Capital Environment Holdings Limited
首創環境控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)
Stock Code 股票代號：03989

ANNUAL REPORT 2017 年報

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CORPORATE INFORMATION

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BOARD OF DIRECTORS

Executive Directors

Mr. Wu Lishun *(Chairman, resigned on 20 April 2018)*
Mr. Cao Guoxian *(Chief Executive Officer)*
Mr. Liu Yongzheng *(resigned on 20 April 2018)*
Ms. Zhang Meng *(redesignated as Chairlady on 20 April 2018)*
Mr. Cheng Jialin *(appointed on 1 July 2017)*
Ms. Hao Chunmei *(appointed on 20 April 2018)*

Independent Non-executive Directors

Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
Dr. Chan Yee Wah, Eva

COMMITTEES

Audit Committee

Dr. Chan Yee Wah, Eva *(Chairlady)*
Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen

Nomination Committee

Mr. Wu Lishun *(Chairman, resigned on 20 April 2018)*
Ms. Zhang Meng *(Chairlady, appointed on 20 April 2018)*
Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
Dr. Chan Yee Wah, Eva

Remuneration Committee

Mr. Pao Ping Wing *(Chairman)*
Mr. Cheng Kai Tai, Allen
Mr. Wu Lishun *(resigned on 20 April 2018)*
Ms. Zhang Meng *(appointed on 20 April 2018)*

COMPANY SECRETARY

Ms. Wong Bing Ni

AUTHORIZED REPRESENTATIVES

Mr. Wu Lishun *(resigned on 20 April 2018)*
Ms. Zhang Meng *(appointed on 20 April 2018)*
Ms. Wong Bing Ni

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1613–1618
16th Floor
Bank of America Tower
12 Harcourt Road, Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISERS

Conyers Dill and Pearman
Jun He Law Offices

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

SHARE REGISTRARS AND TRANSFER OFFICES

Principal Registrar in Cayman Islands

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Branch Registrar in Hong Kong

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

CORPORATE WEBSITE

www.cehl.com.hk

STOCK CODE

03989

Note: corporate information was updated up to 20 April 2018

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Mr. Wu Lishun
Chairman

In 2017, the vulnerabilities in the global economy still existed, and China's economy has been steadily moving forward in the process of "making structural adjustments, ensuring steady growth and deleveraging". 2017 is an important transition stage between the old and new development momentum of Chinese economy, and the central government has been continuing on the five development concepts of "Innovation, Coordination, Environmental Protection, Openmindedness and Sharing", and the green development has already become an vital engine through which the economy will be constantly growing. We believe that the stepping up of policy support and capital investments in environmental governance by the government will provide the Group with enormous market opportunities and development potentials, ultimately achieving a win-win development in economy, environment and society.

As a leading enterprise in the green environmental protection industry, Capital Environment sizes up the situations, tides over the difficulties and grasps the pulse of market development, and has achieved rapid and quality development by adopting the development strategy of providing "one-stop" solid waste treatment comprehensive services, with the aim of realizing a win-win situation among government, residents and enterprises.

During the year under review, Capital Environment expanded rapidly in the environmental protection section. The Group successfully obtained 20 waste treatment projects in China, which required a total investment of RMB3,950 million, and had the newly-designed annul solid waste treatment capacity of 4.64 million tons. The above-mentioned projects enable the Group to continuously remain the growth of incineration business, further establish the outstanding advantages of the integrated project of waste collection and transportation, successfully enter into the construction waste and cleaning business sectors, extend the environmental industry chain of the Group, further expand the business scope of the Group in Mainland China and establish the leading position of the Group in the environmental industry. The Group's business has already covered 36 counties and cities in 16 provinces across the country, with the total investment of RMB13,700 million.

By obedience to the development concept of "adjustments, reforms, development, innovations and management" and combining the comprehensive strategic deployment and clear market positioning of Beijing Capital Group, a substantial shareholder, the Group improved the overall level of institutionalized governance, perfected the management mechanism of human resources, effectively controlled the financial expenses and achieved remarkable performance in terms of annual operating results.

After a year of hard work and dedication, Capital Environment has been continuously awarded as the Top Ten Influential Enterprises in the solidwaste industry by virtue of outstanding market influence, clear strategic positioning, diversified business structure and high sense of social responsibility.

With the overall implementation of the "13th Five-Year Plan" issued by the central government, the green environmental protection industry has a broader prospect. Looking ahead, the Group is full of confidence. We will strive to enhance our comprehensive business strength, focus on the key link of the industrial chain, perfect business mix, accelerate the development of the core business segments and consolidate the status of existing business segments where we enjoy advantages. We will be committed to technological progress and innovation, and make every effort to enhance our corporate governance level to increase our operating efficiency, thus to create greater value for all shareholders and make greater contributions to building a beautiful China.

I would like to give my most sincere greetings to the management and all colleagues of the Group for their hard work and faithful dedication in the past year, and also express my heartfelt thanks to all shareholders, members of the board of directors, the Mainland and Hong Kong people and various departments for their full support. The Group will continue its efforts to improve the environment, seize market opportunities to achieve quality growth and efficiency, thus to improve the ecological environment and achieve the environmental industry landscape with beautiful sky and unpolluted water and earth.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

In 2017, although the uncertainty of the global financial market and global economic development continued to exist, the economies in developed countries including the United States, the European Union, Japan and the United Kingdom have shown signs of recovery. The stock indexes in most of the capital markets have reached record highs. Under the environment of rapid development of the global economy, as an important engine of the global economy, China has been actively transforming its economic structures while continuing to maintain stable economic growth to response to the situation. The development of green economy and environmental protection industry has become the new momentum of economic growth in the PRC, and that are also an important economy pillar for China's future economic reforms and sustainable development.

In 2017, the central government fully implemented a series of plans successively introduced by relevant departments, including the 13th Five-year Plan on Ecological Environmental Protection, the 13th Five-year Plan on Renewable Energy Development, the 13th Five-year Plan on the Construction of Facilities for the Innocuous Treatment of Municipal Solid Waste, the 13th Five-year Plan on the Development of National Strategic Emerging Industries and the National Framework of the 13th Five-year Scientific and Technological Development Plan for Environmental Protection, which have brought unprecedented development opportunities for the green economy and environmental protection industries. We believe that the stepping up of policy support and capital investments in environmental governance by the government, coupled with the increasing demand for environmental protection and alternative energy across the country, will provide the Group with enormous market opportunities and development potentials, achieving a win-win development in economy, environment and society.

In view of the broad prospects and great potential in the environmental protection industry, driven by talents, technologies and favorable national policies, the Group will continue to leverage its comprehensive strength and explore new opportunities for business development by diversified means such as BOT, TOT, BOO, as well as merger and acquisition. Benefiting from the support of national policies, the strong backing from its parent company Beijing Capital Group and the comprehensive capability and resources of the Group, the management are confident of the future development of the Group.

During the year under review, projects of the Group continued to progress steadily. Benefiting from favorable national policies and growing market demand, the Group has made remarkable achievements in operating results, market expansion, internal management, fund raising and financing, and the extension of its business chain, stood out from the keen market competition, hence laying a solid foundation for maintaining and reinforcing its leading position in the industry.

For market expansion, the Group successfully obtained 20 waste treatment projects in China, which required a total investment of approximately RMB3,950 million, and had the newly-increased annual solid waste treatment capacity of 4.64 million tons. The new projects include the hazardous waste integrated treatment center project in Linzi District, Shandong Province, the urban and rural waste collection and transfer project in Duyun City, Guizhou Province, the urban and rural integrated and comprehensive waste treatment project in Shicheng County, Jiangxi Province, the integrated project of solid waste incineration power generation and rural solid waste collection and transportation in Suichuan County, Jiangxi Province, the integrated project of solid waste incineration power generation and rural solid waste collection and transportation in Suixian, Henan Province, the veinous industrial park project in Lushan County, Henan Province and the integrated project of town and rural solid waste collection and transportation in Lushan County, the integrated urban and rural environmental health project in Suiping County, Henan Province, the solid waste incineration power generation project and rural solid waste collection and transportation project in Qi County, Henan Province and the biomass straw incineration power generation project in Qi County, Henan Province, the solid waste incineration power generation project and rural and town solid waste collection and transportation project in Zhengyang County, Henan Province, the second bid section of the road sweeping and cleaning project of Chaoyang District Environmental Sanitation Service Center in Beijing, the PPP project of Chaoyang District Construction Waste Utilization Centre in Beijing and the integrated waste treatment PPP project in Xiaozhangjiakou, Yanqing District, Beijing. The above-mentioned projects enable the Group to continuously remain the growth of incineration business, further establish the outstanding advantages of integrated waste collection and transportation business and successfully enter the construction waste treatment and cleaning business field, so as to extend the Group's environmental industry chain, expand the Group's business scope and continue to solidify and improve the leading position in the industry.

For business expansion, the Group's domestic environmental protection and alternative energy projects processed solid waste of 1.32 million tons in aggregate and generated total on-grid electricity of 205,154,000 kWh. As of 31 December 2017, the Group secured a total of 52 projects (including 17 waste-to-energy projects, 5 waste landfill projects, 6 Anaerobic Digestion Technology treatment projects, 13 waste collection, storage and transportation projects, 5 hazardous waste treatment projects, 2 dismantling waste electronic appliances projects and 4 biomass resources electricity generation projects) in China with a total investment of approximately RMB13.7 billion, and the investment amount amounted to RMB4,060 million as at 31 December 2017. The facilities are designed with an aggregate annual solid waste treatment capacity of approximately 11.50 million tons and annual electrical and electronic equipment dismantling volume of approximately 3.2 million units. The above-mentioned projects have gradually entered into the construction and operation period. As of 31 December 2017, there were 30 domestic projects which have entered the construction and operation period, of which the solid waste incineration power plant project in Quanling, Nanchang, a representative project demonstrating a high level of competence of the Group, has been approved as an environmental demonstration base by the National Development and Reform Commission.

For overseas market, the Group held 51% shares of BCG NZ Investment Holding Limited ("BCG NZ Group"). BCG NZ Group has more than 100 years of history in continuing operation, and is the largest waste management service supplier in New Zealand with over 30% market share, and has established a national wide network which vertically integrated the local waste system. BCG NZ Group provides the comprehensive waste management service in New Zealand including waste collection, recycling, disposition of hazardous and industrial waste, and served more than 200,000 customers in New Zealand.

With the development of business sectors, in order to meet the demands of local governments and residents, respond to intense market competition and strengthen the efficiency and the synergistic effect, the Group has established investment centers in Henan province, Jiangxi province, Beijing, Tianjin and Hebei province and Hazardous Waste Industrial Department during the past few years, so as to promote intraregional project investment and explore the new investment modes. The Group established a technology platform company this year to accelerate technological innovation, so as to dominate the market and save investing and operating costs through technological advantages, with the aim of enhancing its core competitiveness.

Looking ahead, given there are huge demand for green environmental protection industry during the economic and social development in China and there are also stronger supporting policies from the PRC government to the industry, with the continued comprehensive support from the shareholder (i.e. Beijing Capital Group), the Group can realize the full potential of all the opportunities for future development. The management of the Group believes that by virtue of the industry resources, the market position and competitive advantages of the Group, the Group will constantly seek projects with growth potential and good opportunities for acquisitions and mergers through integrating and improving the existing business portfolio, constantly summing up experience and keeping track of market trends, thus to make continuous contribution to the protection of global environment, the construction of beautiful China and the achievement of green development.

The Group is on target for increasing its capability in solid waste treatment by at least 7,000 tons per day in the next year. As of 31 December 2017, the Group is proposing and negotiating with potential cooperation partners in relation to the investments in several waste treatment projects by way of tender or acquisition. The Group's domestic projects have continuously increased and successively entered into the construction and operation period, which has contributed to the rapid growth of the Group's results. The development of businesses in New Zealand will enable the Group to achieve a steady growth. Therefore, the management of the Group is confident of achieving sustained growth in the medium-to-long term.

In order to meet the financial needs of the Group's future business development, the Group will conduct adequate research on the change trends in the global financing markets and capital markets, as well as make carefully assessment on the strengths and weaknesses of various financing instruments, so as to consider several low-cost funding sources to finance the future investments by taking account of its short-term, medium-term and long-term funding needs with the objective of continuously improving the market value of the Group and creating value for our shareholders.

FINANCIAL REVIEW

Overview

During the year under review, the Group's revenue from its waste treatment and waste-to-energy business reached RMB3,495.2 million, representing an increase of 29% as compared to RMB2,707.9 million in 2016. Profit attributable to owners of the Group in 2017 was RMB148.3 million, representing a substantial increase of more than 238% as compared to RMB43.8 million in 2016. The substantial increase of profit was mainly came from the Group has comprehensively promoted budget management and improved the overall efficiency, while the Group has accelerated the progress of projects and improved the efficiency of projects construction, which boosted a substantial increase in the revenue from construction services. In addition, the actual processing volume of projects that have been put into operation exceeded expectations, resulting in a substantially increase in the operating income.

Financial Position

As at 31 December 2017, the Group had total assets amounting to approximately RMB10,682.4 million and net assets attributable to the owners of the Company were approximately RMB3,213.5 million. As at 31 December 2017, the gearing ratio (which is calculated on the basis of total liabilities over total assets) was 58%, an increase of 3 percentage points from 55% at the end of 2016. The increase was mainly due to the Group increased bank financing by approximately RMB896.6 million during the year under review to response to the increased funding requirements of new projects. The current ratio (which is calculated on the basis of current assets over current liabilities) decreased from approximately 1.26 as at 31 December 2016 to approximately 0.56 as at 31 December 2017. The decrease was mainly attributable to the loan of NZ$570 million from our shareholder, BCG Chinastar (the "Loan"), will be matured on 1 June 2018, therefore, such Loan has been reclassified from non-current liabilities as at the end of 2016 to current liabilities as at 31 December 2017. Excluding the effect of the reclassification of such Loan, the current ratio of the Group as at 31 December 2017 was still higher than 1.

In order to maximize the shareholders' return and the market capitalization, the Group has internal policies in place so as to maintain its gearing ratio at a reasonable and acceptable level and to ensure the debt-to-total investment ratio for each project shall not be more than 60%. The Group has adopted a capital preservation policy for managing the funds raised but has not been utilized.

Financial Resources

The Group finances its operations primarily with internally generated cash flow and loan facilities from shareholders and banks. As at 31 December 2017, the Group had cash and bank balances and pledged bank deposits of approximately RMB909.3 million, representing an increase of approximately RMB129.3 million as compared to approximately RMB780 million at the end of 2016. The increase was mainly due to the increase in bank financing during the year under review. Currently, most of the Group's cash is denominated in RMB, HK$ and NZ$.

Borrowings

As at 31 December 2017, the Group had outstanding borrowings of approximately RMB4,698.7 million, representing an increase of approximately RMB983 million as compared to approximately RMB3,715.7 million at the end of 2016. The borrowings comprised secured loans of approximately RMB1,104.6 million and unsecured loans of approximately RMB3,594.1 million. The borrowings are denominated in RMB, HK$ and NZ$. Approximately 62.5% and 37.5% of the borrowings are at fixed rate and variable rate, respectively.

Foreign Exchange Exposure

The majority of the Group's sales, purchase and operating expenses were denominated in RMB, HK$, NZ$ and US dollars. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the board of Directors of the Company (the "Board") does not expect future currency fluctuations to materially impact the Group's operations. During the year, the Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes. The management will continue to monitor the foreign exchange exposure flexibly and engage in timely and appropriate hedging activities when needed.

Commitment arrangements

As at 31 December 2017, the Group had commitment of approximately RMB800.3 million and RMB71.1 million in respect of the construction work under service concession arrangements and acquisition of property, plant and equipment respectively, which were contracted but not provided for in the consolidated financial statements.

Contingent Liabilities

As at 31 December 2017, the Group provided guarantees of approximately RMB1.9 million in favour of two banks in respect of banking facilities granted to an associate. The Group provided performance guarantees of approximately RMB282.5 million to the government institutions of New Zealand in respect of the continuous operation or the fulfillment of operation standards of the landfill sites.

Employee Information

As at 31 December 2017, the Group had about 3,241 employees in total, stationed mainly in Mainland China, Hong Kong and New Zealand. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on the salary trends prevailing in the aforesaid regions.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wu Lishun, aged 42, is a Certified Public Accountant, he was appointed as an executive Director and the Chairman of the Company in December 2016. Mr. Wu obtained a master degree in business administration from Robert H. Smith School of Business at the University of Maryland of the United State and a bachelor degree in International Business Management from International Business School at the University of International Business and Economics. Mr. Wu is currently the deputy general manager of Beijing Capital Group Company Limited, the vice chairman of Beijing MTR Corporation Limited, the chairman of Beijing Capital Waste Management NZ Ltd. (首創紐西蘭環境治理有限公司), the chairman of Qinhuangdao Star Light Technology Co. Ltd. (秦皇島思泰意達科技發展有限公司), and a director of Tianjin Jingjin Expressway Co. Ltd. (天津京津高速公路有限公司). He served as a director of Beijing Capital Co., Ltd. (stock code on Shanghai Stock Exchange: 600008) and a director of ECO Industrial Environmental Engineering Co. Ltd. (ECO工業環境工程有限公司). Prior to joining the Capital Group, Mr. Wu served as a manager in KPMG Huazhen, a director of Beijing Dayue Consulting Co., Ltd., deputy manager of planning and finance department and manager of planning and funding department in Beijing Infrastructure Investment Co., Ltd. (北京市基礎設施投資有限公司).

Mr. Cao Guoxian, aged 54, is a postgraduate, he was appointed as an executive director and chief executive officer of the Company in July 2011. Mr. Cao served in the foreign language department of Henan Normal University and Bureau of International Cooperation under the Chinese Academy of Sciences. Mr. Cao worked as manager of oversea business department of Beijing Jingfang Economic Development Corporation, assistant to the chairmen of Beijing Capital Land Ltd., deputy officer of the office of Beijing Capital Group Co., Ltd. and deputy general manager of Beijing Capital Co., Ltd.. Mr. Cao served as a non-executive director of China Environmental Technology Holdings Limited which is a company listed on The Stock Exchange.

Mr. Cao has engaged in overseas investment and financing business for many years, with extensive experience in investment management and wide international perspective. He also has considerable knowledge and operating experience in international investment and financing and capital market.

Mr. Liu Yongzheng, aged 49, was appointed as an executive Director of the Company in September 2015. Mr. Liu obtained a bachelor degree in Economic Law from the School of Law of the Renmin University of China and a master degree from the School of Law of the Temple University of the United States. Mr. Liu is the chairman of Beijing Capital Co., Ltd. and deputy general manager of Beijing Capital Group Co., Ltd. He served as the general manager of Beijing Capital Co., Ltd., and the deputy general manager and general manager of legal department and the General Counsel of Beijing Capital Group Co., Ltd. Prior to joining Beijing Capital Group, Mr. Liu served as a teacher at the Social Science Faculty of Beijing Institute of Meteorology and a lawyer at Zhong Lun Law Firm, Li Wen Law Firm and J&J Law Firm in Beijing.

Ms. Zhang Meng, aged 42, was appointed as an executive Director of the Company in December 2016. Ms. Zhang obtained a Master of Science in Environmental Resource Assessment from the Newcastle University of the United Kingdom and a bachelor degree in Environmental Monitoring of the Department of Environmental Engineering of the Beijing University of Technology. Ms. Zhang is currently the director of Beijing Capital Co., Ltd. and the general manager of department of environmental industry of Beijing Capital Group Company Limited. From September 2013 to June 2016, she worked in Beijing Capital Group Company Limited as the deputy general manager of infrastructure department. Prior to this, Ms. Zhang served as the deputy director of development department of the Management Committee of Olympic Green in Beijing, the deputy secretary and Secretary General of the Administration Committee of Common Area in Olympic Green of the Organizing Committee of the 29th Olympic Games, the executive officer of the Operation Center in Olympic Green and leader of Concierge and project manager of the department of environmental engineering of the Engineering and Environmental Bureau of the Organizing Committee of the 29th Olympic Games.

Mr. Cheng Jialin, aged 36, was appointed as an executive Director of the Company in July 2017. Mr. Cheng obtained a bachelor's degree in law from Faculty of Sociology, China University of Political Science and Law and a master's degree in public administration from China University of Political Science and Law. Mr. Cheng served as an assistant to the director of the Department of Party-masses Affairs (黨群工作部) (including Party Committee Office (黨委辦公室) and Party Committee Organization Department (黨委組織部)) of Beijing Capital Group Company Limited. Prior to this, Mr. Cheng served as an assistant to the secretary of the Branch of the Communist Party of China in Chaichangtun Village, Yongledian Town, Tongzhou District, Beijing (北京市通州區永樂店鎮柴廠屯村), senior staff member and principal staff member of the cadres deployment office of Beijing Municipal Party Committee Organization Department (北京市委組織部幹部調配處) (Civil Service Management Office (公務員管理處)), and an assistant to the general manager of human resources department of Beijing Capital Group Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Pao Ping Wing, JP, aged 70, was appointed as an independent non-executive director of the Company in June 2006. He had been actively serving on government policy and executive bodies, including those relating to town planning, urban renewal, public housing and environment matters for 27 years. He has been appointed as a Justice of the Peace of Hong Kong since 1987. He was an ex-urban councilor. He obtained a Master of Science Degree in Human Settlements Planning and Development from the Asian Institute of Technology in Thailand in 1980. He was elected as one of the Ten Outstanding Young Persons of Hong Kong in 1982 and one of the Ten Outstanding Young Persons of the World in 1983. He is an independent non-executive director of Oriental Press Group Limited, Sing Lee Software (Group) Limited, Zhuzhou CRRC Times Electric Co. Ltd., Soundwill Holdings Limited and Maoye International Holdings Limited, all of which are listed on the Stock Exchange.

Mr. Cheng Kai Tai, Allen, aged 54, was appointed as an independent non-executive director of the Company in January 2010. He is a qualified accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has practiced as a Certified Public Accountant in Hong Kong for over 20 years and has extensive professional experience in auditing, taxation, financial management, corporate recovery and restructuring. Mr. Cheng holds a Master Degree of accountancy from Jinan University in China and is a professional advisor to several international companies of investment management, textile, retailing, metal trading and manufacturing in China and Japan.

Dr. Chan Yee Wah, Eva, age 52, was appointed as an independent non-executive director of the Company in July 2012. She has more than 25 years of financial and management experience and has been senior executives of various listed companies in Hong Kong. Dr. Chan is a fellow member of Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Chartered Secretaries. Dr. Chan graduated from City University of Hong Kong with a Bachelor of Arts in Accounting. She then earned her MBA degree from the University of Nottingham. She also obtained a DBA degree from the Polytechnic University of Hong Kong. She is currently the Head of Investor Relations of C C Land Holdings Limited.

SENIOR MANAGEMENT

Mr. Gu Jinshan, a Doctor degree holder, senior engineer, was appointed as the Deputy General Manager of the Company in February 2015. He is mainly responsible for the Corporate Management of the Company.

Mr. Gu obtained a doctor degree in Radio Waves Engineering from Southeast University, a Master degree in Engineering from College of Optoelectronic Science Engineering of Nanjing University of Science and Technology and a Bachelor degree in Electronic Engineering from Changchun University of Science and Technology (formerly known as Changchun Institute of Optics and Fine Mechanics). Mr. Gu was the laser engineer of Nanjing University Institute of Communication Technology of Ningbo Bird Co., Ltd., the operation director the committee member of Party Committee of the Technology & Network Construction Department of China United Network Communications Limited, the committee member of Party Committee and Deputy General Manager of China United Network Communications Limited Tangshan Branch, the Party Committee member of People's Government and assistant to mayor of Meishan city of Sichuan.

Mr. Liu Yanjun, was appointed as the Deputy General Manager of the Company in June 2011. He is responsible for corporate strategies, capital market and management of the Board of the Company. Mr. Liu obtained a Bachelor degree in Environmental Science from the Northeast Normal University and a Master degree in Business Administration from the University of Technology of Sydney, Australia. He was previously a Chief of Office in project management in Harbin Drainage Management, a Senior Investment Manager in PCCW (Beijing) Limited, a Deputy General Manager of the Strategy Department and a General Manager of the International Cooperation Department in Beijing Capital Co. Ltd., and a Deputy General Manager in Beijing Capital (Hong Kong) Limited.

Mr. Liu has over ten years of experience in both areas of environmental protection and capital market. He understands and is familiar with the industry development and the market practices. He participated in and was in charge of the investment in as well as the acquisition and restructuring of a number of environmental protection projects. He possesses extensive solid experience in the formulation of the development strategies for investment companies and the operation of capital market.

Mr. Xu Jinjun, was appointed as the Deputy General Manager of the Company in June 2011. He is responsible for the operational management of technology, engineering and hazardous waste. Mr. Xu obtained a Master degree from the Chinese Academy of Sciences. He has an educational background in both the management and environmental engineering. He was previously a Secretary to General Manager in Beijing Cement Plant of BBMG Group, a General Manager of the Department of Water Business Unit in Duoyuan Global Water Inc., a General Manager of the Market Management Department in Duoyuan Electricity and Gas, and a Deputy General Manager in Hunan Capital Investment Co., Ltd..

Mr. Xu has over ten years of experience in the environmental protection area. He has extensive knowledge in the financial forecast, laws and regulations, technological standards and relevant industry practices for franchising projects of public utilities. He has a well-developed network in the environmental protection industry and is good at team building and organizational management. He has relatively deep knowledge about and extensive practical experience in the investment, construction and operational management in public infrastructures.

Mr. Yan Shengli, was appointed as the Assistant President of the Company in June 2011 and then as the Vice President in January 2013. Mr. Yan is responsible for leading of Operation Center and Legal affairs of the Company.

Mr. Yan obtained a Master Degree of Economic Legal Studies from Huazhong University of Science & Technology and a Bachelor degree in Mathematics from Henan Normal University, is a practicing lawyer of People's Republic of China, an economist and an arbitrator. He has well engaged in PRC law and its expertise knowledge of economic aspect, legal application and practicing compliance. He has practiced as practicing lawyer for more than 20 years' experience and as arbitrator for ten years' experience. He was previously the Legal Consul of several sizable enterprises and government authorities in PRC. He has been familiar with the operation practice, regulations and management style of Government and enterprises; the Secretary of Judiciary Department in Factory 9623 of China North Industries Group Corporation; a senior partner of Henan Ziwu Solicitors & Co., a general manager of Henan Hongda Properties Company; and a partner of Beijing Rongshi Solicitors & Co. and Beijing Chang'an Solicitors & Co..

Mr. Hu Zaichun, was appointed as the Assistant President of the Company in September 2011 and then as the Vice President of the Company in January 2013, responsible for Investments Department I and anaerobic treatment operation management.

Mr. Hu is a postgraduate from University of Chinese Academy of Sciences and Research Center for Eco-Environmental Sciences, Chinese Academy of Sciences, and holds a bachelor degree of geochemistry from the University of Science and Technology of China. He was a visiting scholar of National Center for Atmospheric Research, USA. Mr. Hu served as Assistant Engineer and Engineer in the Investment Division of the Planning Bureau of Chinese Academy of Sciences (Financial Planning Bureau), Secretary of the Office of Chinese Academy of Sciences, Secretary to the Special Inspector of the State Council (Chairman of State-owned Enterprises Supervisor Committee) of the General Administration of Special Inspector of the State Council (Work Office of State-owned Enterprises Supervisor Committee), General Manager of the Property Management Department, Secretary to the First Supervisor Committee, Supervisor of the Second Supervisor Committee in Chinese Academy of Sciences Holdings Co., Ltd.. He took part in the preparation of 光電集團 and Chinese Academy of Sciences Holdings Co., Ltd., and served as Chairman of the Second Session of Board of Directors in Architecture Design and Research of C. A. S, director of the First Session of Board of Directors in CAS Publication Group Co., Ltd, Assistant to the General Manager, Secretary of the Second Session of the Board of Directors and Director of Office of the Party Committee in CAS Publication Group Co., Ltd (Science Press Ltd.).

Mr. Yin Hang, was appointed as the assistant president of the Company on 1 March 2016, in charge of the investment center in the Beijing, Tianjin, and Hebei Region and responsible for business management in South China and assisting the chief executive officer of the Company in taking charge of the audit department. Mr. Yin, a postgraduate from Renmin University of China, acted as the general manager assistant of the enterprise management department of Beijing Capital Group Company Limited. He has over ten years of working experience in the environmental protection field and is familiar with the operation mode of franchise. He has led and participated in investment and acquisition of many water and solid waste projects. He is familiar with corporate internal control and risk management systems and has years of experience in corporate internal control management.

Ms. Wong Bing Ni, was appointed as company secretary and authorized representative of the Company in June 2010. Ms. Wong is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, an associate member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She holds a master degree in Professional Accounting and she has over twenty years of experience in company secretarial matters, internal control and financial management which acquired from Hong Kong listed companies.

CORPORATE GOVERNANCE REPORT

The board of Directors of the Company (the "Board") believes that high standards of corporate governance are essential to the success of the Company and is committed to maintain a high level of corporate governance standards and practices.

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "Code") contained 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 to the Listing Rules as its code for dealing in securities of the Company by the Directors. The Model Code is also applicable to the senior management of the Company. After a specific enquiry conducted by the Company, all the Directors confirmed that they have fully complied with the required standards set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

The Board is primarily responsible for establishing the strategic direction of the Group, setting objective and business development plan for the Group, monitoring the performance of the senior management and assuming responsibility for corporate governance. The Board is also responsible for the preparation and presentation of annual and interim results, risk management, major acquisition(s), and other significant operational and financial matters. Both the Board and the management have clearly defined roles and powers towards internal control, policies and day-to-day operations of the Group's business. The management, under the leadership of the Board, will be empowered to implement the Group's strategies and business objectives.

With a view to achieving a sustainable and balanced development, the Company considers the increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. The Board diversity has been considered in terms of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

As at 31 December 2017, the Board comprises five executive Directors and three independent non-executive Directors:

Executive Directors

Mr. Wu Lishun *(Chairman)*
Mr. Cao Guoxian *(Chief Executive Officer)*
Mr. Liu Yongzheng
Ms. Zhang Meng
Mr. Cheng Jialin

Independent Non-executive Directors

Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
Dr. Chan Yee Wah, Eva

The biographical details of all Directors are set out in the section headed "Board of Directors and Senior Management" of this annual report. Save as disclosed otherwise, none of the Directors has any relationship including financial, business, family or other material relationship with each other.

Every director has sufficient time and attention to deal with the Company's affairs. Every director is required to disclose the number and nature of offices held in public companies or organizations and other significant commitments to the Company on an annual basis.

To comply with Rule 3.10 of the Listing Rules, the Company has appointed three independent non-executive Directors whom the Company considers having the appropriate and sufficient industry or finance experience and qualifications to carry out their duties. Pursuant to the requirements of Rule 3.13 of the Listing Rules, the Company has received annual confirmation of independence from the three independent non-executive Directors. They were free from any business relationship or other circumstances that could materially interfere with the exercise of their independent or objective judgments. The Company is of the view that all the independent non-executive Directors are independent. Also, the three Independent Non-Executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management. Mr. Pao Ping Wing, an independent non-executive director of the Company, has served as an independent non-executive director for the Company more than 9 years. Mr. Pao Ping Wing has been re-appointed as an independent non-executive director for the Company by a separate resolution has been approved by the Company's shareholders in the 2017 annual general meeting. Apart from this, there is no independent non-executive director has taken the tenure of office of the Company for more than 9 years.

The Board is circulated with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational, business and financial performance of the Group before each board meeting. A 14 days minimum notice is given to all Directors before each regular board meeting and a reasonable notice will also be given for convening other board meetings, to give them the opportunity to prepare for their attendance of such meetings and to provide them with the opportunity to include additional matters in the meeting's agenda. Board papers are dispatched to the Directors at least 3 days before the meeting to ensure they have ample time to review the papers and be adequately prepared for the meeting. Senior management, responsible for the preparation of the Board papers, are invariably invited to present their papers and to take any questions or address any queries that the Board members may have on the papers in the meetings.

The proceedings of the Board at its meeting are conducted by the Chairman of the Company or the person acting the role as the chairman of the meetings who ensures that sufficient time is allocated for discussion and consideration of each agenda item and also equal chances are being given to each Director to express their views and share their concerns.

In considering any matters or transactions at any Board meeting, the Directors are required to declare any direct or indirect interests, and shall abstain from voting at the meeting(s) where appropriate. Minutes of the Board meetings will record in details the matters considered by the Board and the decisions reached. The draft minutes of each Board meeting are sent to the Directors for comments within a reasonable time after the meeting.

During the year under review, the Company held nine board meetings and one general meeting, and all Directors were entitled to attend such meetings. The attendance of each Director is set out below:

	Meeting attendance/held	
	Board meetings	**General meetings**
Executive Directors		
Mr. Wu Lishun	9/9	1/1
Mr. Cao Guoxian	9/9	1/1
Mr. Liu Yongzheng		
— Attendance in person	6/9	0/1
— Attendance by alternate director	1/9	0/1
Ms. Zhang Meng	9/9	1/1
Mr. Yang Bin *(resigned on 25 May 2017*)*	3/4	0/0
Mr. Cheng Jialin *(appointed on 1 July 2017**)*	4/4	0/0
Independent Non-executive Directors		
Mr. Pao Ping Wing	9/9	1/1
Mr. Cheng Kai Tai, Allen	9/9	1/1
Dr. Chan Yee Wah, Eva	9/9	1/1

* Mr. Yang Bin resigned as executive Director of the Company on 25 May 2017. Four Board meetings and none general meetings were held during the period of his appointment.

** Mr. Cheng Jialin was appointed as executive Director of the Company on 1 July 2017. Four Board meetings and none general meeting were held during the period of his appointment.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Provision A.6.5 of the Code provides that Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the year ended 31 December 2017, all Directors had participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities. The trainings and professional development attended by each Director are as follows:

	Type of training
Executive Directors	
Mr. Wu Lishun	A,B
Mr. Cao Guoxian	A,B
Mr. Liu Yongzheng	A,B
Ms. Zhang Meng	A,B
Mr. Yang Bin *(resigned on 25 May 2017)*	B
Mr. Cheng Jialin *(appointed on 1 July 2017)*	A,B
Independent Non-executive Directors	
Mr. Pao Ping Wing	A,B
Mr. Cheng Kai Tai, Allen	A,B
Dr. Chan Yee Wah, Eva	A,B

Notes:

A: attending seminar/workshops/forums/training courses

B: reading newspapers, publications and updates in relation to economic and environmental issues or duties and responsibilities of Directors

CHAIRMAN AND CHIEF EXECUTIVE

The Chairman, Mr. Wu Lishun, is responsible for the formulation of overall corporate direction and business development strategy of the Group. He is also responsible for ensuring that good corporate governance practices and procedures are established, implemented and enforced.

The Chief Executive Officer, Mr. Cao Guoxian, is responsible for the day-to-day management of the Group and the implementation of the approved strategies.

NON-EXECUTIVE DIRECTORS

During the year under review, each of the independent non-executive Directors has entered into letter of appointment with the Company for a term of three years and all subject to the rotational retirement provisions of the memorandum and articles of association of the Company.

BOARD COMMITTEES

Corporate Governance Functions

The Board is responsible for performing the corporate governance functions within its terms of reference. The duties of the Board include (i) to develop and review corporate governance policies and practices of the Company; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct applicable to directors and employees; and (v) to review the Company's compliance with the corporate governance code and disclosures in the corporate governance report as required under the Appendix 14 of the Listing Rules.

Nomination Committee

The Board established a nomination committee on 15 June 2006 with written terms of reference. During the year under review, the nomination committee comprises four members, the majority of whom are independent non-executive Directors. The chairman of the committee is Mr. Wu Lishun, an executive Director and the Chairman of the Company and other members are the three independent non-executive Directors, namely, Mr. Pao Ping Wing, Mr. Cheng Kai Tai, Allen and Dr. Chan Yee Wah, Eva. The principal roles and functions of the nomination committee include:

— To review the structure, size and composition of the Board at least annually, and taking into consideration of the diversity of the Board, including but not limited to gender, age, cultural and educational background and professional experience to ensure that the Board with business skills, experience and diversity of perspectives, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

— To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

— To access the independence of independent non-executive directors; and

— To make recommendations to the Board on relevant matters relating to the appointment or reappointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer.

All nominations of new Directors and Directors for re-election at the annual general meeting are first considered by the nomination committee, its recommendations would then be put forward for the Board's decision. Subsequently, all those Directors are subject to election or re-election by the shareholders in the annual general meeting pursuant to the memorandum and articles of association of the Company. In considering the new appointment or re-election of Directors, the nomination committee will focus their decisions based on attributes such as integrity, loyalty, industry exposure and professional and technical skills together with the ability to contribute time and effort to carry out their duties effectively and responsibly.

During the year under review, the nomination committee had held two meetings, for (i) the re-nomination of Mr. Wu Lishun, Mr. Liu Yongzheng, Ms. Zhang Meng, Mr. Pao Ping Wing and Dr. Chan Yee Wah, Eva who were retiring at the annual general meeting held on 29 June 2017, as Directors and their willing to re-election in the same annual general meeting; and (ii) the nomination of Mr. Cheng Jialin as executive directors of the Company.

The individual attendance records of each member of the Nomination Committee is set out below:

	Meeting attendance/held
Mr. Wu Lishun *(Chairman of Nomination Committee)*	2/2
Mr. Pao Ping Wing	2/2
Mr. Cheng Kai Tai, Allen	2/2
Dr. Chan Yee Wah, Eva	2/2

Remuneration Committee

The Company established a remuneration committee on 15 June 2006 with written terms of references. During the year under review, the remuneration committee comprises three members, a majority of whom are independent non-executive Directors. The chairman of the committee is Mr. Pao Ping Wing, an independent non-executive Director and other members are Mr. Cheng Kai Tai, Allen, an independent non-executive Director and Mr. Wu Lishun, an executive Director and the Chairman of the Company. The principal roles and functions of the remuneration committee include:

— To make recommendations to the Board on the Company's policy and structure for remuneration of all Directors and senior management of the Group;

— To approve the terms of executive Directors' service contracts;

— To have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management of the Group, and make recommendations to the Board of the remuneration of non-executive Directors and independent non-executive Directors;

— To review and approve performance-based remuneration with reference to corporate goals and objectives resolved by the Board from time to time;

— To review and approve the compensation payable to executive Directors and senior management of the Group in connection with any loss or termination of their respective office or appointment; and

— To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct.

During the year under review, the remuneration committee had held two meetings to consider and review remuneration packages for all or individual Directors and all senior management staff.

The individual attendance records of each member of the Remuneration Committee is set out below:

	Meeting attendance/held
Mr. Pao Ping Wing *(Chairman of Remuneration Committee)*	2/2
Mr. Cheng Kai Tai, Allen	2/2
Mr. Wu Lishun	2/2

As incentive to attract, retain and motivate employees and senior management to strive for future developments and expansion of the Group, an annual appraisal had been conducted by the Company and employees are rewarded a performance bonus based on the results of such annual appraisal.

Audit Committee

The Company established an audit committee on 15 June 2006 with written terms of reference in compliance with the Code. The audit committee comprises three independent non-executive Directors namely, Dr. Chan Yee Wah, Eva, Mr. Pao Ping Wing, and Mr. Cheng Kai Tai, Allen respectively. Dr. Chan Yee Wah, Eva is the chairman of the Audit Committee. All of the Audit Committee members possess the necessary qualifications or experience in financial matters and are well versed and well exposed in the accounting and financial areas, which are crucial to their key roles and functions. The principal roles and functions of the committee include:

— To consider and recommend to the Board on the appointment, re-appointment and removal of external auditors, and to approve their remuneration, and any question of their resignation and dismissal;

— To maintain an appropriate relationship with the Group's external auditors;

— To review the financial information of the Group;

— To oversee the Group's financial reporting system, risk management and internal control systems;

— Maintain an appropriate arrangement allowing employees of the Group to draw attention to improprieties in financial reporting, internal monitoring or otherwise; and

— Act as the key representative body for overseeing the Group's relations with the external auditor.

During the year under review, the Audit Committee had held four meetings with the Group's senior management and its external auditors. The attendance records of each member of the Audit Committee is set out below:

	Meeting attendance/held
Dr. Chan Yee Wah, Eva *(Chairman of Audit Committee)*	4/4
Mr. Pao Ping Wing	3/4
Mr. Cheng Kai Tai, Allen	4/4

The works performed by the Audit Committee during the year under review include:

— To review the interim report and interim results announcement for the six months ended 30 June 2017;

— To review the annual report and annual results announcement for the year ended 31 December 2016;

— To deal with resignation of auditor and recommend appointment of new auditor;

— To review the accounting principles and practices adopted by the Group and other financial reporting matters;

— To discuss with external auditor on any significant findings and audit issues;

— To discuss with management on the effectiveness of the risk management and internal control systems throughout the Group, including financial, operational and compliance controls; and

— To review all significant business affairs managed by the executive Directors.

Minutes of the Audit Committee meeting have recorded the details of the matters considered by the Audit Committee members and the decisions reached. Drafts of these minutes were sent to the Audit Committee members for comments within a reasonable time after the Audit Committee meeting.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the auditors' remuneration paid or payable in respect of the audit services and non-audit services provided by the auditors to the Group were as follows:

	RMB'000
Audit service	3,345
Non-audit service	1,915
	5,260

RISK MANAGEMENT AND INTERNAL CONTROLS

Goals and objectives

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Company to identify and manage the significant risks to achieve its business objectives, safeguard its assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the achievement of the Company's business objectives.

Main features of the risk management and internal control systems

The Company's risk governance structure clarifies the function of unified leadership to guarantee the overall work efficiency and the performance of their respective duties among departments and mutual cooperation, perfects the internal control to improve its power of execution and builds the review mechanism of internal control to facilitate the effective operation of the system. The Company's risk governance structure and the main duties of each level of the structure are summarized as follows:

Board of Directors

— to determine the nature and extent of the risks the Company is willing to take in achieving the strategic objectives;

— to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems;

— to oversee management in the design, implementation and monitoring of the risk management systems; and

— to ensure that the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

Management

— to be responsible for the exhaustive risk identification and management, including the collection of risk information, the identification and evaluation of risks;

— to develop the main management guides and operations of daily business process of the Company, including the management methods of internal control, operating control brochure, operating control evaluation brochure, management system, routine performance and information disclosure; and

— to be responsible for carrying out the internal control process and self-check.

Internal Audit Department and Corporate Management Department

The internal audit department performs the Company's internal audit function, while the corporate management department is responsible for the Company's risk management and internal control management function includes:

— to be responsible for leading the construction of internal control;

— to lead the risk assessment and build up the risk register;

— to formulate the risk-oriented internal auditing plan and perform independent internal control supervision and assessment; and

— to be responsible for reporting to the audit committee the results of internal control supervision and assessment.

Process Used to Identify, Evaluate and Manage Significant Risks

The Company's process used to identify, evaluate and manage significant risks is summarized as follows:

Internal Environment

— in accordance with the internal self-development needs of the Company and regulatory requirements of regulatory authorities, the Company adopts an internal control system that possesses the characteristic of the Company to gradually improve the governance level of the Company.

Risk Assessment

— to identify the Company's risks based on the risk preference and risk tolerance of the Company determined by the Board of directors; and

— to prioritize the risk in accordance with their likelihood of occurrence and impact on the business.

Control Activities

— With reference to the basic standard for enterprise internal control and related guidelines, the Company establishes a completed management system and management process.

Information and Communication

— to regularly report to the Board of directors the results of risk monitoring, including the risk register, internal audit plan and work report prepared by external independent consultants.

Monitoring

In accordance with the internal control and management methods of the internal control, the Company:

— sets up the internal control organization system;

— formulates the specific procedures, methods and work requirements for the risk identification, construction, evaluation and issue of evaluation report; and

— includes the internal control evaluation into the performance appraisal system of the Company to ensure the effectiveness of internal control.

The Company has formulated the policy for the handling and dissemination of inside information. The Company regularly reminds the directors and employees of proper compliance with all policies on inside information. In addition, the Company also performed the internal training on disclosure requirements for listed companies in Hong Kong to update the relevant person of latest regulatory requirement. The Company will regularly review and update the guidelines or policies to ensure the compliance with regulatory requirements.

During the year, the Board has engaged the external independent consultant to conduct various agreed upon reviews over the Company's certain major risk management and internal control system and report the findings of the reviews and recommendations to the Board to assist the Board in performing the annual review in terms of the effectiveness of risk management and internal control system for the year ended 31 December 2017.

The Board has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries for the year ended 31 December 2017, including the financial, operational and compliance controls, and considers that the relevant systems are effective and adequate.

COMPANY SECRETARY

The company secretary is a full-time employee of the Company, has an understanding of the Company's day-to-day affairs, and shall be responsible to the Board. All Directors are able to seek advice and services from the company secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. The company secretary assists the Chairman to prepare agendas and Board papers for meetings and disseminates such documents to the Directors and board committees in a timely manner. The company secretary maintains formal minutes of the Board meetings and other Board committee meetings.

During the year ended 31 December 2017, the company secretary of the Company had confirmed that she had taken no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting on requisition by shareholders

Pursuant to article 58 of the Articles of Association, extraordinary general meetings of the Company (the "EGM(s)") shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s), as a result of the failure of the Board to convene the EGM(s), shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals at Shareholders' meeting

The number of Shareholders necessary for putting forward a proposal at a Shareholders' meeting shall be any number of Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the request.

Procedures for proposing an individual person for election as a director

As regards the procedures for proposing an individual person for election as a Director, please refer to the "Procedures for Directors' Election" made available under the Corporate Governance section of the Company's website at www.cehl.com.hk.

Procedures for putting forward enquiries to the Board

Annual general meetings and extraordinary general meetings also provide an effective platform for shareholders to communicate with the Board. Members of the Board (including members of the Audit Committee, the Remuneration Committee and the Nomination Committee) attended shareholders' meetings and make themselves available to answer shareholders' questions. Enquiries of shareholders may also be put forward to the Board in writing through contacting the Company Secretary by way of telephone number, email address or the Company's principal place of business in Hong Kong, as stated in our website.

INVESTOR RELATIONS

Communication with shareholders of the Company is given the highest priority. To promote and enhance investor relations and communications, the Company has established and maintained intensive communication channels with the media, analysts and fund managers through one-on-one meetings, road shows and conferences. Designated members of the Board and the senior management of the Group are given the specific responsibilities to maintain regular dialogues with institutional investors, potential institutional investors, fund managers, shareholders and analysts to keep them abreast of the Company's development.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders in the presence of the Company's external auditors. All the Directors and senior management of the Group will make the special effort to attend, notwithstanding their place of residence. External auditors' presence at the meeting would also allow them to address shareholders' queries. Notice of general meetings together with relevant circulars was dispatched to shareholders and they are encouraged to attend the annual general meeting and other general meetings. The procedure of general meeting was conducted in compliance with the Listing Rules and the articles of association of the Company, where sufficient time was given to shareholders for consideration of resolutions proposed and for question and answer, leading to satisfactory communications between the management and shareholders. Announcement of the resolutions passed at such meeting was published on both the websites of the Stock Exchange and the Company in a timely manner.

During the year ended 31 December 2017, there had been no significant change in the Company's constitutional documents.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that year and in compliance with relevant laws and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group.

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in provision of waste treatment technologies and services which specializes in technology development, design, system integration, project investment, consultancy, operation and maintenance of waste treatment facilities, especially waste-to-energy projects. Particulars of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statements of profit or loss and comprehensive income on pages 38 to 39 of this annual report.

BUSINESS REVIEW

A review of the business of the Group during the year, an analysis of the Group's performance during the year using financial key performance indicators, a discussion on the Group's future business development and description of possible risks and uncertainties that the Group may be facing are provided in Management Discussion and Analysis on pages 7 to 11 of the annual report respectively. The financial risk management objectives and policies of the Group can be found in note 46 to the consolidated financial statements.

RESERVES

The Company did not have distributable reserves as at 31 December 2017.

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 42 to 43 of this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 132 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 35 to the consolidated financial statements.

BANK BORROWINGS

Details of the Group's bank borrowings are set out in note 31 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors or any of their spouse or children under the age of 18 to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS

The Directors during the year and up to the date of this directors' report are:

Executive Directors

Mr. Wu Lishun *(Chairman)*
Mr. Cao Guoxian *(Chief Executive Officer)*
Mr. Liu Yongzheng
Ms. Zhang Meng
Mr. Yang Bin *(resigned on 25 May 2017)*
Mr. Cheng Jialin *(appointed on 1 July 2017)*

Independent Non-executive Directors

Mr. Pao Ping Wing
Mr. Cheng Kai Tai, Allen
Dr. Chan Yee Wah, Eva

In accordance with articles 86 and 87 of the Articles of Association of the Company, Mr. Cao Guoxian, Ms. Zhang Meng, Mr. Cheng Jialin and Mr. Cheng Kai Tai, Allen will retire from office and, being eligible offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and still considers them to be independent. In which, Mr. Pao Ping Wing, the independent non-executive director of the Company, has been serving in the Company for more than 9 years. However, there is no evidence suggesting that his independence has already been or will be compromised or affected, especially in terms of the implementation of independent judgment and the provision of objective opinions to the management. The Board is confident that Mr. Pao Ping Wing will present the balanced and objective opinion to continue his valuable contributions to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management are set out on pages 12 to 15 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years, and will continue thereafter until terminated by either party thereto giving to the other not less than three months' prior notice in writing.

Each of the independent non-executive Directors has entered into letter of appointment with the Company for a term of three years.

Save as disclosed above, none of the Directors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

There are no contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the year-end or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, none of the Directors had any interest in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, none of the Directors, chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

The Company's share option scheme has expired on 14 June 2016, and the Company has no any share option schemes currently in force.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017, the following shareholders had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholders	Capacity	Number of shares/ underlying shares held	Approximate percentage of shareholdings
Beijing Capital (Hong Kong) Limited	Beneficial owner (Note 1)	6,449,026,736 (L)	45.11%
Beijing Capital Co., Ltd.	Interest of a controlled corporation (Note 1)	6,449,026,736 (L)	45.11%
BCG Chinastar International Investment Limited	Beneficial owner (Note 2)	3,116,767,072 (L)	21.80%
Beijing Capital Group Co., Ltd.	Interest of controlled corporations (Note 1 & 2)	9,565,793,808 (L)	66.92%

(L) denotes a long position

Notes:

1. Beijing Capital (Hong Kong) Limited was a wholly-owned subsidiary of Beijing Capital Co., Ltd.. Beijing Capital Co., Ltd. is in turn controlled by Beijing Capital Group Co., Ltd.. As such, Beijing Capital Group Co., Ltd. and Beijing Capital Co., Ltd. were deemed to have interest in the Shares held by Beijing Capital (Hong Kong) Limited for the purposes of the SFO.

2. BCG Chinastar International Investment Limited is the wholly-owned subsidiary of Beijing Capital Group Co., Ltd.. Therefore, Beijing Capital Group Co., Ltd. is deemed to be interested in the shares held by BCG Chinastar International Investment Limited in accordance with the SFO.

Save as aforesaid, the Company has not been notified by any person who had any interest or short position in the shares or underlying shares of the Company as at 31 December 2017 which are required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group conducted the following connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Corporate Financing Guarantee Service

On 7 November 2017, Beijing Capital Environment Investment Limited (北京首創環境投資有限公司) ("Capital Investment"), a wholly-owned subsidiary of the Company and Beijing Capital Group Company Limited (北京首都創業集團有限公司) ("Beijing Capital Group") entered into the Entrustment Guarantee Agreement, pursuant to which Beijing Capital Group provides corporate financing guarantee service to Capital Investment. Beijing Capital Group, as the guarantor under the Entrustment Guarantee Agreement, agreed to provide guarantee to Ping An Asset Management Co., Ltd. ("Ping An Asset") in respect of the Financing Agreement, so as to procure that Ping An Asset provides the Group with a loan of up to RMB1,000,000,000 in aggregate. Capital Investment shall pay to Beijing Capital Group, a guarantee fee for such service which is calculated at the rate of 0.6% per annum on the total principal amount in respect of which Beijing Capital Group assumed the guarantee liability. Pursuant to the Entrustment Guarantee Agreement, the annual caps for the maximum guarantee fee payable by the Group for the years ended 31 December 2017, 2018, 2019, 2020, 2021 and 2022 were RMB0.904 million, RMB6 million, RMB6 million, RMB6 million, RMB6 million and RMB5.096 million respectively.

As at 31 December 2017, the Group did not draw down any loan from Ping An Asset with regard to the Financing Agreement.

On 7 November 2017 (i.e. the date of the Entrustment Guarantee Agreement) and 31 December 2017 (i.e. the end date of the year under review), Beijing Capital Group was a controlling shareholder of the Company, indirectly holding 66.92% of the share capital of the Company. Beijing Capital Group is the connected person of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios of the continuing connected transaction with respect to the payment of guarantee fee to Beijing Capital Group by Capital Investment exceed 0.1% but less than 5%, the transaction is subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement, under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Board of Directors appointed the auditor of the Company to carry out several agreed audit procedures in respect of the continuing connected transaction. The auditor reported to the Board, the actual audit findings of such procedures.

The independent non-executive directors reviewed the aforesaid continuing connected transaction and confirmed that such transaction was entered into:

1. in the ordinary and usual course of business of the Company;

2. on normal commercial terms or better; and

3. according to the agreement governing such transaction that are fair and reasonable and in the interests of the Company' shareholders of as a whole.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 20.6% of the Group's sales for the year and sales to the Group's largest customer included therein accounted for 5.2%.

Purchase from the Group's five largest suppliers accounted for 8.4% of the Group's total purchases for the year and purchase from the Group's largest customer included therein accounted for 2.7%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's article of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata to existing shareholders.

PURCHASE, SALE OR REDEMPTION 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.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 16 to 26 of this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Information on the Company's implementation of environmental and social responsibilities will be set out in the Environmental, Social and Governance report, which will be uploaded to the websites of the Company and the Stock Exchange by the end of May, 2018.

AUDITORS

The consolidated financial statements for the year ended 31 December 2017 have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wu Lishun
Chairman

Hong Kong, 22 March 2018

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Capital Environment Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Capital Environment Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 38 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 disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR 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.

Key audit matter	How our audit addressed the key audit matter
Accounting treatment for service concession arrangements	
The Group entered into service concession arrangements with government authorities or their designators in respect of the waste management and waste-to-energy business in the People's Republic of China. The arrangements were accounted for in accordance with HK(IFRIC) Interpretation 12 *Service Concession Arrangements*. The accounting treatment for service concession arrangements involved significant management judgments and estimates including determination of applicable accounting models, estimation of the future guaranteed receipts, prevailing market rates of construction gross margins and discount rates as used in the valuation process, and determination of the percentage of completion of construction services. As a result, we identified accounting treatment for service concession arrangements as a key audit matter requiring special audit consideration. The accounting policies and disclosures for service concession arrangements are included in note 2.4 Summary of significant accounting policies — Service concession arrangements, note 3 Significant accounting judgements and estimates — Service concession arrangements, note 3 Significant accounting judgements and estimates — Percentage of completion of construction work, note 5 Revenue, other income and gains, note 16 Other intangible assets and note 21 Concession financial assets to the consolidated financial statements.	We evaluated the accounting models adopted by the Group and assessed the future guaranteed receipts by reviewing the contract terms of the service concession arrangements. We performed a comparison of the inputs to the accounting models with external market data. In addition, we involved our internal valuation specialists to assist us in evaluating the gross margins for construction services and discount rates. We also evaluated management's assessment of percentage of completion of construction services by inquiring management the status of significant projects under construction and examining independent surveyors' reports. We tested the underlying data adopted by independent surveyors, which included checking to purchase contracts, invoices and goods delivery notes for construction costs. We also understood and tested management's process of estimating the total budget cost and costs to completion for incomplete construction contracts. In addition, we assessed the adequacy of the relevant disclosures.

Key audit matter	How our audit addressed the key audit matter
Impairment of concession financial assets	
Concession financial assets represented the guaranteed receipts of waste treatment fees under the service concession arrangements. The balance of concession financial assets as at 31 December 2017 amounted to RMB2,043.98 million, which accounted for 46% of the net assets of the Group. In addition, significant management judgement was involved in determining the impairment of concession financial assets. Given the significance of the balances and the level of judgement involved, we considered this as a key audit matter. The accounting policies and disclosures of impairment of concession financial assets are included in note 2.4 Summary of significant accounting policies — Service concession arrangements, note 3 Significant accounting judgements and estimates — Impairment of concession financial assets and note 21 Concession financial assets to the consolidated financial statements.	Our audit procedures included, among others, understanding and testing the Group's processes and controls related to monitoring of receivables under service concession arrangements, inquiring about management's judgements involved in the assessment of impairment of concession financial assets, and examining subsequent receipts and the debtors' historical repayment patterns. In addition, we assessed the adequacy of the relevant disclosures.
Impairment of goodwill and intangible assets with indefinite useful lives	
Under HKAS 36, the Group is required to perform impairment test of goodwill and intangible assets with indefinite useful lives at least annually. The process is highly judgmental and is based on assumptions, in particular those related to future revenue growth rate, operating margin, perpetual growth rate and discount rate. The annual impairment test was significant to our audit because the balances of RMB2,044.41 million of goodwill and RMB853.43 million of intangible assets with indefinite useful lives as at 31 December 2017 were material to the consolidated financial statements. Given the level of judgement involved and the significance of the balances, we considered this as a key audit matter. The accounting policies and disclosures for the impairment of goodwill and intangible assets with indefinite useful lives are included in note 2.4 Summary of significant accounting policies — Business combinations and goodwill, note 2.4 Summary of significant accounting policies — Intangible assets (other than goodwill), note 3 Significant accounting judgements and estimates — Impairment of goodwill and intangible assets with indefinite useful lives, note 15 Goodwill and note 16 Other intangible assets to the consolidated financial statements.	Our audit procedures included, among others, involving our internal valuation specialists to assist us in evaluating the assumptions, i.e., perpetual growth rate and discount rate, and methodologies used by the Group, comparing the key assumptions used in the impairment test, i.e., future revenue growth rate and operating margin, to the historical performance of the Group and management's business development plan, and reviewing the sensitivity analysis for the recoverable amounts of the respective cash-generating units prepared by management. We also focused on the adequacy of the relevant disclosures, especially for those key assumptions to which the outcome of the impairment test is sensitive.

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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the 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, 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.

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.

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

- 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.

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 Cheong Ming Yik.

Certified Public Accountants
Hong Kong
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 *RMB'000*	2016 *RMB'000*
REVENUE	5	**3,495,166**	2,707,882
Cost of sales		**(2,487,959)**	(1,912,556)
Gross profit		**1,007,207**	795,326
Other income and gains	5	**17,991**	26,518
Administrative expenses		**(537,274)**	(485,665)
Other expenses		**(6,405)**	(16,774)
Finance costs	7	**(195,942)**	(182,263)
Share of profits of joint ventures		**56,142**	64,685
Share of profits/(losses) of associates		**6,255**	(13,018)
PROFIT BEFORE TAX	6	**347,974**	188,809
Income tax expense	10	**(74,255)**	(55,148)
PROFIT FOR THE YEAR		**273,719**	133,661
Attributable to:			
Owners of the parent		**148,342**	43,848
Non-controlling interests		**125,377**	89,813
		273,719	133,661
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**RMB1.04 cents**	RMB0.31 cent
Diluted	12	**RMB1.04 cents**	RMB0.31 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	**273,719**	133,661
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**14,896**	(23,649)
Reclassification adjustment for cumulative loss upon disposal	**—**	(117)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	**3,300**	41
Exchange differences related to foreign operations	**(123,195)**	182,836
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(104,999)**	159,111
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**168,720**	292,772
Attributable to:		
Owners of the parent	**102,092**	113,349
Non-controlling interests	**66,628**	179,423
	168,720	292,772

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2017

	Notes	31 December 2017 RMB'000	2016 RMB'000 Restated	1 January 2016 RMB'000 Restated
NON-CURRENT ASSETS				
Property, plant and equipment	13	**1,790,082**	1,734,321	1,303,279
Prepaid land lease payments	14	**49,627**	74,563	73,440
Goodwill	15	**2,044,408**	2,166,182	1,947,701
Other intangible assets	16	**1,906,175**	1,635,612	1,692,462
Investments in joint ventures	17	**462,344**	472,958	420,139
Investments in associates	19	**91,532**	85,277	95,844
Available-for-sale investments	20	**95,041**	80,131	86,487
Deferred tax assets	34	**10,568**	11,550	9,616
Concession financial assets	21	**1,864,989**	1,492,503	968,031
Prepayments, deposits and other receivables	22	**132,028**	106,054	112,240
Amounts due from associates	25	**—**	8,600	—
Time deposits	26	**12,500**	10,000	—
Total non-current assets		**8,459,294**	7,877,751	6,709,239
CURRENT ASSETS				
Inventories	23	**39,911**	29,817	35,962
Concession financial assets	21	**178,988**	63,507	44,198
Assets classified as held for sale	27	**9,541**	10,985	264,500
Trade receivables	24	**777,632**	644,401	524,002
Prepayments, deposits and other receivables	22	**265,238**	133,421	77,204
Prepaid land lease payments	14	**948**	1,882	1,673
Amounts due from associates	25	**47,741**	39,141	35,966
Tax recoverable		**6,354**	2,523	14,409
Pledged deposits	26	**4,000**	9,000	—
Derivative financial instruments		**—**	—	107
Time deposits	26	**—**	5,000	—
Cash and cash equivalents	26	**892,790**	755,954	1,436,038
Total current assets		**2,223,143**	1,695,631	2,434,059
CURRENT LIABILITIES				
Trade payables	28	**405,155**	236,827	158,573
Other payables and accruals	29	**389,493**	456,287	428,982
Deferred income	30	**394**	1,400	1,400
Derivative financial instruments		**1,727**	137	—
Interest-bearing bank and other borrowings	31	**3,145,327**	458,322	384,410
Amounts due to the immediate shareholders	32	**—**	149,776	137,769
Amount due to a related party		**1,376**	—	—
Tax payable		**47,983**	44,278	44,197
Liabilities associated with assets classified as held for sale		**—**	—	111,424
Provisions	33	**—**	800	800
Total current liabilities		**3,991,455**	1,347,827	1,267,555

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 DECEMBER 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000 Restated	1 January 2016 RMB'000 Restated
NET CURRENT (LIABILITIES)/ASSETS		**(1,768,312)**	347,804	1,166,504
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,690,982**	8,225,555	7,875,743
NON-CURRENT LIABILITIES				
Deferred income	30	**34,153**	40,870	38,200
Interest-bearing bank and other borrowings	31	**1,553,374**	3,257,333	2,934,949
Derivative financial instruments		**—**	200	—
Deferred tax liabilities	34	**434,266**	447,884	427,421
Provisions	33	**204,114**	187,283	110,668
Total non-current liabilities		**2,225,907**	3,933,570	3,511,238
Net assets		**4,465,075**	4,291,985	4,364,505
EQUITY				
Equity attributable to owners of the parent				
Issued capital	35	**1,188,219**	1,188,219	797,340
Reserves	36	**2,025,290**	1,913,658	2,403,164
		3,213,509	3,101,877	3,200,504
Non-controlling interests		**1,251,566**	1,190,108	1,164,001
Total equity		**4,465,075**	4,291,985	4,364,505

WU LISHUN
Director

CAO GUOXIAN
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Attributable to owners of the parent										
	Issued capital RMB'000 (note 35)	Share premium RMB'000	Capital Reserve RMB'000	Merger reserve RMB'000	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	797,340	3,112,910	—	981,706	(1,704)	4,803	(197,627)	(1,496,924)	3,200,504	1,164,001	4,364,505
Profit for the year	—	—	—	—	—	—	—	43,848	43,848	89,813	133,661
Other comprehensive income for the year:											
Changes in fair value of available-for-sale investments, net of tax	—	—	—	—	—	(23,649)	—	—	(23,649)	—	(23,649)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	93,246	—	93,246	89,590	182,836
Reclassification adjustment for cumulative loss upon disposal of available-for-sale investments	—	—	—	—	—	(117)	—	—	(117)	—	(117)
Cash flow hedges, net of tax	—	—	—	—	21	—	—	—	21	20	41
Total comprehensive income for the year	—	—	—	—	21	(23,766)	93,246	43,848	113,349	179,423	292,772
Acquisition of BCG NZ	390,879	859,935	—	(1,250,814)	—	—	—	—	—	—	—
Capital contribution from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	64,111	64,111
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	19,212	19,212
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	(510)	(510)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	(32,467)	(32,467)
Final 2015 dividend declared by BCG NZ	—	—	—	(135,920)	—	—	—	—	(135,920)	(130,589)	(266,509)
Interim 2016 dividend declared by BCG NZ	—	—	—	(76,056)	—	—	—	—	(76,056)	(73,073)	(149,129)
At 31 December 2016	1,188,219	3,972,845	—	(481,084)	(1,683)	(18,963)	(104,381)	(1,453,076)	3,101,877	1,190,108	4,291,985

	Attributable to owners of the parent										
	Issued capital RMB'000 (note 35)	Share premium RMB'000	Capital reserve RMB'000	Merger reserve RMB'000	Hedging reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	1,188,219	3,972,845	—	(481,084)	(1,683)	(18,963)	(104,381)	(1,453,076)	3,101,877	1,190,108	4,291,985
Profit for the year	—	—	—	—	—	—	—	148,342	148,342	125,377	273,719
Other comprehensive income for the year:											
Changes in fair value of available-for-sale investments, net of tax	—	—	—	—	—	14,896	—	—	14,896	—	14,896
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(62,829)	—	(62,829)	(60,366)	(123,195)
Cash flow hedges, net of tax	—	—	—	—	1,683	—	—	—	1,683	1,617	3,300
Total comprehensive income for the year	—	—	—	—	1,683	14,896	(62,829)	148,342	102,092	66,628	168,720
Capital contribution from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	23,000	23,000
Acquisition of non-controlling interests	—	—	9,540	—	—	—	—	—	9,540	(28,170)	(18,630)
At 31 December 2017	1,188,219	3,972,845*	9,540*	(481,084)*	—*	(4,067)*	(167,210)*	(1,304,734)*	3,213,509	1,251,566	4,465,075

* These reserve accounts comprise the consolidated reserves of RMB2,025,290,000 (31 December 2016: RMB1,913,658,000) in the consolidated statement of financial position.

Merger reserve represents the difference between the fair value of the consideration paid to Beijing Capital (Hong Kong) Limited ("Beijing Capital (HK)"), an immediate shareholder of the Company, and BCG Chinastar International Investment Limited ("BCG Chinastar"), a wholly-owned subsidiary of the Company's ultimate controlling shareholder, Beijing Capital Group Co., Ltd. ("Beijing Capital Group"), for the acquisition of 51% interest in BCG NZ Investment Holdings Limited ("BCG NZ"), which is under common control of Beijing Capital Group, and the carrying amounts of the net assets of BCG NZ acquired. After the acquisition, BCG Chinastar became one of the immediate shareholders of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**347,974**	188,809
Adjustments for:			
Depreciation	13	**218,663**	201,965
Recognition of prepaid land lease payments	14	**4,292**	2,195
Amortisation of other intangible assets	16	**56,265**	63,666
(Gain)/loss on disposal of items of property, plant and equipment	6	**(908)**	623
Impairment of prepayments, deposits and other receivables	6	**2,420**	5,200
Impairment of trade receivables	6	**2,630**	1,771
Share of profits of joint ventures		**(56,142)**	(64,685)
Share of (profits)/losses of associates		**(6,255)**	13,018
Interest income		**(98,449)**	(86,961)
Finance costs	7	**195,942**	182,263
Dividend income from available-for-sale investments	5	**(1,111)**	(563)
Impairment loss recognised on goodwill	6	**—**	11,572
Reversal of impairment loss recognised in respect of an amount due from an investee	5	**—**	(1,869)
Gain on disposal of a subsidiary	5	**—**	(5,012)
Loss on disposal of available-for-sale investments		**—**	100
		665,321	512,092
(Increase)/decrease in inventories		**(10,094)**	27,158
Increase in concession financial assets		**(400,686)**	(212,247)
Increase in trade receivables		**(144,903)**	(96,506)
Increase in prepayment, deposits and other receivables		**(138,153)**	(16,170)
Increase in deferred income		**15,800**	4,070
Increase in trade payables		**178,257**	8,102
(Decrease)/increase in other payables and accruals		**(44,440)**	115,256
Decrease in provision	33	**(1,665)**	(3,287)
Cash generated from operations		**119,437**	338,468
Profits tax paid		**(64,910)**	(75,631)
Net cash flows from operating activities		**54,527**	262,837

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED 31 DECEMBER 2017

	2017 *RMB'000*	2016 *RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(427,837)**	(404,372)
Additions of other intangible assets arising from service concession arrangements	**(298,336)**	(61,351)
Additions to other intangible assets	**(20,950)**	(14,807)
Purchase of prepaid lease payments	**(3,091)**	(3,527)
Proceeds from disposal of items of property, plant and equipment	**4,275**	3,376
Deposits paid to potential acquisitions	**(14,500)**	(22,048)
Advances made to an associate	**—**	(8,600)
Repayment from amount due from an investee	**—**	1,869
Repayment from amount due from associates	**—**	4,600
Repayment from a non-controlling shareholder	**—**	10,500
Repayment from a related company of a former shareholder of a subsidiary	**—**	4,000
Decrease/(increase) in assets held for sale	**1,444**	(3,777)
Dividends received from available-for-sale investments	**1,111**	563
Dividends received from joint ventures	**40,598**	53,723
Interest received	**5,327**	16,360
Purchase of available-for-sale investments	**—**	(2,873)
Acquisition of subsidiaries	**—**	(78,950)
Payment of consideration payable for acquisition made in prior year	**—**	(12,500)
Acquisition of an associate	**—**	(240)
Capital injection to an associate	**—**	(8,485)
Disposal of a subsidiary	**—**	30,832
Proceeds from sale of available-for-sale investments	**—**	1,596
Decrease/(increase) in pledged time deposits	**7,500**	(24,000)
Net cash flows used in investing activities	**(704,459)**	(518,111)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(192,402)**	(243,765)
Bank and other charges paid		**—**	(900)
New bank and other borrowings		**1,985,773**	578,172
Repayment of bank and other borrowings		**(845,120)**	(434,410)
Dividends paid by BCG NZ		**(147,453)**	(418,364)
Capital contribution from non-controlling shareholders of subsidiaries		**23,000**	64,111
Acquisition of non-controlling interests of subsidiaries		**(8,799)**	(510)
Net cash flows from/(used in) financing activities		**814,999**	(455,666)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**165,067**	(710,940)
Cash and cash equivalents at beginning of year		**755,954**	1,441,309
Effect of foreign exchange rate changes, net		**(28,231)**	25,585
CASH AND CASH EQUIVALENTS AT END OF YEAR		**892,790**	755,954
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	**896,790**	764,954
Pledged deposit	26	**(4,000)**	(9,000)
Cash and cash equivalents as stated in the statement of cash flows		**892,790**	755,954

1. CORPORATE AND GROUP INFORMATION

Capital Environment Holdings Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 May 2004 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited with effect from 13 July 2006. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The Company's head office and principal place of business in Hong Kong is in Unit 1613–1618, 16th Floor, Bank of America Tower, 12 Harcourt Road, Central.

The principal activity of the Company and its subsidiaries (the "Group") is waste treatment and waste-to-energy business.

The ultimate holding company of the Company is Beijing Capital Group, a state-owned enterprise registered in the People's Republic of China ("PRC").

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Capital Environment Investment Limited (首創環保投資有限公司)*	Hong Kong	HK$500,000,000	100	—	Investment holding
Nanchang Capital Environment Energy Co., Ltd. (南昌首創環保能源有限公司)	PRC/Mainland China	RMB209,000,000	—	100	Production and operation of factories for municipal solid waste treatment
Yangzhou Capital Environmental Energy Investment Limited (揚州首創環保能源有限公司)	PRC/Mainland China	RMB60,000,000	—	100	Kitchen waste treatment
Beijing Capital Environment Investment Limited (北京首創環境投資有限公司)	PRC/Mainland China	RMB1,404,000,000	—	100	Provision of technical services
Duyun Kelin Environment Company Limited (都勻市科林環保有限公司)	PRC/Mainland China	RMB40,000,000	—	100	Municipal solid waste treatment
Weng'an Kelin Environment Company Limited (甕安縣科林環保有限公司)	PRC/Mainland China	RMB21,000,000	—	100	Municipal solid waste treatment
Jiangsu Subei Waste Vehicles and Household Appliances Dismantling Recycling Limited (江蘇蘇北廢舊汽車家電拆解再生利用有限公司)**	PRC/Mainland China	RMB216,000,000	—	55	Recycle and disassembly of waste electrical and electronic equipment

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xinxiang Capital Solid Environmental Energy Limited (新鄉市首創環境能源有限公司)	PRC/Mainland China	RMB20,000,000	—	70	Production and operation of factories for municipal solid waste treatment
Anhui Capital Environmental Technology Company Limited (安徽首創環境科技有限公司)	PRC/Mainland China	RMB80,000,000	—	95	Recycle and disassembly of waste electrical and electronic equipment
Huizhou Guanghui Energy Company Limited (惠州廣惠能源有限公司)**	PRC/Mainland China	RMB245,600,000	—	97.85	Waste treatment and waste-to-energy generation project
Huludao Kangte Jincheng Environment Management Company Limited (葫蘆島康達錦程環境治理有限公司)	PRC/Mainland China	RMB40,000,000	—	100	Municipal solid waste treatment
Zhejiang Zhuoshang Environmental Energy Company Limited (浙江卓尚環保能源有限公司)	PRC/Mainland China	RMB60,000,000	—	70	Recycle and waste treatment
Ningbo Capital Environment Kitchen Waste Treatment Company Limited (寧波首創廚餘垃圾處理有限公司)**	PRC/Mainland China	RMB90,200,000	—	60	Kitchen waste treatment
Yangzhou Capital Solid Environment Technology Limited (揚州首拓環境科技有限公司)	PRC/Mainland China	RMB80,000,000	—	87.5	Hazardous waste treatment
Nanyang Capital Environment Technology Company Limited (南陽首創環境科技有限公司)	PRC/Mainland China	RMB50,000,000	—	100	Municipal solid waste treatment
Duyun Capital Environmental Sanitation Services Limited (都勻市首創環衛服務有限公司)	PRC/Mainland China	RMB5,000,000	—	100	Waste collection and transportation
Gaoan Eacoon Renewable Resources for Thermal Power Generation Company Limited (高安意高再生資源熱力發電有限公司)	PRC/Mainland China	RMB50,000,000	—	60	Waste treatment and waste-to-energy generation
Sichuan Zhong Xin Environment Technology Limited (四川中欣環保科技有限公司)	PRC/Mainland China	RMB50,000,000	—	51	Hazardous waste treatment
Beijing Capital Intelligent Environmental Sanitation Development Company Limited (北京首創智慧環衛發展有限公司)	PRC/Mainland China	RMB4,000,000	—	70	Waste collection and transportation

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jinzhong Capital Environment Resources Limited (晉中市首創環和環保能源有限公司)	PRC/Mainland China	RMB22,150,000	—	63.88	Kitchen waste treatment
Xihua Capital Environment Resources Limited (西華首創環保能源有限公司)	PRC/Mainland China	RMB100,000,000	—	100	Waste treatment and waste-to-energy generation
Xihua Capital Environment Sanitation Limited (西華首創環衛有限公司)	PRC/Mainland China	RMB15,000,000	—	100	Waste collection and transportation
Zibo Capital Solid Environment Technology Limited (淄博首拓環境科技有限公司)	PRC/Mainland China	RMB80,000,000	—	100	Hazardous waste treatment
Shicheng Capital Environment Limited (石城縣首創環保有限公司)	PRC/Mainland China	RMB20,000,000	—	60	Municipal solid waste treatment
Qianjiang Capital Bolang Green Energy Limited (潛江首創博朗綠色能源有限公司)	PRC/Mainland China	RMB100,000,000	—	85	Production and operation of factories for municipal solid waste treatment
Suixian Capital Environmental Energy Limited (睢縣首創環保能源有限公司)	PRC/Mainland China	RMB100,000,000	—	100	Waste treatment and waste-to-energy generation
Suixian Capital Environmental Sanitation Limited (睢縣首創環衛有限公司)	PRC/Mainland China	RMB10,000,000	—	100	Waste collection and transportation
Beijing Capital Environment Technology Co., Ltd. (北京首創環境科技有限公司)***	PRC/Mainland China	RMB180,646,295	—	100	Provision of technical services
Yangzhou Capital Investment Limited (揚州首創投資有限公司)***	PRC/Mainland China	USD60,500,000	—	100	Investment holding
Shenzhen Qianhai Capital Environment Investment Limited (深圳前海首創環境投資有限公司)***	PRC/Mainland China	HK$700,000,000	100	—	Investment holding

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Linyi Capital Environmental Hygiene Limited (臨淄首創環衛有限公司)	PRC/Mainland China	RMB7,000,000	—	100	Waste collection and transportation
Duyun Capital Environment Company Limited (都匀市首創環保有限公司)	PRC/Mainland China	RMB137,160,000	—	62.09	Production and operation of factories for municipal solid waste treatment
Jiangxi Ruijin Ai Si Environmental Electric Limited (江西瑞金愛思環保電力有限公司)	PRC/Mainland China	RMB100,000,000	—	97	Waste treatment and waste-to-energy generation
Lushan Capital Environment Energy Company Limited (魯山首創環保能源有限公司)	PRC/Mainland China	RMB110,000,000	—	90	Waste treatment and waste-to-energy generation
Qixian Capital Environmental Energy Company Limited (杞縣首創環保能源有限公司)	PRC/Mainland China	RMB80,000,000	—	90	Waste treatment and waste-to-energy generation
Zhengyang Capital Environmental Energy Company Limited (正陽首創環保能源有限公司)	PRC/Mainland China	RMB100,000,000	—	100	Waste treatment and waste-to-energy generation
Suiping Capital Environmental Sanitation Company Limited (遂平首創城鄉環衛有限公司)	PRC/Mainland China	RMB10,000,000	—	100	Waste collection and transportation
Beijing Shoujian Environmental Protection Company Limited (北京首建環保有限責任公司)	PRC/Mainland China	RMB80,700,000	—	55	Provision of technical services
Beijing Shoutuo Environmental Sanitation Company Limited (北京首拓環衛有限公司)	PRC/Mainland China	RMB5,000,000	—	100	Waste collection and transportation
BCG NZ Investment Holding Limited*	Hong Kong	NZ$389,987,539	51	—	Investment holding

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Capital Group NZ Investment Holding Limited*	New Zealand	NZ$209,987,539	—	51	Investment holding
Beijing Capital Waste Management NZ Limited*	New Zealand	NZ$579,421,989	—	51	Investment management
Waste Management NZ Limited*	New Zealand	—	—	51	Waste management service

* Audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

** The entities are registered as Sino-foreign equity joint ventures.

*** The entities are wholly-foreign-owned enterprises under PRC law.

The other subsidiaries registered in the PRC are domestic companies with limited liability under PRC law.

The above table lists the subsidiaries of the Group 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.

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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB1,768.31 million. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future as the immediate shareholders, BCG Chinastar and Beijing Capital (HK), have agreed to provide adequate financial support to the Group. Accordingly, the consolidated financial statements for the year ended 31 December 2017 have been prepared on the basis of going concern.

2.1 BASIS OF PREPARATION *(Continued)*

Determination of the expected manner of recovery of indefinite life intangible assets when measuring deferred tax

The IFRS Interpretations Committee ("IFRIC") issued an agenda decision which observed that the reason for not amortising an indefinite life intangible asset is not because there is no consumption of the future economic benefits embodied in the asset. Therefore, the determination of tax consequences of indefinite life intangible assets shall reflect the expected manner of recovery of the carrying amount of the assets either through use or through sale. Based on the IFRIC agenda decision, the Group reassessed and determined that the carrying amount of the indefinite life intangible assets is to be recovered through use. The change in accounting policy has been applied retrospectively. Consequently, the goodwill and deferred tax liability balances of the Group as at 1 January 2016 and 31 December 2016 were restated by an increase of RMB230,039,000 and RMB252,606,000, respectively.

Measurement period adjustments for an incomplete initial accounting for a business combination in 2016

On 30 November 2016, Waste Management NZ Limited ("Waste Management NZ"), a wholly-owned subsidiary of BCG NZ, acquired the business operation of Tirohia Landfill & Hamilton Organics ("Tirohia & Hamilton") at a consideration of approximately New Zealand dollars ("NZ$") 16.0 million (equivalent to approximately RMB78,120,000). Tirohia & Hamilton is engaged in landfill operation in New Zealand. The acquisition of Tirohia & Hamilton was close to the year end and the purchase price allocation was still in progress as at 31 December 2016. During the measurement period in the current year, Waste Management NZ completed the purchase price allocation and retrospectively adjusted the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and would have affected the measurement of the amounts recognised as of that date. Waste Management NZ also recognised additional assets and liabilities according to new information obtained about facts and circumstances that existed as of the acquisition date and would have resulted in the recognition of those assets and liabilities as of that date. The provisional fair value of identified assets and liabilities, measurement period adjustments and retrospectively adjusted fair value on acquisition for the business combination of Tirohia & Hamilton are as follows:

	Provisional fair value recognised on acquisition *RMB'000*	Measurement period adjustments *RMB'000*	Retrospectively adjusted fair value on acquisition *RMB'000*
Property, plant and equipment	24,098	47,716	71,814
Other intangible assets	—	20,653	20,653
Inventories	—	385	385
Other payables and accruals	—	(3,509)	(3,509)
Deferred tax liabilities	—	(5,783)	(5,783)
Provisions	—	(46,169)	(46,169)
Total identifiable net assets at fair value	24,098	13,293	37,391
Goodwill on acquisition	54,022	(13,293)	40,729
Satisfied by cash	78,120	—	78,120

2.1 BASIS OF PREPARATION *(Continued)*

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.

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 retained profits, 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*

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 38(b) to the consolidated 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 significant impact on the financial position or performance of the Group.

(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 as none of the Group's subsidiaries were classified as disposal groups held for sale as at 31 December 2017.

2.3 NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

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]
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]
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]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Annual Improvements 2015–2017 Cycle	Annual Improvements to HKFRS 2015–2017 Cycle[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]

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

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

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.

2.3 NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE *(Continued)*

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 in relation to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

The Group expects to continue measuring at fair value all listed equity securities currently held at fair value, and will measure at fair value its unlisted equity investments currently held at cost. Listed equity securities and unlisted equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the investments cannot be recycled to profit or loss when the investments are derecognised.

(b) 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 and concession financial assets. 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. The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the impairment of its financial assets.

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 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 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.

2.3 NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE *(Continued)*

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 will adopt HKFRS 15 from 1 January 2018. Based on the preliminary assessment undertaken to date, the Group expected that the adoption of the new standard will not have any significant impact on the Group's results of operations and financial position.

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 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 41 to the consolidated financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB218,392,000. 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.

2.3 NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE *(Continued)*

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.

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

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 impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is 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 assets 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.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. 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 recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

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 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.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), 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 the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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 the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 control 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; (If the Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;

  (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 a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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 classified as held for sale or when it 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 "Non-current assets and 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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of 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 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 and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	Shorter of useful lives of 25 years and the lease terms
Leasehold improvement	Shorter of useful lives of 5 years and the lease terms
Plant and machinery	6.67% to 20.00%
Furniture, fixtures and equipment	10.00% to 33.33%
Motor vehicles	6.67% to 33.33%

Where parts of an item of property 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 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 arising 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 a building or 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 and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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 life 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Customer contracts

Customer contracts are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 16 to 19 years.

Service concession arrangements

Service concession arrangements recognised as intangible assets are stated at cost less any impairment losses and are amortised on a straight line basis over their estimated useful lives of 2 to 25 years.

Licences and franchises

Licences and franchises with definite useful lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 2 to 27 years. Licences and franchises with indefinite useful lives are not amortised but tested for impairment annually.

Trade name

Trade name is intangible asset with indefinite useful lives and it is not amortised but tested for impairment annually.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Software

Software is stated at cost less any impairment losses and is amortised on a straight line basis over its estimated useful lives of 2 to 5 years.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underling products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Service concession arrangements

When the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Grantor for the construction services and the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law, it recognises a financial asset under loans and receivables at fair value upon initial recognition. Subsequent to initial recognition, the financial asset is carried at amortised cost using the effective interest method, less any identified impairment losses.

When the Group has a right to charge users of public services as a consideration for providing service in a service concession arrangement, which is not an unconditional right to receive cash because the amounts are contingent on the extent of waste treatment/electricity generation. The right is recognised as an intangible asset at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible asset arising from a service concession arrangement is calculated to write off their costs over their useful lives, using straight-line basis. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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.

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

The Group has contractual obligations under the service concession arrangements to maintain the infrastructure to a specified level of serviceability, or to restore the infrastructure to a specified condition before it is handed over to the Grantor at the end of the service concession arrangement. These contractual obligations to maintain and restore the infrastructure are measured at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss (Continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these 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 in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Available-for-sale financial investments (Continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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 (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) 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 risk 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(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.

Financial assets carried at amortised cost

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 expected credit losses that have not 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 the statement of 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 expenses in the statement of profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement *(Continued)*

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

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 the statement of 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 an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Convertible bonds

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 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.

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 the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is recognised in the statement of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting *(Continued)*

Initial recognition and subsequent measurement *(Continued)*

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

Amounts recognised in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments and hedge accounting *(Continued)*

Current versus non-current classification *(Continued)*

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the specific identification basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 which 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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 the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (a) the amount that would be recognised in accordance with the general guidance for provisions above; and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

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 for the current and prior periods 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:

- when 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, associates and joint ventures, when 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:

- when the deferred tax asset relating to the deductible temporary difference 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, associates and joint ventures, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 grants

Government grants are recognised at their 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.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

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, 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 sold;

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

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

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

(e) interest income, on an accrual basis using the effective interest 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; and

(f) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using 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.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by 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.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amounts. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

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.

Other employee benefits

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

The employees of the subsidiaries in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The relevant subsidiaries are required to make contributions to the state-managed retirement benefit schemes in the PRC based on certain percentages of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff. The only obligation of the Group costs respect to the retirement benefit schemes is to make the specified contributions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits *(Continued)*

The employees of the subsidiaries in New Zealand are members of KiwiSaver schemes operated by the New Zealand government. The employees are allowed to join the schemes voluntarily by contributing a certain level of the gross pay on a monthly basis, while the employer would be compulsorily obligated to contribute to the schemes once the employees join. The New Zealand government is responsible for the pension liability to these retired staff. The only obligation of the Group costs respect to the retirement benefit schemes is to make the specified contributions.

The Group also operates various defined contribution retirement benefit schemes for those employees other than in Hong Kong, the PRC and New Zealand. Contributions are made based on the percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of these schemes. The assets of these schemes are held separately from those of the Group in various 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the consolidated financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, 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 the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 changes 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 non-PRC subsidiaries and joint ventures are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of foreign operations are translated into RMB at the rates of exchange prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB 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 other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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 non-PRC subsidiaries are translated into RMB at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of non-PRC subsidiaries which arise throughout the year are translated into RMB 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.

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Service concession arrangements

The Group entered into build-operate-transfer ("BOT"), transfer-operate-transfer ("TOT") and build-operate-own ("BOO") arrangements in respect of its waste treatment and waste-to-energy projects. The Group concluded that all the BOT, TOT and BOO arrangements are service concession arrangements under HK(IFRIC)-Int12, because the local government authorities control and regulate the services, and the Group must provide relevant services with the infrastructure at a pre-determined service charge. In respect of BOT and TOT arrangements, upon expiry of service concession arrangements, the infrastructure has to be transferred to the local government authorities at nil consideration. Infrastructure for BOO arrangements is used in the service concession arrangements for its entire or substantially entire useful life.

Judgement is also exercised in determining the fair value of the concession financial assets. Discount rates, estimates of future cash flows and other factors are used in the valuation process.

Tax provisions

Determining tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of such transactions is assessed periodically to take into account all the changes in the tax legislation and practices.

No deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. The directors determine that it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill and intangible assets with indefinite useful lives

The Group determines whether goodwill and intangible assets with indefinite useful life is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with indefinite useful life is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment of goodwill recognised for the year ended 31 December 2017 was nil (2016: RMB11,572,000). No impairment of intangible assets with indefinite useful lives was recognised for the years ended 31 December 2017 and 2016. Further details are given in note 15 and note 16.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. The impairment of available-for-sale financial assets recognised for the year ended 31 December 2017 was nil (2016: Nil). The carrying amount of available-for-sale assets was RMB95,041,000 (2016: RMB80,131,000).

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

Estimation uncertainty *(Continued)*

Impairment of concession financial assets

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of concession financial assets was RMB2,043,977,000 (2016: RMB1,556,010,000). During the years ended 31 December 2017 and 2016, there was no impairment recognised in profit or loss for concession financial assets.

Impairment of non-financial assets (other than goodwill and intangible assets with indefinite useful lives)

The Group assesses whether there are any indicators of impairment for all non-financial assets (other than goodwill and intangible assets with indefinite useful lives) at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. During the years ended 31 December 2017 and 2016, there was no impairment recognised in profit or loss for non-financial assets (other than goodwill and intangible assets with indefinite useful lives).

Impairment of trade receivables, prepayments, deposits and other receivables.

The Group's policy for impairment of trade receivables, prepayments, deposits and other receivables is based on an assessment of the recoverability of debtors. The identification of doubtful debts requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of the receivables and the impairment loss in the period in which the estimate has been changed.

The receivables that were past due but not impaired relate to a number of debtors that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that the provision balance for impairment is sufficient in respect of these balances, and the remaining balances are still considered fully recoverable. The impairment losses recognised for the year ended 31 December 2017 for trade receivables and prepayments, deposits and other receivables were RMB2,630,000 (2016: RMB1,771,000) and RMB2,420,000 (2016: RMB5,200,000), respectively.

Percentage of completion of construction work

The Group recognises revenue according to the percentage of completion for individual contracts of construction work, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs, and the corresponding contract revenue is also estimated by management. Due to the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, an impairment loss may arise.

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

Estimation uncertainty *(Continued)*

Current income tax and deferred income tax

The Group is subject to income taxes in numerous jurisdictions. Judgement is required to determine the provision for taxation. There are many transactions and calculations for 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 originally recorded, the differences will impact on the current income tax and deferred income tax provisions in the periods in which the differences arise.

Deferred tax assets relating to certain deductible temporary differences and unused tax losses are recognised as management considers it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in the statement of profit or loss for the period in which such a reversal takes place. The carrying value of deferred tax assets at 31 December 2017 was approximately RMB10,568,000 (2016: RMB11,550,000).

Estimated useful lives and residual value of fixed assets and other intangible assets

Property, plant and equipment and other intangible assets are stated at cost less subsequent accumulated depreciation or amortisation and accumulated impairment losses. The estimation of their useful lives impacts the level of annual depreciation or amortisation expenses recorded.

If there is any indication of impairment, determining the extent to which property, plant and equipment and other intangible assets are impaired requires an estimation of the value in use of cash generating units (“CGU”) to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. As at 31 December 2017, the carrying amount of property, plant and equipment and other intangible assets was RMB1,790,082,000 and RMB1,906,175,000 (2016: RMB1,734,321,000 (restated) and RMB1,635,612,000 (restated)), respectively.

Provisions for site restoration

A provision for future landfill site restoration and aftercare costs is recognised when the activities giving rise to the need for site restoration and aftercare have commenced. Management estimates the present value of the future cash flows expected to be incurred, which increases each period due to the passage of time. Any increase in the provision due to the change in present value is recognised in the statement of profit or loss as a time value adjustment. Management will re-evaluate the estimate at the end of each reporting period.

Future landfill site restoration and aftercare costs provided for are initially capitalised in the statement of financial position. Any change in the provision for future landfill site restoration and aftercare costs arising from a change in estimate of those costs is also recognised in non-current assets in the statement of financial position. As at 31 December 2017, the carrying amount of provision for site restoration was RMB204,114,000 (2016: RMB188,083,000 (restated)).

4. OPERATING SEGMENT INFORMATION

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from operations. The adjusted profit/loss before tax from operations is measured consistently with the Group's profit before tax from operations.

The Group has two reportable segments, being (a) waste treatment and waste-to-energy business in the PRC and (b) waste treatment and waste-to-energy business in New Zealand.

Year ended 31 December 2017

	Waste treatment and waste-to-energy business in the PRC *RMB'000*	Waste treatment and waste-to-energy business in New Zealand *RMB'000*	Total *RMB'000*
Segment revenue:			
Revenue from external customers	1,176,367	2,318,799	3,495,166
Revenue from operations			3,495,166
Segment results	41,808	231,911	273,719
Other segment information:			
Share of profits of joint ventures	—	56,142	56,142
Share of profits of associates	6,255	—	6,255
Impairment losses recognised in the statement of profit or loss	3,511	1,539	5,050
Depreciation and amortisation	21,133	258,087	279,220
Investments in joint ventures	—	462,344	462,344
Investments in associates	91,532	—	91,532
Capital expenditure (Note)	62,700	388,334	451,034
31 December 2017			
Segment assets	4,750,666	5,931,771	10,682,437
Segment liabilities	2,377,692	3,839,670	6,217,362

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

	Waste treatment and waste-to-energy business in the PRC *RMB'000*	Waste treatment and waste-to-energy business in New Zealand *RMB'000*	Total *RMB'000*
Segment revenue:			
Revenue from external customers	606,712	2,101,170	2,707,882
Revenue from operations			2,707,882
Segment results	(83,661)	217,322	133,661
Other segment information:			
Share of profits of joint ventures	—	64,685	64,685
Share of losses of associates	(13,018)	—	(13,018)
Impairment losses recognised in the statement of profit or loss	16,772	1,771	18,543
Depreciation and amortisation	37,360	230,466	267,826
Investments in joint ventures	—	472,958	472,958
Investments in associates	85,277	—	85,277
Capital expenditure (Note)	127,031	307,791	434,822
31 December 2016			
Segment assets	3,535,849	6,037,533	9,573,382
Segment liabilities	1,223,947	4,057,450	5,281,397

Note: Capital expenditure consists of additions to property, plant and equipment.

Information about a major customer

No individual customer of the Group from whom the revenue amounted to 10% or more of the Group's revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the proceeds, net of value-added tax and surcharges from the following revenue streams during the year.

An analysis of the Group's revenue, other income and gains for the period is as follows:

	2017 *RMB'000*	2016 *RMB'000*
Revenue		
Construction services under service concession arrangements	753,254	196,484
Operation services under service concession arrangements	90,758	52,580
Effective interest income on concession financial assets	85,115	70,592
Electronic appliance dismantling services	222,808	281,388
Waste collection services	1,513,694	1,354,932
Waste landfill services	437,116	390,189
Recycling	113,115	122,097
Technical services	245,986	227,418
Others	33,320	12,202
	3,495,166	2,707,882
Other income and gains		
Bank interest income	3,399	13,837
Other interest income	9,935	2,532
Dividend income from available-for-sale investments	1,111	563
Gain on disposal of items of property, plant and equipment	908	—
Gain on disposal of a subsidiary	—	5,012
Government grants	1,876	—
Reversal of impairment loss recognised in respect of an amount due from an investee	—	1,869
Foreign exchange gains	—	1,213
Others	762	1,492
	17,991	26,518

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2017 RMB'000	2016 RMB'000
Cost of services rendered for service concession arrangements	741,056	229,915
Cost of services provided	1,746,903	1,682,641
Depreciation*	218,663	201,965
Amortisation*		
— Prepaid land lease payments	4,292	2,195
— Other intangible assets	56,265	63,666
Minimum lease payments under operating leases*	83,737	65,965
Auditor's remuneration	5,260	5,797
Employee benefit expense (excluding directors' remuneration (note 8)):		
Wages and salaries	259,366	232,168
Pension scheme contributions	22,762	20,901
Foreign exchange differences, net	1,186	(1,213)
Impairment of prepayments, deposits and other receivables	2,420	5,200
Impairment of trade receivables	2,630	1,771
Impairment of goodwill	—	11,572
(Gain)/loss on disposal of items of property, plant and equipment	(908)	623

* The depreciation, amortisation and minimum lease payments under operating leases for the year are included in "Cost of sales" and "Administrative expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank and other loans	189,605	177,872
Other finance costs:		
Increase in discounted amounts of provisions arising from the passage of time	5,712	3,491
Others	625	900
	195,942	182,263

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, 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	2016
	RMB'000	*RMB'000*
Fees	**780**	771
Other emoluments:		
Salaries, allowances and benefits in kind	**2,507**	460
Pension scheme contributions	**—**	—
	2,507	460
	3,287	1,231

During the year, no payments were made by the Group to the directors of the Company as an inducement to join the Group or compensation for loss of office (2016: Nil).

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
Mr. Pao Ping Wing	**260**	257
Mr. Cheng Kai Tai, Allen	**260**	257
Ms. Chen Yee Wah	**260**	257
	780	771

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

2017

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Wu Lishun	—	—	—	—	—
Mr. Cao Guoxian	—	1,456	—	—	1,456
Mr. Liu Yongzheng	—	—	—	—	—
Ms. Zhang Meng	—	—	—	—	—
Mr. Cheng Jialin***	—	480	—	—	480
Mr. Yang Bin*	—	571	—	—	571
	—	2,507	—	—	2,507

2016

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Mr. Wu Lishun	—	—	—	—	—
Mr. Cao Guoxian	—	243	—	—	243
Mr. Liu Yongzheng	—	—	—	—	—
Ms. Zhang Meng	—	—	—	—	—
Mr. Yang Bin*	—	217	—	—	217
Mr. Wang Hao**	—	—	—	—	—
Mr. Shen Jianping**	—	—	—	—	—
	—	460	—	—	460

* Mr. Yang Bin resigned as executive director of the Company on 25 May 2017.

** Mr. Wang Hao and Mr. Shen Jianping resigned as executive directors of the Company on 20 December 2016.

*** Mr. Cheng Jialin was appointed as executive director of the Company on 1 July 2017.

During the year ended 31 December 2017, 3 directors (2016: 6 directors) waived emolument of RMB2,024,000, RMB337,000, and RMB337,000 (2016: RMB129,000, RMB154,000, RMB154,000, RMB26,000, RMB26,000 and RMB26,000), respectively.

9. FIVE HIGHEST PAID EMPLOYEES

In both years, none of the five highest paid employees were directors of the Company. Details of the remuneration for the year of the five (2016: five) highest paid employees are as follows:

	2017	2016
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**9,238**	8,541
Performance related bonuses	**3,749**	4,091
Pension scheme contributions	**411**	379
	13,398	13,011

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

	Number of employees	
	2017	2016
HK$1,000,001 to HK$1,500,000	**—**	—
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,000,001 to HK$2,500,000	**—**	3
HK$2,500,001 to HK$3,000,000	**2**	—
HK$3,000,001 to HK$3,500,000	**—**	—
HK$3,500,001 to HK$4,000,000	**—**	—
HK$4,000,001 to HK$4,500,000	**—**	—
HK$4,500,001 to HK$5,000,000	**—**	1
HK$5,000,001 to HK$5,500,000	**1**	—
	5	5

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Withholding Hong Kong profits tax was calculated at 10% (2016: 10%) on the interest income recognised by a subsidiary in Hong Kong from a subsidiary in New Zealand.

Under the Law of the PRC Enterprise Income Tax and Implementation Regulation of the law, the tax rate of the PRC subsidiaries was 25% for both years. Ten (2016: Three) of the Group's subsidiaries operating in the PRC were eligible for certain tax benefits. Eight (2016: Two) were exempted from PRC income taxes whereas another two (2016: One) were entitled to preferential tax of 7.5% (2016: 7.5%) and 10%, respectively, for the year.

New Zealand profits tax has been provided at the rate of 28% (2016: 28%) on the estimated assessable profits arising in New Zealand during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/ jurisdictions in which the Group operates.

10. INCOME TAX *(Continued)*

According to PRC tax regulations, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, are subject to withholding tax at the rate of 10% on various types of passive income such as dividends derived from entities in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. At 31 December 2017, no deferred tax liabilities have been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC (2016: Nil). In the opinion of the directors, it is not probable that the Group's PRC subsidiaries will distribute profits 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 RMB170,416,000 (2016: RMB110,624,000).

	2017	2016
	RMB'000	*RMB'000*
Current — Hong Kong		
Charge for the year	**30,064**	31,811
Current — the PRC		
Charge for the year	**2,511**	112
Underprovision in prior years	**872**	—
Current — New Zealand		
Charge for the year	**33,909**	48,965
Overprovision in prior years	**(3,461)**	(443)
Deferred (note 34)	**10,360**	(25,297)
Total tax charge for the year	**74,255**	55,148

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit/loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Hong Kong RMB'000	%	Mainland China RMB'000	%	New Zealand RMB'000	%	Total RMB'000	%
2017								
Profit before tax	**134,277**		**88,956**		**124,741**		**347,974**	
Tax at statutory tax rate	**22,156**	**16.5**	**22,239**	**25.0**	**34,928**	**28.0**	**79,323**	**22.8**
Tax holiday or lower tax rates enacted by local authorities	**—**	**—**	**(15,276)**	**(17.2)**	**—**	**—**	**(15,276)**	**(4.4)**
Effect of withholding tax at 10% on the interest income from the Group's New Zealand subsidiaries	**30,064**	**22.4**	**—**	**—**	**—**	**—**	**30,064**	**8.6**
Expenses not deductible for tax	**22,895**	**17.1**	**10,749**	**12.1**	**355**	**0.3**	**33,999**	**9.8**
Income not subject to tax	**(47,793)**	**(35.6)**	**(585)**	**(0.7)**	**(2,041)**	**(1.6)**	**(50,419)**	**(14.5)**
Utilisation of tax loss not recognised in prior years	**—**	**—**	**(495)**	**(0.6)**	**—**	**—**	**(495)**	**(0.1)**
Profit attributable to joint ventures and associates*	**—**	**—**	**(1,564)**	**(1.8)**	**(15,720)**	**(12.6)**	**(17,284)**	**(5.0)**
Tax losses not recognised	**2,742**	**2.0**	**14,190**	**16.0**	**—**	**—**	**16,932**	**4.9**
Overprovision/underprovision in prior years	**—**	**—**	**872**	**1.0**	**(3,461)**	**(2.8)**	**(2,589)**	**(0.7)**
Tax charge at the Group's effective rate	**30,064**	**22.4**	**30,130**	**33.9**	**14,061**	**11.3**	**74,255**	**21.3**
2016								
Profit/(loss) before tax	162,296		(47,860)		74,373		188,809	
Tax at statutory tax rate	26,779	16.5	(11,965)	25.0	20,824	28.0	35,638	18.9
Tax holiday or lower tax rates enacted by local authorities	—	—	(3,000)	6.3	—	—	(3,000)	(1.6)
Effect of withholding tax at 10% on the interest income from the Group's New Zealand subsidiaries	31,806	19.6	—	—	—	—	31,806	16.8
Expenses not deductible for tax	24,899	15.3	12,108	(25.3)	14,059	18.9	51,066	27.0
Income not subject to tax	(53,391)	(32.9)	(8,913)	18.6	—	—	(62,304)	(33.0)
Effect of other deducible temporary differences not recognised	—	—	1,300	(2.7)	—	—	1,300	0.7
Utilisation of tax loss not recognised in prior years	(147)	(0.1)	(3,521)	7.4	—	—	(3,668)	(1.9)
Profit/(loss) attributable to joint ventures and associates*	—	—	3,254	(6.8)	(18,141)	(24.4)	(14,887)	(7.9)
Tax losses not recognised	1,865	1.2	17,775	(37.2)	—	—	19,640	10.4
Overprovision in prior years	—	—	—	—	(443)	(0.6)	(443)	(0.2)
Tax charge at the Group's effective rate	31,811	19.6	7,038	(14.7)	16,299	21.9	55,148	29.2

* The share of tax attributable to joint ventures and associates amounting to RMB23,918,000 (2016: RMB20,816,000) is included in "Share of profits of joint ventures" and "Share of profits/(losses) of associates" in the consolidated statement of profit or loss.

11. DIVIDENDS

Except for dividend declared by BCG NZ to Beijing Capital (HK) and BCG Chinastar as disclosed below, no dividend was paid or proposed by the Company during 2017, nor has any dividend been proposed by the Company since the end of the reporting period (2016: Nil).

	2017 *RMB'000*	2016 *RMB'000*
Dividend declared by BCG NZ		
Final 2016 (2016: final 2015)	—	266,509
Interim 2017 (2016: interim 2016)	—	149,129
	—	415,638

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 14,294,733,167 (2016: 14,294,733,167) in issue during the year, as adjusted to reflect the rights issue during the year.

The Group has no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

The calculation of basic earnings per share is based on:

	2017 *RMB'000*	2016 *RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	148,342	43,848

	Number of shares	
	2017	2016
Shares		
Weighted average number of shares in issue during the period used in the basic earnings per share calculation	14,294,733,167	14,294,733,167

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Landfill development RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017								
At 31 December 2016 and at 1 January 2017: (restated)								
Cost	159,329	413,395	192,378	700,898	392,103	46,268	331,417	2,235,788
Accumulated depreciation	—	(95,841)	(29,351)	(234,080)	(130,888)	(11,307)	—	(501,467)
Net carrying amount	159,329	317,554	163,027	466,818	261,215	34,961	331,417	1,734,321
At 1 January 2017, net of accumulated depreciation (restated)	159,329	317,554	163,027	466,818	261,215	34,961	331,417	1,734,321
Additions	—	23,197	283	6,445	7,869	548	412,692	451,034
Disposals	—	—	(9)	(1,543)	(235)	(1,581)	—	(3,368)
Depreciation provided during the year	—	(35,286)	(18,887)	(97,873)	(62,608)	(4,009)	—	(218,663)
Transfers	18,855	30,793	(7,547)	111,240	120,692	16,386	(374,568)	(84,149)
Exchange realignment	(9,345)	(17,886)	(4,104)	(24,646)	(15,942)	(2,256)	(14,914)	(89,093)
At 31 December 2017, net of accumulated depreciation	168,839	318,372	132,763	460,441	310,991	44,049	354,627	1,790,082
At 31 December 2017:								
Cost	168,839	442,941	179,574	746,602	472,696	53,473	354,627	2,418,752
Accumulated depreciation	—	(124,569)	(46,811)	(286,161)	(161,705)	(9,424)	—	(628,670)
Net carrying amount	168,839	318,372	132,763	460,441	310,991	44,049	354,627	1,790,082

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

	Freehold land *RMB'000*	Landfill development *RMB'000*	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvement *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2016								
At 1 January 2016:								
Cost	133,173	309,494	160,716	522,948	283,378	41,864	121,442	1,573,015
Accumulated depreciation	—	(52,593)	(15,444)	(124,932)	(69,754)	(7,013)	—	(269,736)
Net carrying amount	133,173	256,901	145,272	398,016	213,624	34,851	121,442	1,303,279
At 1 January 2016, net of accumulated depreciation	133,173	256,901	145,272	398,016	213,624	34,851	121,442	1,303,279
Additions	—	18,309	2,812	3,791	6,706	578	402,626	434,822
Disposal	—	—	—	(1,894)	(1,011)	(1,096)	—	(4,001)
Acquisition of subsidiaries (restated)	6,103	53,673	4,639	7,197	5,927	34	—	77,573
Depreciation provided during the year	—	(35,993)	(12,842)	(96,109)	(53,059)	(3,962)	—	(201,965)
Transfers	6,614	480	15,420	117,584	67,752	1,461	(209,311)	—
Exchange realignment	13,439	24,184	7,726	38,233	21,276	3,095	16,660	124,613
At 31 December 2016, net of accumulated depreciation (restated)	159,329	317,554	163,027	466,818	261,215	34,961	331,417	1,734,321
At 31 December 2016: (restated)								
Cost	159,329	413,395	192,378	700,898	392,103	46,268	331,417	2,235,788
Accumulated depreciation	—	(95,841)	(29,351)	(234,080)	(130,888)	(11,307)	—	(501,467)
Net carrying amount	159,329	317,554	163,027	466,818	261,215	34,961	331,417	1,734,321

The Group has pledged buildings with a net book value of RMB38,199,000 (2016: RMB11,298,000) to secure the borrowings granted to the Group.

14. PREPAID LAND LEASE PAYMENTS

	2017 *RMB'000*	2016 *RMB'000*
Carrying amount at 1 January	**76,445**	75,113
Addition	**3,091**	3,527
Transfer	**(24,669)**	—
Recognised during the year	**(4,292)**	(2,195)
Carrying amount at 31 December	**50,575**	76,445
Current portion	**(948)**	(1,882)
Non-current portion	**49,627**	74,563

The amounts represent land use rights located in the PRC and are released to profit or loss over the term of the relevant rights of 50 years. The Group has pledged prepaid lease payment with a net book value of RMB44,271,000 (2016: RMB45,085,000) to secure the borrowings granted to the Group.

15. GOODWILL

	RMB'000
At 1 January 2016: (restated)	
Cost	2,842,693
Accumulated impairment	(894,992)
Net carrying amount	1,947,701
Cost at 1 January 2016, net of accumulated impairment (restated)	1,947,701
Acquisition of a subsidiary (restated)	40,729
Impairment during the year	(11,572)
Exchange realignment (restated)	189,324
At 31 December 2016 (restated)	2,166,182
At 31 December 2016: (restated)	
Cost	3,072,746
Accumulated impairment	(906,564)
Net carrying amount	2,166,182
Cost at 1 January 2017, net of accumulated impairment (restated)	2,166,182
Other decrease	(5,290)
Exchange realignment	(116,484)
Cost and net carrying amount at 31 December 2017	2,044,408
At 31 December 2017:	
Cost	2,950,972
Accumulated impairment	(906,564)
Net carrying amount	2,044,408

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- BCG NZ Group, which principally engages in waste treatment and waste-to-energy business in New Zealand;

- Zhejiang Zhoushang Environmental Energy Company Limited (浙江卓尚環保能源有限公司) ("Zhejiang Zhuoshang"), which principally engages in recycle and waste treatment business in Mainland China.

15. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

BCG NZ Group

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 9.16% (2016: 9.32%). The perpetual growth rate used to extrapolate the cash flows of the cash-generating unit beyond the five-year period is 2.5% (2016: 2.5%).

Zhejiang Zhuoshang

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering service concession period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 12.5% (2016: 12.5%).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	BCG NZ Group		Zhejiang Zhuoshang	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000* (Restated)	***RMB'000***	*RMB'000*
Carrying amount of goodwill	**2,038,353**	2,160,127	**6,055**	6,055

Assumptions were used in the value in use calculation of the cash-generating units for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Future revenue growth rates — In respect of the revenue of BCG NZ, the future revenue growth rates are based on the projected volume and unit price of waste treatment in New Zealand, taking into the consideration of pricing policy change. In respect of the revenue of Zhejiang Zhuoshang, the future revenue growth rates are based on the projected volume and unit price of waste treatment as stipulated in the service concession arrangement.

Operating margins — The basis used to determine the value of the operating margins is the average gross margins achieved in the year immediately before the budget year.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Perpetual growth rates — The Group determines the perpetual growth rates which shall not exceed the long-term average gross growth rates of the relevant markets in New Zealand and Mainland China.

The values assigned to the key assumptions on future revenue growth rates, operating margins, discount rates and perpetual growth rates are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Customer contracts RMB'000	Service concession arrangements RMB'000	Licenses and franchises RMB'000	Technology know-how RMB'000	Trade name RMB'000	Software RMB'000	Total RMB'000
31 December 2017							
Cost at 1 January 2017, net of accumulated amortisation (restated)	136,864	153,448	567,880	—	763,609	13,811	1,635,612
Additions	—	384,169	—	—	—	20,950	405,119
Amortisation provided during the year	(11,599)	(2,118)	(37,807)	—	—	(4,741)	(56,265)
Exchange realignment	(6,941)	(169)	(28,564)	—	(41,252)	(1,365)	(78,291)
At 31 December 2017	118,324	535,330	501,509	—	722,357	28,655	1,906,175
At 31 December 2017:							
Cost	154,717	540,609	639,576	—	722,357	34,955	2,092,214
Accumulated amortisation	(36,393)	(5,279)	(138,067)	—	—	(6,300)	(186,039)
Net carrying amount	118,324	535,330	501,509	—	722,357	28,655	1,906,175
31 December 2016							
At 1 January 2016:							
Cost	148,942	345,097	595,805	5,739	695,391	—	1,790,974
Accumulated amortisation	(13,576)	(14,519)	(64,678)	(5,739)	—	—	(98,512)
Net carrying amount	135,366	330,578	531,127	—	695,391	—	1,692,462
Cost at 1 January 2016, net of accumulated amortisation	135,366	330,578	531,127	—	695,391	—	1,692,462
Additions	—	73,829	—	33,346	—	14,792	121,967
Acquisition of subsidiaries (restated)	—	—	20,653	—	—	—	20,653
Amortisation provided during the year	(11,133)	(10,206)	(33,496)	(7,091)	—	(1,740)	(63,666)
Transfer (restated)	—	(241,196)	—	(26,255)	—	—	(267,451)
Exchange realignment	12,631	443	49,596	—	68,218	759	131,647
At 31 December 2016 (restated)	136,864	153,448	567,880	—	763,609	13,811	1,635,612
At 31 December 2016 and at 1 January 2017: (restated)							
Cost	163,553	156,848	673,594	—	763,609	15,653	1,773,257
Accumulated amortisation	(26,689)	(3,400)	(105,714)	—	—	(1,842)	(137,645)
Net carrying amount	136,864	153,448	567,880	—	763,609	13,811	1,635,612

16. OTHER INTANGIBLE ASSETS *(Continued)*

As at 31 December 2017, the major terms of the Group's significant intangible assets in relation to service concession arrangements are set out as follows:

Name of subsidiary as operator	Name of waste treatment and waste-to-energy plant	Location	Name of Grantor	Service concession period	Maximum daily capacity	Electricity generation	Status	Balance as at 31 December	
								2017 RMB'000	2016 RMB'000
Yangzhou Capital Environmental Energy Investment Limited (揚州首創環保能源有限公司)	Yangzhou Kitchen Waste Treatment Plant (揚州廚餘垃圾處理廠)	Yangzhou, Jiangsu	Yangzhou City Administration (揚州市城市管理局)	28 years after obtaining the approval for operation	200 tonnes	N/A	Operating	171,672	149,116
Zhejiang Zhuoshang Environmental Energy Company Limited (浙江卓尚環保能源有限公司)	Xiaoshan Kitchen Waste Treatment Plant (蕭山廚餘垃圾處理廠)	Hangzhou, Zhejiang	Xiaoshan District's Administration of Hangzhou City (杭州市蕭山區城區管理局)	30 years after obtaining the approval for operation	400 tonnes	N/A	Under construction	147,802	—
Ningbo Capital Environment Kitchen Waste Treatment Company Limited (寧波首創廚餘垃圾處理有限公司) (Note)	Ningbo Kitchen Waste Treatment Plant (寧波市世行貸款廚餘垃圾處理廠)	Ningbo, Zhejiang	Ningbo City Administration (寧波市城市管理局)	20 years after obtaining the approval for commercial operation	800 tonnes	N/A	Under construction	98,394	—
Gaoan Eacoon Renewable Resources for Thermal Power Generation Company Limited (高安意高再生資源熱力發電有限公司) (Note)	Gaoan Solid Waste Incineration Power Generation Plant (高安市垃圾焚燒發電廠)	Gaoan, Jiangxi	Gaoan People's Government (高安市人民政府)	30 years after obtaining the approval for commercial operation	900 tonnes	64 million kWh	Under construction	83,273	—
Others								34,189	4,332
								535,330	153,448

Note: Gaoan Eacoon Renewable Resources for Thermal Power Generation Company Limited and Ningbo Capital Environment Kitchen Waste Treatment Company Limited, as operators, were paid for their construction services partly by a financial asset and partly by an intangible asset. Therefore, concession financial assets were also recognised for both operators. Other subsidiaries listed above were paid for their services by an intangible asset.

For the year ended 31 December 2017, additions in intangible assets arising from service concession arrangements of RMB384,169,000 represent:

1) the rights for Zhejiang Zhoushang, Ningbo Capital Environment Kitchen Waste Treatment Company Limited (寧波首創廚餘垃圾處理有限公司), Yangzhou Capital Environmental Energy Investment Limited (揚州首創環保能源有限公司) and Jinzhong Capital Environment Resources Limited (晉中市首創環和環保能源有限公司), amounting to RMB147,802,000, RMB98,394,000, RMB22,556,000, and RMB5,400,000, respectively, to operate under service concession arrangements which are engaged in the treatment of kitchen waste;

2) the rights for Gaoan Eacoon Renewable Resources for Thermal Power Generation Company Limited (高安意高再生資源熱力發電有限公司) and Jiangxi Ruijin Ai Si Environmental Electric Limited (江西瑞金愛思環保電力有限公司) amounting to RMB83,273,000 and RMB26,744,000, respectively, to operate under service concession arrangements which are engaged in waste management and waste-to-energy business.

The intangible assets arising from the service concession arrangements are amortised over the period which commences from the date when the related plants are available for use to end of the service concession period, using a straight-line method.

Revenue and gross margin recognised from construction services and operation services of the service concession arrangements were collectively disclosed in note 21.

16. OTHER INTANGIBLE ASSETS *(Continued)*

The carrying amount of the intangible assets with indefinite useful lives allocated to the cash-generating unit is as follows:

	BCG NZ Group	
	2017	2016
	RMB'000	*RMB'000*
Carrying amount of the intangible assets with indefinite useful lives	**853,429**	902,165

For the purposes of impairment testing, the carrying amount of goodwill and the intangible assets with indefinite useful lives of BCG NZ Group is allocated to the individual cash-generating unit, i.e., BCG NZ Group. The key assumptions used in the impairment test of the intangible assets with indefinite useful lives are given in note 15.

17. INVESTMENTS IN JOINT VENTURES

	2017	2016
	RMB'000	*RMB'000*
Share of net assets	**300,482**	301,851
Goodwill on acquisition	**161,862**	171,107
	462,344	472,958

The Group's receivable and payable balances with the joint ventures are disclosed in note 43 to the consolidated financial statements.

Particulars of the Group's joint ventures are as follows:

Name	**Particulars of issued shares held**	**Place and date of incorporation**	**Percentage of ownership interest**	**Principal activities**
Midwest Disposals Limited ("Midwest Disposals")	NZ$1,300,000	New Zealand 18 August 2000	50%	Waste management
Pikes Point Transfer Station Limited ("Pikes Point Transfer Station")	NZ$2,685,000	New Zealand 24 March 1993	50%	Waste transfer station
Transwaste Canterbury Limited ("Transwaste")	NZ$16,000,000	New Zealand 31 March 1999	50%	Waste collection and landfill
Daniels Sharpsmart New Zealand Limited	NZ$200	New Zealand 4 November 2002	50%	Component cleaning

Transwaste, which is considered a material joint venture of the Group, is accounted for using the equity method.

17. INVESTMENTS IN JOINT VENTURES *(Continued)*

The following table illustrates the summarised financial information in respect of Transwaste adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2017 *RMB'000*	2016 *RMB'000*
Cash and cash equivalents	101,508	163,027
Other current assets	77,447	32,829
Current assets	178,955	195,856
Non-current assets, excluding goodwill	504,614	574,508
Goodwill on acquisition of the joint venture	120,481	127,362
Current liabilities	(160,400)	(238,203)
Non-current liabilities	(21,826)	(26,398)
Net assets, excluding goodwill	501,343	505,763
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture, excluding goodwill	250,672	252,881
Goodwill on acquisition (less cumulative impairment)	120,481	127,362
Carrying amount of the investment	371,153	380,243

Financial information of the Group's share of the joint ventures is as following:

	2017 *RMB'000*	2016 *RMB'000*
Revenue	135,637	141,635
Interest income	1,840	2,846
Depreciation and amortisation	(29,378)	(15,792)
Interest expenses	(708)	(1,309)
Tax	(20,742)	(21,263)
Profit for the year	45,308	55,333
Other comprehensive income	(14,126)	33,910
Dividend received	33,391	53,723

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2017 *RMB'000*	2016 *RMB'000*
Share of the joint ventures' profit for the year	10,834	9,352
Share of the joint ventures' other comprehensive income	(2,787)	7,947
Share of the joint ventures' total comprehensive income	8,047	17,299
Aggregate carrying amount of the Group's investments in the joint ventures	91,191	92,715

18. INVESTMENT IN A JOINT OPERATION

Name	Place of incorporation	Ownership interest attributable to the Group at 31 December 2017	31 December 2016	Principal activity
Waste Disposal Services	New Zealand	**50%**	50%	Waste collection and landfill

The Group has a 50% interest in Waste Disposal Services, an unincorporated joint operation with the Auckland City Council. According to the joint operation agreement, the Group accounts for its joint operation by including the share of revenues, expenses, assets and liabilities of Waste Disposal Services in its own financial statements. Waste Disposal Services operates a landfill and refuse station in South Auckland.

The Group's share of material assets and liabilities of Waste Disposal Services is as follows:

	2017 *RMB'000*	2016 *RMB'000*
Current assets	**17,749**	19,329
Non-current assets	**86,215**	91,899
Total assets	**103,964**	111,228
Current liabilities	**(2,958)**	(2,941)
Non-current liabilities	**(30,693)**	(37,391)
Total liabilities	**(33,651)**	(40,332)
Net assets shared by the Group	**70,313**	70,896

	2017 *RMB'000*	2016 *RMB'000*
Share of the joint operation's revenue	**40,386**	33,680
Share of the joint operation's expenses	**(24,995)**	(24,198)
Share of the joint operation's profit before tax	**15,391**	9,482
Cash received	**12,011**	13,834

The Group's receivables due from and payables due to the other operator of Waste Disposal Services are disclosed in notes 24 and 28 to the consolidated financial statements.

19. INVESTMENTS IN ASSOCIATES

	2017 *RMB'000*	2016 *RMB'000*
Share of net assets	**91,532**	85,277

The loans from associates included in the Group's current liabilities was nil (2016: Nil).

Particulars of the associates are as follows:

Name	**Particulars of issued shares held**	**Place of registration and business**	**Percentage of ownership interest attributable to the Group**	**Principal activity**
Shenzhen Yueneng Environmental Recycling Energy Limited (深圳粵能環保再生能源有限公司, "SZ Yueneng")	RMB75,000,000	PRC/Mainland China	46	Waste treatment and waste-to-energy plant in Shenzhen, the PRC on a BOT basis
Changzhou Boiler Company Limited (常州鍋爐有限公司, "Changzhou Boiler")	RMB9,232,686	PRC/Mainland China	24	Trading and manufacturing of boiler products
Beijing Lanjie Lide Environment Holding Limited (北京藍潔利德環境科技有限公司 "Beijing Lanjie")	RMB1,760,000	PRC/Mainland China	29	Provision of waste transportation service

All the Group's shareholdings in the associates are held through the wholly-owned subsidiaries of the Company.

19. INVESTMENTS IN ASSOCIATES *(Continued)*

SZ Yueneng, which is considered a material associate of the Group, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of SZ Yueneng adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2017 RMB'000	2016 RMB'000
Current assets	40,484	43,835
Non-current assets, excluding goodwill	262,604	263,574
Current liabilities	(94,672)	(115,758)
Non-current liabilities	(11,620)	(9,928)
Net assets, excluding goodwill	196,796	181,723
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	46%	46%
Group's share of net assets of the associate, excluding goodwill	90,526	83,593
Carrying amount of the investment	90,526	83,593

Financial information of the Group's share of the associates is as following:

	2017	2016
Revenue	30,424	24,000
Profit for the year	6,933	7,005
Total comprehensive income for the year	6,933	7,005

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000	2016 RMB'000
Share of the associates' loss for the year	(678)	(20,023)
Share of the associates' total comprehensive income	(678)	(20,023)
Aggregate carrying amount of the Group's investments in the associates	1,006	1,684

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 *RMB'000*	2016 *RMB'000*
Listed securities, at fair value		
— equity securities listed in HK	78,808	63,898
Unlisted equity investments, at cost		
— Beijing Yiqing Biomax Green Energy Park Company Limited (北京市一清百瑪士綠色能源有限公司) ("Beijing Yiqing") (Note)	16,233	16,233
	95,041	80,131

Note: The investment in Beijing Yiqing was measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB14,896,000 (2016: loss of RMB23,649,000), of which nil (2016: loss of RMB117,000) was reclassified from other comprehensive income to the statement of profit or loss for the year.

The investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

21. CONCESSION FINANCIAL ASSETS

	2017 *RMB'000*	2016 *RMB'000* (Restated)
Analysed for reporting purposes as:		
Current assets	178,988	63,507
Non-current assets	1,864,989	1,492,503
	2,043,977	1,556,010

Concession financial assets represent costs incurred by the Group for the construction and operation services rendered under service concession arrangements of waste treatment and waste-to-energy plants in the PRC on a BOT, TOT or BOO basis, plus the attributable profits on the services provided. Revenues and costs relating to the construction phase of the contracts are accounted for in accordance with HKAS 11 *Construction Contracts*. Revenues and costs relating to the operating phase of the contracts are accounted for in accordance with HKAS 18 *Revenue*.

The effective interest rates used in service concession arrangements ranged from 5.50% to 6.56% for the year ended 31 December 2017.

Service concession arrangements with certain government authorities in the PRC ("Grantor") require the Group to operate and maintain the waste treatment and waste-to-energy plants at a specified level of serviceability on behalf of the relevant government authorities over the relevant service concession periods.

During the operation phase of the respective service concession periods, the Group will receive guaranteed waste treatment fees from the Grantor. In addition, for some service concession arrangements, the Group has the right to charge on-grid electricity tariffs to users after commencement of operation phase of the waste-to-energy plants.

The Group recognised revenue from construction services of RMB753,254,000 (2016: RMB196,484,000) by reference to the stage of completion of the construction work and revenue from operation services of RMB90,758,000 (2016: RMB52,580,000) for all the service concession arrangements of the Group (note 5). The gross profits recognised from construction services amounted to RMB79,876,000 (2016: RMB15,387,000) and the gross profits recognised from operation services amounted to RMB45,633,000 (2016: RMB8,860,000) for all the service concession arrangements of the Group.

21. CONCESSION FINANCIAL ASSETS *(Continued)*

As at 31 December 2017, the major terms of the Group's significant service concession arrangements are set out as follows:

Name of subsidiary as operator	Name of waste treatment and waste-to-energy plant	Location	Name of Grantor	Service concession period	Maximum daily capacity	Electricity generation	Status	Balance as at 31 December	
								2017 *RMB'000*	2016 *RMB'000* (Restated)
Nanchang Capital Environment Energy Co., Ltd. (南昌首創環保能源有限公司)	Nanchang Solid Waste Incineration Power Generation Plant (南昌市垃圾焚燒發電廠)	Quanling, Nanchang	Nanchang City Environment Administration (南昌市市環境管理局)	October 2016 to September 2041 (25 years)	1,200 tonnes	131 million kWh	Operating	555,699	609,836
Huizhou Guanghui Energy Company Limited (惠州廣惠能源有限公司)	Huizhou Municipal Solid Waste Incineration Power Generation Plant (惠州市生活垃圾焚燒發電廠)	Luzhouzhen, Huicheng, Huizhou	Huizhou Environmental and Hygiene Control Authority (惠州市市容環境衛生管理局)	(Note (a))	1,600 tonnes	161 million kWh	Under construction (Note (a))	508,166	439,184
Duyun Capital Environment Company Limited (都匀市首創環保有限公司)	Duyun Solid Waste Incineration Power Generation Plant (都匀市生活垃圾焚燒發電廠)	Duyun, Guizhou	Duyun People's Government (都匀市人民政府)	30 years after obtaining the approval for commercial operation	900 tonnes	64 million kWh	Under construction	259,256	74,376
Nanyang Capital Environment Technology Company Limited (南陽首創環境科技有限公司)	Garbage Collection, Transport and Processing Project for Xichuan, Xixia and Neixiang (淅川、西峽、內鄉三縣鄉鎮垃圾收集、轉運、處理項目)	Nanyang, Henan	Nanyang Housing and Urban-Rural Construction Commission (南陽市住房和城鄉建設委員會)	30 years after obtaining the approval for commercial operation	724 tonnes	N/A	Operating	233,778	123,382
Duyun Kelin Environment Company Limited (都匀市科林環保有限公司)	Duyun Municipal Solid Waste Landfill Site (都匀市生活垃圾填埋場)	Duyun, Guizhou	Duyun People's Government (都匀市人民政府)	June 2012 to June 2042 (30 years)	300 tonnes	N/A	Operating	132,072	131,084
Gaoan Eacoon Renewable Resources for Thermal Power Generation Company Limited (高安意高再生資源熱力發電有限公司)	Gaoan Solid Waste Incineration Power Generation Plant (高安市垃圾焚燒發電廠)	Gaoan, Jiangxi	Gaoan People's Government (高安市人民政府)	30 years after obtaining the approval for commercial operation	900 tonnes	64 million kWh	Under construction	80,745	42,139
Huludao Kangte Jincheng Environment Management Company Limited (葫蘆島康達錦程環境治理有限公司)	Huludao Municipal Solid Waste Landfill Site (葫蘆島市生活垃圾填埋場)	Huludao, Liaoning	Huludao Housing and Urban-Rural Construction Commission (葫蘆島市住房和城鄉建設委員會)	20 years after obtaining the approval for commercial operation	420 tonnes	N/A	Operating	67,408	53,796
Weng'an Kelin Environment Company Limited (甕安縣科林環保有限公司)	Weng'an Municipal Solid Waste Landfill Site (甕安縣生活垃圾填埋場)	Weng'an, Guizhou	Weng'an People's Government (甕安縣人民政府)	July 2015 to June 2045 (30 years)	150 tonnes	N/A	Operating	57,401	55,134
Ningbo Capital Environment Kitchen Waste Treatment Company Limited (寧波首創廚餘垃圾處理有限公司)	Ningbo Kitchen Waste Treatment Plant (寧波市世行貸款廚餘垃圾處理廠)	Ningbo, Zhejiang	Ningbo City Administration 寧波市城市管理局	20 years after obtaining the approval for commercial operation	800 tonnes	N/A	Under construction	52,207	—
Others (Note (b))								97,245	27,079
								2,043,977	1,556,010

Notes:

(a) Under the BOT agreement signed on 3 August 2001, the existing plant has a service concession period of 27 years. A new BOT agreement in respect of the construction and operation of a new waste treatment plant was signed on 20 August 2013, superseding the agreement signed on previously. Pursuant to the new BOT agreement, the existing waste treatment plant will continue to operate not more than three years from the signing of the new BOT agreement, by then it will be demolished and replaced by the new waste treatment plant for a term of 30 years. Due to the delay in site selection to construct the new waste treatment plant, the existing waste treatment plant deferred the operation until March 2017. At the same time, the new waste treatment plant has completed site selection and started construction.

(b) Others represent waste collection, transfer projects, incineration projects and kitchen waste concentration projects without significant concession financial assets.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2017 RMB'000	2016 RMB'000
Advances to suppliers		74,845	47,396
Deposits for acquisitions	(a)	30,500	18,831
Value added tax receivables		92,288	31,481
Loans receivable	(b)	31,262	29,862
Prepayments for emission units		41,129	11,644
Advances payment to Urban Construction Design & Research Institute (城市建設研究院) ("Urban Construction Institute")	(c)	40,050	40,050
Tender deposits		74,048	15,484
Amount due from Beijing Yiqing		—	27,531
Others		13,144	17,196
		397,266	239,475
Analysed for reporting purposes as:			
Current assets		265,238	133,421
Non-current assets		132,028	106,054
		397,266	239,475

Notes:

(a) Deposits for acquisitions

As at 31 December 2017, deposits of RMB30,500,000 were paid for four potential acquisitions of equity interests in companies with BOT projects.

(b) Loans receivable

Loans receivable represent (i) an amount of RMB23,262,000 (2016: RMB29,862,000) bearing interest at PRC Benchmark Lending Rate per annum due from a related party of a former shareholder of Zhejiang Zhuoshang, which was acquired by the Group on 1 December 2015. According to the payment schedule, RMB7,915,000 is expected to be repaid in 2018 and therefore classified as current assets, and (ii) an amount of RMB8,000,000 (2016: Nil) bearing interest at 5.7% per annum due from a non-controlling shareholder of a subsidiary of the Group with a maturity date of 27 April 2018.

(c) Advances payment to Urban Construction Institute

The amount represents an advance payment to a third party supplier, Urban Construction Institute, with the carrying amount of RMB40,050,000 (2016: RMB40,050,000), net of impairment loss of RMB89,600,000 (2016: RMB89,600,000).

There were disputes in relation to the advance payment between the Group and Urban Construction Institute. The Group submitted the first dispute with Urban Construction Institute to Nanchang Arbitration Committee (南昌仲裁委員會) during the year ended 31 December 2012 and various appeals were made between the Group and Urban Construction Institute to the Nanchang Arbitration Committee and different law courts in the PRC.

On 7 March 2016, a court order requiring the Group to attend a hearing was issued by High Court of Jiangxi Province (江西省高級人民法院) (the "High Court") and the High Court requested the Group and Urban Construction Institute to provide supporting documents for the appeal.

As at 31 December 2017, the final resolution from the High Court has not yet been released and the amount of deposits refundable from Urban Construction Institute is yet to be finalised. The Group has not made further impairment on such deposits during the year ended 31 December 2017, after taking into account the legal opinion provided by an independent lawyer.

23. INVENTORIES

	2017 RMB'000	2016 RMB'000 (Restated)
Raw materials	17,172	13,602
Finished goods	22,739	16,215
	39,911	29,817

24. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	781,654	652,630
Impairment	(4,022)	(8,229)
	777,632	644,401

Trade receivables, which are non-interest-bearing, are recognised and carried at the original invoiced amount less any impairment loss. An estimate for doubtful debts is made when there is objective evidence that an impairment loss on receivables has been incurred. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date (or date of revenue recognition, if earlier) and net of provisions, is as follows:

	2017 RMB'000	2016 RMB'000
0 to 90 days	348,463	338,449
91 to 180 days	20,718	52,602
Over 180 days	408,451	253,350
	777,632	644,401

The movements in provision for impairment of trade receivables are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	8,229	8,123
Impairment losses recognised (note 6)	2,630	1,771
Amount written off as uncollectible	(6,734)	(1,893)
Exchange realignment	(103)	228
	4,022	8,229

24. TRADE RECEIVABLES *(Continued)*

As at 31 December 2017, included in the Group's trade receivable balances were government dismantling tariffs provided by the PRC government for treatment of certain waste electric and electronic products with an aggregate carrying amount of approximately RMB449,733,000 (2016: RMB333,064,000). Included in the government dismantling tariffs are balances amounting to RMB408,080,000 (2016: RMB243,589,000) with ageing over 180 days. In the opinion of the directors of the Company, the credit risk on these balances is limited because the customers are government authorities.

Included in the provision for impairment is a provision of RMB2,036,000 (2016: RMB6,686,000) for individually impaired trade receivable with a carrying amount before provision of RMB2,395,000 (2016: RMB7,045,000). The impairment is considered irrecoverable by management after consideration of the credit quality of those individual customers based on the amounts subsequently settled after period end, the ongoing relationship with the Group and the ageing of these receivables.

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Neither past due nor impaired	**261,320**	284,421
Less than 1 month past due	**10,312**	39,150
1 to 3 months past due	**76,143**	63,963
Over 3 months past due	**410,379**	248,647
	758,154	636,181

Except for the governments dismantling tariffs, receivables that were neither past due nor impaired relate to a large number of diversified 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 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.

Included in the Group's trade receivable balances are amounts due from the Group's joint ventures of RMB19,270,000 (2016: RMB9,392,000) and an amount due from the other operator of Waste Disposal Services of RMB793,000 (2016: RMB572,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

25. AMOUNTS DUE FROM ASSOCIATES

During the year ended 31 December 2015, SZ Yueneng entered into two agreements with the Group for loans amounting to RMB35,966,000. In 2016, SZ Yueneng repaid RMB4,600,000 to the Group, and declared a dividend amounting to RMB7,775,000 to the Group. The dividend was not paid by SZ Yueneng, and was recognised as a loan to the entity by the Group. The loans bear interest at PRC Benchmark Lending Rate plus 20% per annum. The balance of RMB39,141,000 as at 31 December 2017 (2016: RMB39,141,000) represents the loans due from SZ Yueneng and is repayable within one year.

During the year ended 31 December 2016, Beijing Lanjie entered into two agreements with the Group for (i) a loan of approximately RMB6,200,000 which is repayable in July 2018, unsecured and bears interest at a fixed rate of 9% per annum; and (ii) a loan of approximately RMB2,400,000 which is repayable in May 2018, secured and bears interest at a fixed rate of 11% per annum.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 ***RMB'000***	2016 *RMB'000*
Cash and bank balances	**896,790**	764,954
Time deposits	**12,500**	15,000
	909,290	779,954
Less:		
Time deposits with original maturity of more than three months	**(12,500)**	(15,000)
Time deposits pledged for BOT and TOT projects	**(4,000)**	(9,000)
Cash and cash equivalents	**892,790**	755,954

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB427,630,000 (2016: RMB596,980,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Pledged bank deposits represent the deposits required by the local governments for securing the progress of the BOT projects. The balances bear interest at interest rates which ranged from 2.10% to 2.25% per annum.

As at 31 December 2017, bank balances included time deposits of RMB12,500,000 (2016: RMB15,000,000) with maturity period over three months and bear interest at prevailing interest rates which ranged from 2.25% to 2.75% per annum.

27. ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held-for-sale include vehicles, trucks and tankers, which are built for the purpose of waste management of BCG NZ and are sold to sub-contractors/owner-drivers operating on BCG NZ's behalf. These assets are expected to be sold within the next twelve months. At 31 December 2017, the Group classified these assets as held-for-sale assets with the disposal price of RMB15,465,000 at the carrying amount of RMB9,541,000 (2016: with the disposal price of RMB17,367,000 at the carrying amount of RMB10,985,000).

28. TRADE PAYABLES

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

	2017 *RMB'000*	2016 *RMB'000*
0 to 90 days	311,541	218,088
91 to 180 days	43,810	4,440
Over 180 days	49,804	14,299
	405,155	236,827

Included in the trade payables are amounts of RMB126,000 (2016: RMB7,730,000) and RMB1,975,000 (2016: RMB2,388,000) due to joint ventures and the other operator of Waste Disposal Services, respectively, with similar credit terms offered by them to their major customers.

The trade payables are non-interest-bearing and are normally settled within 1 to 3 months.

29. OTHER PAYABLES AND ACCRUALS

	2017 *RMB'000*	2016 *RMB'000* (Restated)
Receipt in advance	95,569	133,242
Accrued purchases	151,062	191,904
Interest payable to BCG Chinastar	11,704	11,815
Amounts due to vendors of		
Beijing Lanjie	1,500	1,500
Jiangxi Ruijin	7,000	—
Anhui Capital Environmental Technology Company Limited (安徽首創環境科技有限公司)	1,000	1,000
Accrued professional fee	5,050	4,011
Other tax payable	40,537	24,856
Accrued payroll and severance payment	65,089	65,966
Others	10,982	21,993
	389,493	456,287

Other payables are non-interest-bearing and have no fixed terms of repayment.

30. DEFERRED INCOME

The Group received government subsidies for the capital expenditures and expansions on the waste treatment and waste-to-energy plants during the years ended 31 December 2016 and 2017. The waste treatment plants and waste-to-energy plants were either under commercial run or still under construction as at 31 December 2017. These government subsidies were recognised as deferred income and would be amortised over the concession period upon the commencement of commercial operations of the plants.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	*RMB'000*	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Bank loans — unsecured	3.44–5.00	2018	202,344	3.84–4.22	2017	303,202
Bank loans — secured	4.79–5.66	2018	200,000	4.35	2017	97,000
Current portion of long term						
bank loans — unsecured	4.66	2018	24,000	—	—	—
bank loans — secured	4.66–5.23	2018	87,580	4.66–4.90	2017	58,120
other loan — unsecured	5.00	2018	2,631,403	—	—	—
			3,145,327			458,322
Non-current						
Bank loans — unsecured	2.09–4.66	2019–2036	684,359	—	—	—
Bank loans — secured	4.66–5.23	2019–2032	580,280	4.66–4.90	2021–2026	423,660
Other loans — unsecured	1.20	2031	52,000	1.20–5.00	2018–2031	2,833,673
Other loan — secured	4.75	2020	236,735	—	—	—
			1,553,374			3,257,333
			4,698,701			3,715,655

	2017 *RMB'000*	2016 *RMB'000*
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	513,924	458,322
In the second year	919,710	86,580
In the third to fifth years, inclusive	223,378	283,080
Beyond five years	121,551	54,000
	1,778,563	881,982
Other borrowings repayable:		
Within one year	2,631,403	—
In the second year	—	2,781,673
In the third to fifth years, inclusive	236,735	—
Beyond five years	52,000	52,000
	2,920,138	2,833,673
	4,698,701	3,715,655

31. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(1) Bank loans of RMB50,000,000 as at 31 December 2017 (2016: RMB47,000,000) were secured by the prepaid lease payments and buildings with a carrying amount of RMB82,470,000 (2016: RMB56,383,000).

(2) Bank loan of RMB80,000,000 as at 31 December 2017 (2016: RMB80,000,000) was secured by the service concession arrangement in Yangzhou Capital Environmental Energy Investment Limited (揚州首創環保能源有限公司).

(3) Bank loans of RMB708,200,000 as at 31 December 2017 (2016: RMB315,000,000) were guaranteed by the corporate guarantee of the Group.

(4) Bank loan of RMB29,660,000 as at 31 December 2017 (2016: RMB36,780,000) was guaranteed by the corporate guarantee of a subsidiary of Beijing Capital Group.

(5) Other loan of RMB236,735,000 (2016: Nil) was secured by the service concession arrangement in Nanchang Capital Environment Energy Co., Ltd. (南昌首創環保能源有限公司).

(6) Bank loan of RMB100,000,000 was secured by the service concession arrangement and the Group's equity interest in Huizhou Guanghui Energy Company Limited (惠州廣惠能源有限公司) as at 31 December 2016. The pledge contract was cancelled for the year ended 31 December 2017. Therefore, the remaining balance of this bank loan of RMB79,000,000 was unsecured as at 31 December 2017.

Included in bank borrowings is a loan of Hong Kong dollars ("HK$") 700,000,000 from Bank of China (Hong Kong) Limited with interest bearing at 1.35% per annum over Hong Kong Interbank Offer Rate, and with keepwell provided by Beijing Capital Group.

Included in other borrowings is a loan of NZ$570,000,000 (equivalent to approximately RMB2,631,403,000) from BCG Chinastar which is unsecured, bears interest at 5% per annum and has a maturity date of 1 June 2018.

As at 31 December 2017, the Group had undrawn borrowing facilities amounting to RMB1,728,807,000 (2016: RMB1,424,003,000), of which an amount of RMB1,352,315,000 would be expired on 10 March 2018.

As at 31 December 2017, the Group's bank and other loans of RMB2,935,747,000 were charged at fixed interest rates while RMB1,762,954,000 were charged at floating interest rates based on the benchmark interest rates announced by the People's Bank of China. The carrying amounts of the Group's current borrowings approximate to their fair values.

32. AMOUNTS DUE TO THE IMMEDIATE SHAREHOLDERS

The amounts at 31 December 2016 represented the dividends declared and payable by BCG NZ to BCG Chinastar and Beijing Capital (HK) before the acquisition of BCG NZ by the Group.

33. PROVISIONS

	2017 RMB'000	2016 RMB'000
At 1 January	**188,083**	111,468
Acquisition of subsidiaries (restated)	**—**	46,169
Amounts utilised during the year	**(1,665)**	(3,287)
Reassessment of closure and post-closure provision	**23,197**	18,309
Effect of time value adjustment	**5,712**	3,491
Exchange realignment	**(11,213)**	11,933
At 31 December	**204,114**	188,083
Portion classified as current liabilities	**—**	800
Non-current portion	**204,114**	187,283

Provision is mostly made for the future costs of closing the Group's landfills in New Zealand at the end of their economic lives and for the associated post-closure costs, being the aftercare of the landfills for the prescribed periods. Estimated costs, adjusted for inflation, are built up on an item by item basis. The provision held, at the end of the reporting period, represents the net present value of the estimated future costs. A detailed reassessment of these costs and the anticipated remaining lives of the landfills is performed regularly.

34. DEFERRED TAX

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

	Property, plant and equipment RMB'000	Inventories RMB'000	Other intangible assets RMB'000	Service concession arrangements* RMB'000	Provisions RMB'000	Others RMB'000 (Note)	Total RMB'000
At 1 January 2016 (restated)	(92,892)	8,569	(380,344)	(12,781)	38,078	21,565	(417,805)
Acquisition of subsidiaries (restated)	(12,929)	—	(5,783)	—	12,929	—	(5,783)
Credit/(charge) to profit or loss	8,246	(6,109)	10,466	(8,714)	5,228	16,180	25,297
Exchange realignment (restated)	(8,631)	(5)	(36,464)	509	4,041	2,507	(38,043)
At 31 December 2016 (restated)	(106,206)	2,455	(412,125)	(20,986)	60,276	40,252	(436,334)
(Charge)/credit to profit or loss	(4,449)	(1,750)	15,354	(29,656)	12,341	(2,200)	(10,360)
Exchange realignment	5,911	—	21,478	—	(3,739)	(654)	22,996
At 31 December 2017	(104,744)	705	(375,293)	(50,642)	68,878	37,398	(423,698)

Note: Others included other payables and accruals, deferred income, tax losses recognised and discounting impact of accounts receivable.

* The deferred tax liabilities arising from "Service concession arrangements" were recognised on the taxable temporary difference between the revenue recognised under HK(IFRIC)-Int 12 and the revenue deemed taxable by relevant tax authorities.

34. DEFERRED TAX *(Continued)*

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2017 *RMB'000*	2016 *RMB'000* (Restated)
Deferred tax assets	10,568	11,550
Deferred tax liabilities	(434,266)	(447,884)
	(423,698)	(436,334)

The Group has tax losses of RMB221,143,838 arising in Mainland China (2016: RMB176,699,000) that will expire in one to five years for offsetting against future taxable profits. The Group has tax losses of RMB120,851,306 (2016: RMB103,832,000) arising in Hong Kong can be carried forward indefinitely.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will available against which the tax losses can be utilised.

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

35. SHARE CAPITAL

Shares

	2017 *HK$'000*	2016 *HK$'000*
Authorised:		
30,000,000,000 (2016: 15,000,000,000) ordinary shares of HK$0.1 each	3,000,000	1,500,000

	2017 *RMB'000*	2016 *RMB'000*
Issued and fully paid:		
14,294,733,167 ordinary shares of HK$0.1 each	1,188,219	1,188,219

The Company increased its numbers of authorised ordinary shares from 15,000,000,000 to 30,000,000,000 by ordinary resolution in the current year.

36. RESERVES

The amounts of the Group's statutory reserve and capital reserve and movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 42 and 43 of the consolidated financial statements.

37. A PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2017	2016
Percentage of equity interest held by non-controlling interests:		
BCG NZ	49%	49%

	2017 *RMB'000*	2016 *RMB'000*
Profit for the year allocated to non-controlling interests:		
BCG NZ	113,637	106,486
Dividends paid to non-controlling interests of BCG NZ	(147,453)	(418,364)
Accumulated balances of non-controlling interests at the reporting date:		
BCG NZ	1,025,130	970,241

The following tables illustrate the summarised financial information of the BCG NZ. The amounts disclosed are before any inter-company eliminations:

	2017 *RMB'000*	2016 *RMB'000*
Revenue	2,318,799	2,101,170
Total expenses	(2,086,888)	(1,883,851)
Profit for the year	231,911	217,319
Total comprehensive income for the year	112,016	400,196
Current assets	417,817	401,424
Non-current assets	5,513,953	5,328,042
Current liabilities	(3,252,954)	(663,692)
Non-current liabilities	(586,716)	(3,085,690)
Net cash flows from operating activities	519,209	497,532
Net cash flows used in investing activities	(342,812)	(330,295)
Net cash flows used in financing activities	(197,896)	(546,871)
Net decrease in cash and cash equivalents	(21,499)	(379,634)

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, additions of property, plant and equipment amounted to RMB23,197,000 (2016: RMB18,309,000) are due to the reassessment of closure and post-closure provision (note 33), and has no cash flow impact to the Group.

(b) Changes in liabilities arising from financing activities

	Bank and other borrowings *RMB'000*	Interest payable *RMB'000*	Amounts due to the immediate shareholders *RMB'000*
At 1 January 2017	3,715,655	11,815	149,776
Changes from financing cash flows	1,140,653	(192,402)	(147,453)
Foreign exchange movement	(157,607)	(642)	(2,323)
Interest capitalised	—	2,703	—
Interest expense	—	190,230	—
At 31 December 2017	4,698,701	11,704	—

39. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the consolidated financial statements were as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Guarantees of banking facilities (Note (a))	**1,895**	13,634
Guarantees given to the government in connection with the continuous operation of landfills (Note (b))	**221,686**	194,669
Guarantees given to the government in connection with fulfilling the waste collection contracts and the other activities (Note (b))	**60,835**	42,281
	284,416	250,584

Notes:

(a) The Group provided guarantees to a bank in respect of banking facilities granted to an associate. The directors of the Company consider that the fair values of the financial guarantees at date of inception and at the end of the reporting period are insignificant.

(b) Guarantees given under the agreements entered into with the New Zealand government authorities on continuous operation of the landfills or for meeting the required operational standards. The amounts of the guarantees were determined based on the terms of the agreements signed by the subsidiary of the Group in New Zealand and the New Zealand government authorities. In the opinion of the directors, the entity will fulfil its responsibilities in relation to continuous operation of the landfills and meeting the required operational standards, therefore, there is no risk of claim made against the Group under the guarantees.

40. PLEDGE OF ASSETS

The Group's buildings, prepaid land lease payments, concession rights and assets of service concession arrangements were partly pledged for bank facilities and borrowings, details please refer to notes 13, 14 and 31, respectively.

41. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its premises and vehicles under operating lease arrangements. Leases are negotiated for terms ranging from one to nineteen years.

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 *RMB'000*	2016 *RMB'000*
Within one year	57,922	50,071
In the second to fifth years, inclusive	114,705	104,108
After five years	45,765	58,395
	218,392	212,574

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41 above, the Group had the following commitments at the end of the reporting period:

	2017 *RMB'000*	2016 *RMB'000*
Contracted, but not provided for:		
— construction work under service concession arrangements	800,263	506,173
— property, plant and equipment	71,083	73,254
	871,346	579,427

43. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions during the year of 2017:

(a) The transactions and balances with government-related entities are listed below:

The PRC subsidiaries of the Group operate in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities"). The immediate shareholders of the Company, Beijing Capital (HK) and BCG Chinastar, which are companies incorporated in Hong Kong with limited liabilities, are ultimately controlled by the PRC government. The ultimate parent of both immediate shareholders is Beijing Capital Group, which is controlled by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality.

Beijing Capital Investment & Guarantee Co., Ltd. is a subsidiary of Beijing Capital Group.

43. RELATED PARTY TRANSACTIONS *(Continued)*

(a) The transactions and balances with government-related entities are listed below *(Continued)*:

(i) Transactions with related parties within Beijing Capital Group:

Name of the related parties	Nature of the transactions	2017 *RMB'000*	2016 *RMB'000*
Beijing Capital Investment & Guarantee Co., Ltd.	Guarantee charges*	**839**	—
Beijing Capital (HK)	Rental expenses**	**1,798**	1,234
BCG Chinastar	Interest expenses***	**136,925**	131,786
Beijing Capital Group	Guarantee charges^	**—**	—

* The guarantee charges were related to a borrowing of a subsidiary of the Company at 1.2% per annum of remaining principal amount.

** The rental expenses were charged in accordance with the relevant agreement.

*** The interest expenses were related to the loan of NZ$570,000,000 from BCG Chinastar.

^ On 7 November 2017, Beijing Capital Environment Investment Limited ("Capital Investment"), a wholly-owned subsidiary of the Company, entered into a financing agreement with Ping An Asset Management Co. Ltd. ("Ping An Asset"), pursuant to which Ping An Asset will grant a borrowing not exceeding RMB1 billion to Capital Investment for a term of 5 years with an interest rate of 5.45% per annum, payable on a quarterly basis ("Financing Agreement"). The Financing Agreement was guaranteed by Beijing Capital Group by way of Letter of Guarantee. Beijing Capital Group, as the guarantor, agreed to provide guarantee to Ping An Asset in respect of the Financing Agreement for procuring Ping An Asset to provide loans to the Group ("Letter of Guarantee"). The guarantee fee is calculated based on 0.6% per annum of total principal amount of guarantee liability assumed by Beijing Capital Group as stipulated on the Letter of Guarantee. No principal amount was used as at 31 December 2017, and no guarantee fee was charged during the year ended 31 December 2017. This transaction constitutes continuing connected transaction under the Listing Rules.

Except transactions above, Beijing Capital (HK) granted the Group a three-year term facility of RMB1.3 billion. The facility would be expired on 10 March 2018. No drawings have been made from the RMB1.3 billion facility as at 31 December 2017.

(ii) Transactions and balances with other government-related entities:

The Group recognised revenue from the construction services and operation services of RMB753,254,000 (2016: RMB196,484,000) and RMB90,758,000 (2016: RMB52,580,000), respectively, under service concession arrangements with the local governments in the PRC (see note 21). All the concession financial assets of the Group are due from the local governments in the PRC.

The deposits paid as at 31 December 2017 and 2016 for the construction of infrastructure in service concession arrangements with a government-related entity, Urban Construction Institute were disclosed in note 22.

Trade receivables of governments dismantling tariffs in relation to the licenses and franchises for the treatment of certain waste electric and electronic products were RMB449,733,000 (2016: RMB333,064,000).

Commitments with government-related entities were included in note 42.

Apart from the transactions disclosed above, the Group also conducts business with other government-related entities. The directors of the Company consider those government-related entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other government-related entities, the Group does not differentiate whether the counter-party is a government-related entity or not.

43. RELATED PARTY TRANSACTIONS *(Continued)*

(b) The transactions and balances with non-government-related entities which are related to the Group are listed below:

	Notes	2017 RMB'000	2016 RMB'000
Sales to related parties:			
Transwaste	(i)	**98,087**	100,275
Pike Point Transfer Station	(i)	**12,220**	10,922
Burwood Resource Recovery Park Limited	(ii)	**10,929**	17,769
Midwest Disposals	(i)	**6,085**	5,736
Waste Disposal Services	(iii)	**5,057**	4,776
		132,378	139,478
Purchases from related parties:			
Transwaste	(i)	**37,283**	36,512
Midwest Disposals	(i)	**29,695**	26,079
Waste Disposal Services	(iii)	**18,585**	16,651
Pike Point Transfer Station	(i)	**16,462**	13,687
Daniels Sharpsmart New Zealand Limited	(i)	**3,008**	—
Burwood Resource Recovery Park Limited	(ii)	**109**	128
		105,142	93,057
Interest income from related parties:			
SZ Yueneng	(iv)	**1,964**	2,363
Beijing Lanjie	(iv)	**775**	169
		2,739	2,532

Notes:

(i) The entity is a joint venture of the Group.
(ii) The entity is a subsidiary of the Group's joint venture.
(iii) The transactions are with the other operator of Waste Disposal Services.
(iv) The entity is an associate of the Group.

(c) The remuneration of key management personnel during the period was as follows:

	2017 RMB'000	2016 RMB'000
Short-term benefits	**10,748**	5,051
Post-employment benefits	**546**	46
	11,294	5,097

44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2017

Financial assets

	Loans and receivables *RMB'000*	Available-for-sale investments *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	95,041	95,041
Concession financial assets	2,043,977	—	2,043,977
Trade receivables	777,632	—	777,632
Financial assets included in prepayments, deposits and other receivables	145,360	—	145,360
Amounts due from associates	47,741	—	47,741
Pledged deposits	4,000	—	4,000
Cash and cash equivalents	892,790	—	892,790
Time deposits	12,500	—	12,500
	3,924,000	95,041	4,019,041

Financial liabilities

	Derivatives designated as hedging instruments *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	—	405,155	405,155
Financial liabilities included in other payables and accruals	—	172,266	172,266
Interest-bearing bank and other borrowings	—	4,698,701	4,698,701
Amount due to a related party	—	1,376	1,376
Derivative financial instruments	1,727	—	1,727
	1,727	5,277,498	5,279,225

44. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2016

Financial assets

	Loans and receivables *RMB'000*	Available-for-sale investments *RMB'000*	Total *RMB'000*
Available-for-sale investments	—	80,131	80,131
Concession financial assets	1,556,010	—	1,556,010
Trade receivables	644,401	—	644,401
Financial assets included in prepayments, deposits and other receivables	112,927	—	112,927
Amounts due from associates	47,741	—	47,741
Pledged deposits	9,000	—	9,000
Time deposits	15,000	—	15,000
Cash and cash equivalents	755,954	—	755,954
	3,141,033	80,131	3,221,164

Financial liabilities

	Derivatives designated as effective hedging instruments *RMB'000*	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	—	236,827	236,827
Financial liabilities included in other payables and accruals	—	164,379	164,379
Interest-bearing bank and other borrowings	—	3,715,655	3,715,655
Amounts due to the immediate shareholders	—	149,776	149,776
Derivative financial instruments	337	—	337
	337	4,266,637	4,266,974

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments reasonably approximate to their fair values.

Fair value hierarchy

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

Assets measured at fair value :

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Available-for-sale investments	**78,808**	**—**	**—**	**78,808**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Available-for-sale investments	63,898	—	—	63,898

Liabilities measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities				
Derivative financial instruments	**—**	**1,727**	**—**	**1,727**

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

Liabilities measured at fair value: *(Continued)*

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Financial liabilities				
Derivative financial instruments	—	337	—	337

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivative financial instruments, comprise interest-bearing bank and other borrowings, cash and cash equivalents, pledged deposits and available-for-sale investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as concession financial assets, trade receivables, amounts due from associates, amounts due to the immediate shareholders, amount due to a related party, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the consolidated financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its interest-bearing borrowings with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. If there would be a general increase/decrease in the interest rates of bank loans with floating interest rates by one percentage point, with all other variables held constant, the consolidated profit before tax would have decreased/increased by approximately RMB17,630,000 for the year ended 31 December 2017 (2016: RMB5,550,000).

Foreign currency risk

Substantially all of the Group's sales and purchases are denominated in RMB and NZ$. The Group's certain bank balances are denominated in NZ$, HK$, United States dollar ("USD"), and Euro, certain expenses of the Group are denominated in currencies other than RMB.

The Group is mainly exposed to fluctuation in NZ$ and HK$ against RMB, which is the functional currency of the Company. The following table demonstrates the sensitivity as at 31 December 2017 and 2016 to a reasonably possible change in the NZ$ and HK$ exchange rate, with all other variables held constant, of the Group's profit before tax.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
	%	*RMB'000*	*RMB'000*
2017			
If RMB weakens against NZ$	**5**	**—**	**104,605**
If RMB strengthens against NZ$	**(5)**	**—**	**(104,605)**
If RMB weakens against HK$	**5**	**(8,749)**	**—**
If RMB strengthens against HK$	**(5)**	**8,749**	**—**
2016			
If RMB weakens against NZ$	5	—	99,004
If RMB strengthens against NZ$	(5)	—	(99,004)
If RMB weakens against HK$	5	9,000	—
If RMB strengthens against HK$	(5)	(9,000)	—

* Excluding retained profits

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, time deposits, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, available-for-sale investments and amounts due from associates, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amounts of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in note 39.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is being closely monitored.

The Group's concentration of credit risk by geographical locations is mainly in China and New Zealand which accounted for 60% and 40%, respectively (2016: 55% and 45%) of the total trade receivables as at 31 December 2017.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

The Group has concentration of credit risk in concession financial assets and dismantling subsidy receivable included under trade receivables of RMB2,043,977,000 and RMB449,733,000, respectively (2016: RMB1,556,010,000 and RMB333,064,000, respectively) as at 31 December 2017, representing guaranteed waste treatment fee to be received from twenty five (2016: Twelve) grantors in service concession arrangements of waste treatment and waste-to-energy plants and treatment of waste and electronic products. The Group considers the risk is limited as the grantors are government authorities in the PRC with a high reputation.

The Group also has concentration of credit risk in advances payment to Urban Construction Institute in the PRC which is subject to arbitration proceedings at the end of the reporting period as detailed in note 22. The estimated recoverable amount of the deposits of RMB40,050,000 (2016: RMB40,050,000) to Urban Construction Institute, net of impairment loss of RMB89,600,000 (2016: RMB89,600,000), is based on the best estimate of the management of the allowable expenses incurred by Urban Construction Institute with reference to the legal opinion provided by the independent lawyer. The Group considers that the credit risk on the deposit paid after impairment provided is limited (note 22).

As at 31 December 2017, included in the prepayments, deposits and other receivables of RMB74,845,000 (2016: RMB47,396,000) are advances to suppliers and RMB31,262,000 (2016: RMB29,862,000) are loans receivable from a related party of a former shareholder of an acquired subsidiary. The Group considers that the credit risk on advances to suppliers and on other receivables is limited as these parties are of good credit history.

The credit risk of amounts due from associates is limited because the associates are profit generating.

The credit risk on cash and cash equivalents, time deposits and pledged deposits are limited because the counterparties are reputable banks in the New Zealand, PRC and Hong Kong.

Liquidity risk

The Group monitors its risk to a shortage of funds to considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to ensure continuity of sufficient funding and flexibility through the use of bank and other borrowings and adequate unutilised banking facilities.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2017

	On demand *RMB'000*	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*
Trade payables	405,155	—	—	—	—	405,155
Financial liabilities included in other payables and accruals	172,266	—	—	—	—	172,266
Amount due to a related party	—	1,376	—	—	—	1,376
Financial guarantee contracts	1,895	—	—	—	—	1,895
Derivative financial instruments	—	1,727	—	—	—	1,727
Interest-bearing bank and other borrowings	—	3,262,889	1,188,674	271,198	190,143	4,912,904
	579,316	3,265,992	1,188,674	271,198	190,143	5,495,323

2016

	On demand *RMB'000*	Within 1 year *RMB'000*	1 to 2 years *RMB'000*	2 to 5 years *RMB'000*	More than 5 years *RMB'000*	Total *RMB'000*
Trade payables	236,827	—	—	—	—	236,827
Financial liabilities included in other payables and accruals	164,379	—	—	—	—	164,379
Amounts due to the immediate shareholders	—	149,776	—	—	—	149,776
Financial guarantee contracts	13,634	—	—	—	—	13,634
Derivative financial instruments	—	137	200	—	—	337
Interest-bearing bank and other borrowings	—	633,523	2,953,017	313,923	137,150	4,037,613
	414,840	783,436	2,953,217	313,923	137,150	4,602,566

The directors have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the end of the reporting period. Based on this forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the loan financing and additional capital from equity holders of the Company. The directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified available-for-sale investments (note 20) as at 31 December 2017. The Group's listed investments are listed on the Hong Kong stock exchanges and are valued at quoted market prices at the end of the reporting period.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

	31 December 2017	High/low 2017	31 December 2016	High/low 2016
Hong Kong — Hang Seng Index	29,919	30,200/21,883	22,001	24,364/18,279

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments and the conversion option of the convertible bonds, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact the statement of profit or loss.

	Carrying amount of equity investments *RMB'000*	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity* *RMB'000*
2017			
Investments listed in:			
Hong Kong — Available-for-sale	78,808	—	7,881
2016			
Investments listed in:			
Hong Kong — Available-for-sale	63,898	—	6,390

* Excluding retained profits

46. 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 to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes interest-bearing bank and other borrowings disclosed in Note 31, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure on a quarterly basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

47. EVENTS AFTER THE REPORTING PERIOD

There were no subsequent events that require adjustments to or disclosures in the consolidated financial statements.

48. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current year's presentation and as stated in note 2.1 to the consolidated financial statements, the comparative amounts have been restated to reflect the prior years' adjustments.

49. 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 *RMB'000*	2016 *RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	47	64
Amounts due from subsidiaries	1,905,503	1,636,181
Investments in subsidiaries	1,369,459	1,369,459
Total non-current assets	3,275,009	3,005,704
CURRENT ASSETS		
Deposit, prepayment and other receivables	23	1,681
Bank balances and cash	388,916	92,179
Total current assets	388,939	93,860
CURRENT LIABILITIES		
Other payables and accruals	2,374	4,615
Total current liabilities	2,374	4,615
NET CURRENT ASSETS	386,565	89,245
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	589,050	—
Total non-current liabilities	589,050	—
Net assets	3,072,524	3,094,949
CAPITAL AND RESERVES		
Share capital	1,188,219	1,188,219
Reserves (note)	1,884,305	1,906,730
Total equity	3,072,524	3,094,949

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

	Share premium *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2016	3,112,910	(1,985,618)	1,127,292
Loss and total comprehensive expense for the year	—	(80,497)	(80,497)
Issue of shares for the acquisition of BCG NZ	859,935	—	859,935
At 31 December 2016	3,972,845	(2,066,115)	1,906,730
Loss and total comprehensive expense for the year	—	(22,425)	(22,425)
At 31 December 2017	3,972,845	(2,088,540)	1,884,305

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 March 2018.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2013 *RMB'000*	2014 *RMB'000* (Restated) (Note 1)	2015 *RMB'000* (Restated) (Note 1)	2016 *RMB'000*	**2017** ***RMB'000***
RESULTS					
Revenue (continuing and discontinued operation)	223,693	1,820,402	2,639,432	2,707,882	**3,495,166**
(Loss) profit attributable to owners of the Company	(98,501)	42,184	157,825	43,848	**148,342**

	As at 31 December				
	2013 *RMB'000*	2014 *RMB'000* (Restated) (Note 1 & 2)	2015 *RMB'000* (Restated) (Note 1 & 2)	2016 *RMB'000* (Restated) (Note 2 & 3)	**2017** ***RMB'000***
ASSETS AND LIABILITIES					
Total assets	1,648,081	8,168,513	9,143,298	9,573,382	**10,682,437**
Total liabilities	(1,118,068)	(5,694,636)	(4,778,793)	(5,281,397)	**(6,217,362)**
	530,013	2,473,877	4,364,505	4,291,985	**4,465,075**
Equity attributable to owners of the Company	375,763	1,370,232	3,200,504	3,101,877	**3,213,509**
Non-controlling interests	154,250	1,103,645	1,164,001	1,190,108	**1,251,566**
	530,013	2,473,877	4,364,505	4,291,985	**4,465,075**

Notes:

1. The financial summary of the Group as at 31 December 2014 and 2015 have been restated to include the assets and liabilities of BCG NZ Investment Holding Limited ("BCG NZ") and its subsidiaries as if they were within the Group since 28 March 2014 and the results for the years ended 31 December 2014 and 2015 have also been restated to include the results of BCG NZ and its subsidiaries since BCG NZ and the Group were under common control by Beijing Capital Group from 28 March 2014. BCG NZ was acquired by the Group during the year ended 31 December 2016.

2. The financial summary of the Group as at 31 December 2014, 2015 and 2016 have been restated based on the IFRIC agenda decision which observed that the reason for not amortising an indefinite life intangible asset is not because there is no consumption of the future economic benefits embodied in the asset. Therefore, the determination of tax consequences of indefinite life intangible assets shall reflect the expected manner of recovery of the carrying amount of the assets either through use or through sale. The Group reassessed and determined that the carrying amount of the indefinite life intangible assets is to be recovered through use. The change in accounting policy has been applied retrospectively. The effects of the change are set out in note 2.1 to the consolidated financial statement.

3. The financial summary of the Group as at 31 December 2016 has also been restated to reflect new information obtained about facts and circumstances that existed as of the acquisition date of Tirohia Landfill & Hamilton Organics. The acquisition was completed on 30 November 2016 and the purchase price allocation was completed during the measurement period. The effects of the change are set out in note 2.1 to the consolidated financial statements.

Capital Environment Holdings Limited
首創環境控股有限公司

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