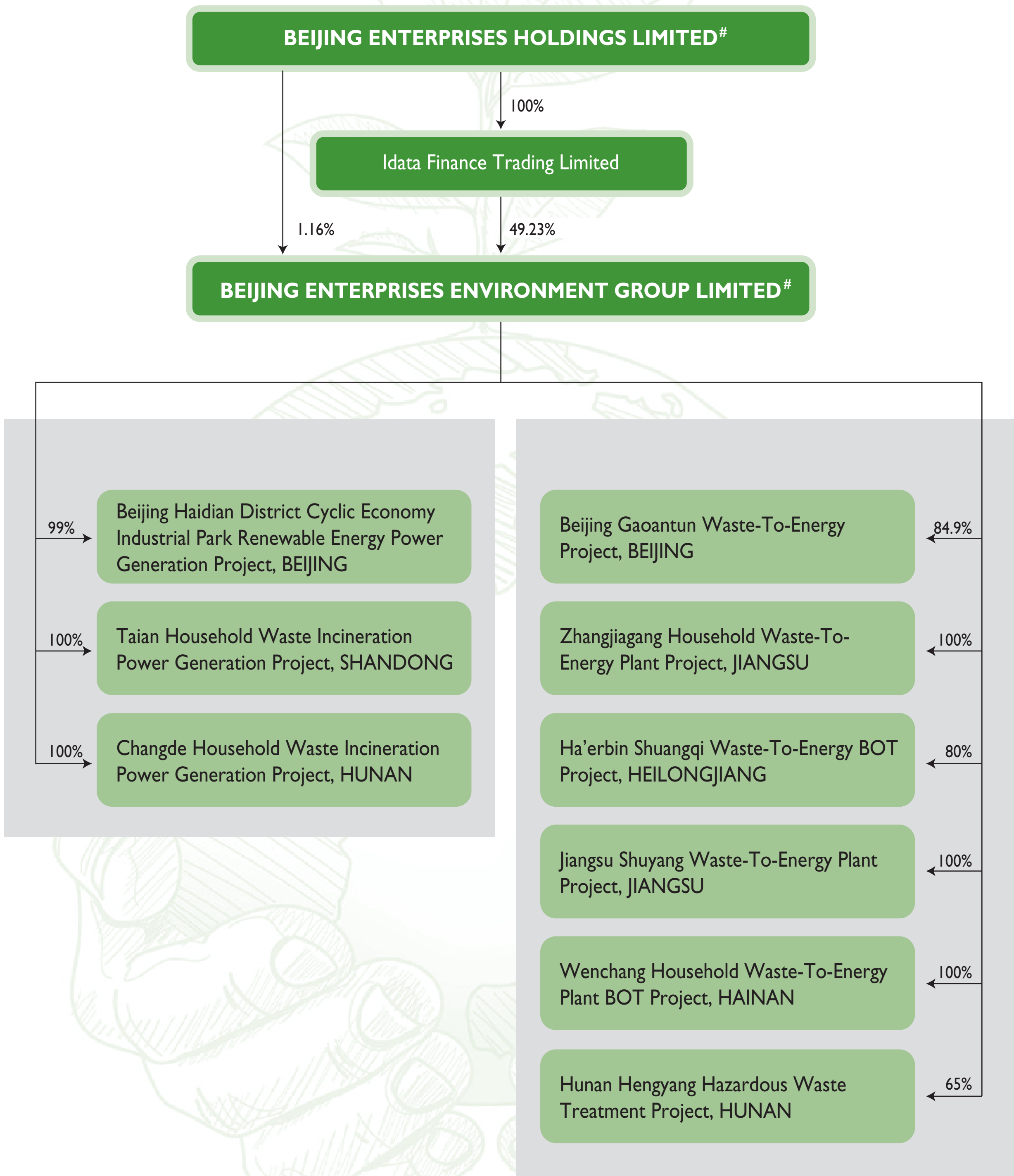
PRINCIPAL BANKERS

In Hong Kong:
Bank of China (Hong Kong)

In Mainland China:
Agricultural Bank of China
Bank of Beijing
Bank of China
China Construction Bank
China Minsheng Bank
Huaxia Bank
Industrial Bank

CORPORATE STRUCTURE

28 March 2018



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

CHAIRMAN'S STATEMENT

At the end of October 2016, the Group completed the injection of six solid waste treatment projects that operate in Mainland China from its parent company. The Haidian household waste incineration project, a signature project of the Group, conducted its commercial trial operation in November 2017. The above had laid a solid foundation for the Group's overall operation and financial performance. As at the end of 2017, the household waste incineration power generation treatment capacity of the Group reached 8,625 tonnes/day, while the hazardous and medical waste treatment capacity was 35,000 tonnes/year. During the year, the household waste treatment volume achieved 3,302,000 tonnes, and on-grid electricity was 827.8 million kWh, generating a net profit of HK$190 million to shareholders.

During 2017, the Group invested HK$520 million in the technological improvement and expansion works for its projects to encounter the new environmental and emission standards, and at the same time improved its treatment capacity and operation effectiveness to cope with the increase in demand for waste treatment, which demonstrating the role as a benchmark enterprise.

Going forward, the Company will fully leverage its advantages in branding, resources and technologies, deepen efficiency management and control, and keep on seeking potential investment opportunities to strengthen the overall competitiveness and market position of the Group in the solid waste treatment industry. For the environmental protection business sector, the Group will actively tap new profit growth points to enhance its value.

On behalf of the Board, I would like to express my gratitude to all employees, shareholders and parties from different sectors for their support to the Group.

E Meng
Chairman

Hong Kong
28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the environmental protection business in China with the solid waste treatment as its core business. Currently, the Group has nine solid waste treatment projects, including eight household waste incineration power generation projects with total waste treatment capacity of 9,025 tonnes/day, and one hazardous and medical waste treatment project with waste treatment capacity of 35,000 tonnes/year.

Project Name	Province	Business Model
Household waste incineration projects:		
Haidian Project（北京市海澱區循環經濟產業園再生能源發電廠項目）	Beijing	BOT
Taian Project（泰安生活垃圾焚燒發電項目）	Shandong	BOO
Changde Project（常德市生活垃圾焚燒發電項目）	Hunan	BOT
Gaoantun Project（北京高安屯垃圾焚燒項目）	Beijing	BOT
Zhangjiagang Project（張家港市生活垃圾焚燒發電廠項目）	Jiangsu	BOO
Ha'erbin Project（哈爾濱雙琦垃圾焚燒發電項目）	Heilongjiang	BOT
Shuyang Project（江蘇省沭陽縣垃圾焚燒發電項目）	Jiangsu	BOT
Wenchang Project（文昌市生活垃圾焚燒發電廠項目）	Hainan	BOT
Hazardous and medical waste treatment project:		
Hengxing Project（湖南省衡陽危險廢物處置中心項目）	Hunan	BOT

Solid Waste Treatment

Haidian Project started receiving waste in October 2016 and commenced its commissioning in November of the same year. Through detailed and comprehensive testing and commissioning during the period and conducted technical improvement of some equipment and facilities internally with more stringent emission standards, Haidian Project finally commenced its trial operation in November 2017. In 2017, the project received 693,200 tonnes of household waste, generated 220.14 million kWh of electricity and 179.25 million kWh of on-grid electricity. So far, no operating income is generated from Haidian Project (except income from construction work).

In 2017, the other eight solid waste treatment projects in operation had accomplished total household waste input volume of 2,609,100 tonnes, hazardous and medical waste treatment volume of 36,100 tonnes, leachate treatment volume of 25,800 tonnes, sludge treatment volume of 67,400 tonnes, electricity generation of 802.43 million kWh, on-grid electricity of 648.56 million kWh and steam supply volume of 38,900 tonnes.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

In 2017, the solid waste treatment business of the Group contributed a revenue of HK$669 million (excluding construction and related services), gross profit of HK$216 million and EBITDA of HK$323 million.

		2017	2016	Growth Rate
Household waste input volume:				
Projects in operation	*(ten thousand tonnes)*	**260.91**	105.22	148%
Haidian Project	*(ten thousand tonnes)*	**69.32**	–	–
Hazardous and medical waste treatment volume	*(ten thousand tonnes)*	**3.61**	0.72	401%
Leachate treatment volume	*(ten thousand tonnes)*	**2.58**	–	–
Sludge treatment volume	*(ten thousand tonnes)*	**6.74**	–	–
Electricity generation:				
Projects in operation	*(million kWh)*	**802.43**	306.69	162%
Haidian Project	*(million kWh)*	**220.14**	–	–
On-grid electricity:				
Projects in operation	*(million kWh)*	**648.56**	240.52	170%
Haidian Project	*(million kWh)*	**179.25**	–	–
Steam supply volume	*(ten thousand tonnes)*	**3.89**	0.84	363%
Operating results of solid waste treatment (excluding construction and related services):				
Revenue	*(HK$ million)*	**669.20**	237.31	182%
Gross profit	*(HK$ million)*	**216.41**	62.71	245%
EBITDA	*(HK$ million)*	**323.36**	145.68	122%

Expansion and technological improvement projects

With the continuous facilitation of urban and rural integration, gradual improvement of waste collection and transportation system, increasing demand for waste treatment and improvement of environmental protection standards, apart from the Haidian Project construction having commenced its trial operation, the Group is conducting technological improvement and expansion works for some household waste incineration projects that are in operation.

Phase II expansion (technical modifications) of Taian Project: Two grate furnaces of household waste treatment capacity of 600 tonnes/day and a 12MW steam turbine generating unit were newly developed and standard improvements and technical modifications for the existing production facilities were implemented. As at the end of 2017, the construction progress of Phase II expansion project was completed at about 50%.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Phase II technical modifications and expansion of Changde Project: A grate furnace of household waste treatment capacity of 600 tonnes/day was newly developed and standard improvements and technical modifications for the Phase I project were implemented. As at the end of 2017, the construction progress of the project was completed at about 80%.

Phase II expansion of Shuyang Project: A grate furnace of household waste treatment capacity of 600 tonnes/day and a 12MW steam turbine generating unit were newly developed. As at the end of 2017, the construction progress of the project was completed at about 37%.

In 2017, the Group's revenue generated from construction and related services was HK$420 million and gross profit was HK$92 million.

BUSINESS PROSPECT

With the imminent commercial operation of our representative Haidian Project, it will provide operating income for the Group and improve its overall capacity and market standing as a leading enterprise in the solid waste treatment industry in Beijing. The successive completion of Phase II expansion and technical modifications of the household waste incineration projects will facilitate the Group to effectively respond to the increasingly stringent environmental protection standards and further improve the operating results and industrial competitiveness of the Group.

The Company has been seeking for merger and acquisition opportunities in solid waste treatment industry and actively participating in tender projects, with a view to solidify and enhance the position of the Company in solid waste treatment industry, capturing larger market share and achieving "economies of scale".

FINANCIAL REVIEW

Revenue and gross profit

During the year, the Group recorded revenue of HK$1,089 million, increased by 171% as compared with revenue of HK$402 million in last year. The growth was contributed by the completion of the acquisition of six solid waste treatment projects (the "Six New Projects") by the end of October 2016 and the expansion construction revenue of the existing waste treatment plants during the year.

The revenue derived from the solid waste treatment and sales of electricity and steam generated amounted to HK$669 million, increased by 182% over the last year of HK$237 million. The revenue derived from the construction and related services amounted to HK$420 million, increased by 154% over the last year of HK$165 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Gross profit amounted to HK$308 million, increased by 176% over the last year of HK$112 million, gross profit margin slightly increased from 27.7% to 28.3%.

	Revenue		Gross profit		Gross profit margin	
	2017	2016	**2017**	2016	**2017**	2016
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***%***	*%*
Household waste treatment	**195**	74				
Hazardous and medical waste treatment	**51**	8				
Leachate, sludge and other treatments	**22**	–				
Sale of electricity	**399**	153				
Sale of steam	**2**	2				
	669	237	**216**	63	**32.3**	26.4
Construction and related services	**420**	165	**92**	49	**21.8**	29.6
	1,089	402	**308**	112	**28.3**	27.7

Other income and gains, net

The Group recorded other income and gains, net of HK$155 million during the year, increased by HK$88 million as compared to last year of HK$67 million. The other income for the year mainly comprised a compensation income (net of its carrying value of HK$43 million) receivable from the expropriation of an investment property of HK$87 million, value added tax refund of HK$48 million (2016: HK$18 million) and interest income of HK$12 million (2016: HK$10 million).

A net foreign exchange gain of HK$29 million was recognised in 2016, whilst a net loss of HK$7 million was suffered during the year.

Administrative expenses

The Group's administrative expenses for the year increased by 20% or HK$16 million to HK$96 million. The administrative expenses incurred by the Six New Projects during the full year of 2017 amounted to HK$44 million, compared with those of HK$7 million incurred during the post acquisition period in 2016 and one-off transaction costs of HK$14 million incurred for the acquisition in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Other operating expenses, net

The Group's other operating expenses, net was mainly comprised the net foreign exchange loss of HK$7 million recognised during the year, whilst a reversal of impairment of long aged trade receivables of HK$6 million was recognised during the last year.

Finance costs

Due to the acquisition of the Six New Projects, the Group's finance costs for the year increased by 326% or HK$47 million to HK$61 million, which was mainly comprised interests on bank and other borrowings of HK$38 million (increased annually by HK$31 million), imputed interest on convertible bonds issued to Idata of HK$33 million (increased annually by HK$25 million). Interests on other borrowings of HK$10 million incurred for expansion construction have been capitalised in operating concessions during the year.

Income tax

The Group's income tax expense for the year amounted to HK$82 million, increased by HK$55 million as compared with last year of HK$27 million. The Group's effective tax rate for continuing operations was 27.4% (2016: 31%).

Discontinued operation

As part of the Group's strategic transformation, the disposal of its information technology business segment (classified as a discontinued operation) has been completed in March 2016. Profit for the year from a discontinued operation attributable to members of the Company amounted to HK$70 million (gain on disposal of HK$81 million net-off against share of operating loss before the completion of disposal of HK$11 million) in last year.

Profit for the year attributable to members of the Company

Profit for the year from continuing operations attributable to members of the Company amounted to HK$190 million, increased by 218% or HK$130 million as compared with HK$60 million in last year. By combining the profit from a discontinued operation of HK$70 million in last year, profit for the year attributable to members of the Company of HK$190 million represented an increase of 46% or HK$60 million as compared with HK$130 million in last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

EBITDA from continuing operations for the year was HK$491 million, increased by 2.18 times as compared with HK$155 million in last year.

	EBITDA		Profit for the year		Profit attributable to members of the Company	
	2017	2016	**2017**	2016	**2017**	2016
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
Continuing operations:						
Solid waste treatment segment	**409**	176	**198**	92	**180**	92
Corporate and others segment	**82**	(21)	**18**	(32)	**10**	(32)
	491	155	**216**	60	**190**	60
Discontinued operation			**–**	66	**–**	70
			216	126	**190**	130

FINANCIAL POSITION

Except for the expansion construction and technical modifications on certain existing household waste treatment plants, the Group had made no material investment, acquisition and disposal of subsidiaries and associated companies during the year.

Total assets and total liabilities

As at 31 December 2017, the Group had total assets and total liabilities amounted to HK$9,283 million and HK$6,480 million, respectively, increased by HK$861 million and HK$404 million as compared with those as at 31 December 2016, respectively.

Property, plant and equipment

The increase in net book value of the Group's property, plant and equipment by HK$131 million was mainly attributable to the expansion construction work of Taian Project of HK$107 million, which is operated under Build-Own-Operate ("BOO") arrangement.

Goodwill

Based on the results of the impairment testing of goodwill, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Operating concessions

The Group's operating concessions are recognised from the projects operated under Build-Operate-Transfer ("BOT") arrangement. The increase in its carrying value by HK$473 million was mainly attributable to the construction work of Haidian Project of HK$115 million, expansion construction work of Changde Project of HK$186 million and Shuyang Project of HK$98 million.

Receivables under service concession arrangements

The increase in the Group's receivables under service concession arrangements by HK$129 million was mainly attributable to the construction work of Haidian Project of HK$27 million.

Prepayments, deposits and other receivables

The increase in the Group's prepayments, deposits and other receivables by HK$149 million was mainly attributable to the compensation income receivable from the expropriation of an investment property of HK$133 million.

Bank and other borrowings

The Group's bank and other borrowings comprised bank loans of RMB6.8 million (wholly repayable within one year) and other borrowings from a fellow subsidiary of the Company, 北京控股集團財務有限公司, of RMB675.72 million (of which RMB77 million were repayable within one year). The weighted average interest rate of the Group's bank and other borrowings was 4.67% per annum.

Convertible bonds

The outstanding principal amount of the Company's non interest-bearing convertible bonds issued to Idata amounted to HK$2,993.3 million, of which HK$791 million was due in February 2018 and HK$2,202.3 million was due in October 2021. For accounting purpose, the convertible bonds were bifurcated into liability component of HK$2,879 million and equity component of HK$159 million.

Deferred income

The Group's deferred income of HK$175 million represented PRC government grants and subsidies on solid waste treatment business.

Trade payables

The increase in the Group's trade payables by HK$132 million were mainly incurred by the unbilled construction fees accounted for in accordance with the construction progress of the relevant projects.

Other payables and accruals

Included in the Group's other payables and accruals the amounts due to fellow subsidiaries of RMB1,473 million, which are unsecured and non interest-bearing.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Liquidity and financial resources

The Group adopts conservative treasury policies in cash management. As at 31 December 2017, the Group had cash and cash equivalents amounted to HK$1,968 million (approximately 43% of which were denominated in Renminbi and 57% of which were denominated in Hong Kong dollars and United States dollars); interest-bearing bank and other borrowings amounted to RMB683 million; non interest-bearing amounts due to certain fellow subsidiaries of the Company in aggregate amount of RMB1,473 million; and outstanding non interest-bearing convertible bonds issued to Idata in aggregate principal amount of HK$2,993 million.

The Company has received undertaking from certain fellow subsidiaries not to demand repayment of the amounts due by the Group to them in aggregate amount of RMB1,350 million until such time when the Group is in a position to repay without impairing its liquidity and financial position.

As at 31 December 2017, the Group's current liabilities of HK$3,233 million exceeded its current assets of HK$2,423 million. In consideration of the stable cash recurring nature of solid waste treatment operations and the financial support of the holding company, the directors considered that the Group will be able to operate on a going concern basis and the Group has sufficient cash resources to finance its operations in the foreseeable future.

Key performance indicators

	2017	2016
For profit from continuing operations:		
Gross profit margin	**28.3%**	27.7%
Operating profit margin	**32.9%**	25.3%
Net profit margin	**19.9%**	15.0%
Return on average equity	**8.1%**	2.8%
For profit for the year:		
Return on average equity	**8.1%**	6.2%
Current ratio *(times)*	**0.75**	1.03
Debt ratio *(total debt/total assets)*	**39.8%**	42.5%
Gearing ratio *(net debt/total equity)*	**61.5%**	69.1%

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Capital expenditure and commitment

During the year, the Group's total capital expenditures amounted to HK$523 million, of which HK$399 million was spent on construction and modification of waste treatment plants and HK$124 million was spent on purchase of items of plant and equipment and other intangible assets. As at 31 December 2017, the Group has capital commitment for service concession arrangements amounted to HK$419 million.

Charges on the Group's assets

As at 31 December 2017, save as bank deposits of HK$14 million are pledged as security deposits to the government authorities to obtain the permission for the construction of solid waste treatment plants, the Group did not have any charges on the Group's assets.

Foreign exchange exposure

The Group's businesses are principally located in Mainland China and the majority of its transactions are conducted in Renminbi. As the financial statements of the Group are presented in Hong Kong dollars, which is the Company's functional and presentation currency, any fluctuation of exchanges rates would impact the Group's net asset value. During the year, the losses arising on settlement or translation of monetary items of HK$7 million (2016: gains of HK$29 million) are taken to the statement of profit or loss and the gains arising on retranslation of foreign operations of HK$226 million (2016: losses of HK$190 million) are recognised in the exchange fluctuation reserve. Currently, the Group has not used derivative financial instruments to hedge against its foreign currency risk.

Contingent liabilities

The final acceptance of the construction of certain waste treatment plants have not been obtained from the relevant government authorities and the Group is still in the process of applying for certain permits in relation to their operations. According to the relevant PRC Law, the Group may be liable to administrative sanctions to be charged by the relevant government authorities due to the above matters. Nevertheless, the Company is of the view that the non-compliance incidents, individually and in aggregate, would have no material adverse impact on the operations and financial position of the Group.

Save as disclosed above, as at 31 December 2017, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had 942 employees (2016: 867). Total staff cost for continuing operations of the year was HK$158 million, increased by 89% as compared with HK$84 million in last year. The Group's remuneration policy and package are periodically reviewed and generally structured by reference to market terms and individual performance. Discretionary bonuses are awarded to certain employees according to the assessment of individual performance.

No share option was granted or exercised and 900,000 share options of the Company were forfeited during the year. The Company has 37,620,000 share options outstanding as at 31 December 2017, which were granted on 21 June 2011 at an exercise price of HK$1.25 per share and represented approximately 2.5% of the Company's ordinary shares in issue as at 31 December 2017.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. E Meng, aged 59, is the chairman of the Company and also serves as the vice general manager and the chief financial officer of 北京控股集團有限公司 ("BEGCL"), an executive director and the executive vice president of Beijing Enterprises Holdings Limited ("BEHL", stock code: 392) and the vice chairman and an executive director of Beijing Enterprises Water Group Limited ("BE Water Group", stock code: 371). Mr. E graduated from China Science and Technology University with a master's degree in engineering and subsequently obtained an EMBA degree from The Hong Kong University of Science and Technology. He is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, he was the deputy director of Beijing New Technology Development Zone and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-owned Assets Management Office of Beijing Haidian District. Mr. E formerly served as an independent non-executive director of New Silkroad Culturaltainment Limited (formerly named as JLF Investment Company Limited, stock code: 472) and has resigned in August 2015. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in April 2001.

Mr. KE Jian, aged 49, is the vice chairman and the chief executive officer of the Company and also serves as a vice president of BEHL, an executive director of BE Water Group and the chairman of 北京北控環保工程技術有限公司 ("BEHET", a wholly-owned subsidiary of BEHL). Mr. Ke is a PRC Senior Accountant, Certified Tax Agent and Senior International Finance Manager and obtained a bachelor's degree in economics from Beijing College of Finance and Commerce and a MBA degree from Murdoch University, Australia. Mr. Ke joined BEHL since 1997 and has accumulated extensive experience in finance and corporate management. Mr. Ke joined the Group in August 2013.

Ms. SHA Ning, aged 47, is a vice president of the Company and also serves as a vice president of BEHL. Ms. Sha graduated from the Business Faculty of Heilongjiang University in 1992, majored in Business and Economic Studies, and obtained a second qualification in Foreign Trade Accounting in Beijing School of Business and Capital University of Economics and Business, an EMBA degree from The Hong Kong University of Science and Technology and the title of PRC Senior Accountant. Ms. Sha joined BEHL since 2001 and has accumulated extensive experience in financial management. Ms. Sha joined the Group in March 2009.

Ms. QIN Xuemin, aged 59, is a vice president of the Company. Ms. Qin is an Associate Research Fellow and obtained a master's degree from the Beijing Institute of Technology. Ms. Qin has been the head of the Office of State-Owned Assets Investment Business Company and the vice chairman of the Administration Office for State-Owned Assets at the Beijing New Technology Industrial Development Test Zone. Ms. Qin joined BEHL since July 2000 has accumulated extensive experience in building construction and corporate management. Ms. Qin joined the Group in August 2013.

Mr. NG Kong Fat, Brian, aged 62, graduated from the University of Stirling in Scotland in 1983 and is a member of the Institute of Chartered Accountants of Scotland. Mr. Ng also served as an independent non-executive director of OneForce Holdings Limited (stock code: 1933). Mr. Ng has extensive experience in corporate, investment and financial management. Mr. Ng joined the Group in July 1993.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. JIN Lizuo, aged 60, holds a doctorate degree in Economics from Oxford University and has been the chief councillor of Shanghai Institute of Law & Economics, the chairman of Zhonghe Yingtai Management Consultancy Co., Ltd., the specialist committee member of China Xinda Assets Management Corporation. Dr. Jin graduated from Peking University School of Economics in 1982 and has been teaching in the university. From 1983 to 1988, Dr. Jin served as the member of State Economic Structure Reforms Committee and was the First President (1988-89) of Chinese Economic Association (UK). From 1993 to 1995, Dr. Jin has worked for N.M. Rothschild and Morgan Stanley and thereafter accumulated extensive experience in investment banking and financial management. Dr. Jin joined the Group in September 2004.

Dr. HUAN Guocang, aged 68, is currently the chief executive officer of Primus Pacific Partners Limited ("Primus"). Dr. Huan holds master degrees in arts from the Graduate School of International Studies of the University of Denver in 1982 and Columbia University in 1983, a PhD degree from Princeton University in 1987 and John Olin post doctorial fellow from the Centre for International and Strategic Studies of Harvard University in 1987. Before the set-up of Primus in 2005, Dr. Huan has been the Head of Investment Banking (Asia Pacific) of HSBC, the co-Head of Investment Banking (Asia Pacific) of Citigroup, the managing director and Head of China of BZW Asia Limited, a senior economist and vice president of J.P. Morgan, an assistant professor of Columbia University and an economist of Deutsche Bank. Dr. Huan joined the Group in January 2008.

Dr. WANG Jianping, aged 60, is currently a senior partner of King & Wood Mallesons, a law firm in China. Dr. Wang holds a bachelor degree in law from the Law School of Peking University in 1982, a master degree in law from the Law School of Harvard University in 1984 and a doctorate degree in law from the Law School of Washington University in Missouri in 1991. Before being admitted as a Chinese lawyer and joining King & Wood Mallesons in 1998, Dr. Wang was further admitted to the Missouri Bar in 1991 and then practiced in St. Louis, Missouri from 1991 to 1997. From 1984 to 1988, Dr. Wang worked with the Legislative Affairs Committee of the Standing Committee of National People's Congress and has participated in the legislation of the Grassland Law, Fishery Law, Bankruptcy Law, Law of Chinese-foreign Cooperative Joint Venture, and Customs Law, etc. Dr. Wang joined the Group in January 2008.

Prof. NIE Yongfeng, aged 72, is a professor at School of Environment, Tsinghua University, a doctoral supervisor for a doctoral program in Radiation Protection and Environment Protection, and a doctoral supervisor for Environmental Science and Engineering. He retired in April 2011, and is currently the deputy director of the Academic Committee of the Ministry of Education Key Laboratory for "Solid Waste Management and Environment Safety", Tsinghua University, a member of each of the Science and Technology Committee, the Municipal Work Committee, and the Resources and Sustainable Development Committee, Ministry of Housing and Urban-Rural Development, a member of the Expert Committee, the China Association of Urban Environmental Sanitation, a member of the Urban Garbage Treatment Professional Committee, the China Association of Environmental Protection Industry. Prof. Nie has solid theoretical foundation and extensive practical experience in urban domestic garbage, industrial solid waste and dangerous waste management, treatment, disposal and resource utilisation technology, and groundwater remediation theory and technology. Prof. Nie joined the Group in January 2014.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

INDEPENDENT NON-EXECUTIVE DIRECTORS *(CONTINUED)*

Mr. CHEUNG Ming, aged 56, is currently an executive director and the chief executive officer of BEP International Holdings Limited ("BEP", stock code: 2326). Prior to joining BEP, he had served as the executive director of Hengli & Liqi Furniture Limited ("Hengli"), a Hong Kong company specialising in the production of furniture for sale to Europe markets, and was responsible for the international business development of Hengli. Before joining Hengli, Mr. Cheung had served as the chief executive officer of a Hong Kong based retailing company. Mr. Cheung has extensive business management experience including over 30 years of experience in retail business and international trade in Mainland China, Hong Kong and Taiwan. Mr. Cheung had been leading the companies he served in setting down long-term development blueprints including strategies for corporate and business development as well as brand building to enhance their market competitiveness and profitability, which laid the solid foundation for their sustainable growth in the Greater China and Asia-Pacific regions. Mr. Cheung joined the Group in August 2014.

SENIOR MANAGEMENT

Mr. ZHU Jian, aged 48, is a vice president of the Company and also serves as the general manager of BEHET. Mr. Zhu graduated from the Foreign Languages Department of Wuhan University of Technology in 1991 and subsequently obtained a MBA degree from the Faculty of Management, Wuhan university of Technology. Mr. Zhu has extensive working experience in corporate management and in the field of environmental protection. Mr. Zhu joined the Group in August 2014.

Mr. WONG Kwok Wai, Robin, aged 51, is the financial controller and the company secretary of the Company. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has been worked for a major international accounting firm and has extensive experience in administration, auditing, accounting and corporate finance. Mr. Wong joined the Group in July 1993.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with all the applicable code provisions (the "Code Provisions") of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by director(s) of the Company (the "Director(s)"). All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

BOARD OF DIRECTORS

The board of Directors (the "Board") is mainly accountable to the shareholders and is also in charge of the management, business, strategy, annual and interim results, risk management, major acquisitions, disposals and capital transactions and other major operation and financial aspects of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Board comprises five executive Directors and five independent non-executive Directors. Details of backgrounds and qualifications of Directors are set out on pages 14 to 16. There is no relationship (including financial, business, family or other material/relevant relationship) between the Board members. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

During the year ended 31 December 2017, the Board has complied with Rules 3.10(1) and (2) of the Listing Rules which comprises three independent non-executive Directors, and has two independent non-executive Directors with appropriate financial management expertise. The independent non-executive Directors have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders. The Company has received annual confirmations of independence from each of the independent non-executive Directors and still considers them to be independent.

The Directors are regularly briefed and updated with written materials on the latest developments of the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged trainings for Directors in the form of seminar and provision of training materials.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD OF DIRECTORS *(CONTINUED)*

According to the records maintained by the Company, the Directors received the training on disclosure requirements and principal directors' responsibilities under the Listing Rules in compliance with the Code Provisions on continuous professional development during the year ended 31 December 2017:

Name of Director	Position	Self reading materials	Attended seminar
Mr. E Meng	Chairman and executive Director	✓	
Mr. Ke Jian	Vice Chairman and executive Director	✓	✓
Ms. Sha Ning	Executive Director	✓	✓
Ms. Qin Xuemin	Executive Director	✓	
Mr. Ng Kong Fat, Brian	Executive Director	✓	
Dr. Jin Lizuo	Independent non-executive Director	✓	
Dr. Huan Guocang	Independent non-executive Director	✓	
Dr. Wang Jianping	Independent non-executive Director	✓	
Prof. Nie Yongfeng	Independent non-executive Director	✓	
Mr. Cheung Ming	Independent non-executive Director	✓	

The Board held two regular meetings during the year ended 31 December 2017. Details of attendance of each Director at the regular Board meetings and general meetings are as follows:

		Attendance	
Name of Director	**Position**	**Regular Board meetings**	**General meetings**
Mr. E Meng	Chairman and executive Director	2/2	0/2
Mr. Ke Jian	Vice Chairman and executive Director	2/2	2/2
Ms. Sha Ning	Executive Director	2/2	0/2
Ms. Qin Xuemin	Executive Director	2/2	0/2
Mr. Ng Kong Fat, Brian	Executive Director	2/2	0/2
Dr. Jin Lizuo	Independent non-executive Director	2/2	0/2
Dr. Huan Guocang	Independent non-executive Director	1/2	0/2
Dr. Wang Jianping	Independent non-executive Director	2/2	0/2
Prof. Nie Yongfeng	Independent non-executive Director	2/2	0/2
Mr. Cheung Ming	Independent non-executive Director	2/2	0/2

Under Code Provision A.1.1, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. It is expected regular board meetings will normally involve the active participation of a majority of directors entitled to present. However, the Company considers it is more efficient to hold Board meetings to address emerging issues as appropriate. Sufficient measures have been taken to ensure that there is efficient communication among the Directors.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD OF DIRECTORS *(CONTINUED)*

Under Code Provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. However, the Company considers it is more effective for non-executive Directors to voice their views by individual communication with the chairman of the Board (the "Chairman").

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, the independent non-executive Directors were unable to attend the general meetings of the Company due to other business engagements.

Under Code Provision E.1.2, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration and nomination committees to attend. However, the chairmen of the Board and its committees were unable to attend the annual general meeting due to other business engagements.

CHAIRMAN AND PRESIDENT

The Company has complied with Code Provision A.2.1 which stipulates that the roles of chairman and president should be separated and should not be performed by the same individual. Mr. E Meng, the Chairman, is responsible for the approval and supervision of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the management. Mr. Ke Jian, the chief executive officer of the Company, is responsible for the day-to-day operations of the Group.

NON-EXECUTIVE DIRECTORS

None of the existing non-executive Directors is appointed for a specific term, which constitutes a deviation from Code Provision A.4.1 which stipulates non-executive directors should be appointed for a specific term, subject to re-election. However, in view of the fact that all non-executive Directors are subject to retirement by rotation in accordance with the Company's articles of association, the Company considers that there are sufficient measures to ensure that the corporate governance standard of the Company is not less exacting than that of the Code Provision.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee was established with terms of reference in accordance with Rule 3.25 of the Listing Rules and Code Provision B.1. The members of the Remuneration Committee comprise three independent non-executive Directors, namely Dr. Jin Lizuo (committee chairman), Dr. Huan Guocang and Dr. Wang Jianping and the Chairman, Mr. E Meng. The Remuneration Committee performs an advisory role to the Board, with the Board retaining the final authority to approve executive Directors' and senior management's remuneration.

The role and function of the Remuneration Committee include (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; (iii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; (iv) to make recommendations to the Board on the remuneration packages of non-executive Directors; (v) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (vi) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with relevant contractual terms and is otherwise fair and not excessive; (vii) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and (viii) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

No meeting was held by the Remuneration Committee during the year under review and the remuneration packages of the Board members remains unchanged during the year. Details of remuneration of the Directors and the five highest paid employees are set out in notes 8 and 9 to the financial statements.

Nomination Committee

The Nomination Committee was established with terms of reference in accordance with Code Provision A.5. The members of the Nomination Committee comprise the Chairman, Mr. E Meng (committee chairman), and three independent non-executive Directors, namely Dr. Jin Lizuo, Dr. Huan Guocang and Dr. Wang Jianping.

The role and function of the Nomination Committee include (i) review the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) review the policy on Board diversity and any measurable objectives for implementing such policy as may be adopted by the Board from time to time, and to review the progress of achieving those objectives; (iii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iv) assess the independence of independent non-executive Directors; and (v) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

No meeting was held by the Nomination Committee during the year under review and the Board composition remains unchanged during the year.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES *(CONTINUED)*

Audit Committee

The Audit Committee was established with written terms of reference in accordance with Rule 3.21 of the Listing Rules and Code Provision C.3. The current members of the Audit Committee comprise three independent non-executive Directors, namely Dr. Huan Guocang (committee chairman), Dr. Jin Lizuo and Dr. Wang Jianping.

The role and function of the Audit Committee include (i) maintenance of the relationship with the Company's auditors; (ii) review of the Company's financial information; and (iii) oversight of the Company's financial reporting system, risk management and internal control procedures.

The Audit Committee held two meetings during the year under review. The meeting has reviewed the interim and annual results, financial positions, risk management, internal control, impacts of the new accounting standards and management issues of the Group.

Name of member	**Attendance**
Dr. Huan Guocang *(Chairman)*	1/2
Dr. Jin Lizuo	2/2
Dr. Wang Jianping	2/2

AUDITORS' REMUNERATION

An analysis of remuneration in respect of services provided by the auditors, Ernst & Young, of the Group is as follows:

	HK$'000
Annual audit services	3,200
Non-audit services (which included agreed-upon procedures on interim financial statements, review of continuing connected transactions and preliminary announcement of annual results)	508
	3,708

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for preparing the accounts and the responsibilities of the auditor to the shareholders are set out on pages 36 to 38. The Directors have confirmed that the Group's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. During the year ended 31 December 2017, the Company has established a risk management working group, which consists of senior management of the Group. Based on the characteristics of waste treatment business, the working group has identified, evaluated and managed significant risks of the Company and its subsidiaries, covering the areas of safety production, financial security, contract execution and human resources protection. The report of findings has been reviewed by the Audit Committee and the Board.

The senior management of the Company has conducted regular review regarding internal control systems of its subsidiaries and any material defects have been resolved. During the year under review, the Company has not yet established a formal internal audit department which may constitute a deviation from Code Provision C.2.5. However, the Company considered that the Group's existing risk management and internal control mechanisms are effective to safeguard the Group's assets and the shareholders' investment. In order to cope with the business expansion, a formalised internal audit functional department will be considered to establish in the future.

COMPANY SECRETARY

The company secretary of the Company is Mr. Wong Kwok Wai, Robin. Details of background and qualification of Mr. Wong are set out on page 16. Mr. Wong has complied with Rule 3.29 of the Listing Rules for taking not less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

The Company recognises the importance of good communications with shareholders and investors and also recognises the value of providing current and relevant information to shareholders and investors. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual and extraordinary general meetings of the Company provide a forum for shareholders to exchange views directly with the Board, which together help enhance and facilitate communication with shareholders. All registered shareholders are entitled to attend the general meetings and notices of meeting are served by post. Shareholders who are unable to attend a general meeting may complete and return to the Company's share registrar the proxy form enclosed with notice of meeting to give proxy to their representatives or chairman of the meeting.

Shareholders' Right to Convene Extraordinary General Meeting

The articles of association of the Company provides that the Directors may, whenever they think fit, convene an extraordinary general meeting and extraordinary general meetings shall also be convened on requisition, or, in default, may be convened by the requisitionists, all as provided by the Hong Kong Companies Ordinance, which provides that the directors are required to call a general meeting if the company has received requests to do so from members of the company representing at least 5% of the total voting rights of all the members having a right to vote at general meetings.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

SHAREHOLDERS' RIGHTS *(CONTINUED)*

Shareholders' Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the registered office of the Company in Hong Kong, or by fax (+852 2529 3725), or by e-mail to general@beegl.com.hk for the attention of the company secretary.

Shareholders' Right to Put Forward Proposals at General Meetings

The Hong Kong Companies Ordinance provides that, a company must give notice of a resolution if it has received requests that it do so from: (a) the members of the company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The Hong Kong Companies Ordinance also provides that, the request (a) may be sent to the company in hard copy form or in electronic form; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting.

All request shall be sent to the registered office of the Company in Hong Kong, or by fax (+852 2529 3725), or by e-mail to general@beegl.com.hk for the attention of the company secretary.

REPORT OF THE DIRECTORS

The directors (the "Directors") of Beijing Enterprises Environment Group Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business and key performance indicators of the Company's business can be found in the Management Discussion and Analysis set out on pages 5 to 13 of this annual report. This discussion forms part of this directors' report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 39 to 131.

The Directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 132. This summary does not form part of the audited financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 24, 25 and 27 to the financial statements, respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company had no reserves available for distribution, calculated in accordance with the provisions of sections 291, 297 and 299 of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS *(CONTINUED)*

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 49% of the total revenue for the year and sales to the largest customer included therein accounted for 17%. Purchases from the Group's five largest suppliers accounted for 34% of the total purchases for the year and purchases from the largest supplier included therein accounted for 13%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:
Mr. E Meng *(Chairman)*
Mr. Ke Jian *(Vice Chairman and Chief Executive Officer)*
Ms. Sha Ning *(Vice President)*
Ms. Qin Xuemin *(Vice President)*
Mr. Ng Kong Fat, Brian

Independent non-executive Directors:
Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping
Prof. Nie Yongfeng
Mr. Cheung Ming

The persons who were directors of the subsidiaries of the Company during the year (not including those directors listed above) were (in alphabetical order) Mr. Chen Gang, Ms. Cheng Yongmei, Mr. Dai Xiaofeng, Mr. Fu Yuanhong, Ms. Gong Xiaoqing, Mr. Hou Aimin, Mr. Huang Wu, Mr. Ji Haijun, Mr. Jiang Chao, Mr. Jiang Zhanlin, Mr. Li Hongwei, Mr. Li Xiaoyun, Ms. Li Yanting, Mr. Liang Chang, Mr. Liang Qiping, Mr. Ng Kwong Fung, Mr. Pan Kerong, Mr. Ren Shicheng, Mr. Thio Seng Tji, Mr. Tung Woon Cheung Eric, Mr. Wang Bingsheng, Mr. Wang Yong, Mr. Wong Kwok Wai, Mr. Xu Gang, Mr. Yang Chenglin, Mr. Yu Ronghua, Mr. Zhang Hengli, Mr. Zhang Kun and Mr. Zhu Jian.

In accordance with article 104(a) of the Company's articles of association, Mr. Ke Jian, Ms. Qin Xuemin, Dr. Jin Lizuo and Dr. Huan Guocang will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. None of the existing Directors is appointed for a specific term.

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS *(CONTINUED)*

Mr. Ng Kong Fat, Brian is appointed as an independent non-executive director of OneForce Holdings Limited (stock code: 1933) on 5 February 2018. Save as disclosed above, since the issue date of the Company's 2017 interim report, there has been no material change in the Directors' information that is required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Company has received annual confirmations of independence from each of the five independent non-executive Directors and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to Directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on page 20 of the annual report.

PERMITTED INDEMNITY PROVISIONS

In accordance with article 182(a) of the Company's articles of association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (in so far as is permitted by the Hong Kong Companies Ordinance) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' liability insurance coverage for the Directors and officers of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the transactions with 北京控股集團有限公司 ("BEGCL", the ultimate holding company of the Company) and its subsidiaries, further details of which are set out in note 41 to the financial statements, no Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transaction, arrangement or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2017, the interests and short positions of the Directors and chief executive in the share capital 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 required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

	Number of ordinary shares held, capacity and nature of interest			
Name of Director	**Directly beneficially owned**	**Through a controlled corporation**	**Total**	**Percentage of the Company's total number of issued shares**
Mr. E Meng	601,000	–	601,000	0.04
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755#	10,392,755	0.69
	2,201,000	8,792,755	10,993,755	0.73

The 8,792,755 ordinary shares are held by Sunbird Holdings Limited, a company controlled by Mr. Ng Kong Fat, Brian and his associate.

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.

Long positions in ordinary shares of an associated corporation – BEHL:

Name of Director	**Number of ordinary shares directly beneficially owned**	**Percentage of the associated corporation's share capital**
Mr. E Meng	30,000	0.002

REPORT OF THE DIRECTORS *(CONTINUED)*

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 25 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options		
Name or category of participant	**At 1 January 2017**	**Lapsed during the year**	**At 31 December 2017**
Executive Directors:			
Mr. E Meng	6,770,000	–	6,770,000
Mr. Ng Kong Fat, Brian	5,500,000	–	5,500,000
Independent non-executive Directors:			
Dr. Jin Lizuo	670,000	–	670,000
Dr. Huan Guocang	670,000	–	670,000
Dr. Wang Jianping	670,000	–	670,000
Other employees and consultants:			
In aggregate	24,240,000	(900,000)	23,340,000
	38,520,000	(900,000)	37,620,000

The outstanding share options were granted on 21 June 2011 at an exercise price of HK$1.25 (subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital) per ordinary share of the Company. The share options may be exercised at any time commencing on 21 June 2011, and if not otherwise exercised, will lapse on 20 June 2021.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS *(CONTINUED)*

CONTRACT OF SIGNIFICANCE

Save as the transactions with BEGCL and its subsidiaries, further details of which are set out in note 41 to the financial statements, no contracts of significance in relation to the Group's business in which the Company, any of its subsidiaries or fellow subsidiaries, or its parent company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2017, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in ordinary shares of the Company:

		Number of ordinary shares held, capacity and nature of interest			
Name	Notes	**Directly beneficially owned**	**Through controlled corporations**	**Total**	**Percentage of the Company's total number of issued shares**
Idata Finance Trading Limited ("Idata")		738,675,000	–	738,675,000	49.23
Beijing Enterprises Holdings Limited ("BEHL")	(a)	17,445,000	738,675,000	756,120,000	50.40
Beijing Enterprises Group (BVI) Company Limited ("BEBVI")	(b)	–	756,120,000	756,120,000	50.40
BEGCL	(b)	–	756,120,000	756,120,000	50.40
Cosmos Friendship Limited ("Cosmos")		347,000,000	–	347,000,000	23.13
Khazanah Nasional Berhad ("Khazanah")	(c)	–	347,000,000	347,000,000	23.13

REPORT OF THE DIRECTORS *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(CONTINUED)*

Notes:

(a) The interest disclosed includes the ordinary shares owned by Idata. Idata is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the ordinary shares owned by Idata.

(b) The interests disclosed include the ordinary shares owned by BEHL and Idata. BEBVI and BEGCL are the immediate holding company and the ultimate holding company of BEHL, respectively. Accordingly, each of BEBVI and BEGCL is deemed to be interested in the ordinary shares owned by each of BEHL and Idata.

(c) The interests disclosed include the ordinary shares owned by Cosmos. Cosmos is a wholly-owned subsidiary of Khazanah. Accordingly, Khazanah is deemed to be interested in the ordinary shares owned Cosmos.

Save as disclosed above, as at 31 December 2017, no person, other than the Directors, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has participated in the solid waste treatment business since 2014. During the year under review, the Group has invested in eight household waste incineration plants and one hazardous and medical waste treatment plant in the PRC. The household waste handled amounted to 330 million tonnes and on-grid electricity amounted to 828 million kWh. The Group continues to make every effort to ensure the emission and discharge standards and environment protection performance of the plants under construction and expansion and in operation.

COMPLIANCE WITH LAWS AND REGULATIONS

The solid waste treatment operations of the Group are subject to extensive environmental, safety and health laws and regulations promulgated by the PRC government. During the year under review, certain of the Group's waste treatment plants have not completed the filing for or applied for environmental protection completion acceptance within the prescribed time limit, and therefore they are not entitled to apply for subsequent general construction completion acceptance or licenses. The Directors are of the view that the non-compliance incidents, individually and in aggregate would have no material adverse impact on the operations and financial position of the Group.

Save as aforesaid, during the year under review, to the best of the knowledge of the Directors, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

REPORT OF THE DIRECTORS *(CONTINUED)*

RELATIONSHIP WITH STAKEHOLDERS

The Group is committed to operate in a sustainable manner while balancing the interest of its stakeholders including customers, suppliers and employees. The Group maintains good relationship and smooth communication channels with the municipal government authorities and regional electricity bureaus in Mainland China, which are major customers of the solid waste treatment operations of the Group. Any reported issues and recommendations will be followed up promptly with the aims of improving service quality in the future. The Group is in good relationships with its suppliers and conducts a fair and strict appraisal of its suppliers on a regular basis.

Being people-oriented, the Group continues to improve and regularly review and update its policies on staff benefits, training, occupational health and safety. The Group encourages and finances its employees to attend training courses in the fields of their job responsibilities. Work life balance is also emphasised. Regular sports and leisure events were organised to strengthen the bonding among employees.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following continuing connected transactions, which are subject to the announcement, reporting and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(a) On 29 June 2015, the Company entered into a deposit services master agreement with Beijing Enterprises Group Finance Co., Ltd. ("BG Finance", a non-wholly-owned subsidiary of BEGCL), pursuant to which 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 for the period from 29 June 2015 to 31 December 2017. The deposit rate will not be lower than (i) the minimum interest rate prescribed by the People's Bank of China; (ii) the interest rates offered by commercial banks in Hong Kong and the PRC to the Group; and (iii) the interest rates offered by BG Finance to other members of BEGCL for the same type of deposits at the same period; and the cumulative daily outstanding deposits balance in Hong Kong dollars equivalent placed by the Group with BG Finance (including any interest accrued thereon) during the term of the agreement will not exceed HK$159,000,000. Further details of the transactions are set out in the announcement of the Company dated 29 June 2015 and note 41 to the financial statements. During the year ended 31 December 2017, the net interest income recognised in profit and loss amounted to HK$1,279,000.

(b) On 31 August 2015, the Company entered into a property escrow agreement with 北京北控宏創科技有限公司 ("Hong Chuang", an indirect wholly-owned subsidiary of BEHL), pursuant to which Hong Chuang will provide the escrow services for sub-leasing the Company's investment property known as Block 5 of Beikong Hong Chuang Technology Park in Beijing, the PRC for an escrow period of three years from 1 September 2015 to 31 August 2018 and at an annual rent of RMB2,575,987 (subject to annual adjustment, if necessary). Further details of the transaction are set out in the announcement of the Company dated 1 September 2015 and note 14 to the financial statements. During the year ended 31 December 2017, the rental income recognised in profit and loss amounted to HK$2,995,000.

REPORT OF THE DIRECTORS *(CONTINUED)*

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

The independent non-executive Directors have reviewed these continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below:

Mr. E Meng is an executive director and an executive vice president of BEHL and Mr. Ke Jian and Ms. Sha Ning are vice presidents of BEHL, which is also involved in the solid waste treatment business.

Notwithstanding the fact that the Company and BEHL are both engaged in the solid waste treatment business, the Company considers that there has not been competition between it and BEHL in view of the following factors:

(a) clear geographical delineation among solid waste treatment projects;

(b) no competition in relation to the supply of household waste and sale of electricity;

(c) independent management team; and

(d) a deed of non-competition has been provided by BEHL in favour of the Company in order to completely avoid any competition between the Company and BEHL.

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS' INTERESTS IN A COMPETING BUSINESS *(CONTINUED)*

As the board of Directors of the Company is independent from the board of directors of BEHL and the above Directors do not control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of BEHL.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

E Meng
Chairman

Hong Kong
28 March 2018

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the members of Beijing Enterprises Environment Group Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Beijing Enterprises Environment Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 39 to 131, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter

Goodwill impairment assessment

The Group acquired certain companies engaging in solid waste treatment business in April 2014 and October 2016 and an aggregate goodwill of approximately HK$1.12 billion arose from these acquisitions.

The recoverable amounts of the relevant companies were determined based on their respective values in use, which were determined based on the future cash flows of the solid waste treatment business and discounted to the present values.

The assumptions and methodologies used by the Group, including the waste treatment fee received, selling prices and sales volumes of electricity, operating costs, capital expenditures, growth rates and discount rates, in the projected cash flows had significant effects on the determination of the recoverable amounts of the relevant companies.

We identified the goodwill impairment assessment as a key audit matter because of the significant balance of goodwill and the significant management judgement and estimation involved.

Related disclosures are included in notes 3 and 16 to the financial statements.

How our audit addressed the key audit matter

We involved our internal valuation specialists to assist us in evaluating the valuation models, assumptions and parameters used by the Group, giving particular attention to the estimated future revenues and results. Our procedures included testing the assumptions used in the cash flow forecast, assessing the accuracy of previous forecasts by comparing them with the current performance, and evaluating the growth and trading assumptions. We then assessed the disclosures on the impairment testing, specifically the key assumptions that had the most significant effect on the determination of the recoverable amount of the goodwill, such as the discount rates and growth rates.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Tsang Chiu Hang.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Hong Kong
28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**1,088,865**	402,467
Cost of sales		**(780,892)**	(290,820)
Gross profit		**307,973**	111,647
Other income and gains, net	5	**155,324**	67,103
Selling and distribution expenses		**(1,560)**	(1,931)
Administrative expenses		**(95,921)**	(80,201)
Other operating expenses, net		**(7,817)**	5,289
PROFIT FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS	6	**357,999**	101,907
Finance costs	7	**(60,806)**	(14,257)
Share of profit of a joint venture		**692**	1
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**297,885**	87,651
Income tax	10	**(81,692)**	(27,203)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**216,193**	60,448
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	11(a)	**–**	65,740
PROFIT FOR THE YEAR		**216,193**	126,188
ATTRIBUTABLE TO:			
Members of the Company			
Continuing operations		**190,308**	59,922
Discontinued operation		**–**	70,179
		190,308	130,101
Non-controlling interests		**25,885**	(3,913)
		216,193	126,188
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF THE COMPANY	12		
– Basic (HK cents)			
For profit for the year		**12.68**	8.67
For profit from continuing operations		**12.68**	3.99
– Diluted (HK cents)			
For profit for the year		**5.37**	5.44
For profit from continuing operations		**5.37**	2.67

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
PROFIT FOR THE YEAR		**216,193**	126,188
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
– Translation of foreign operations		**240,919**	(197,408)
– Release upon disposal of subsidiaries during the year	36	**–**	(37,289)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**240,919**	(234,697)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**457,112**	(108,509)
ATTRIBUTABLE TO:			
Members of the Company		**416,118**	(97,523)
Non-controlling interests		**40,994**	(10,986)
		457,112	(108,509)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets:			
Property, plant and equipment	13	**874,414**	743,847
Investment properties	14	**50,000**	86,091
Prepaid land lease payments	15	**51,227**	48,945
Goodwill	16	**1,122,551**	1,122,551
Operating concessions	17	**2,482,910**	2,009,485
Other intangible assets	18	**131,185**	128,026
Investment in a joint venture	19	**6,587**	5,895
Receivables under service concession arrangements	17	**2,110,505**	1,989,998
Prepayments, deposits and other receivables	22	**4,000**	21,608
Deferred tax assets	31	**26,176**	24,937
Total non-current assets		**6,859,555**	6,181,383
Current assets:			
Prepaid land lease payments	15	**1,214**	1,134
Inventories	20	**23,415**	18,184
Receivables under service concession arrangements	17	**55,236**	46,801
Trade and bills receivables	21	**141,885**	152,383
Prepayments, deposits and other receivables	22	**219,293**	52,830
Pledged deposits	23	**13,567**	8,704
Cash and cash equivalents	23	**1,968,351**	1,960,314
Total current assets		**2,422,961**	2,240,350
TOTAL ASSETS		**9,282,516**	8,421,733

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
EQUITY AND LIABILITIES			
Equity attributable to members of the Company			
Share capital	24	**2,227,564**	2,227,564
Equity component of convertible bonds	27	**158,687**	158,687
Other reserves	26(a)	**166,950**	(249,168)
		2,553,201	2,137,083
Non-controlling interests		**248,892**	207,898
TOTAL EQUITY		**2,802,093**	2,344,981
Non-current liabilities:			
Bank and other borrowings	28	**712,762**	661,689
Convertible bonds	27	**2,088,670**	2,846,457
Provision for major overhauls	29	**5,178**	3,878
Deferred income	30	**175,293**	160,115
Deferred tax liabilities	31	**265,114**	237,853
Total non-current liabilities		**3,247,017**	3,909,992
Current liabilities:			
Trade payables	32	**424,723**	292,583
Amounts due to contract customers		**617**	–
Other payables and accruals	33	**1,850,208**	1,767,108
Bank and other borrowings	28	**99,762**	73,555
Convertible bonds	27	**790,436**	–
Tax payables		**67,660**	33,514
Total current liabilities		**3,233,406**	2,166,760
TOTAL LIABILITIES		**6,480,423**	6,076,752
TOTAL EQUITY AND LIABILITIES		**9,282,516**	8,421,733

E Meng
Director

Ke Jian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Attributable to members of the Company								Non-controlling interests	Total equity
		Share capital	Equity component of convertible bonds	Share option reserve	Capital reserve	Exchange fluctuation reserve	PRC reserve funds	Retained profits/ (accu-mulated losses)	Total		
		HK$'000 (note 24)	HK$'000 (note 27)	HK$'000 (note 26(b))	HK$'000	HK$'000	HK$'000 (note 26(c))	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2016		2,225,723	11,658	21,792	121	10,121	39,752	(234,899)	2,074,268	24,657	2,098,925
Profit/(loss) for the year		–	–	–	–	–	–	130,101	130,101	(3,913)	126,188
Other comprehensive loss for the year:											
Exchange fluctuation reserve:											
Translation of foreign operations		–	–	–	–	(190,335)	–	–	(190,335)	(7,073)	(197,408)
Release upon disposal of a subsidiary	36	–	–	–	–	(37,289)	–	–	(37,289)	–	(37,289)
Total comprehensive income/(loss) for the year		–	–	–	–	(227,624)	–	130,101	(97,523)	(10,986)	(108,509)
Issue of shares upon exercise of share options	25(c)	1,841	–	(591)	–	–	–	–	1,250	–	1,250
Issue of convertible bonds	27	–	147,029	–	–	–	–	–	147,029	–	147,029
Deemed contribution from the immediate holding company	27(a)	–	–	–	12,059	–	–	–	12,059	–	12,059
Capital contribution from a non-controlling interest		–	–	–	–	–	–	–	–	4,651	4,651
Acquisition of subsidiaries	35	–	–	–	–	–	–	–	–	208,147	208,147
Disposal of a subsidiary	36	–	–	–	–	–	(34,807)	34,807	–	(18,571)	(18,571)
Transfer to PRC reserve funds		–	–	–	–	–	199	(199)	–	–	–
At 31 December 2016 and 1 January 2017		**2,227,564**	**158,687**	**21,201***	**12,180***	**(217,503)***	**5,144***	**(70,190)***	**2,137,083**	**207,898**	**2,344,981**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**190,308**	**190,308**	**25,885**	**216,193**
Other comprehensive income for the year:											
Exchange fluctuation reserve:											
Translation of foreign operations		**–**	**–**	**–**	**–**	**225,810**	**–**	**–**	**225,810**	**15,109**	**240,919**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**225,810**	**–**	**190,308**	**416,118**	**40,994**	**457,112**
Transfer of share option reserve upon the forfeiture of share options	25(d)	**–**	**–**	**(412)**	**–**	**–**	**–**	**412**	**–**	**–**	**–**
Transfer to PRC reserve funds		**–**	**–**	**–**	**–**	**–**	**6,408**	**(6,408)**	**–**	**–**	**–**
At 31 December 2017		**2,227,564**	**158,687**	**20,789***	**12,180***	**8,307***	**11,552***	**114,122***	**2,553,201**	**248,892**	**2,802,093**

* These reserve accounts comprise the consolidated other reserves of HK$166,950,000 (2016: negative other reserves of HK$249,168,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax			
From continuing operations		**297,885**	87,651
From a discontinued operation	11(a)	**–**	65,740
Adjustments for:			
Interest income	4	**(12,253)**	(9,856)
Gain on disposal of subsidiaries	11(a)	**–**	(80,970)
Compensation income	5	**(86,818)**	–
Share of profit and loss of joint ventures	4	**(692)**	1,203
Finance costs	4	**60,806**	14,284
Depreciation	4	**45,466**	20,550
Fair value loss/(gain) on investment properties	6	**(1,583)**	231
Amortisation of prepaid land lease payments	6	**1,186**	644
Amortisation of operating concessions	6	**79,360**	27,374
Amortisation of other intangible assets	4	**6,177**	4,702
Provision for major overhauls	6	**756**	122
Reversal of impairment of trade and bills receivables, net	6	**(407)**	(5,579)
Loss on disposal of items of property, plant and equipment	6	**11**	–
		389,894	126,096
Increase in inventories		**(3,841)**	(1,954)
Decrease/(increase) in receivables under operating concession arrangements		**16,159**	(53,910)
Decrease in trade and bills receivables		**21,292**	39,453
Increase in prepayments, deposits and other receivables		**(5,779)**	(41,387)
Increase/(decrease) in trade payables		**109,271**	(968,809)
Increase in amounts due to contract customers		**603**	–
Increase/(decrease) in other payables and accruals		**(39,820)**	25,409
Increase in deferred income		**3,654**	4,179
Cash generated from/(used in) operations		**491,433**	(870,923)
Mainland China income tax paid		**(37,655)**	(4,340)
Net cash flows from/(used in) operating activities		**453,778**	(875,263)

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(123,862)**	(83,401)
Proceeds from disposal of items of property, plant and equipment		**33**	–
Additions of operating concessions		**(389,941)**	–
Purchases of items of other intangible assets	18	**(331)**	(1,242)
Acquisition of subsidiaries	35	**–**	189,436
Disposal of subsidiaries	36	**–**	17,831
Decrease/(increase) in time deposits with maturity of more than three months when acquired		**94,527**	(4,313)
Decrease/(increase) in pledged deposits		**(4,863)**	34,929
Interest received		**7,214**	6,681
Net cash flows from/(used in) investing activities		**(417,223)**	159,921
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares upon exercise of share options	25(c)	**–**	1,250
Deemed contribution from the immediate holding company	27(a)	**–**	12,059
Capital contribution by a non-controlling interest		**–**	4,651
Repayment of bank loans		**(13,023)**	(150,353)
New other loans		**89,535**	–
Repayment of other loans		**(52,326)**	(29,070)
Advances from fellow subsidiaries		**–**	944,444
Interest paid		**(37,849)**	(6,451)
Net cash flows from/(used in) financing activities		**(13,663)**	776,530
NET INCREASE IN CASH AND CASH EQUIVALENTS		**22,892**	61,188
Cash and cash equivalents at beginning of year		**1,852,432**	1,944,424
Effect of foreign exchange rate changes, net		**79,672**	(153,180)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,954,996**	1,852,432
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances other than time deposits			
Placed in banks	23	**970,233**	1,058,705
Placed in a financial institution	23	**44,309**	152,909
Time deposits	23	**967,376**	757,404
Less: Pledged deposits	23	**(13,567)**	(8,704)
Cash and cash equivalents as stated in the consolidated statement of financial position		**1,968,351**	1,960,314
Less: Time deposits with maturity of more than three months when acquired		**(13,355)**	(107,882)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,954,996**	1,852,432

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

Beijing Enterprises Environment Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at 66th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the solid waste treatment business which comprises the construction and operation of waste incineration plants, waste treatment and the sales of electricity and steam generated from waste incineration. The Group has disposed of its information technology ("IT") business in 2016 and the IT business was classified as a discontinued operation (note 11).

At 31 December 2017, the immediate holding company of the Company is Idata Finance Trading Limited ("Idata"), a limited liability company incorporated in the British Virgin Islands. Idata is a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("BEHL") whose shares are listed on the Main Board of the Stock Exchange. In the opinion of the directors, the ultimate holding company of the Company is 北京控股集團有限公司 ("BEGCL"), which is a state-owned enterprise established in the People's Republic of China (the "PRC") and is wholly owned by The State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality (the "Beijing SASAC").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
北發投資(北京)有限公司#	PRC/Mainland China	US$30,000,000	100	Investment holding
北京北發建設發展有限公司	PRC/Mainland China	RMB20,000,000	80	Provision of construction and consultation services
泰安北控環境能源開發有限公司# (formerly named as 泰安中科環保電力有限公司, "Taian Beikong")	PRC/Mainland China	US$40,700,000	100	Household waste incineration
常德中聯環保電力有限公司# ("Changde Zhonglian")	PRC/Mainland China	RMB83,780,000	100	Household waste incineration
北京北控綠海能環保有限公司* ("Beikong Lvhaineng")	PRC/Mainland China	RMB308,340,000	99	Household waste incineration
北京高安屯垃圾焚燒有限公司* ("Beijing Gaoantun")	PRC/Mainland China	RMB274,000,000	84.896	Household waste incineration

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(CONTINUED)*

Information about subsidiaries *(continued)*

Name	Place of registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
北控環境再生能源（張家港）有限公司# (formerly named as 張家港金州再生能源有限公司, "Beikong Zhangjiagang")	PRC/Mainland China	RMB282,000,000	100	Household waste incineration
哈爾濱市雙琦環保資源利用有限公司* ("Ha'erbin Shuangqi")	PRC/Mainland China	RMB240,000,000	80	Household waste incineration
北控環境再生能源沭陽有限公司 ("Beikong Shuyang")	PRC/Mainland China	RMB158,369,000	100	Household waste incineration
北控環境（文昌）再生能源有限公司 ("Beikong Wenchang")	PRC/Mainland China	RMB20,000,000	100	Household waste incineration
湖南衡興環保科技開發有限公司 ("Hunan Hengxing")	PRC/Mainland China	RMB38,090,000	65	Hazardous and medical waste treatment
Beijing Development Property Investment and Management Co., Ltd. *	PRC/Mainland China	US$4,000,000	85.5	Property investment

Registered as wholly-foreign-owned enterprises under PRC law
* Registered as a Sino-foreign joint venture under PRC law

All of the above principal subsidiaries are indirectly held by the Company. The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that its current liabilities exceeded its current assets as at 31 December 2017. Taking into account the Group's internal resources and undertaking from certain fellow subsidiaries not to demand repayment of the amounts due by the Group to them until such time when the Group is in a position to repay without impairing its liquidity and financial position, the directors of the Company considered that the Group will be able to operate on a going concern basis. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.1 BASIS OF PREPARATION *(CONTINUED)*

Basis of consolidation *(continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

Except for certain amendments included in *Annual Improvements 2014-2016 Cycle* which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 37 to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

(a) The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

(b) In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(i) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(b) *(continued)*

(ii) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

(c) Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

(d) HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the application of HKFRS 15 in the future may result in more disclosures.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(e) HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 39(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$8,714,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(f) Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

(g) HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

(h) HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has controls or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of the group of which it is a part, provides key management personnel service to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.2% to 3.8%
Leasehold improvements	Over the shorter of the lease terms and 20%
Plant and machinery	4.75% to 19%
Furniture, fixtures and office equipment	9.5% to 31.7%
Motor vehicles	7.9% to 19%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Service concession arrangements

Concession arrangements are recognised in accordance with HK(IFRIC)-Int 12 *Service Concession Arrangements*.

HK(IFRIC)-Int 12 is applicable to concession arrangements comprising a public service obligation and satisfying both of the following criteria:

- The concession grantor controls or regulates the services to be provided by the operator using the asset, the infrastructure, the beneficiaries of the services and the prices applied; and

- The grantor controls the significant residual interest in the infrastructure at the end of the term of the arrangement.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Service concession arrangements *(continued)*

The accounting for service concession arrangements is as follows:

Consideration given by the grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that (a) the Group has an unconditional right to receive cash or another financial asset from or at the direction of the grantor for the construction services rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets the specified quality of efficiency requirements. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy set out for "Investments and other financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of the public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets (other than goodwill)" below.

If the Group is paid partly by a financial asset and partly by an intangible asset, in which case, each component of the consideration is accounted for separately and the consideration received or receivable for both components shall be recognised initially at the fair value of the consideration received or receivable.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for "Construction contracts" below.

Operating services

Revenue relating to operating services are accounted for in accordance with the policy for "Revenue recognition" below. Costs for operating services are expensed in the period in which they are incurred.

Contractual obligations to restore the infrastructure to a specified level of serviceability

The Group has contractual obligations which it must fulfil as a condition of its licence, that is (a) to maintain the solid waste incineration plants it operates to a specified level of serviceability and/or (b) to restore the plants to a specified condition before they are handed over to the grantor at the end of the service concession arrangement. These contractual obligations to maintain or restore the solid waste incineration plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The principal annual rates used for this purpose are as follows:

Operating concessions	3.3% to 5.5%
Operating rights	3.7% to 4.1%
Licences	4% to 6.7%
Computer software	10% to 20%

The Group entered into service concession agreements with government authorities and obtained the rights to operate solid waste incineration plants in the PRC. Where the service concession arrangement is on a Build-Operate-Transfer ("BOT") basis, HK(IFRIC)-Int 12 applies and the non-guarantee receipt right to receive cash is accounted for as an "operating concession". Where the service concession arrangement is on a Build-Operate-Own ("BOO") basis, HK(IFRIC)-Int 12 does not apply and the fair value of the non-guarantee receipt right to receive cash acquired in a business combination is accounted for as a "operating right". Amortisation of "operating concessions" and "operating rights" is provided on the straight-line basis over the respective periods of the operating concessions granted to the respective subsidiaries of the Group.

Intangible assets with finite lives are subsequently assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, financial assets and inventories), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in "Other operating expenses, net" in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets are all classified, at initial recognition, as loans and receivables, which are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Other income and gains, net" in the statement of profit or loss. The loss arising from impairment is recognised "Other operating expenses, net" in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other operating expenses, net" in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as loans and borrowings, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial liabilities *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component (conversion option).

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability or a current liability, as appropriate, on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option (the equity component) that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. In respect of the convertible bonds issued by the Company, the equity component is included in the Company's convertible bond equity reserve. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognised.

Upon the exercise of the conversion option, the resulting shares issued are recorded by the Company as additional share capital.

When convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognised in profit or loss. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits as a movement in reserves. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises construction revenue recognised under BOT contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction of waste treatment plants under the terms of BOT contracts (service concession agreements) is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in a similar location, and is recognised on the percentage-of-completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grant

Government grant is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, electricity and steam, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods, electricity and steam sold;

(b) from the provision of waste treatment services, revenue is recognised when the service is rendered and it is probable that the economic benefits will flow to the Group;

(c) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(d) rental income, on a time proportion basis over the lease term; and

(e) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair values are determined by external valuers using the Black-Scholes-Merton option pricing model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options, if any, is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits *(continued)*

Pension schemes

Certain companies within the Group have participated in a number of defined contribution retirement benefit schemes required by the respective local governments in which they operate for their employees. Contributions are made based on a certain percentage of the covered payroll and are charged to profit or loss as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas and Mainland China subsidiaries, a joint venture and an associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of exchange fluctuation reserve relating to that particular foreign operation is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(continued)*

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas and Mainland China subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas and Mainland China subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less costs of disposal of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. For the Group's service concession arrangements, assumption is also made on the possibility of renewal of the relevant operating rights upon expiry which enables the Group to generate income perpetually. The carrying amount of goodwill carried as assets in the consolidated statement of financial position as at 31 December 2017 was HK$1,122,551,000 (2016: HK$1,122,551,000), details of which are set out in note 16 to the financial statements.

Percentage of completion of construction work

The Group recognises revenue for construction work according to the percentage of completion of the individual contracts of construction work. The Group's management estimates the percentage of completion of construction work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Useful lives and residual values of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the useful lives, residual values and related depreciation/amortisation charges for the Group's property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charges where useful lives or residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives of the Group's property, plant and equipment and intangible assets and therefore depreciation/amortisation in the future periods.

Impairment of property, plant and equipment and intangible assets (other than goodwill)

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs of disposal and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows or compensation to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Provision for impairment of trade and bills receivables and other receivables

The policy for provision for impairment of trade and bills receivables and other receivables of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas jurisdictions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

4. 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. Particulars of the Group's reportable operating segments are summarised as follows:

(a) the solid waste treatment segment comprises the construction and operation of waste incineration plants, waste treatment and the sale of electricity and steam generated from waste incineration.

(b) the corporate and others segment comprises property investment and corporate income and expense items.

(c) the IT segment comprises the sale of IT related products, the provision of system integration and maintenance services and software development (disposed of in 2016 and classified as a discontinued operation, note 11).

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/loss for the period attributable to members of the Company, which is a measure of adjusted profit/loss for the period attributable to members of the Company from continuing operations. The adjusted profit/loss for the period attributable to members of the Company from continuing operations is measured consistently with the Group's profit/loss attributable to members of the Company from continuing operations.

Segment assets and liabilities of each of the reportable operating segments are separately managed by each of the individual operating segments.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

The following tables present revenue, profit/loss, total assets and total liabilities regarding the Group's operating segments for the years ended 31 December 2017 and 2016.

	Continuing operations			Discontinued operation	
	Solid waste treatment HK$'000	Corporate and others HK$'000	Sub-total HK$'000	IT HK$'000	Total HK$'000
Year ended 31 December 2017					
Segment revenue	1,088,865	–	1,088,865	–	1,088,865
Cost of sales	(780,892)	–	(780,892)	–	(780,892)
Gross profit	307,973	–	307,973	–	307,973
Profit from operating activities	277,581	80,418	357,999	–	357,999
Finance costs	(28,157)	(32,649)	(60,806)	–	(60,806)
Share of profit of a joint venture	692	–	692	–	692
Profit before tax	250,116	47,769	297,885	–	297,885
Income tax	(52,246)	(29,446)	(81,692)	–	(81,692)
Profit for the year	197,870	18,323	216,193	–	216,193
Segment profit attributable to members of the Company	180,360	9,948	190,308	–	190,308
Segment assets	7,970,684	1,311,832	9,282,516	–	9,282,516
Segment liabilities	2,998,031	3,482,392	6,480,423	–	6,480,423
Other segment information:					
Interest income	5,439	6,814	12,253	–	12,253
Reversal of impairment of segment assets	(407)	–	(407)	–	(407)
Depreciation	43,969	1,497	45,466	–	45,466
Amortisation of prepaid land lease payments	1,186	–	1,186	–	1,186
Amortisation of operating concessions	79,360	–	79,360	–	79,360
Amortisation of other intangible assets	6,177	–	6,177	–	6,177
Investment in a joint venture	6,587	–	6,587	–	6,587
Capital expenditure*	523,430	23	523,453	–	523,453

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

	Continuing operations			Discontinued operation	
	Solid waste treatment HK$'000	Corporate and others HK$'000	Sub-total HK$'000	IT HK$'000	Total HK$'000
Year ended 31 December 2016					
Segment revenue	402,467	–	402,467	14,747	417,214
Cost of sales	(290,820)	–	(290,820)	(16,560)	(307,380)
Gross profit/(loss)	111,647	–	111,647	(1,813)	109,834
Profit/(loss) from operating activities	124,142	(22,235)	101,907	(13,999)	87,908
Gain on disposal of a subsidiary	–	–	–	80,970	80,970
Finance costs	(6,456)	(7,801)	(14,257)	(27)	(14,284)
Share of profits and losses of joint ventures	1	–	1	(1,204)	(1,203)
Profit/(loss) before tax	117,687	(30,036)	87,651	65,740	153,391
Income tax	(25,544)	(1,659)	(27,203)	–	(27,203)
Profit/(loss) for the year	92,143	(31,695)	60,448	65,740	126,188
Segment profit/(loss) attributable to members of the Company	91,566	(31,644)	59,922	70,179	130,101
Segment assets	7,219,078	1,202,655	8,421,733	–	8,421,733
Segment liabilities	3,187,489	2,889,263	6,076,752	–	6,076,752
Other segment information:					
Interest income	2,729	6,910	9,639	217	9,856
Reversal of impairment of segment assets, net	(5,579)	–	(5,579)	–	(5,579)
Depreciation	18,664	1,364	20,028	522	20,550
Amortisation of prepaid land lease payments	644	–	644	–	644
Amortisation of operating concessions	27,374	–	27,374	–	27,374
Amortisation of other intangible assets	4,562	–	4,562	140	4,702
Investment in a joint venture	5,895	–	5,895	–	5,895
Capital expenditure*	2,080,897	3,910	2,084,807	337	2,085,144

* Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, operating concessions and other intangible assets (including assets from the acquisition of subsidiaries).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Geographical information

Geographical information is not presented since over 90% of the Group's revenue from external customers is generated in Mainland China and over 90% of the non-current assets (other than financial assets) of the Group are located in Mainland China. Accordingly, in the opinion of the directors, the presentation of geographical information would provide no additional useful information to the users of the financial statements.

Information about major customers

During the year, the Group had transactions with two external customers (2016: three) from each of which the revenue derived accounted for over 10% of the Group's total revenue from continuing operations. The revenue from continuing operations generated from sales to each of these customers is set out below:

	2017 **HK$'000**	2016 HK$'000
Customer A	**183,124#**	–
Customer B	**124,397**	N/A
Customer C	**N/A**	163,414#
Customer D	**N/A**	60,230
Customer E	**N/A**	41,558

These amounts represented the deemed construction revenue from the provision of construction services to government authorities recognised according to HK(IFRIC)-12 *Service Concession Arrangements*.

N/A Less than 10% of the Group's total revenue from continuing operations.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

5. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents an appropriate proportion of contract revenue of construction contracts and related services relating to solid waste treatment, income from household waste treatment, hazardous and medical waste treatment, leachate, sludge and other treatments, sale of electricity and steam, net of value added tax and government surcharges.

An analysis of the Group's revenue, other income and gains, net from continuing operations is as follows:

	2017	2016
	HK$'000	HK$'000
Revenue		
Household waste treatment*	**194,779**	73,575
Hazardous and medical waste treatment	**50,868**	8,634
Leachate, sludge and other treatments	**22,267**	–
Sale of electricity	**398,992**	153,395
Sale of steam	**2,298**	1,704
Construction and related services*	**419,661**	165,159
	1,088,865	402,467
Other income		
Compensation income, net	**86,818**	–
Value added tax refund	**48,001**	18,153
Interest income	**12,253**	9,639
Rental income	**3,036**	3,037
Government grant#	**1,474**	5,309
Others	**2,159**	1,815
	153,741	37,953
Gains, net		
Fair value gain on an investment property	**1,583**	–
Foreign exchange differences, net	**–**	29,150
	1,583	29,150
Other income and gains, net	**155,324**	67,103

* Imputed interest income under service concession arrangements during the year amounting to HK$101,852,000 (2016: HK$44,831,000) was included in the revenue derived from household waste treatment and construction and related services.

The government grant recognised by the Group during the year represented subsidies received from certain government authorities as incentives to promote and accelerate development in the local province.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

6. PROFIT FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS

The Group's profit from operating activities of continuing operations is arrived at after charging/(crediting):

	Notes	2017 HK$'000	2016 HK$'000
Cost of raw materials consumed		**114,473**	60,006
Cost of waste treatment services rendered*		**219,813**	66,219
Cost of construction and related services		**328,097**	116,216
Depreciation[Ω]	13	**45,466**	20,028
Loss on disposal of items of property, plant and equipment		**11**	–
Minimum lease payments under operating leases		**11,399**	13,084
Fair value loss/(gain) on investment properties, net	14	**(1,583)**	231
Amortisation of prepaid land lease payments**	15	**1,186**	644
Amortisation of operating concessions**	17	**79,360**	27,374
Amortisation of other intangible assets**	18	**6,177**	4,562
Provision for major overhauls**	29	**756**	122
Reversal of impairment of trade receivables, net[#]	21(b)	**(407)**	(5,579)
Auditor's remuneration		**3,200**	3,500
Employee benefit expense (including directors' remuneration – note 8):			
Wages and salaries		**145,167**	77,265
Pension scheme contributions (defined contribution scheme)		**12,936**	6,226
		158,103	83,491
Less: Amount capitalised in construction in progress/ operating concessions		**(28,633)**	(2,796)
		129,470	80,695
Foreign exchange difference, net		**6,901**	(29,150)

* The cost of waste treatment services rendered does not include the recognition of government subsidies of HK$7,330,000 (2016: HK$1,106,000) based on straight-line basis over the expected useful lives of the relevant assets (note 30), which is included in "Cost of sales" in the consolidated statement of profit or loss.

Ω Depreciation amount of HK$38,712,000 (2016: HK$16,910,000) is included in "Cost of sales" in the consolidated statement of profit or loss.

** The amortisation of prepaid land lease payments, operating concessions, other intangible assets (excluding computer software amounting to HK$352,000 (2016: HK$127,000)) and the provision for major overhauls are included in "Cost of Sales" in the consolidated statement of profit or loss.

\# These items are included in "Other operating expenses, net" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Notes	**2017 HK$'000**	2016 HK$'000
Interest on bank and other borrowings		**37,849**	6,424
Imputed interest on convertible bonds	27	**32,649**	7,801
Total interest expenses		**70,498**	14,225
Increase in discounted amounts of provision for major overhauls arising from the passage of time	29	**244**	32
Total finance costs		**70,742**	14,257
Less: Interest capitalised in operating concessions		**(9,936)**	–
		60,806	14,257

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees	**1,360**	1,360
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	–
Pension scheme contributions	**2**	2
	2	2
	1,362	1,362

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

8. DIRECTORS' REMUNERATION *(CONTINUED)*

An analysis of directors' remuneration for the year is as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017				
Executive directors				
Mr. E Meng	**130**	**–**	**–**	**130**
Mr. Ke Jian	**120**	**–**	**–**	**120**
Ms. Sha Ning	**120**	**–**	**–**	**120**
Ms. Qin Xuemin	**120**	**–**	**–**	**120**
Mr. Ng Kong Fat, Brian	**120**	**–**	**2**	**122**
	610	**–**	**2**	**612**
Independent non-executive directors				
Dr. Jin Lizuo	**150**	**–**	**–**	**150**
Dr. Huan Guocang	**150**	**–**	**–**	**150**
Dr. Wang Jianping	**150**	**–**	**–**	**150**
Prof. Nie Yongfeng	**150**	**–**	**–**	**150**
Mr. Cheung Ming	**150**	**–**	**–**	**150**
	750	**–**	**–**	**750**
Total	**1,360**	**–**	**2**	**1,362**

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

8. DIRECTORS' REMUNERATION *(CONTINUED)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016				
Executive directors				
Mr. E Meng	130	–	–	130
Mr. Ke Jian	120	–	–	120
Ms. Sha Ning	120	–	–	120
Ms. Qin Xuemin	120	–	–	120
Mr. Ng Kong Fat, Brian	120	–	2	122
	610	–	2	612
Independent non-executive directors				
Dr. Jin Lizuo	150	–	–	150
Dr. Huan Guocang	150	–	–	150
Dr. Wang Jianping	150	–	–	150
Prof. Nie Yongfeng	150	–	–	150
Mr. Cheung Ming	150	–	–	150
	750	–	–	750
Total	1,360	–	2	1,362

There were no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year do not include any director (2016: none). Details of the remuneration of the five (2016: five) non-director, highest paid employees for the year are as follows:

	2017	2016
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,398**	4,472
Pension scheme contributions	**171**	387
	5,569	4,859

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2017	2016
	HK$'000	HK$'000
Nil – HK$1,000,000	**1**	3
HK$1,000,001 – HK$1,500,000	**4**	2
	5	5

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit arising in Hong Kong during the year. No provision for Hong Kong profits tax was made for the year ended 31 December 2016 as the Group did not generate any assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2017	2016
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**280**	–
Current – Mainland China		
Charge for the year	**70,635**	9,371
Underprovision in prior years	**214**	1,883
	71,129	11,254
Deferred (note 31)	**10,563**	15,949
Total tax charge for the year	**81,692**	27,203

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

10. INCOME TAX *(CONTINUED)*

A reconciliation of the tax expense applicable to profit before tax from continuing operations at the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	2017		2016	
	HK$'000	**%**	HK$'000	%
Profit before tax from continuing operations	**297,885**		87,651	
Tax at the statutory tax rates	**75,160**	**25.2**	20,820	23.8
Effect of withholding tax on interest income from intercompany loans	**2,438**	**0.8**	2,077	2.4
Tax concession enjoyed	**(3,681)**	**(1.2)**	(3,011)	(3,4)
Adjustments in respect of current tax of previous periods	**214**	**0.1**	1,883	2.1
Profit attributable to a joint venture	**(114)**	**–**	–	–
Income not subject to tax	**(4,507)**	**(1.5)**	(3,318)	(3.9)
Expenses not deductible for tax	**15,452**	**5.1**	6,477	7.4
Tax losses not recognised	**79**	**–**	2,275	2.6
Tax losses utilised from previous period	**(3,349)**	**(1.1)**	–	–
Tax expense at the Group's effective rate	**81,692**	**27.4**	27,203	31.0

In accordance with the relevant tax laws of the PRC, certain subsidiaries of the Group which are engaged in the solid waste treatment business are exempted from corporate income tax for three years starting from the first year they generated revenue and granted a 50% tax reduction for the ensuing three years.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

11. DISCONTINUED OPERATION

The Group had ceased its IT business in prior years, which was mainly undertaken by the subsidiaries of B E Information Technology Group Limited ("BEITG"), an indirectly-owned subsidiary of the Company.

On 23 December 2014, Prime Technology Group Limited ("PTG"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with a fellow subsidiary of the Company, Beijing Enterprises Group Information Limited ("BEGIL", a wholly-owned subsidiary of BEGCL), pursuant to which PTG conditionally agreed to dispose of its 72% equity interest in BEITG and its subsidiaries (collectively, the "BEITG Group") and the shareholders' loans owed by the BEITG Group to the Company for a total cash consideration of HK$126,000,000 (the "BEITG Disposal"). The BEITG Disposal was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 19 May 2015 and was completed in March 2016. Further details of the BEITG Disposal are set out in note 36 to the financial statements.

The IT segment was classified as a discontinued operation for the year ended 31 December 2016.

(a) The results of a discontinued operation dealt with in the consolidated financial statements for the year ended 31 December 2016 were summarised as follows:

	2016 HK$'000
Revenue	14,747
Other income and gains, net	225
Cost of sales and operating expenses	(28,998)
	(14,026)
Share of profits and losses of a joint venture	(1,204)
Loss before tax	(15,230)
Income tax	–
Loss for the year	(15,230)
Gain on disposal of a discontinued operation, net of income tax of nil (note 36)	80,970
Profit for the year from a discontinued operation	65,740
Attributable to:	
Members of the Company	70,179
Non-controlling interests	(4,439)
	65,740

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

11. DISCONTINUED OPERATION *(CONTINUED)*

(b) The net cashflow of a discontinued operation dealt with in the consolidated financial statements for the year ended 31 December 2016 was as follows:

	2016 HK$'000
Operating activities	(86,610)
Investing activities	(337)
Net cash outflow attributable to a discontinued operation	(86,947)

(c) Earnings per share from a discontinued operation

	2016 HK cents
Basic	4.68
Diluted	2.77

The calculation of the basic earnings per share amount from a discontinued operation for the year ended 31 December 2016 was based on the profit for the year from a discontinued operation attributable to members of the Company of HK$70,179,000 and the weighted average number of ordinary shares in issue during that year (note 12).

The calculation of the diluted earnings per share amount from a discontinued operation for the year ended 31 December 2016 was based on the profit for the year from a discontinued operation attributable to members of the Company of HK$70,179,000 and the weighted average number of ordinary shares in issue (note 12), adjusted to reflect the effect of the exercise of all dilutive share options and the deemed conversion of all convertible bonds at the beginning of that year.

12. EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF THE COMPANY

The calculations of the basic earnings per share amounts are based on the profit for the year and the profit for the year from continuing operations attributable to members of the Company, and the weighted average number of ordinary shares in issue during the year.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

12. EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF THE COMPANY *(CONTINUED)*

The calculations of the diluted earnings per share amounts are based on the profit for the year and the profit for the year from continuing operations attributable to members of the Company, and the weighted average number of ordinary shares in issue, adjusted to reflect the effect of the exercise of all dilutive share options and the deemed conversion of all convertible bonds at the beginning of the year.

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

	2017 **HK$'000**	2016 HK$'000
For profit for the year		
Profit for the year attributable to members of the Company, used in the basic earnings per share calculation	**190,308**	130,101
Imputed interest on convertible bonds	**32,649**	7,801
Profit for the year attributable to members of the Company, used in the diluted earnings per share calculation	**222,957**	137,902
For profit for the year from continuing operations		
Profit for the year from continuing operations attributable to members of the Company, used in the basic earnings per share calculation	**190,308**	59,922
Imputed interest on convertible bonds	**32,649**	7,801
Profit for the year from continuing operations attributable to members of the Company, used in the diluted earnings per share calculations	**222,957**	67,723

	2017	2016
Number of ordinary shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	**1,500,360,150**	1,500,341,024
Effect of dilution – weighted average number of ordinary shares:		
Share options	**1,453,684**	7,590,718
Convertible bonds	**2,648,938,053**	1,024,823,009
Weighted average number of ordinary shares, used in the diluted earnings per share calculation	**4,150,751,887**	2,532,754,751

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017								
At 1 January 2017:								
Cost		208,309	7,991	497,283	7,100	8,326	58,314	787,323
Accumulated depreciation		(11,479)	(1,742)	(26,590)	(1,867)	(1,798)	–	(43,476)
Net carrying amount		196,830	6,249	470,693	5,233	6,528	58,314	743,847
Net carrying amount:								
At 1 January 2017		196,830	6,249	470,693	5,233	6,528	58,314	743,847
Additions		–	3,730	6,630	1,519	2,979	109,004	123,862
Depreciation provided during the year	6	(8,105)	(2,370)	(31,414)	(2,005)	(1,572)	–	(45,466)
Disposals		–	–	–	(21)	(23)	–	(44)
Transfer from construction in progress		266	–	1,262	–	–	(1,528)	–
Transfer to operating concessions	17	–	–	–	–	–	(2,319)	(2,319)
Exchange realignment		13,872	479	32,649	364	500	6,670	54,534
At 31 December 2017		202,863	8,088	479,820	5,090	8,412	170,141	874,414
At 31 December 2017:								
Cost		223,460	12,337	540,883	8,770	11,732	170,141	967,323
Accumulated depreciation		(20,597)	(4,249)	(61,063)	(3,680)	(3,320)	–	(92,909)
Net carrying amount		202,863	8,088	479,820	5,090	8,412	170,141	874,414

At 31 December 2017, the Group was in the process of applying for the change of registration of the title certificates with respect to the buildings of the plant of Beikong Zhangjiagang to which the Group's service concession arrangement relates. The directors of the Group are of the opinion that the Group is entitled to the lawful and valid occupation or use of the buildings and that the Group would not have any legal barriers in obtaining the title certificates.

Moreover, at 31 December 2017, the Group was in the process of applying for the completion of final acceptance of the construction of the plant of Beikong Zhangjiagang from the relevant government authorities. The directors of the Group are of the opinion that the Group expected to have no legal barriers in completing of final acceptance of the plant of Beikong Zhangjiagang or subject to any administrative sanctions and the Group is legitimated to operate the plant of Beikong Zhangjiagang.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Notes	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2016								
At 1 January 2016:								
Cost		78,692	631	156,332	1,711	3,793	3,991	245,150
Accumulated depreciation		(8,033)	(631)	(15,381)	(1,020)	(1,256)	–	(26,321)
Net carrying amount		70,659	–	140,951	691	2,537	3,991	218,829
Net carrying amount:								
At 1 January 2016		70,659	–	140,951	691	2,537	3,991	218,829
Additions		–	7,475	13,280	4,499	1,147	56,663	83,064
Acquisition of subsidiaries	35	140,418	226	345,794	1,242	3,864	6,870	498,414
Depreciation provided during the year	6	(4,260)	(1,164)	(12,982)	(951)	(671)	–	(20,028)
Transfer from construction in progress		–	–	6,438	–	–	(6,438)	–
Exchange realignment		(9,987)	(288)	(22,788)	(248)	(349)	(2,772)	(36,432)
At 31 December 2016		196,830	6,249	470,693	5,233	6,528	58,314	743,847
At 31 December 2016:								
Cost		208,309	7,991	497,283	7,100	8,326	58,314	787,323
Accumulated depreciation		(11,479)	(1,742)	(26,590)	(1,867)	(1,798)	–	(43,476)
Net carrying amount		196,830	6,249	470,693	5,233	6,528	58,314	743,847

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

14. INVESTMENT PROPERTIES

	2017 HK$'000	2016 HK$'000
Carrying amount at 1 January	**86,091**	93,592
Demolishment	**(42,805)**	–
Net gain/(loss) from a fair value adjustment (note 6)	**1,583**	(231)
Exchange realignment	**5,131**	(7,270)
Carrying amount at 31 December	**50,000**	86,091

Details of the investment properties, which are held under medium term leases, are as follows:

Location	Notes	**Use**	**Attributable interest of the Group**
Part of the second floor and the entire third floor, A No. 1 Jianguomenwai Avenue, Chaoyang District, Beijing, the PRC ("Golden Bridge Building")	(a)	Office building	85.5%
Block 5, Beikong Hong Chuang Technology Park, No. A1, Chaoqian Road, Changping District, Beijing, the PRC ("Hong Chuang Building")	(b)	Office building	100%

Notes:

(a) The Golden Bridge Building has been demolished during the year under a proposed redevelopment plan of the Beijing Municipal Government. Compensation receivable of approximately RMB111 million (approximately HK$133 million) from the relevant government authority is included in "Other receivables" of the Group as at 31 December 2017 (note 22(a)).

At 31 December 2016, the Golden Bridge Building was vacant and was revalued based on valuation performed by 中和華（北京）資產評估有限公司, independent professionally qualified valuers registered in the PRC, in accordance with the relevant rules and regulations applicable to the demolishment in the PRC. Under the valuation method, fair value was estimated using assumption regarding the amount that currently would be required to compensate for the owner, which was measured at replacement cost. Principal assumptions include those related to land price and adjusted indices for plot ratio, original use of the building and planned use of the building.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

14. INVESTMENT PROPERTIES *(CONTINUED)*

Notes: *(continued)*

(b) On 14 February 2012, the Company entered into a property transfer agreement with 北京北控宏創科技有限公司 ("Hong Chuang", an indirect wholly-owned subsidiary of BEHL), pursuant to which the Company agreed to purchase the Hong Chuang Building at a cash consideration of RMB32,000,460 and an amount of RMB25,600,368 was paid by the Company in 2012.

On 31 August 2015, the Company entered into a property escrow agreement with Hong Chuang and pursuant to which Hong Chuang will provide the escrow services for sub-leasing the Hong Chuang Building for an escrow period of three years from 1 September 2015 to 31 August 2018 and at an annual rent of RMB2,575,987 (subject to annual adjustment, if necessary). Further details of the transaction are set out in the announcement of the Company dated 1 September 2015. During the year, the rental income recognised in profit and loss amounted to HK$2,995,000 (2016: HK$2,995,000). Despite that the Company is still in the process of applying for the change of registration of the title certificates with respect to the land use right and the Hong Chuang Building up to the date of approval of these financial statements, the directors of the Company are of the opinion that the title of the property had been transferred to the Company according to the property transfer agreement upon the effective date of the property escrow agreement and the Company is entitled to the lawful and valid occupation or use of the Hong Chuang Building and that the Company would not have any legal barriers in obtaining the title certificates.

At 31 December 2017, the Hong Chuang Building was revalued based on valuation performed by DTZ Cushman & Wakefield Limited, independent professionally qualified valuers, by using direct comparison method and investment method. Under the direct comparison method, the capital value is with reference to comparable sale transactions as available in the relevant market. Comparable properties are analysed and carefully weighted against all the respective advantages and disadvantages of each property, including location, quality, level, asking price adjustment, internal decoration, view and size in order to arrive at a fair comparison of capital value. The investment method is applied by capitalising the rental with provisions for reversionary rental potential.

(c) Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuation of the Group's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussion with the valuer on the valuation assumptions and valuation results annually when the valuation is performed for annual financial reporting purpose.

The Group's investment properties are measured at fair value by applying valuation approach as described above using inputs which are not based on observable market data (unobservable inputs) at the end of each reporting period and such measurement is classified as level 3 in the fair value hierarchy of HKFRS 13.

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

14. INVESTMENT PROPERTIES *(CONTINUED)*

Notes: *(continued)*

(c) *(continued)*

Description of valuation technique used and key inputs to valuation on investment property:

Property	Fair value at 31 December 2017	Valuation techniques	Significant unobservable inputs	Range or weighted average of unobservable input(s)
Hong Chuang Building	HK$50,000,000	Direct comparison method and investment method	Estimated rental value (per m^2/month)	RMB71
			Capitalisation rate	8%
			Price per m^2	RMB9,324

A significant increase(decrease) in any of the above unobservable inputs in isolation would result in a significant increase(decrease) in the fair value of the investment property.

15. PREPAID LAND LEASE PAYMENTS

	Notes	**2017 HK$'000**	2016 HK$'000
Carrying amount at 1 January		**50,079**	24,359
Acquisition of subsidiaries	35	**–**	29,203
Amortisation provided during the year	6	**(1,186)**	(644)
Exchange realignment		**3,548**	(2,839)
Carrying amount at 31 December		**52,441**	50,079
Portion classified as current assets		**(1,214)**	(1,134)
Non-current assets		**51,227**	48,945

The leasehold lands are situated in Mainland China and are held under medium term leases.

16. GOODWILL

	2017 HK$'000	2016 HK$'000
Cost and net carrying amount:		
At 1 January	**1,122,551**	160,161
Acquisition of subsidiaries (note 35)	**–**	962,390
At 31 December	**1,122,551**	1,122,551

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

16. GOODWILL *(CONTINUED)*

Impairment testing of goodwill

The carrying amount of the goodwill acquired through acquisition of subsidiaries has been allocated to the relevant business units of the solid waste treatment segment of the Group for impairment testing.

The recoverable amount of the relevant business units in the solid waste treatment segment has been determined based on a value-in-use calculation using cash flow projections based on financial forecast approved by senior management covering the service concession periods and based on the assumption that sizes of the operations remain constant perpetually. The discount rates applied to the cash flow projections is 10% (2016: 10.2% to 11.1%). The growth rate used to extrapolate the cash flows beyond the service concession periods is 3% (2016: 2.5% to 3%).

Based on the results of the impairment testing of goodwill, in the opinion of the directors, no impairment provision is considered necessary for the Group's goodwill as at 31 December 2017 (2016: Nil).

Assumptions were used in the value in use calculation of the relevant business units in the solid waste treatment segment for 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted turnover – It is based on the projected solid waste treatment volume and the latest solid waste treatment and electricity selling prices up to the date of the forecast.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Business environment – There have been no major changes in the existing political, legal and economic conditions in Mainland China. Under the service concession arrangements, the Group has been granted with priority for renewal of operating rights of its solid waste incineration plants. Given its performance record and its relationship with the grantors, the Group has key advantages over other operators. In addition, the high investment cost has also created an entry barrier for new competitors. Therefore, in the opinion of the directors, the operating rights of solid waste incineration plants shall be renewed upon expiry, and therefore the size of the solid waste treatment operation is expected to remain constant perpetually which enables the Group to generate income perpetually.

Discount rates – The discount rates used are after tax and reflect specific risks relating to the relevant business units. The pre-tax discount rate implied in the cash flow projections is 10.8% for the relevant business units (2016: 11.4% to 13.3%).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

17. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into service concession arrangements with governmental authorities in Mainland China on a BOT basis in respect of the construction and operation of solid waste incineration plants. These service concession arrangements involve the Group as an operator in (i) constructing the incineration plants (the "Facilities") for those arrangements on a BOT basis; and (ii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for periods ranging from 15 to 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the Service Concession Periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, but the relevant governmental authorities as grantors retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the relevant subsidiaries and the relevant governmental authority in Mainland China that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods, and arrangements for arbitrating disputes.

Details of the major terms of the service concession arrangements are set out as follows:

Name of company as operator	Location	Name of grantor	Type of service concession arrangement	Practical processing capacity (tonnes/day)	Service concession period
Changde Zhonglian	Hunan	常德市環境衛生管理處	BOT	800	27 years from 2010 to 2037
Beikong Lvhaineng	Beijing	北京市海澱區市政市容管理委員會	BOT	2,500	30 years expecting from 2018 to 2048
Beijing Gaoantun	Beijing	北京市朝陽區市政市容管理委員會	BOT	1,600	30 years from 2005 to 2034
Ha'erbin Shuangqi	Heilongjiang	哈爾濱市城市管理局	BOT	1,600	30 years from 2013 to 2043
Beikong Shuyang	Jiangsu	江蘇省沭陽縣人民政府	BOT	600	30 years from 2015 to 2045
Beikong Wenchang	Hainan	海南省文昌市人民政府	BOT	225	15 years from 2012 to 2027
Hunan Hengxing	Hunan	湖南省環境保護廳	BOT	96	25 years from 2017 to 2042

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

17. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Pursuant to the service concession agreements entered into by the Group, the Group is granted the rights to use the land and the property, plant and equipment of the Facilities, which are generally registered under the name of the relevant subsidiaries of the Group, during the Service Concession Periods, but the Group is generally required to return the property, plant and equipment to the grantors at a specified level of serviceability at the end of the respective Service Concession Periods under the BOT arrangements. At 31 December 2017, the Group was in the process of applying for the change of registration of the title certificates with respect to the land use right and the buildings of several Facilities to which the Group's service concession arrangements relate. The directors of the Company are of the opinion that the Group is entitled to the lawful and valid occupation or use of these buildings and land and that the Group would not have any legal barriers in obtaining the title certificates.

Moreover, the Group was in the process of applying for the completion of final acceptance and certain permits of the Facilities from the relevant government authorities up to the date of approval of the consolidated financial statements. The directors and the legal adviser of the Group are of the opinion that the Group is legitimated to operate the Facilities and that the Group expects to have no legal barriers which prevent it from obtaining the relevant permits and it is unlikely for the Group to incur any extra costs or administrative sanctions in respect of the matters.

As further explained in the accounting policy for "Service concession arrangements" set out in note 2.4 to the financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a combination of an intangible asset and a financial asset (receivables under service concession arrangement), as appropriate.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

17. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

The following is the summarised information of the intangible asset component (operating concessions) and the financial asset component (receivables under service concession arrangements) with respect to the Group's service concession arrangements:

Operating concessions

	Notes	**2017 HK$'000**	2016 HK$'000
At 1 January:			
Cost		**2,060,327**	738,587
Accumulated amortisation		**(50,842)**	(26,767)
Net carrying amount		**2,009,485**	711,820
Net carrying amount:			
At 1 January		**2,009,485**	711,820
Acquisition of subsidiaries	35	**–**	1,319,216
Additions		**399,260**	108,778
Transfer from construction in progress	13	**2,319**	–
Amortisation provided during the year	6	**(79,360)**	(27,374)
Exchange realignment		**151,206**	(102,955)
At 31 December		**2,482,910**	2,009,485
At 31 December:			
Cost		**2,618,634**	2,060,327
Accumulated amortisation		**(135,724)**	(50,842)
Net carrying amount		**2,482,910**	2,009,485

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

17. SERVICE CONCESSION ARRANGEMENTS *(CONTINUED)*

Receivables under service concession arrangements

	2017 **HK$'000**	2016 HK$'000
Receivables under service concession arrangement	**2,165,741**	2,036,799
Portion classified as current assets	**(55,236)**	(46,801)
Non-current portion	**2,110,505**	1,989,998

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 impairment, is as follows:

	2017 **HK$'000**	2016 HK$'000
Unbilled:		
Current portion	**55,236**	46,801
Non-current portion	**2,110,505**	1,989,998
	2,165,741	2,036,799

Receivables under service concession arrangements were neither past due nor impaired. Such receivables were due from the grantors in respect of the Group's solid waste treatment and power generation operation. The directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there have not been a significant change in the credit quality and the balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

18. OTHER INTANGIBLE ASSETS

	Note	Operating rights HK$'000	Licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2017					
At 1 January 2017:					
Cost		118,484	19,407	1,297	139,188
Accumulated amortisation		(8,532)	(2,506)	(124)	(11,162)
Net carrying amount		109,952	16,901	1,173	128,026
Net carrying amount:					
At 1 January 2017		109,952	16,901	1,173	128,026
Additions		–	–	331	331
Amortisation provided during the year	6	(4,913)	(913)	(351)	(6,177)
Exchange realignment		7,737	1,186	82	9,005
At 31 December 2017		112,776	17,174	1,235	131,185
At 31 December 2017:					
Cost		126,947	20,794	1,728	149,469
Accumulated amortisation		(14,171)	(3,620)	(493)	(18,284)
Net carrying amount		112,776	17,174	1,235	131,185

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

18. OTHER INTANGIBLE ASSETS *(CONTINUED)*

	Notes	Operating rights HK$'000	Licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2016					
At 1 January 2016:					
Cost		81,518	21,044	26	102,588
Accumulated amortisation		(5,602)	(1,771)	(4)	(7,377)
Net carrying amount		75,916	19,273	22	95,211
Net carrying amount:					
At 1 January 2016		75,916	19,273	22	95,211
Acquisition of subsidiaries	35	44,800	–	90	44,890
Additions		–	–	1,242	1,242
Amortisation provided during the year	6	(3,522)	(913)	(127)	(4,562)
Exchange realignment		(7,242)	(1,459)	(54)	(8,755)
At 31 December 2016		109,952	16,901	1,173	128,026
At 31 December 2016:					
Cost		118,484	19,407	1,297	139,188
Accumulated amortisation		(8,532)	(2,506)	(124)	(11,162)
Net carrying amount		109,952	16,901	1,173	128,026

Certain subsidiaries acquired by the Group were under service concession arrangements for the construction and operation of solid waste incineration plants with governmental authorities in Mainland China on a BOO basis. The amount of operating rights represents their fair values under the BOO arrangements acquired by the Group in prior years. Details of the major terms of the BOO arrangements are set out as follows:

Name of company as operator	**Location**	**Type of service concession arrangement**	**Practical processing capacity** (tonnes/day)	**Service concession period**
Taian Beikong	Shandong	BOO	800	30 years from 2008 to 2038
Beikong Zhangjiagang	Jiangsu	BOO	Phase I: 600	30 years from 2008 to 2038
			Phase II: 300	30 years from 2014 to 2044

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

18. OTHER INTANGIBLE ASSETS *(CONTINUED)*

At 31 December 2017, the Group was in the process of applying for the completion of final acceptance of the construction of the plant of Beikong Zhangjiagang from the relevant government authorities. The directors of the Group are of the opinion that the Group expected to have no legal barriers in completing of final acceptance of the plant of Beikong Zhangjiagang or subject to any administrative sanctions and the Group is legitimated to operate the plant of Beikong Zhangjiagang.

19. INVESTMENT IN A JOINT VENTURE

	2017 **HK$'000**	2016 HK$'000
Share of net assets	**6,587**	5,895

Note:

Particulars of the Group's joint venture, which is indirectly held by the Company, are as follows:

			Percentage of			
Name	**Place of incorporation and business**	**Issued and paid-up capital**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Beijing Enterprises SITA Environmental Services Company Limited ("BE SITA")	Hong Kong	HK$10,000,000	60	50	60	Provision of consultancy services and technical support on environmental protection

20. INVENTORIES

	2017 **HK$'000**	2016 HK$'000
Raw materials – coal and consumables	**23,415**	18,184

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

21. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**142,708**	153,431
Bills receivables	**629**	695
	143,337	154,126
Impairment (note (b))	**(1,452)**	(1,743)
	141,885	152,383

Notes:

(a) An ageing analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2017 HK$'000	2016 HK$'000
Within 3 months	**115,044**	120,564
4 to 6 months	**7,765**	14,548
7 to 12 months	**7,163**	10,236
1 to 2 years	**3,568**	2,515
2 to 3 years	**4,609**	2,543
Over 3 years	**3,736**	1,977
At 31 December	**141,885**	152,383

(b) The movements in the provision for impairment of trade and bills receivables during the years ended 31 December 2017 and 2016 are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**1,743**	7,671
Reversal of impairment during the year recognised in profit or loss, net (note 6)	**(407)**	(5,579)
Exchange realignment	**116**	(349)
At 31 December	**1,452**	1,743

Included in the above provision of impairment of trade receivables is a provision for individually impaired trade receivables of HK$1,452,000 (2016: HK$1,743,000) with a carrying amount before provision of HK$10,430,000 (2016: HK$9,508,000). The individually impaired trade receivables related to customers that were in financial difficulties or were in default in payments and only a portion of the receivables is expected to be recovered.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

21. TRADE AND BILLS RECEIVABLES *(CONTINUED)*

Notes: *(continued)*

(c) Various companies of the Group 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 to three months. An ageing analysis of the trade and bills receivables is regularly prepared and closely monitored in order to minimise any related credit risk. Trade and bills receivables are non-interest-bearing and the Group does not hold any collateral or other credit enhancements over its trade receivable balances.

An ageing analysis of the Group's trade and bills receivables as at the end of the reporting period that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	HK$'000
Neither past due nor impaired	**58,162**	58,264
Past due but not impaired:		
Within 3 months	**44,751**	63,005
4 to 6 months	**13,754**	14,750
7 to 12 months	**5,604**	2,756
1 to 2 years	**4,669**	2,692
2 to 3 years	**2,237**	1,287
Over 3 years	**3,730**	1,864
	74,745	86,354
	132,907	144,618

Receivables that were neither past due nor impaired relate to several customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers and several local government authorities in the PRC that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) As at 31 December 2016, the trade receivables of HK$7,857,000 arising from the provision of solid waste treatment service were pledged to secure a bank loan granted to the Group (note 28(b)).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2017 HK$'000	2016 HK$'000
Prepayments		**34,258**	29,655
Deposits and other receivables	(a)	**193,079**	47,559
Due from fellow subsidiaries	(b)	**55**	1,050
Due from a non-controlling equity holder	(b)	**1,902**	1,775
		229,294	80,039
Impairment	(c)	**(6,001)**	(5,601)
	(d)	**223,293**	74,438
Portion classified as current assets		**(219,293)**	(52,830)
Non-current portion		**4,000**	21,608

Notes:

(a) The amount as at 31 December 2017 included compensation receivable of approximately RMB111 million (approximately HK$133 million) (2016: Nil) in respect of the demolishment of one of the Group's investment properties (note 14(a)).

(b) The balances with fellow subsidiaries and a non-controlling equity holder are unsecured, interest-free and repayable on demand.

(c) The movements in provision for impairment of other receivables during the year are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**5,601**	6,073
Exchange realignment	**400**	(472)
At 31 December	**6,001**	5,601

The above provision for impairment of other receivables is a provision for individually impaired other receivables.

(d) Other than the aforementioned impaired other receivables, none of the above assets is either past due or impaired. The financial assets included in the above balances relate to the receivables for which there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

23. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Notes	**2017 HK$'000**	2016 HK$'000
Cash and bank balances other than time deposits			
Placed in banks		**970,233**	1,058,705
Placed in a financial institution	(c)	**44,309**	152,909
		1,014,542	1,211,614
Time deposits		**967,376**	757,404
		1,981,918	1,969,018
Less: Pledged deposits	(d)	**(13,567)**	(8,704)
Cash and cash equivalents		**1,968,351**	1,960,314

Notes:

(a) At 31 December 2017, the total cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$862,903,000 (2016: HK$647,071,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one month and six months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

(c) At 31 December 2017, HK$44,309,000 (2016: HK$152,909,000) was placed by the Group in Beijing Enterprises Group Finance Co., Ltd. ("BG Finance", a non-wholly-owned subsidiary of BEGCL), which is an authorised financial institution under China Banking Regulatory Commission (note 41(a)(ii)).

(d) The Group's pledged deposits as at 31 December 2017 represented security deposits of HK$13,567,000 (2016: HK$340,000) to the government authorities and a customer for the provision of construction and related services of solid waste treatment and power generation plants. The Group's pledged deposits as at 31 December 2016 also included security deposits of (i) HK$5,988,000 to secure a letter of credit and (ii) HK$2,376,000 to secure a bank loan granted to the Group (note 28(b)).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

24. SHARE CAPITAL

Shares

A summary of the movements in the Company's share capital during the year is as follows:

	Number of shares in issue	Share capital HK$'000
At 1 January 2016	1,499,360,150	2,225,723
Issue of shares upon exercise of share options (note 25(c))	1,000,000	1,841
At 31 December 2016, 1 January 2017 and 31 December 2017	1,500,360,150	2,227,564

Share options

Details of the Company's share option scheme (the "Scheme") and the share options issued under the Scheme are included in note 25 to the financial statements.

25. SHARE OPTION SCHEME

The purpose of the Scheme is (i) to attract and retain the best quality personnel for the development of the Company's business; (ii) to provide incentives or rewards to eligible participants; and (iii) to promote the long term financial success of the Company by aligning the interests of grantees to shareholders. Eligible participants of the Scheme include (i) any person employed by the Company or a subsidiary of the Company and any person who is an officer or director (whether executive or non-executive) of the Company or any subsidiary of the Company; (ii) any non-executive director and any independent non-executive director, or officer of any member of the Group; and (iii) any consultant of any member of the Group. The Scheme became effective on 31 May 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the number of ordinary shares of the Company in issue at any time. The maximum number of 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 these limits is subject to shareholders' approval in a general meeting.

Share options granted to a director or chief executive 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 or with an aggregate value (based on the price of the Company's ordinary shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

25. SHARE OPTION SCHEME *(CONTINUED)*

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after the acceptance of the share options or a certain vesting period, if any, and ends on a date which is not later than ten years from the date on which the offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of offer of the share options; and (ii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The share options are non-transferrable and lapse when expire or within three months from the date on which the grantee ceases to be an employee of the Group.

The following table sets out the movements in the share options granted under the Scheme during the years ended 31 December 2017 and 2016:

		Number of share options	
	Notes	**2017**	2016
At 1 January		**38,520,000**	39,520,000
Exercised during the year	(c)	**–**	(1,000,000)
Forfeited during the year	(d)	**(900,000)**	–
At 31 December	(e)	**37,620,000**	38,520,000

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

25. SHARE OPTION SCHEME *(CONTINUED)*

Notes:

(a) The exercise price of the share options is HK$1.25 per share, which is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The share options are exercisable during the period from 21 June 2011 to 20 June 2021.

(b) No share option was granted during the years ended 31 December 2017 and 2016.

(c) No share option was exercised during the year ended 31 December 2017. 1,000,000 share options at the exercise price of HK$1.25 per share were exercised by a consultant of the Company during the year ended 31 December 2016, resulting in issue of 1,000,000 ordinary shares for a total cash consideration of HK$1,250,000.

(d) 900,000 (2016: Nil) share options were forfeited during the year upon the expiry of the three-month post-resignation exercisable period of an employee. Accordingly, the portion of share option reserves of HK$412,000 (2016: Nil) was transferred to accumulated losses of the Company.

(e) At 31 December 2017 and the date of approval of these financial statements, the Company had 37,620,000 (2016: 38,520,000) share options outstanding under the Scheme, which represented approximately 2.5% (2016: 2.6%) of the Company's ordinary shares in issue at that date.

The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 37,620,000 (2016: 38,520,000) additional ordinary shares of the Company and additional share capital of HK$67,814,000 (2016: HK$69,351,000), before any issuance expenses.

26. RESERVES

(a) The amounts of the Group's other reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 43 of the financial statements.

(b) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share capital account when the related share options are exercised, or transferred to retained profits/accumulated losses should the related share options expire or be forfeited.

(c) PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries. None of the Group's PRC reserve funds as at 31 December 2017 was distributable in the form of cash dividends (2016: Nil).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

27. CONVERTIBLE BONDS

A summary of the movements in the principal amount, liability and equity components of the Company's convertible bonds during the year ended 31 December 2017 is as follows:

	Note	**Batch 1** HK$'000 (note (a))	**Batch 2** HK$'000 (note (a))	**Batch 3** HK$'000 (note (b))	**Total** HK$'000
Principal amount outstanding					
At 1 January 2016		90,400	700,600	–	791,000
Issue of convertible bonds		–	–	2,202,300	2,202,300
At 31 December 2016, 1 January 2017 and 31 December 2017		**90,400**	**700,600**	**2,202,300**	**2,993,300**
Liability component					
At 1 January 2016		88,472	694,913	–	783,385
Issue of convertible bonds		–	–	2,055,271	2,055,271
Imputed interest expenses	7	884	2,617	4,300	7,801
At 31 December 2016 and 1 January 2017		**89,356**	**697,530**	**2,059,571**	**2,846,457**
Imputed interest expenses	7	**900**	**2,650**	**29,099**	**32,649**
At 31 December 2017		**90,256***	**700,180***	**2,088,670**	**2,879,106**
Equity component					
At 1 January 2016		3,376	8,282	–	11,658
Issue of convertible bonds		–	–	147,029	147,029
At 31 December 2016, 1 January 2017 and 31 December 2017		**3,376**	**8,282**	**147,029**	**158,687**

* Classified as current portion of HK$790,436,000 as at 31 December 2017 (2016: Nil).

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

27. CONVERTIBLE BONDS *(CONTINUED)*

Notes:

(a) Pursuant to the subscription agreement dated 15 September 2011 (as amended by the supplemental agreements in relation thereto, collectively the "Subscription Agreements") entered into between the Company, Idata as subscriber, and BEHL as guarantor, the Company issued convertible bonds (Batch 1 and Batch 2) to Idata, which have an initial conversion price of HK$1.13 per ordinary share of the Company, originally bear interest at the rate of 1% per annum and will mature on 28 February 2018. Further details of the Subscription Agreements are set out in the circular of the Company dated 21 December 2012.

On 31 March 2016, Idata has agreed to unilaterally waive (i) the payment of paid interests accrued on the convertible bonds amounting to HK$12,059,000 and to refund such interests in full to the Company; and (ii) all interest payable under the outstanding convertible bonds to be incurred up to their maturity date. Such modification of terms did not result in the extinguishment of the financial liability of the convertible bonds and such refund was recorded in the capital reserve as deemed contribution from the immediate holding company during the year.

(b) On 31 October 2016, pursuant to the completion of the Acquisition (as defined in note 35 to the financial statements), the Company issued convertible bonds (Batch 3) in the principal amount of HK$2,202,300,000 to Idata as consideration. The convertible bonds have an initial conversion price of HK$1.13 per ordinary share of the Company, bear no interest and will mature on 31 October 2021. Further details of the Acquisition are set out in the circular of the Company dated 24 June 2016 and note 35 to the financial statements.

The Company's convertible bonds are bifurcated into liability and equity components for accounting purpose. The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

28. BANK AND OTHER BORROWINGS

	Notes	2017 HK$'000	2016 HK$'000
Bank loans:			
Secured	(b)	–	5,556
Unsecured	(c)	8,095	14,444
		8,095	20,000
Other loans from fellow subsidiaries, unsecured	(d)	804,429	715,244
Total bank and other borrowings		812,524	735,244
Analysed into:			
Bank loans repayable:			
Within one year		8,095	12,444
In the second year		–	7,556
		8,095	20,000
Other loans repayable:			
Within one year		91,667	61,111
In the second year		98,809	74,444
In the third to fifth years, inclusive		344,048	260,000
Beyond five years		269,905	319,689
		804,429	715,244
Total bank and other borrowings		812,524	735,244
Portion classified as current liabilities		(99,762)	(73,555)
Non-current liabilities		712,762	661,689

Notes:

(a) The Group's bank and other borrowings were all denominated in RMB.

(b) The Group's secured bank loan as at 31 December 2016 bore an interest at a fixed rate of five years or above lending rate from the People's Bank of China at the time when the loan was drawn and was secured by pledge over the Group's trade receivables arising from provision of solid waste treatment service with an aggregate net carrying amount of HK$7,857,000 (note 21(d)) and pledged over the Group's bank balance of HK$2,376,000 (note 23(d)).

(c) The Group's unsecured bank loans bore an interest at a floating lending rate of five years or above from the People's Bank of China plus margin and are guaranteed by a fellow subsidiary of the Company.

(d) The Group's other loans from fellow subsidiaries of the Company bore interest at floating lending rates of 94% to 100% of one to five years or above from the People's Bank of China.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

29. PROVISION FOR MAJOR OVERHAULS

Pursuant to the service concession agreements entered into by the Group, the Group has contractual obligations to maintain the waste treatment and power generation plants it operates to a specified level of serviceability and/or to restore the plant to a specified condition before it is handed over to the grantors at the end of the service concession periods. These contractual obligations to maintain or restore the waste treatment and power generation plants, except for any upgrade element, are recognised and measured in accordance with HKAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period. The future expenditure on these maintenance and restoration costs is collectively referred to as "major overhauls". The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The movements in the provision for major overhauls of the waste treatment and power generation plants during the year are as follows:

	Notes	**2017** **HK$'000**	2016 HK$'000
At 1 January		**3,878**	–
Acquisition of subsidiaries	35	**–**	3,860
Additional provision	6	**756**	122
Increase in discounted amounts arising from the passage of time	7	**244**	32
Exchange realignment		**300**	(136)
At 31 December		**5,178**	3,878

30. DEFERRED INCOME

At 31 December 2017, deferred income of the Group represented government subsidies in respect of the Group's construction of the waste treatment and power generation plants in Mainland China. The subsidies are interest-free and not required to be repaid, and are recognised in profit or loss on the straight-line basis over the expected useful lives of the relevant assets.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

31. DEFERRED TAX ASSETS/LIABILITIES

An analysis of the net deferred tax assets/(liabilities) recognised in the statement of financial position is as follows:

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**26,176**	24,937
Deferred tax liabilities	**(265,114)**	(237,853)
	(238,938)	(212,916)

The components of deferred tax assets and liabilities and the movements during the year are as follows:

	Notes	Losses available for offsetting against future taxable profits HK$'000	Fair value adjustments arising from acquisition of subsidiaries HK$'000	Temporary differences related to service concession arrangements HK$'000	Impairment provision HK$'000	Provision for major overhauls HK$'000	Net deferred tax assets/ (liabilities) HK$'000
At 1 January 2016		1,438	(55,782)	(13,201)	2,503	–	(65,042)
Acquisition of subsidiaries	35	–	(18,307)	(125,099)	–	965	(142,441)
Deferred tax credited/(charged) to profit or loss during the year	10	3,881	2,747	(21,221)	(1,395)	39	(15,949)
Exchange realignment		(284)	4,828	6,139	(132)	(35)	10,516
At 31 December 2016 and 1 January 2017		**5,035**	**(66,514)**	**(153,382)**	**976**	**969**	**(212,916)**
Deferred tax credited/(charged) to profit or loss during the year	10	**4,510**	**3,624**	**(18,845)**	**(102)**	**250**	**(10,563)**
Exchange realignment		**466**	**(4,665)**	**(11,403)**	**67**	**76**	**(15,459)**
At 31 December 2017		**10,011**	**(67,555)**	**(183,630)**	**941**	**1,295**	**(238,938)**

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

31. DEFERRED TAX ASSETS/LIABILITIES *(CONTINUED)*

At 31 December 2017, deferred tax assets have not been recognised in respect of (i) unused tax losses arising in Hong Kong of approximately HK$132,412,000 (2016: HK$132,412,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose; and (ii) unused tax losses arising in Mainland China of HK$11,330,000 (2016: HK$11,989,000) that will expire in one to five years for offsetting against future taxable profit, as they have been arisen in certain subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which such tax losses can be utilised.

Pursuant to the PRC Corporate Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rates are 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and the joint venture established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and the joint venture established in Mainland China (2016: Nil). In the opinion of the directors, it is not probable that these subsidiaries and joint venture will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$259,410,000 (2016: HK$146,570,000) as at 31 December 2017.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

32. TRADE PAYABLES

The trade payables are non-interest-bearing and normally settled within one to six months.

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

	2017	2016
	HK$'000	HK$'000
Billed:		
Less than 3 months	**121,361**	25,111
4 to 6 months	**504**	3,127
7 to 12 months	**593**	679
Over 1 year	**9,577**	20,193
	132,035	49,110
Unbilled	**292,688**	243,473
	424,723	292,583

Included in the trade payables of the Group as at 31 December 2017 is an amount of HK$71,562,000 (2016: HK$80,331,000) due to a non-controlling interest. The balance arising from the transactions carried out in the ordinary course of business of the Group, and is unsecured, interest-free and repayable on credit term similar to those offered by the major suppliers to the Group.

33. OTHER PAYABLES AND ACCRUALS

	2017	2016
	HK$'000	HK$'000
Receipts in advance	**3,185**	6,984
Other payables	**66,997**	44,634
Accruals	**23,520**	32,885
Due to fellow subsidiaries	**1,753,743**	1,682,605
Due to a joint venture	**2,763**	–
	1,850,208	1,767,108

The balances with the fellow subsidiaries and a joint venture are unsecured, interest-free and repayable on demand, and certain fellow subsidiaries have undertaken not to demand payment of the amounts due to them of RMB1,350,000,000 (equivalent to HK$1,607,143,000), until such time when the Group is in a position to repay without impairing its liquidity and financial position.

Other payables are non-interest-bearing and have an average term of three to six months in general.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

During the year, three subsidiaries, which were acquired during the year ended 31 December 2016, were considered the Group's subsidiaries that have material non-controlling interests, details of which are set out below:

	Beijing Gaoantun		Ha'erbin Shuangqi		Hunan Hengxing	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Percentage of equity interest held by non-controlling equity holders	**15.104%**	15.104%	**20%**	20%	**35%**	35%
Accumulated balance of non-controlling interests as at 1 January	**117,708**	–	**49,525**	–	**35,600**	–
Non-controlling interests acquired during the year	**–**	120,546	**–**	51,088	**–**	36,512
Profit for the year attributable to non-controlling interest	**10,219**	1,235	**1,337**	216	**3,679**	338
Exchange realignment	**8,651**	(4,073)	**3,570**	(1,779)	**2,631**	(1,250)
Accumulated balances of non-controlling interests as at 31 December	**136,578**	117,708	**54,432**	49,525	**41,910**	35,600

The following table illustrates the summarised financial information of the above subsidiaries:

	Beijing Gaoantun		Ha'erbin Shuangqi		Hunan Hengxing	
	2017	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	**219,652**	34,455	**120,874**	19,561	**51,537**	8,634
Cost of sales and total expenses	**(151,994)**	(26,279)	**(114,188)**	(18,481)	**(41,024)**	(7,668)
Profit for the year and total comprehensive income for the year	**67,658**	8,176	**6,686**	1,080	**10,513**	966
Current assets	**187,177**	264,672	**83,004**	85,690	**28,726**	16,988
Non-current assets	**1,086,397**	1,256,703	**861,697**	824,018	**273,312**	266,108
Current liabilities	**(431,371)**	(604,887)	**(133,426)**	(125,115)	**(74,627)**	(67,731)
Non-current liabilities	**(149,903)**	(137,170)	**(539,115)**	(536,966)	**(107,593)**	(113,652)
Net cash flows from/(used in) operating activities	**(23,123)**	(3,190)	**71,945**	10,555	**2,309**	(9,733)
Net cash flows from/(used in) investing activities	**(9,710)**	36,042	**(5,319)**	(400)	**(654)**	6
Net cash flows used in financing activities	**–**	(6,039)	**(36,843)**	(4,298)	**(2,515)**	(273)
Net increase/(decrease) in cash and cash equivalents	**(32,833)**	26,813	**29,783**	5,857	**(860)**	(10,000)

* The amounts disclosed above are before any inter-company eliminations. The profit or loss amounts and cash flow amounts for the year ended 31 December 2016 were attributable to the Group after the acquisition of the related subsidiaries during that year.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

35. BUSINESS COMBINATIONS

On 31 March 2016, the Company entered into a sale and purchase agreement with BEHL, pursuant to which the Company had conditionally agreed to acquire and BEHL had conditionally agreed to sell (i) the entire equity interest in GSWM; (ii) 80% equity interest in Ha'erbin Shuangqi; (iii) 100% equity interest in Beikong Shuyang; (iv) 100% equity interest in Beikong Wenchang; and (v) 65% equity interest in Hunan Hengxing (the "Acquired Companies") at an aggregate consideration of RMB1,850,000,000 (equivalent to HK$2,202,300,000), which would be satisfied by the issue of new convertible bonds with initial conversion price of HK$1.13 per share (the "Acquisition"). The Acquisition was completed on 31 October 2016. Further details of the Acquisition are set out in the circular of the Company dated 24 June 2016.

GSWM directly owns (i) 84.896% equity interest in Beijing Gaoantun; and (ii) 100% equity interest in Beikong Zhangjiagang. The principal activities of the Acquired Companies and their subsidiaries are the investment in, and operation of five household waste incineration projects and one hazardous waste and medical waste treatment project.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

35. BUSINESS COMBINATIONS *(CONTINUED)*

The fair values of the identifiable assets and liabilities of the Acquired Companies as at the date of acquisition were as follows:

	Notes	2016 HK$'000
Net assets acquired:		
Property, plant and equipment	13	498,414
Prepaid land lease payments	15	29,203
Operating concessions	17	1,319,216
Other intangible assets	18	44,890
Deferred tax assets	31	25,971
Inventories		13,057
Receivables under service concession arrangements		1,385,947
Trade and bills receivables		165,118
Prepayments, deposits and other receivables		472,374
Pledged deposits		43,633
Cash and cash equivalents		189,436
Trade payables		(228,133)
Other payables and accruals		(1,228,534)
Bank and other borrowings		(937,958)
Tax payables		(10,799)
Provision for major overhauls	29	(3,860)
Deferred income		(161,506)
Deferred tax liabilities	31	(168,412)
Total identifiable net assets at fair value		1,448,057
Non-controlling interests		(208,147)
		1,239,910
Goodwill on acquisition	16	962,390
Satisfied by issue of new convertible bonds of the Company as consideration		2,202,300
Net cash inflow arising from acquisition:		
Cash and cash equivalents acquired		189,436

The fair values, which were also the gross contractual amounts, of trade and bills receivables and deposits and other receivables as at the date of acquisition amounted to HK$165,118,000 and HK$456,983,000, respectively, and all of which were expected to be collectible.

The Group incurred transaction costs of HK$14,272,000 for the Acquisition. These transaction costs had been expensed and were included in administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2016.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

35. BUSINESS COMBINATIONS *(CONTINUED)*

During the year ended 31 December 2016, the acquired businesses contributed HK$87,732,000 and HK$14,626,000 to the Group's turnover and profit for that year between the date of acquisition and the end of that year, respectively.

Had the Acquisition been effected at the beginning of the year ended 31 December 2016, the total amount of revenue of the Group for the year ended 31 December 2016 would have been HK$917,857,000, and the amount of the profit for the year ended 31 December 2016 would have been HK$228,043,000. The pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have achieved had the Acquisition been completed at the beginning of that year, nor is it intended to be a projection of future results.

36. DISPOSAL OF SUBSIDIARIES

As detailed in note 11 to the financial statements, the Group has completed the BEITG Disposal during the year ended 31 December 2016. The assets and liabilities of the disposal group as at the date of disposal were as follows:

	2016 HK$'000
Net assets disposed of:	
Property and equipment	5,503
Other intangible assets	980
Investment in a joint venture	11,227
Investments in associates	2,887
Inventories	7,633
Amounts due from contract customers	833
Trade receivables	76,616
Prepayments, deposits and other receivables	69,793
Pledged deposits	12,134
Cash and cash equivalents	107,412
Trade and bills payables	(71,577)
Amount due to contract customers	(319)
Bank loans	(6,024)
Other payables and accruals	(116,965)
Non-controlling interests	(18,571)
	81,562
Exchange fluctuation reserve realised	(37,289)
Transaction costs	757
Gain on disposal of subsidiaries, included in a discontinued operation (note 11(a))	80,970
Satisfied by cash	126,000

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

36. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2016 HK$'000
Cash consideration	126,000
Cash and cash equivalents disposed of	(107,412)
Transaction cost paid	(757)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	17,831

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other borrowings HK$'000	Convertible bonds HK$'000
At 1 January 2017	**735,244**	**2,846,457**
Changes from financing cash flows	**24,186**	**–**
Imputed interest expenses	**–**	**32,649**
Foreign exchange movement	**53,094**	**–**
At 31 December 2017	**812,524**	**2,879,106**

38. CONTINGENT LIABILITIES

As disclosed in notes 13, 17 and 18 to the financial statements, the final acceptance of the construction of certain waste incineration plants have not been obtained from the relevant government authorities and the Group is still in the process of applying for certain permits in relation to its operation. According to the relevant PRC Law, the Group may be liable to administrative sanctions to be charged by the relevant government authorities due to the above matters. Nevertheless, the Company is of the view that the non-compliance incidents, individually and in aggregate, would have no material adverse impact on the operations and financial position of the Group.

Save as disclosed above, at 31 December 2017, the Group did not have any significant contingent liabilities.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 14(b)) under operating lease arrangement, with lease negotiated for term of three years.

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

	2017 HK$'000	2016 HK$'000
Within one year	**2,044**	2,862
In the second to fifth years, inclusive	**–**	1,908
	2,044	4,770

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with the leases negotiated for terms for five years (2016: five years).

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

	2017 HK$'000	2016 HK$'000
Within one year	**4,357**	4,066
In the second to fifth years, inclusive	**4,357**	4,066
	8,714	8,132

40. CAPITAL COMMITMENTS

At the end of the reporting period, in addition to the operating lease commitments detailed in note 39 above, the Group had capital commitments as follows:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for:		
Service concession arrangement on a BOO basis	**323,190**	199,684
Service concession arrangement on a BOT basis	**96,139**	20,556
	419,329	220,240

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

41. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

Name of related party	Nature of transactions	Notes	2017 HK$'000	2016 HK$'000
With fellow subsidiaries:				
Hong Chuang	Rental income#	(i)	**2,995**	2,995
BG Finance	Interest income#	(ii)	**1,279**	271
	Interest expense	(iii)	**36,946**	5,938
With a joint venture:				
BE SITA	Consultancy service fee	(iv)	**7,656**	8,115
With a non-controlling interest:				
北京教育網絡和信息中心	Service income	(v)	**–**	1,140

These transactions constitute continuing connected transactions that are subject to the announcement, reporting and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Notes:

(i) The rental income received from Hong Chuang in respect of the Hong Chuang Building was mutually agreed between the parties under the property escrow agreement dated 31 August 2015 and was determined with reference to the prevailing market rent generally applicable to similar properties in the market. Further details of the transaction are set out in the announcement of the Company dated 1 September 2015.

(ii) The interest received from BG Finance was mutually agreed between the parties under the deposit services master agreement dated 29 June 2015, pursuant to which 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 for the period from 29 June 2015 to 31 December 2017. The deposit rate will not be lower than (i) the minimum interest rate prescribed by the People's Bank of China; (ii) the interest rates offered by commercial banks in Hong Kong and the PRC to the Group; and (iii) the interest rates offered by BG Finance to other members of BEGCL for the same type of deposits at the same period; and the cumulative daily outstanding deposit balance in Hong Kong dollars equivalent placed by the Group with BG Finance (including any interest accrued thereon) during the term of the agreement will not exceed HK$159,000,000. Further details of the transactions are set out in the announcement of the Company dated 29 June 2015.

(iii) The interest expenses were paid for loans obtained from BG Finance and the interest rates were mutually agreed with BG Finance which will not be higher than the interest rates prescribed by the People's Bank of China at the same period.

(iv) The consultancy service fee paid to BE SITA was based on terms and conditions mutually agreed between the parties.

(v) The service income received from 北京教育網絡和信息中心 was based on terms and conditions mutually agreed between the parties.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

41. RELATED PARTY DISCLOSURES *(CONTINUED)*

(b) Outstanding balances with related parties

(i) Details of the Group's balances with fellow subsidiaries, a joint venture and non-controlling equity holders included in prepayments, deposits and other receivables, trade payables and other payables and accruals are disclosed in notes 22, 32 and 33 to the financial statements, respectively.

(ii) Details of the Group's cash deposits placed in and other loans borrowed from a fellow subsidiary as at the end of the reporting period are disclosed in note 23(c) and note 28(d), respectively, to the financial statements.

(c) Compensation of key management personnel of the Group

	2017 **HK$'000**	2016 HK$'000
Short term employee benefits	**12,341**	7,978
Post-employment benefits	**604**	763
Total compensation paid to key management personnel	**12,945**	8,741

Further details of directors' emoluments are included in note 8 to the financial statements.

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

The Company is a state-owned enterprise of the PRC government and is subject to the control of the Beijing SASAC and ultimate control of the PRC government. 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 year, the Group had transactions with Other SOEs including, but not limited to, bank deposits and borrowings and utilities consumptions. The directors consider that the transactions with the Other SOEs were activities in the ordinary course of the Group's businesses, 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 do not depend on whether or not the customers are Other SOEs. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

42. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2017 and 2016 were loans and receivables and financial liabilities stated at amortised cost, respectively.

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and liabilities which are due to be received or settled within one year and the liability component of the convertible bonds are reasonable approximation of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made.

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, bank and other borrowings and convertible bonds. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

The main risks arising from the Group's financial instruments are (a) interest rate risk, (b) foreign currency risk, (c) credit risk and (d) liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

The following table sets out the carrying amounts of the Group's financial instruments as at the end of the reporting period that are exposed to interest rate risk:

		Effective interest rate
	HK$'000	%
At 31 December 2017		
Floating rate:		
Pledged deposits	**13,567**	**1.82**
Bank balances	**1,000,975**	**0.17**
Bank and other borrowings	**812,524**	**4.67**
Fixed rate:		
Time deposits	**967,376**	**1.22**
At 31 December 2016		
Floating rate:		
Pledged deposits	8,704	–
Bank balances	1,202,910	0.12
Bank and other borrowings	735,244	4.61
Fixed rate:		
Time deposits	757,404	0.83

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(b) Foreign currency risk

The Group's businesses are mainly carried out by subsidiaries located in Mainland China and the majority of its transactions are conducted in RMB. The Group therefore has minimal transactional currency exposure which arises from sales or purchases by an operating unit in currencies other than the unit's functional currency, and the net assets of the Group's investments in these Mainland China subsidiaries are exposed to foreign currency translational risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax and of the Group's equity resulted from the translation of the Group's foreign operations.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	HK$'000	HK$'000
2017			
If HK$ weakens against RMB	**5**	**12,703**	**163,163**
If HK$ strengthens against RMB	**(5)**	**(12,703)**	**(163,163)**
2016			
If HK$ weakens against RMB	5	6,534	132,725
If HK$ strengthens against RMB	(5)	(6,534)	(132,725)

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(c) Credit risk

The carrying amount of trade and bills receivables, other receivables and cash and cash equivalents included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group trades only with recognised and creditworthy third parties and receivable balances are monitored on an ongoing basis, therefore the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At 31 December 2017, the Group had certain concentration of credit risk as 7% (2016: 4%) and 42% (2016: 31%) of the total trade and bills receivables were due from the Group's largest external customer and the Group's top five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 21 to the financial statements.

The Group places its cash deposits with major international banks in Hong Kong, state-owned banks in Mainland China and BG Finance. This investment policy limits the Group's exposure to the concentration of credit risk.

The credit risk of the Group's other financial assets, which mainly comprise other receivables, arises from default of the counterparties with a maximum exposure equal to the carrying amounts of these instruments.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(d) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities (other than receipts in advance) as at 31 December 2017 and 2016, based on the contractual undiscounted payments, is as follows:

	On demand or within 1 year HK$'000	1 to 2 years HK$'000	3 to 5 years HK$'000	Beyond 5 years HK$'000	Total HK$'000
At 31 December 2017					
Bank and other borrowings	**108,761**	**113,218**	**432,687**	**383,720**	**1,038,386**
Convertible bonds	**791,000**	**–**	**2,202,300**	**–**	**2,993,300**
Trade payables	**424,723**	**–**	**–**	**–**	**424,723**
Other payables and accruals	**90,517**	**–**	**–**	**–**	**90,517**
Due to fellow subsidiaries	**1,753,743**	**–**	**–**	**–**	**1,753,743**
Due to a joint venture	**2,763**	**–**	**–**	**–**	**2,763**
	3,171,507	**113,218**	**2,634,987**	**383,720**	**6,303,432**
At 31 December 2016					
Bank and other borrowings	76,753	89,871	312,317	444,378	923,319
Convertible bonds	–	791,000	2,202,300	–	2,993,300
Trade payables	292,583	–	–	–	292,583
Other payables and accruals	77,519	–	–	–	77,519
Due to fellow subsidiaries	1,682,605	–	–	–	1,682,605
	2,129,460	880,871	2,514,617	444,378	5,969,326

Certain fellow subsidiaries have undertaken not to demand repayment of the amounts due to them of RMB1,350,000,000 (equivalent to HK$1,607,143,000) until such time when the Group is in a position to repay without impairing its liquidity and financial position.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may issue new shares to increase share capital.

The Group monitors capital using the gearing ratio, which is calculated based on net debt and total equity. Net debt is calculated as total bank and other borrowings and convertible bonds (as shown in the consolidated statement of financial position) less cash and cash equivalents. The gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 **HK$'000**	2016 HK$'000
Bank and other borrowings	**812,524**	735,244
Convertible bonds	**2,879,106**	2,846,457
Total debt	**3,691,630**	3,581,701
Less: Cash and cash equivalents	**(1,968,351)**	(1,960,314)
Net debt	**1,723,279**	1,621,387
Total equity	**2,802,093**	2,344,981
Gearing ratio	**61.5%**	69.1%

45. EVENT AFTER THE REPORTING PERIOD

On 8 March 2018, the Company entered into a share purchase agreement with Mr. Du Qingjiang and Ms. Yang Lanhua (collectively the "Sellers"), pursuant to which the Company has conditionally agreed to acquire, and the Sellers have conditionally agreed to sell, a 51% equity interest in 北京鑫地園林集團有限公司 ("Xindi") for a cash consideration of RMB29,000,000 (equivalent to approximately HK$35,891,000). Xindi is principally engaged in landscaping construction, landscaping design, project survey and design and construction project management. Further details of the transaction are set out in the Company's announcement dated 8 March 2018.

46. OTHER FINANCIAL INFORMATION

The net current liabilities and total assets less current liabilities of the Group as at 31 December 2017 amounted to HK$810,445,000 (2016: net current assets of HK$73,590,000) and HK$6,049,110,000 (2016: HK$6,254,973,000) respectively.

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 **HK$'000**	2016 HK$'000
ASSETS		
Non-current assets:		
Office equipment and motor vehicles	**530**	735
Investment properties	**50,000**	45,189
Investments in subsidiaries	**4,028,967**	4,094,541
Total non-current assets	**4,079,497**	4,140,465
Current assets:		
Prepayments, deposits and other receivables	**40,471**	28,212
Cash and cash equivalents	**933,063**	874,296
Total current assets	**973,534**	902,508
TOTAL ASSETS	**5,053,031**	5,042,973
EQUITY AND LIABILITIES		
Equity:		
Share capital	**2,227,564**	2,227,564
Equity component of convertible bonds	**158,687**	158,687
Other reserves (note)	**(236,592)**	(223,507)
TOTAL EQUITY	**2,149,659**	2,162,744
Non-current liabilities:		
Convertible bonds	**2,088,670**	2,846,457
Current liabilities:		
Other payables and accruals	**24,266**	33,772
Convertible bonds	**790,436**	–
Total current liabilities	**814,702**	33,772
TOTAL LIABILITIES	**2,903,372**	2,880,229
TOTAL EQUITY AND LIABILITIES	**5,053,031**	5,042,973

E Meng
Director

Ke Jian
Director

NOTES TO FINANCIAL STATEMENTS *(CONTINUED)*

31 December 2017

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Note:

A summary of the Company's other reserves is as follows:

	Share option reserve HK$'000	Capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	21,792	–	(210,268)	(188,476)
Total comprehensive loss for the year	–	–	(46,499)	(46,499)
Issue of shares upon exercise of share options	(591)	–	–	(591)
Deemed contribution from the immediate holding company (note 27(a))	–	12,059	–	12,059
At 31 December 2016 and 1 January 2017	**21,201**	**12,059**	**(256,767)**	**(223,507)**
Total comprehensive loss for the year	**–**	**–**	**(13,085)**	**(13,085)**
Transfer of share option reserve upon the forfeiture of share options	**(412)**	**–**	**412**	**–**
At 31 December 2017	**20,789**	**12,059**	**(269,440)**	**(236,592)**

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
Revenue	**1,088,865**	402,467	1,246,706	108,516	–
Profit/(loss) before tax from continuing operations	**297,885**	87,651	84,444	8,934	(21,703)
Income tax	**(81,692)**	(27,203)	(12,705)	(1,401)	40
Profit/(loss) for the year from continuing operations	**216,193**	60,448	71,739	7,533	(21,663)
DISCONTINUED OPERATION					
Profit/(loss) for the year from a discontinued operation	**–**	65,740	12,246	(2,386)	(7,449)
Profit/(loss) for the year	**216,193**	126,188	83,985	5,147	(29,112)
Attributable to:					
Members of the Company	**190,308**	130,101	83,283	7,519	(24,484)
Non-controlling interests	**25,885**	(3,913)	702	(2,372)	(4,628)
	216,193	126,188	83,985	5,147	(29,112)

	31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**9,282,516**	8,421,733	4,265,498	3,192,897	1,431,876
Total liabilities	**(6,480,423)**	(6,076,752)	(2,166,573)	(1,132,005)	(502,814)
Net assets	**2,802,093**	2,344,981	2,098,925	2,060,892	929,062
Equity attributable to:					
Members of the Company	**2,553,201**	2,137,083	2,074,268	2,053,669	921,325
Non-controlling interests	**248,892**	207,898	24,657	7,223	7,737
	2,802,093	2,344,981	2,098,925	2,060,892	929,062